

OFFICIAL STATEMENT

Dated: September 11, 2018

(See "Continuing Disclosure  
of Information" herein)

Ratings: Fitch: "A"  
S&P: "A+"

See "Other Information – Ratings" herein

NEW ISSUE - Book-Entry-Only

In the opinion of Bond Counsel, subject to the matters described in "TAX MATTERS" herein, interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings, and court decisions existing on the date hereof, except for interest on any Bonds during any period while it is held by a person who is a "substantial user" of any of the facilities financed with the proceeds of the Bonds or by a "related person," as such terms are defined in Section 147(a) of the Internal Revenue Code of 1986, as amended, **and will be an item of tax preference includable in alternative minimum taxable income for purposes of determining the alternative minimum tax imposed on individuals, trusts, estates, and, to the extent described in "TAX MATTERS" herein, corporations.**

\$41,475,000

CITY OF EL PASO, TEXAS  
AIRPORT REVENUE BONDS, SERIES 2018 (AMT)  
(EL PASO INTERNATIONAL AIRPORT)

Dated: September 1, 2018

Due: August 15, as shown on inside cover

Interest to Accrue from Date of Delivery

**PAYMENT TERMS** . . . Interest on the \$41,475,000 City of El Paso, Texas, Airport Revenue Bonds, Series 2018 (AMT) (El Paso International Airport) (the "Bonds") will accrue from the date of initial delivery of the Bonds and will be payable February 15 and August 15 of each year commencing February 15, 2019, until maturity, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof within a maturity. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "The Bonds - Book-Entry-Only System" herein). The initial Paying Agent/Registrar is Wells Fargo Bank, National Association, Minneapolis, Minnesota (see "The Bonds - Paying Agent/Registrar").

**AUTHORITY FOR ISSUANCE** . . . The Bonds are special obligations of the City of El Paso, Texas (the "City"), and are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 22, Texas Transportation Code, as amended, and Chapters 1371 and 1503, Texas Government Code, as amended, and an ordinance (the "Ordinance") passed by the City Council. In the Ordinance, the City Council delegated to each of the City Manager, the Chief Financial Officer of the City or the Managing Director of Aviation and International Bridges, each acting in such capacity severally and not jointly (each, a "Pricing Officer"), pursuant to certain provisions of Chapter 1371, Texas Government Code, the authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate", approved and executed by the Pricing Officer which completed the sale of the Bonds (the Ordinance and the Pricing Certificate are jointly referred to as the "Bond Ordinance"). The Bonds are being issued as a series of "Parity Bonds" which are all payable from and secured by a first lien on and pledge of the Net Revenues of the El Paso International Airport (the "Airport") and from moneys on deposit in certain Pledged Funds created by the Bond Ordinance. **The City has not covenanted nor obligated itself to pay the Bonds from monies raised or to be raised from taxation** (see "The Bonds - Authority for Issuance").

**PURPOSE** . . . Proceeds from the sale of the Bonds, will be used to (i) pay the costs of constructing, improving, renovating and equipping airport facilities, including, but not limited to, terminal facilities, site improvements, taxiways, equipment and the aircraft rescue firefighting station, (ii) fund the Debt Service Reserve Fund Requirement with respect to the Bonds, and (iii) pay the costs of issuance of the Bonds.

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CUSIP PREFIX: 283736  
MATURITY SCHEDULE & 9 DIGIT CUSIP  
See Schedule on Page 2

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**LEGALITY** . . . The Bonds are offered for delivery when, as and if issued and received by the underwriters listed below (the "Underwriters") and subject to the approving opinion of the Attorney General of Texas and the opinion of Norton Rose Fulbright US LLP, Bond Counsel, Dallas, Texas. The opinion of Bond Counsel will be printed on or attached to the Bonds (see Appendix E, "Form of Bond Counsel's Opinion"). Certain legal matters will be passed upon for the Underwriters by Orrick, Herrington & Sutcliffe LLP, Austin, Texas, Counsel for the Underwriters.

**DELIVERY** . . . It is expected that the Bonds will be tendered for delivery through DTC on or about October 9, 2018 (the "Date of Delivery").

**BOFA MERRILL LYNCH**

**RBC CAPITAL MARKETS**

**MATURITY SCHEDULE**

**CUSIP Prefix: 283736 <sup>(1)</sup>**

Principal Amount	August 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>	Principal Amount	August 15 Maturity	Interest Rate	Initial Yield	CUSIP Suffix <sup>(1)</sup>
\$ 3,070,000	2019	5.00%	1.89%	BT2	\$ 4,235,000	2024	5.00%	2.62%	BY1
3,485,000	2020	5.00%	2.04%	BU9	4,445,000	2025	5.00%	2.75%	BZ8
3,655,000	2021	5.00%	2.19%	BV7	4,670,000	2026	5.00%	2.86%	CA2
3,840,000	2022	5.00%	2.33%	BW5	4,900,000	2027	5.00%	2.96%	CB0
4,030,000	2023	5.00%	2.47%	BX3	5,145,000	2028	5.00%	3.04%	CC8

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. The CUSIP numbers herein are provided for convenience of reference only. The City, the Financial Advisor and the Underwriters take no responsibility for the accuracy of such numbers.

**NO REDEMPTION . . .** The Bonds are not subject to redemption prior to maturity.

*This Official Statement, which includes the cover page and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.*

*No dealer, broker, salesperson or other person has been authorized to give information or to make any representation other than those contained in this Official Statement, and, if given or made, such other information or representations must not be relied upon as having been authorized by the City or the Underwriters.*

***The information set forth herein has been obtained from the City and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as the promise or guarantee of the Financial Advisor. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized. See “Continuing Disclosure of Information” for a description of the City’s undertaking to provide certain information on a continuing basis.***

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

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

*None of the City, the Financial Advisor, or the Underwriters makes any representation or warranty with respect to the information contained in this Official Statement regarding The Depository Trust Company or its Book-Entry-Only System.*

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

*The information contained in this Official Statement has been furnished by the City, DTC and other sources that are believed to be reliable. Any such other information or representations must not be relied upon as having been authorized. This Official Statement does not constitute an offer to sell or solicitation of an offer to buy, nor shall there be any sale of the bonds by any person in any jurisdiction in which it is unlawful for such person to make such offer, solicitation or sale. The information and expressions of opinions herein are subject to change without notice and neither the delivery of this document nor the sale of any of the bonds shall, under any circumstances, create any implication that the information herein is correct as of any time subsequent to the date hereof.*

*The Bonds will not be registered under the Securities Act of 1933, as amended, or any state securities law and will not be listed on any stock or other securities exchange. Neither the Securities and Exchange Commission nor any state securities commission has passed upon the accuracy or adequacy of this document. Any representation to the contrary is unlawful.*

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto, are part of the Official Statement.

**CITY ADMINISTRATION**

**CITY OF EL PASO, TEXAS**

300 North Campbell  
El Paso, Texas 79901  
(915) 212-0118

**CITY COUNCIL**

Dee Margo, Mayor  
Peter Svarzbein  
Alexsandra Anello  
Cassandra Brown  
Sam Morgan  
Dr. Michiel Noe  
Claudia Ordaz Perez  
Henry Rivera  
Cissy Lizarraga

**CERTAIN CITY ADMINISTRATIVE STAFF**

Tommy Gonzalez ..... City Manager  
Robert Cortinas ..... Chief Financial Officer  
Laura Prine ..... City Clerk  
Karla Nieman ..... Interim City Attorney  
Maria Pasillas ..... Tax Assessor/Collector  
Pat Degman ..... Comptroller

**CERTAIN AIRPORT ADMINISTRATIVE OFFICERS**

Monica Lombraña, A.A.E. .... Managing Director of Aviation and International Bridges  
Jeff Schultes, A.A.E. .... Assistant Director of Aviation  
Tony Nevarez, A.C.E. .... Assistant Director of Aviation - Operations and Security  
Terry Sharpe ..... Aviation Development Assistant Director  
Monica Vera ..... Administrative Services Manager

**CONSULTANTS AND ADVISORS**

Auditors ..... BKD LLP  
Dallas, Texas  
Bond Counsel ..... Norton Rose Fulbright US LLP  
Dallas, Texas  
Financial Advisor ..... Hilltop Securities Inc.  
El Paso, Texas  
Airport Consultant ..... Unison Consulting, Inc.  
Mission Viejo, California

For additional information regarding the City or the Airport, please contact:

Ms. Monica Lombraña  
Managing Director of Aviation and International Bridges  
El Paso International Airport  
6701 Convair Road  
El Paso, Texas 79925  
(915) 212-0330

or

Ms. Maria Fernanda Urbina  
Hilltop Securities Inc.  
221 N. Kansas, Suite 600  
El Paso, Texas 79901  
(915) 351-7228

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## OFFICIAL STATEMENT

### RELATING TO

**\$41,475,000**  
**CITY OF EL PASO, TEXAS**  
**AIRPORT REVENUE BONDS, SERIES 2018 (AMT)**  
**(EL PASO INTERNATIONAL AIRPORT)**

### INTRODUCTION

**GENERAL . . .** This Official Statement, which includes the Appendices hereto, provides certain information regarding the issuance of \$41,475,000 City of El Paso, Texas, Airport Revenue Bonds, Series 2018 (AMT) (El Paso International Airport). The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 22, Texas Transportation Code, as amended, and Chapters 1371 and 1503, Texas Government Code, as amended, and the provisions of the ordinance adopted by the City Council on August 21, 2018 (the “Ordinance”), and a pricing certificate (the “Pricing Certificate”) executed by the Pricing Officer (defined herein) pursuant to the Ordinance. Collectively, the Ordinance and the Pricing Certificate are referred to herein as the “Bond Ordinance.” Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Ordinance (defined herein), except as otherwise indicated herein.

The Bonds are special obligations of the City payable, both as to principal and interest, together with the Outstanding Parity Bonds and any Additional Parity Bonds that may be hereafter issued, from and secured by a first lien on and pledge of the Net Revenues of the Airport and from moneys from time to time on deposit in certain funds and accounts created under the Bond Ordinance. The Bonds and the City’s Airport Revenue Bonds, Series 2011 (El Paso International Airport) (the “Series 2011 Bonds”) are the only currently outstanding “Parity Bonds” as defined in the Bond Ordinance. Additionally, the City has granted a first lien on certain “Pledged Funds,” including the PFC Debt Service Escrow Fund which is to be used for the payment of principal and interest on the Bonds attributable to the portion of the Bonds used to finance or refinance PFC-approved Project Costs. (See “SECURITY FOR THE PARITY BONDS.”)

The City of El Paso, Texas (the “City”), incorporated in 1873, is a political subdivision and municipal corporation of the State of Texas (the “State”), duly organized and existing under the laws of the State, including its duly adopted Home Rule Charter (the “Charter”) and is authorized by the Charter and by Chapter 1503, Texas Government Code (“Chapter 1503”), to own, operate and maintain a municipal airport. The City operates under a City Manager form of government. City Council Members serve staggered four year terms. The Mayor also serves a four year term. Each elected official may serve no more than two consecutive terms. Some of the services that the City provides are: public safety (police and fire protection), highways and streets, health and social services, culture-recreation, public transportation, public improvements, planning and zoning, and general administrative services. The 2010 Census population for the City was 649,121, an increase of 15.2% over the 2000 Census population of 563,662. The City covers approximately 247 square miles. (See “Appendix A – General Information Regarding the City.”)

Descriptions of the Bonds and certain information regarding the City, the Airport and its finances follow in this Official Statement. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from the City’s Financial Advisor, Hilltop Securities, Inc., El Paso, Texas.

**THE AIRPORT . . .** The Airport consists of El Paso International Airport, the principal air carrier airport serving a service area including the City as well as regional service to communities in West Texas, Southern New Mexico and Northern Mexico. The Airport occupies about 6,800 acres and is located approximately five miles east of downtown El Paso. The Airport is operated by the City as a self-sufficient enterprise administered by the Managing Director of Aviation and International Bridges, who reports to the City Manager.

The Airport is classified as a small air traffic hub by the Federal Aviation Administration (“FAA”) and is currently served by six passenger airlines and four all-cargo airlines. In Fiscal Year 2017, 1,461,620 passengers were enplaned at the Airport. The Airport estimates that approximately 95% of the traffic is origination and destination in nature. The Airport, in addition to normal air traffic operations, also receives revenues from seven rental car companies, three industrial parks, seven hotels and two golf courses. Various aircraft charter and general aviation activities are also conducted at the Airport. (See “THE AIRPORT”).

**PASSENGER AIRLINE AGREEMENTS . . .** The City has entered into separate, but substantially similar, Airline Operating Agreements and Terminal Building Leases (collectively, the “Airline Agreements”) with the following four passenger air carriers operating at the Airport (collectively, the “Signatory Airlines”): American Airlines, Delta Airlines, Southwest Airlines and United Airlines. The current Airline Agreements are scheduled to expire on August 31, 2019. In addition, the City has also entered into operating agreements with Allegiant Air and Frontier Airlines as non-signatory passenger carriers.

The Airline Agreements establish procedures for the annual review and adjustment of terminal building rentals, landing fees, and other charges paid by the Signatory Airlines. The Airline Agreements establish terminal building rental rates using a compensatory rate-making methodology and landing fees using a cost center residual rate-making approach. See “AIRPORT REVENUES AND AGREEMENTS -- The Airline Agreements and the Rate Ordinance.”

**CARGO AIRLINES . . .** The City has entered into separate, but substantially similar, Airline Operating Agreements and Terminal Building Leases (the “Cargo Agreements”) with Federal Express Corporation and United Parcel Service Co. (the “Signatory Cargo Carriers”). In addition, the City has entered into separate air cargo center agreements with each of the Signatory Cargo Carriers as well as DHL Express.

**RATE ORDINANCE . . .** Chapter 14.24 of Title 14 of the City’s Code of Ordinances (the “Rate Ordinance”) sets forth rules and regulations relating to airline rates, fees, charges, and the use of facilities at the Airport. The provisions of the Rate Ordinance do not apply to commercial air carriers that are a signatory to an airline operating and terminal building lease agreement with the City. Airlines that have not executed an Airline Agreement, a Cargo Agreement or another applicable airline operating agreement with the City pay rates, fees, and charges under the Rate Ordinance. Currently, non-signatory carriers (i.e., carriers other than the Signatory Carriers and the Signatory Cargo Carriers) pay landing fees calculated at a rate equal to 125% of those set forth in the Airline Agreements. See “AIRPORT REVENUES AND AGREEMENTS -- The Airline Agreements and the Rate Ordinance.”

**REPORT OF THE AIRPORT CONSULTANT . . .** In connection with its planned issuance of the Bonds, the City retained Unison Consulting, Inc. (the “Airport Consultant”) to review the Airport’s capital improvement program, funding plan and existing contractual and other arrangements and to evaluate the ability of the City to generate sufficient Gross Revenue during a 2018-2023 forecast period to pay Operation and Maintenance Expenses, Debt Service and Debt Service coverage and its other Airport-related obligations. The Report of the Airport Consultant dated September 4, 2018 (the “Report of Airport Consultant”) prepared in connection with the issuance of the Bonds is included as Appendix C to this Official Statement. The Report of the Airport Consultant includes, among other things, a description of the underlying economic base of the Airport’s Air Trade Area (as defined in the Report of the Airport Consultant); a description of historical air traffic activity at the Airport; the Airport Consultant’s projections for air traffic activity at the Airport, debt service, expenses and revenues through 2023 and a description of the assumptions on which such projections were based. No assurances can be given that the projections and expectations discussed in the Report of the Airport Consultant will be achieved. As noted in the Report of the Airport Consultant, any forecast is subject to uncertainties. Some of the assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there will be differences between forecast and actual results, and those differences may be material.

The Report of the Airport Consultant is an integral part of this Official Statement and should be read in its entirety. The Report of the Airport Consultant has not been revised to reflect the final terms of the Bonds. The Report of the Airport Consultant has been included herein in reliance upon the knowledge and experience of the Airport Consultant as airport consultants. See “REPORT OF THE AIRPORT CONSULTANT” and “CERTAIN INVESTMENT CONSIDERATIONS – Report of Airport Consultant.” Also, for a discussion of historical and forecast financial results of the Airport, and the assumptions and rationale underlying the forecasts, see “APPENDIX C – REPORT OF THE AIRPORT CONSULTANT” and “OTHER INFORMATION – Forward Looking Statements Disclaimer.”

**SERIES 2018 PROJECTS . . .** The proceeds from the sale of the Bonds will be used by the City in part to construct, improve, renovate and equip Airport facilities, including, but not limited to, terminal facilities, site improvements, taxiways, equipment and the aircraft rescue firefighting station (collectively, the “Series 2018 Projects”). More specifically, the Series 2018 Projects are currently scheduled to include reconstruction of Airport Runway 4-22, construction of a Checked Baggage Inspection System and a Passenger Notification System, renovations to the Airport Rescue and Firefighting facility, Terminal landscaping improvements and general Terminal improvements. Approximately 79% of the project costs of the Series 2018 Projects are PFC-approved Project Costs. See “APPENDIX C – REPORT OF THE AIRPORT CONSULTANT.”

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**PURPOSE AND SOURCES AND USES OF FUNDS**

The City is issuing the Bonds under the provisions of the Ordinance to (i) pay the costs of constructing, improving, renovating and equipping airport facilities, including, but not limited to, terminal facilities, site improvements, taxiways, equipment and the aircraft rescue firefighting station, (ii) fund the Debt Service Reserve Fund Requirement with respect to the Bonds, and (iii) pay the costs of issuance of the Bonds. The City will utilize proceeds of the Bonds as follows:

<b>Sources of Funds:</b>	
Par Amount of Bonds	\$ 41,475,000.00
Original Issue Premium	4,874,220.50
Total Sources of Funds	\$ 46,349,220.50
 <b>Uses of Funds:</b>	
Deposit to Construction Fund	\$ 42,201,439.00
Underwriters' Discount	207,400.66
Deposit to Debt Service Reserve Fund	3,551,274.17
Costs of Issuance/Rounding	389,106.67
Total Uses of Funds	\$ 46,349,220.50

**THE BONDS**

**AUTHORITY FOR ISSUANCE . . .** The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 22, Texas Transportation Code, as amended, and Chapters 1371 and 1503, Texas Government Code, as amended, and the provisions of the Ordinance. In the Ordinance, the City Council delegated to each of the City Manager, the Chief Financial Officer of the City or the Managing Director of Aviation and International Bridges, each acting in such capacity severally and not jointly (each, a "Pricing Officer"), pursuant to certain provisions of Chapter 1371, Texas Government Code, the authority to effect the sale of the Bonds and to establish certain terms related to the issuance and sale of the Bonds. The terms of the sale are included in a "Pricing Certificate" approved and executed by the Pricing Officer which completed the sale of the Bonds (the Ordinance and the Pricing Certificate are jointly referred to as the "Bond Ordinance").

**DESCRIPTION OF THE BONDS . . .** The Bonds are dated September 1, 2018, and mature on August 15 in each of the years and in the amounts shown on the inside cover page hereof. Interest on the Bonds will accrue from the date of initial delivery of the Bonds, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on February 15 and August 15, commencing February 15, 2019, until maturity. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "- Book-Entry-Only System" herein.

Interest on the Bonds shall be paid to the registered owners appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date (hereinafter defined), and such interest shall be paid (i) by check sent United States mail, first class, postage prepaid, to the address of the registered owner recorded in the registration books of the Paying Agent/Registrar or (ii) by such other customary banking arrangements acceptable to the Paying Agent/Registrar and the person to whom interest is to be paid; provided, however, that such person shall bear the risk and expense of such other customary banking arrangement. Principal of the Bonds will be paid to the registered owner at the stated maturity upon presentation and surrender to the designated payment/transfer office of the Paying Agent/Registrar; provided, however, that so long as Cede & Co. (or other DTC nominee) is the registered owner of the Bonds, all payments will be made as described under "- Book-Entry-Only System" herein. If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the designated payment/transfer office of the Paying Agent/Registrar is located in the State of Texas are generally authorized or obligated to close, then the date for such payment shall be the next succeeding day which is not such a day, and payment on such date shall have the same force and effect as if made on the date payment was due.

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

**NO REDEMPTION . . .** The Bonds are not subject to redemption prior to maturity.

**DEFEASANCE OF BONDS . . .** The Bond Ordinance provides that the City may discharge its obligation to the registered owners of any or all of the Bonds to pay principal, interest and redemption premium (if any) thereon, or any portion thereof, by depositing with the Paying Agent/Registrar cash in an amount equal to the principal, redemption premium, if any, of such Bonds plus interest thereon to the date of maturity, or any portion thereof to be discharged, or by depositing either with the Paying Agent/Registrar or with any national banking association with capital and surplus in excess of \$25,000,000, pursuant to an escrow or trust agreement to which the Paying Agent/Registrar is a party, cash and/or direct obligations of, or obligations the principal and interest of which are guaranteed by the United States of America in principal amounts and maturities and bearing interest at rates sufficient to provide for the timely payment of the principal amount and redemption premium, if any, of such Bonds plus interest thereon to the date of maturity or any portion thereof to be discharged.

Upon the making of a deposit as described above, the Bonds shall no longer be regarded to be outstanding or unpaid. If any of such Bonds are to be redeemed prior to their respective dates of maturity the City must give irrevocable instructions to give notice of redemption of such Bonds to be so redeemed as provided in the Bond Ordinance.

**BOOK-ENTRY-ONLY SYSTEM . . .** *This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and accredited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The City believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee). One fully registered certificate will be issued for each maturity of the Bonds in the aggregate principal amount of each such maturity and will be deposited with DTC.

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

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that

the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, the Beneficial Owners may wish to provide their names and addresses to the Paying Agent/Registrar and request that copies of the notices be provided directly to them.

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

Principal and interest payments on the Bonds will be made to DTC. DTC's practice is to credit Direct Participants' accounts, upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar on payable dates in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as in the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal and interest to DTC is the responsibility of the City, disbursement of such payments to Direct Participants shall be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners shall be the responsibility of Direct and Indirect Participants.

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

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

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

Information concerning DTC and the Book-Entry-Only System has been obtained from DTC and is not guaranteed as to accuracy or completeness by, and is not to be construed as a representation by the City, the Financial Advisor or the Underwriters.

**Effect of Termination of Book-Entry-Only System** In the event that the Book-Entry-Only System is discontinued by DTC or the use of the Book-Entry-Only System is discontinued by the City, printed Bonds will be issued to the holders and the Bonds will be subject to transfer, exchange and registration provisions as set forth in the Bond Ordinance and summarized under "THE BONDS - Transfer, Exchange and Registration" below.

**PAYING AGENT/REGISTRAR** . . . The initial Paying Agent/Registrar is Wells Fargo Bank, National Association, Minneapolis, Minnesota. In the Bond Ordinance, the City retains the right to replace the Paying Agent/Registrar. The City covenants to maintain and provide a Paying Agent/Registrar while any Bonds are outstanding and any successor Paying Agent/Registrar shall be a commercial bank, a national banking association trust company organized under the laws of the State of Texas, or other entity duly qualified and legally authorized to serve as and perform the duties and services of Paying Agent/Registrar for the Bonds. Upon any change in the Paying Agent/Registrar for the Bonds, the City agrees to promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first class, postage prepaid, of the new Paying Agent/Registrar.

**TRANSFER, EXCHANGE AND REGISTRATION** . . . In the event the Book-Entry-Only System should be discontinued, the Bonds will be printed and delivered to the registered owners thereof, and thereafter the ownership of a Bond may be transferred only upon presentation and surrender thereof at the designated office of the Paying Agent/Registrar, delay endorsed for transfer, or accompanied by an assignment duly executed by the registered owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges that are authorized to be imposed in connection with such registration, exchange and transfer. Upon due presentation of any Bond for transfer, the Paying Agent/Registrar must authenticate and deliver in exchange therefore, within 72 hours after such presentation, a new Bond or Bonds registered in the name of the transferred or transferees, in authorized denominations of the same maturity and aggregate principal amount and bearing interest at the same rate as the Bond or Bonds presented. See "Book-Entry-Only System" herein for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

## SECURITY FOR THE PARITY BONDS

**SECURITY AND SOURCE OF PAYMENT** . . . The Bonds are special obligations of the City payable, both as to principal and interest, together with the Outstanding Parity Bonds and any Additional Parity Bonds that may be hereafter issued, from and secured by a first lien on and pledge of the Net Revenues of the Airport and from moneys from time to time on deposit in the Capitalized Interest Account, the Debt Service Fund and the Debt Service Reserve Fund. Net Revenues is defined as Gross Revenues less Maintenance and Operating Expenses. Additionally, principal and interest on the Bonds attributable to the portion of the Bonds used to finance or refinance PFC-approved Project Costs are payable from a first lien on the PFC Revenues on deposit in the PFC Debt Service Escrow Fund. Collectively, the Capitalized Interest Account, the Debt Service Fund, the Debt Service Reserve Fund and the PFC Debt Service Escrow Fund are referred to herein as the “Pledged Funds” (provided that moneys in the PFC Debt Service Escrow Fund may only be used for debt service on Bonds allocable to PFC-approved Project Costs).

“*Gross Revenues*” is defined in the Bond Ordinance to include all income and revenues derived directly or indirectly by the City from the ownership, operation and use of and otherwise pertaining to the Airport, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport, or for any service rendered by the City in the operation thereof and interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues expressly exclude: (i) proceeds of any Airport Obligations; (ii) interest or other investment income derived from Airport Obligation proceeds deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund established under the Bond Ordinance; (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport facilities, except to the extent any such monies shall be received as payments for the use of Airport facilities; (iv) revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds; (v) insurance proceeds other than loss of use or business interruption insurance proceeds; (vi) PFC Revenues and the receipts from any other per-passenger charge as may be hereafter lawfully authorized; (vii) sales and other taxes collected by the Airport on behalf of the State of Texas and any other taxing entities; (viii) Federal Payments received by the City in connection with the Airport to the extent that such payments, if included in Gross Revenues, would cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes; (ix) the proceeds received by the City from the sale or other disposition of all or part of the Airport property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues; (x) revenues that are derived from properties constituting a part of the Airport that are required to be deposited to the Restricted Land Sales Fund; (xi) Other Available Funds transferred to the Revenue Fund as provided in the Bond Ordinance; and (xii) revenues that are derived from the imposition of a customer facility charge on each customer renting a motor vehicle from an on-airport vehicle rental concessionaire, the primarily purpose of which is to fund the development, construction, maintenance and operation of a consolidated car rental facility.

“*Maintenance and Operating Expenses*” means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport, including, without limitation, those reasonably allocated City overhead expenses relating to the protection, administration, maintenance and operation of the Airport; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City; any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport as are requested from the City by the Airport and as are reasonably necessary for the operation of the Airport; costs of issuance of Airport Obligations for the Airport (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding: (i) any allowance for depreciation; (ii) costs of capital improvements, including any liabilities incurred or accrued in connection therewith; (iii) reserves for major capital improvements, Airport operations, maintenance or repair; (iv) any allowance for redemption of, or payment of interest or premium on, Airport Obligations; (v) expenses of lessees under Special Facilities Leases and maintenance and operating expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases; (vi) any charges or obligations incurred in connection with any lawful Airport purpose, including the lease, acquisition, operation or maintenance of any facility or property benefitting the Airport, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Improvement Fund; (vii) payment of liabilities based upon the City’s negligence or other grounds not based on contract; and (viii) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Maintenance and Operating Expenses for such period equal to the Federal Payments for such period.

“*Other Available Funds*” is defined in the Bond Ordinance to be any amount of unencumbered funds accumulated in the Operating Account of the Capital Improvement Fund which, prior to the beginning of any Fiscal Year, is designated by the City as such and are transferred at the beginning of such Fiscal Year to the Revenue Fund but in no event may such amount exceed twenty-five percent (25%) of the Debt Service Requirements (determined prior to deducting any amounts deposited to the PFC Debt Service Escrow Fund) for such Fiscal Year for purposes of complying with the Rate Covenant and the requirements for issuing Additional Parity Bonds. (See “Appendix D - Summary of Certain Provisions of the Bond Ordinance.”)

“*PFC Revenues*” means the Passenger Facility Charge receipts collected from enplaned passengers at the Airport, less any collection or service fee retained by the collecting airlines, which have been approved by the Federal Aviation Administration pursuant to the

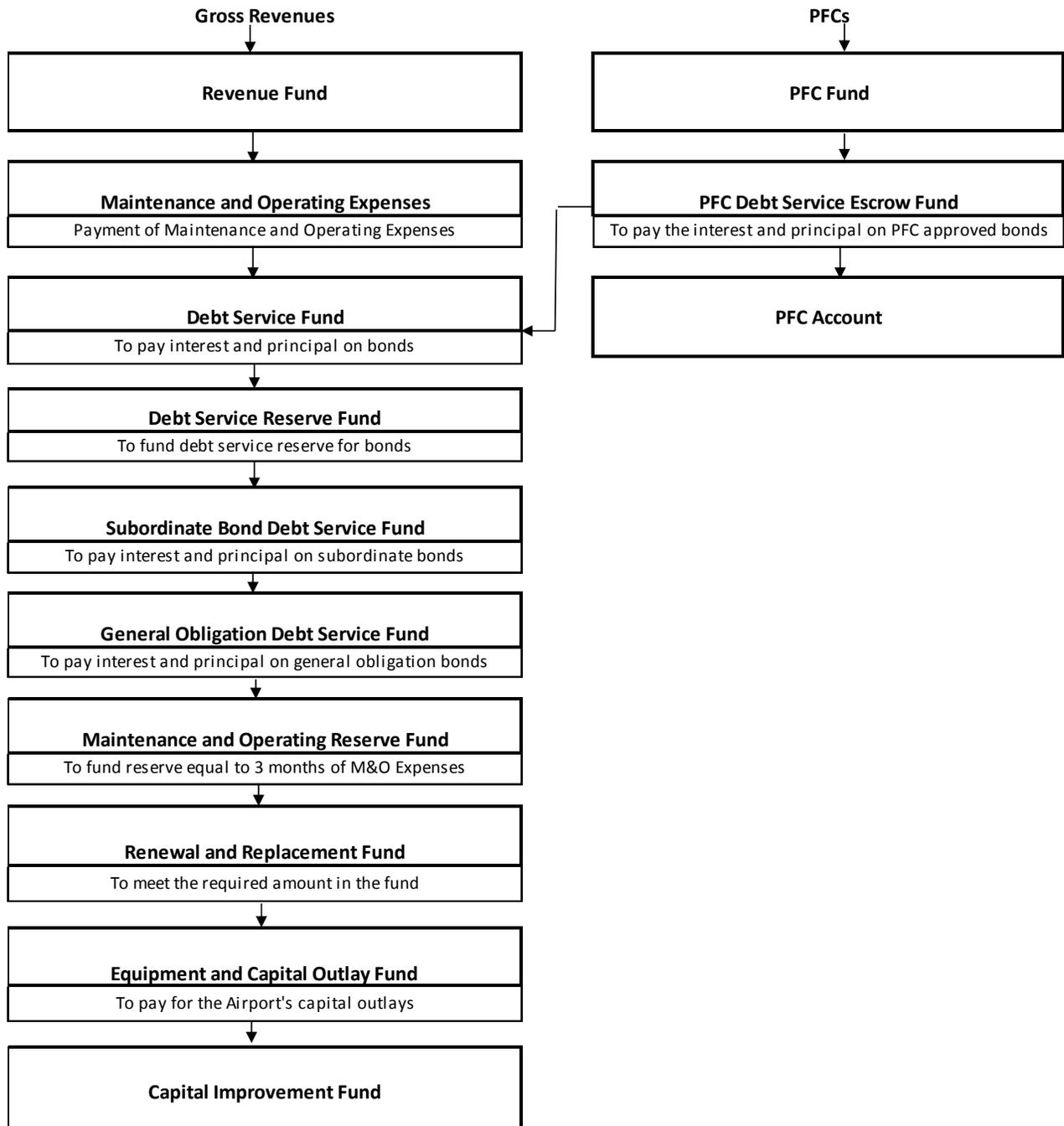
FPC Regulations, which are remitted to the City plus interest earnings thereon. The City is required to deposit all PFC Revenues received by it to the PFC Fund and then transfer them monthly from the PFC Fund to the PFC Debt Service Escrow Fund until there has been transferred during the applicable Fiscal Year an amount equal to the principal and interest scheduled to come due during the ensuing Fiscal Year on the portion of the Parity Bonds used to finance or refinance PFC-approved Project Costs. See “AIRPORT REVENUES AND AGREEMENTS – Flow of PFC Revenues.”

For definitions of capitalized terms used herein and not otherwise defined, see “Appendix D - Summary of Certain Provisions of the Bond Ordinance - Definitions”.

**The Bonds are not a charge upon any other income or revenues of the City and shall never constitute an indebtedness or pledge of the general credit or taxing powers of the City. The Bond Ordinance does not create a lien or mortgage on the Airport and any judgment against the City may not be enforced by levy and execution against any property owned by the City, except Net Revenues of the Airport and from moneys from time to time on deposit in the Pledged Funds (provided that moneys in the PFC Debt Service Escrow Fund may only be used for debt service on Parity Bonds allocable to PFC-approved Project Costs).**

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**FUNDS AND FLOW OF FUNDS**



**RATE COVENANT . . .** The City covenants in the Bond Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport, and, unless prohibited by state or federal law, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

- (i) all amounts required to be deposited in such Fiscal Year to any Fund or Account required by the terms of the Bond Ordinance, or
- (ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Parity Bonds for such Fiscal Year. (See Appendix D - "Summary of Certain Provisions of the Bond Ordinance").

If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City's rentals, rates, fees and other charges, its Maintenance and Operating Expenses or the method of operation of the Airport in order to satisfy as quickly as practicable the foregoing requirements. So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Bond Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as principal of and interest on Parity Bonds are paid when due; provided however, that this paragraph does not apply if the City is required to satisfy the rate covenant contained in clause (ii) above and the amounts specified by clause (ii) are less than 100% of the Debt Service Requirements for the Parity Bonds for such Fiscal Year.

**DEBT SERVICE RESERVE FUND . . .** As additional security for the Parity Bonds, the Bond Ordinance confirms the establishment of the Debt Service Reserve Fund (the "Reserve Fund"). At all times the Reserve Fund shall be maintained at a level equal to the Debt Service Reserve Fund Requirement for the Parity Bonds. Such amount shall be computed and recomputed annually as part of the City's budget process and upon the issuance of the Bonds and each series of Parity Bonds and shall be the arithmetic average of annual Debt Service Requirements (determined prior to deducting any amounts deposited to the PFC Debt Service Escrow Fund). In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Parity Bonds, in accordance with Section 1.1486 of the regulations promulgated under the Internal Revenue Code of 1986, exceed the least of (a) 10% of the stated principal amount of each issue of which such Parity Bonds are a part, (b) the maximum annual principal and interest requirements of such issue or (c) 125% of the average annual principal and interest requirements of such issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Parity Bonds to be "arbitrage bonds" within the meaning of section 148 of the Code and the regulations promulgated from time to time thereunder.

Following the issuance and delivery of the Bonds, the Debt Service Reserve Fund Requirement will be \$3,551,274.17. The City has covenanted to fund this amount at the time of issuance and delivery of the Bonds by depositing to the credit of the Debt Service Reserve Fund Requirement either (A) proceeds of the Bonds or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Debt Service Reserve Fund Requirement. The City has reserved the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Parity Bonds were issued or to pay debt service on the related Airport Obligations. "Debt Service Reserve Fund Surety Bond" means any surety bond or insurance policy having an investment grade rating from at least two national rating agencies; in either case, such bond or policy issued to the City for the benefit of the Owners of the Parity Bonds to satisfy any part of the Debt Service Reserve Fund Requirement. The final Official Statement will disclose the amount of the Debt Service Fund Requirement and the manner in which the City will fund such amount. (See "Appendix D - Summary of Certain Provisions of the Bond Ordinance.")

**BONDHOLDERS' REMEDIES . . .** The Bond Ordinance provides that each of the following occurrences or events is an "Event of Default": (i) the failure to make payment of the principal of or interest on any of the Parity Bonds when the same becomes due and payable or (ii) default in the performance or observance of any other covenant, agreement or obligation of the City contained in the Bond Ordinance, which default materially and adversely affects the rights of the Owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Bond Ordinance, and the continuation thereof for a period of 60 days after written notice of such default is given by any Owner to the City. The Bond Ordinance further provides that, upon the happening of any Event of Default, any Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Bond Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained in the Bond Ordinance, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners under the Bond Ordinance or any combination of such remedies.

The issuance of a writ of mandamus is controlled by equitable principles and rests with the discretion of the court, but may not be arbitrarily refused. The enforcement of such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Ordinance does not provide for the appointment of a trustee to represent the interests of the bondholders upon any failure of the City to perform in accordance with the terms of the Bond Ordinance, or upon any other condition and, accordingly, all legal actions to enforce such remedies would have to be undertaken at the initiative of, and financed by, the registered owners. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W. 3d 325 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the

City's sovereign immunity from a suit for money damages, holders of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or Bond Ordinance covenants.

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

Even if a judgment against the City could be obtained, it could not be enforced by direct levy and execution against the City's property. Furthermore, the City is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, such as the pledged Net Revenues, such provisions are subject to judicial construction. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or holders of the Bonds of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bond Ordinance and Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

**ADDITIONAL INDEBTEDNESS . . .** The City reserves the right to issue additional debt securities for the purpose of improving, constructing, replacing or otherwise extending the Airport, or for the purpose of refunding or refinancing any debt or obligation of or relating to the Airport, or for any other purpose permitted by applicable law. The Bond Ordinance provides that the City may issue three categories of Airport-related debt: Parity Bonds (including Completion Bonds); Subordinate Obligations; and Special Facilities Bonds. In addition, the City may enter into credit agreements to provide credit support for any series of Parity Bonds or Subordinate Obligations. Under the Bond Ordinance, the City may not issue any debt obligations on parity with the Bonds except for Parity Bonds. See "AIRPORT RELATED DEBT" for a discussion of Parity Bonds, Subordinate Obligations and Special Facilities Bonds, and the security for each of them.

The City reserves the right to issue Additional Parity Bonds secured on a parity with the Bonds upon compliance with the requirements of the Bond Ordinance. Among other requirements is that the Airport Consultant provide a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport for each of three (3) consecutive Fiscal Years beginning in the earlier of (i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Parity Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities or (ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Parity Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Parity Bonds, investment income thereon or from other appropriated sources (other than Net Revenues), are equal to at least 125% of the Debt Service Requirements on all Parity Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Parity Bonds to be issued. In lieu of the certification described above, the City's Chief Financial Officer or such other person appointed to act in such capacity may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport were equal to at least 125% of the average annual Debt Service Requirements on all Parity Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Parity Bonds proposed to be issued. This list provides a summary description of the requirements the City must satisfy to issue Parity Bonds. (See "Appendix D - Summary of Certain Provisions of the Bond Ordinance" for the complete text from the Bond Ordinance.)

**AIRPORT RELATED DEBT**

**PARITY BONDS . . .** Upon the issuance of the Bonds, \$56,415,000 in aggregate principal amount of Parity Bonds will be Outstanding pursuant to the Bond Ordinance and the ordinance relating to the Series 2011 Bonds. See “Table 1 – Parity Bond Debt Service Requirements” for the debt service requirements on all Outstanding Parity Bonds. The City has no present plans to issue any additional Parity Bonds. See “SECURITY FOR THE PARITY BONDS – Additional Indebtedness” and “Appendix D - Summary of Certain Provisions of the Bond Ordinance” for a description of the City’s ability to issue additional Parity Bonds.

**PARITY BOND DEBT SERVICE REQUIREMENTS . . .** The debt service requirements for all Outstanding Parity Bonds, including the Bonds, is as follows:

**TABLE 1 –PARITY BOND DEBT SERVICE REQUIREMENTS**

Fiscal Year Ending 8-31	Outstanding Debt Service Requirements			The Bonds			Total Outstanding Debt Service	% of Principal Retired
	Principal	Interest	Total	Principal	Interest	Total		
2019	\$ 735,000	\$ 713,150	\$ 1,448,150	\$ 3,070,000	\$ 1,762,688	\$ 4,832,688	\$ 6,280,838	
2020	760,000	687,425	1,447,425	3,485,000	1,920,250	5,405,250	6,852,675	
2021	790,000	657,025	1,447,025	3,655,000	1,746,000	5,401,000	6,848,025	
2022	820,000	625,425	1,445,425	3,840,000	1,563,250	5,403,250	6,848,675	
2023	855,000	592,625	1,447,625	4,030,000	1,371,250	5,401,250	6,848,875	39.07%
2024	890,000	556,288	1,446,288	4,235,000	1,169,750	5,404,750	6,851,038	
2025	930,000	516,238	1,446,238	4,445,000	958,000	5,403,000	6,849,238	
2026	975,000	473,225	1,448,225	4,670,000	735,750	5,405,750	6,853,975	
2027	1,020,000	424,475	1,444,475	4,900,000	502,250	5,402,250	6,846,725	
2028	1,075,000	373,475	1,448,475	5,145,000	257,250	5,402,250	6,850,725	89.20%
2029	1,125,000	319,725	1,444,725	-	-	-	1,444,725	
2030	1,185,000	260,663	1,445,663	-	-	-	1,445,663	
2031	1,250,000	198,450	1,448,450	-	-	-	1,448,450	
2032	1,315,000	132,825	1,447,825	-	-	-	1,447,825	
2033	1,215,000	63,788	1,278,788	-	-	-	1,278,788	100.00%
	<u>\$ 14,940,000</u>	<u>\$ 6,594,800</u>	<u>\$ 21,534,800</u>	<u>\$ 41,475,000</u>	<u>\$ 11,986,438</u>	<u>\$ 53,461,438</u>	<u>\$ 74,996,238</u>	

**SUBORDINATE OBLIGATIONS . . .** The City issued its \$40,000,000 Combination Tax and Airport Revenue Certificates of Obligation, Taxable Series 2014 (the “Series 2014 Certificates”), currently outstanding in the amount of \$37,675,000. These Certificates are direct obligations of the City, payable from (i) the levy and collection of a direct and continuing ad valorem tax levied, within the limits prescribed by law, on all taxable property within the City, and (ii) a limited pledge (not to exceed \$1,000) of the Surplus Revenues of the City’s Airport System. Notwithstanding the foregoing, the City has historically paid and intends to pay debt service on the Series 2014 Certificates from Airport revenues attributable to a customer facility charge (“CFC”) that was imposed on February 1, 2012 at a rate of \$3.50 per day on each customer renting a motor vehicle from an on-airport vehicle rental concessionaire. If Airport revenues from the CFC and revenues remaining after payment of the Parity Bonds are not sufficient to repay the Series 2014 Certificates, the City is required to levy an ad valorem tax for the payment of the debt service on such Certificates. See “Appendix D - Summary of Certain Provisions of the Bond Ordinance” for a description of Subordinate Obligations.

**SPECIAL FACILITIES BONDS . . .** No Special Facilities Bonds are currently outstanding. In the event that the City issues Special Facilities Bonds in the future, such Special Facilities Bonds will be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City, and in no event will any Gross Revenues or any other amounts held as security for the Parity Bonds be pledged to the payment of Special Facilities Bonds. The City has no present plans to issue any Special Facilities Bonds. See “Appendix D - Summary of Certain Provisions of the Bond Ordinance” for a description of Special Facilities Bonds.

## THE AIRPORT

**GENERAL** . . . The Airport is the principal air carrier airport in a wide region, including the City of El Paso. It occupies about 6,800 acres and is located approximately five miles east of downtown El Paso. The Airport primarily serves origin destination passengers. In fiscal year 2017, 1,461,620 passengers were enplaned at the Airport; an estimated 95% were origin destination passengers beginning or ending their air journeys at the Airport. As of May 31, 2018 the passenger airlines serving the City offered 62 scheduled daily flights to 12 cities.

As of the date of this Official Statement, four major airlines – American Airlines, Delta Air Lines, United Airlines and Southwest Airlines and two Ultra Low Cost Carriers – Allegiant and Frontier Airlines provide scheduled airline service as well as three major Cargo Carriers – Federal Express, UPS and DHL.

The Airport serves primarily El Paso and Hudspeth counties in western Texas, which comprise the El Paso Metropolitan Statistical Area (“El Paso MSA”). The Airport also attracts passengers from adjacent counties Doña Ana and Otero in New Mexico, and from Ciudad Juárez in Mexico. The entire area provides a market of 2.7 million people.

The Airport is operated as a self-sufficient enterprise of the City, administered by the Managing Director of Aviation and International Bridges who reports to the City Manager or her designee. The City Council has the power to establish schedules fixing all fees and charges. Following are brief biographies of certain Airport officials.

**AIRPORT MANAGEMENT** . . . *Monica Lombraña, A.A.E., Managing Director of Aviation and International Bridges.* As Managing Director of Aviation and International Bridges for the City of El Paso, Ms. Lombraña oversees all aspects of the management, development, operations and maintenance of both departments. Ms. Lombraña has been employed with the City of El Paso since 1994 and has worked in various City Departments, including Comptroller’s, the Office of Management & Budget, and Contract Compliance. Ms. Lombraña holds a Bachelor of Science degree in Management from Park University and a Master’s degree in Business Administration from Webster University. She is an Accredited Airport Executive and member of the American Association of Airport Executives, and is on the board of directors for the Texas Commercial Airports Association and Airports Council International-North America.

*Jeff Schultes, A.A.E., Assistant Director of Aviation.* Mr. Schultes has spent forty years in the aviation industry. As Assistant Director for the past eight and one-half years, Mr. Schultes oversees Properties, Finance, Marketing, Route Development and the FTZ. Prior to his current job Mr. Schultes served as Airport Director for Bradley International Airport in Windsor Locks, Connecticut. He also served as Airport Manager of the Portland International Jetport in Portland, Maine for 16 years. For Federal Express he managed airport properties in the Northeast and Canada for over 6 years. Mr. Schultes is an Accredited Airport Executive and a member of the American Association of Airport Executives. He earned a Bachelor of Science Degree in Air Commerce, Transportation Technology from the Florida Institute of Technology.

*Tony Nevarez, A.C.E., Assistant Director of Aviation - Operations and Security.* Mr. Nevarez has served the El Paso International Airport for over 14 years. He began his tenure at the airport as an Assistant Operations Officer and has continued to advance within the airport’s leadership team, working in various capacities, to include Airport Security Coordinator and Operations Manager. Mr. Nevarez was promoted to his current position as Assistant Director of Aviation in 2017, where he is focused on striving to reach new heights in operational efficiency, technological advancement and stewardship over airfield assets. He is responsible for ensuring the airport’s compliance with 14 CFR Part 139 and 1542 regulations and the daily operation of the Dispatch, Security, Warehouse, Auto Shop, Systems Tech and Operations divisions. Mr. Nevarez is a member of the American Association of Airport Executives and has achieved his designation as a Commercial/Instrument Pilot. He received his Bachelor of Science in Professional Aviation from Louisiana Tech University.

*Terry Sharpe, Aviation Development Assistant Director.* After fourteen years working in FAA Part 135 on-demand charter operations, Mr. Sharpe began his service with the El Paso International Airport as an Airport Operations Officer in 2002. He was assigned to the Airport Security Coordinator position within a year, at the same time that the federal government was bringing the Transportation Security Administration (the “TSA”) on line. In 2005, he was promoted to Airport Operations Manager, in charge of airside operations as well as managing safety and inspection duties of the airport’s runway and taxiway system under FAR Part 139. He promoted to Assistant Director of Operations and Security in 2015 and managed airport operations, public safety, security, communications and ground transportation services. In September of 2017, Mr. Sharpe became the Assistant Director of Aviation Development, where he oversees the department’s grants and capital improvement programs. Mr. Sharpe holds a Bachelor of Science degree in Business Management from the University of Phoenix and a Master of Public Administration from the University of Texas at El Paso. He is a Certified Member of the American Association of Airport Executives.

*Monica Vera, Administrative Services Manager.* As Administrative Services Manager for the Airport Ms. Vera oversees all aspects of the day-to-day accounting and financial operations of the Airport. Ms. Vera has been employed with the City of El Paso since 1994, previously working City’s Purchasing Department before moving to the Airport in 2006. Ms. Vera began her career at the Airport as an Airport Program Coordinator in the Properties Division where she administered the airline operating agreements as well as terminal concessions agreements. She was promoted to her current position in 2016. She holds a Bachelor of Science degree in Business Administration and a Master’s degree in Public Administration, both from Troy University.

**FUTURE AIRPORT CAPITAL IMPROVEMENTS . . .** The Airport has identified approximately \$103,767,461 of Airport related capital projects, including the Series 2018 Projects, for inclusion in the Capital Improvement Program (the “CIP”) for Fiscal Years 2018 - 2022. The future airport capital improvements include the following:

Airfield Projects	\$ 52,253,363
Terminal	28,962,481
Industrial Park Development	350,000
Parking	1,650,000
Other	20,551,617
Total	<u>\$ 103,767,461</u>

The above improvements will be undertaken as such improvements are deemed economically justified. Potential sources of funding for future capital improvements include, but are not limited to, Federal grant funds, PFC revenues, internally generated funds, and Additional Parity Bonds.

**RISK MANAGEMENT AND INSURANCE . . .** The Airport is carried as a covered property under the City's Property Policy and Boiler & Machinery coverage. The property coverage has a \$250,000 deductible with a \$500,000,000 loss limit per occurrence and the boiler and machinery coverage has a \$250,000 deductible with loss limits and business interruption of \$100,000,000 combined. In addition, the Airport separately carries basic comprehensive liability insurance, with a limit of \$100,000,000 each occurrence and in the aggregate, with deductibles of \$5,000 per occurrence to a maximum of \$50,000 during any one annual period of insurance. The Airport also carries excess liability coverage with a limit of \$75,000,000 combined single limit for bodily injury and property damage any one occurrence and in the aggregate. The Airport does not currently have separate terrorist coverage.

**AIRLINES SERVING THE AIRPORT . . .** The following airlines, detailed in Table 2, currently provide service to the Airport.

**TABLE 2 - AIRLINES SERVING EL PASO INTERNATIONAL AIRPORT**

<u>Passenger Carriers</u>	<u>All-Cargo Carriers</u>
Allegiant Airlines	DHL
American Airlines <sup>(1)</sup>	FedEx Corporation
Delta Air Lines	United Parcel Service
Frontier Airlines	
Southwest Airlines	
United Airlines <sup>(2)</sup>	

(1) Some of American Airlines’ flights are operated by regional affiliates: Compass Airlines, Mesa Airlines, and SkyWest Airlines.

(2) Some of United Airlines’ flights are operated by regional affiliates: ExpressJet Airline, SkyWest Airlines, Mesa Airlines, and Republic Airline.

Source: Airport records.

**ENPLANED PASSENGERS . . .** Table 3 represents historical data on enplaned passengers at the Airport beginning with Fiscal Year 2005. There was an increase of 5.55% in fiscal year 2017 with enplanements of 1,461,620.

**TABLE 3 - HISTORICAL ENPLANED PASSENGERS**

Fiscal Year Ended	Total	Annual % Increase (Decrease)	Fiscal Year Ended	Total	Annual % Increase (Decrease)
8-31			8-31		
2005	1,664,047	6.3%	2012	1,471,845	(1.3%)
2006	1,711,910	2.9%	2013	1,390,274	(5.5%)
2007	1,721,068	0.1%	2014	1,395,696	0.4%
2008	1,713,382	(0.4%)	2015	1,369,943	(1.9%)
2009	1,537,068	(10.3%)	2016	1,384,737	1.1%
2010	1,551,220	(0.9%)	2017	1,461,620	5.6%
2011	1,491,302	(3.9%)	2018 <sup>(1)</sup>	1,433,705	N/A

(1) As of July 31, 2018.

Source: Airport records.

**AIRLINE MARKET SHARES . . .** Table 4 shows the airline market shares of enplaned passengers at the Airport for Fiscal Years 2013 through 2017 and as of July 31, 2018.

**TABLE 4 - AIRLINE MARKET SHARES OF ENPLANED PASSENGERS (Fiscal Years Ended August 31)**

Major/National Airlines	2013		2014		2015	
	Number	% of Total	Number	% of Total	Number	% of Total
Southwest	726,538	52.3%	690,935	49.5%	698,700	51.0%
American	322,727	23.2%	353,071	25.3%	346,553	25.3%
U.S. Airways	96,897	7.0%	111,326	8.0%	91,704	6.7%
Delta	89,364	6.4%	93,427	6.7%	94,662	6.9%
Continental	-	0.0%	-	0.0%	-	0.0%
United Express	154,748	11.1%	146,937	10.5%	138,324	10.1%
Allegiant	-	0.0%	-	0.0%	-	0.0%
Total	1,390,274	100.0%	1,395,696	100.0%	1,369,943	100.0%

Major/National Airlines	2016		2017		2018 <sup>(1)</sup>	
	Number	% of Total	Number	% of Total	Number	% of Total
Southwest	684,648	49.4%	697,648	47.7%	662,490	46.2%
American	435,615	31.5%	470,834	32.2%	458,154	32.0%
U.S. Airways	6,602	0.5%	-	0.0%	-	0.0%
Delta	102,791	7.4%	107,583	7.4%	100,084	7.0%
Continental	-	0.0%	-	0.0%	-	0.0%
United Express	141,062	10.2%	144,133	9.9%	166,914	11.6%
Allegiant	14,019	1.0%	41,422	2.8%	25,610	1.8%
Frontier	-	0.0%	-	0.0%	20,016	1.4%
Total	1,384,737	100.0%	1,461,620	100.0%	1,433,268	100.0%

(1) As of July 31, 2018.

Source: Airport records.

**ENPLANED CARGO . . .** Table 5 presents information regarding enplaned cargo at the Airport.

**TABLE 5 - HISTORICAL ENPLANED CARGO (FISCAL YEARS ENDED AUGUST 31)**

Fiscal Year	Tons			% Increase (Decrease)
	Air Freight	Mail	Total	
2004	35,571.1	610.2	36,181.3	0.0%
2005	37,469.0	448.3	37,917.3	4.8%
2006	36,511.1	232.7	36,743.8	(3.1%)
2007	38,241.8	65.8	38,307.6	4.3%
2008	34,251.0	47.0	34,298.0	(10.5%)
2009	26,473.0	21.0	26,494.0	(22.8%)
2010	41,526.0	2.0	41,528.0	56.7%
2011	43,338.0	1.0	43,339.0	4.4%
2012	46,910.0	4.0	46,914.0	8.2%
2013	45,342.0	1.0	45,343.0	(3.3%)
2014	44,048.0	2.0	44,050.0	(2.9%)
2015	45,178.0	1.0	45,179.0	2.56%
2016	43,218.8	1.7	43,220.5	(4.3%)
2017	42,178.2	2.9	42,181.1	(2.4%)
2018 <sup>(1)</sup>	39,253.0	0.2	39,253.2	N/A

(1) As of July 31, 2018.

Source: Airport records.

**AIRCRAFT LANDED WEIGHT** . . . Table 6 presents trends in aircraft landed weight at the Airport (in 1,000-pound units).

**TABLE 6 - AIRCRAFT LANDED WEIGHT**

Fiscal Year	(In thousands)				% Increase (Decrease)
	Passenger Airlines <sup>(1)</sup>	All-cargo Airlines	General Aviation Airlines <sup>(2)</sup>	Total	
2004	2,406,939	490,272	-	2,897,211	(2.8%)
2005	2,457,727	548,221	-	3,005,948	3.8%
2006	2,500,895	526,145	-	3,027,040	0.7%
2007	2,447,708	590,048	-	3,037,756	0.4%
2008	2,418,613	480,117	-	2,898,730	(4.6%)
2009	2,274,727	386,023	-	2,660,750	(8.2%)
2010	2,215,131	479,442	38,618	2,733,191	2.7%
2011	2,152,316	540,105	81,189	2,773,610	1.5%
2012	2,065,152	540,445	73,674	2,679,271	(3.4%)
2013	1,916,108	514,724	84,749	2,515,581	(6.1%)
2014	1,843,349	488,252	70,886	2,402,487	(4.5%)
2015	1,592,347	500,844	75,031	2,168,222	(9.8%)
2016	1,646,538	505,594	90,973	2,242,806	3.5%
2017	1,723,061	478,490	100,000	2,301,551	2.6%
2018 <sup>(3)</sup>	1,676,219	573,410	78,727	2,328,356	N/A

(1) Includes scheduled and non-scheduled airlines. One of the possible reasons for the decrease in aircraft landed weight for passenger airlines from 2013 to 2015 may be the phase out and eventual repeal of the Wright Amendment, which resulted in the Airport losing five mainline Southwest flights. See “CERTAIN INVESTMENT CONSIDERATIONS – Significance of Southwest Airlines Operations” and “APPENDIX C – REPORT OF THE AIRPORT CONSULTANT.”

(2) Includes Fixed Base Operators fees for planes over 60,000 pounds.

(3) As of July 31, 2018.

Source: Airport records.

## AIRPORT REVENUES AND AGREEMENTS

**AIRLINE AGREEMENTS AND THE RATE ORDINANCE** . . . The City has entered into separate, but substantially similar, Airline Operating Agreements and Terminal Building Leases (collectively, the “Airline Agreements”) with the following four passenger air carriers operating at the Airport (collectively, the “Signatory Airlines”): American Airlines, Delta Airlines, Southwest Airlines and United Airlines. In addition, the City has entered into separate, but substantially similar, Airline Operating Agreements and Terminal Building Leases (the “Cargo Agreements”) with Federal Express Corporation and United Parcel Service Co. (the “Signatory Cargo Carriers”). The current Airline Agreements and current Cargo Agreements are scheduled to expire on August 31, 2019. The City is currently in negotiations with the Signatory Airlines and the Signatory Cargo Carriers and anticipates that it will renew the Airline Agreements and the Cargo Agreements with rate provisions that are substantially similar to the provisions in the current agreements; however, no assurances can be given until the final agreements are signed by all applicable parties.

The Airline Agreements establishes procedures for the annual review and adjustment of terminal building rentals, landing fees, and other charges paid by the Signatory Airlines. The Airline Agreements establish terminal building rental rates using a compensatory rate-making methodology and landing fees using a cost center residual rate-making methodology.

Chapter 14.24 of Title 14 of the City’s Code of Ordinances (the “Rate Ordinance”) sets forth rules and regulations relating to airline rates, fees, charges, and the use of facilities at the Airport. The provisions of the Rate Ordinance do not apply to commercial air carriers that are a signatory to an airline operating and terminal building lease agreement with the City. Airlines that have not executed an Airline Agreement, a Cargo Agreement or another applicable airline operating agreement with the City pay rates, fees, and charges under the Rate Ordinance. Currently, non-signatory carriers (i.e., carriers other than the Signatory Carriers and the Signatory Cargo Carriers) pay landing fees calculated at a rate equal to 125% of those set forth in the Airline Agreements.

**AIRLINE RENTS AND FEES UNDER THE AIRLINE AGREEMENTS AND THE RATE ORDINANCE** . . . As stated above, the Airline Agreements and the Rate Ordinance provide a basis for calculating, charging, and collecting airline terminal building rents, landing fees, and other airline charges.

The Airline Agreements establish the following Airport cost centers to be used in the calculation of rents and fees:

- (1) Direct Cost Centers: (i) *Terminal Building*: the passenger terminal building and associated curbside entrance areas and adjoining landscaped areas at the Airport; (ii) *Parking Lot*: the public and employee vehicle parking areas; rental car

service, ready/return parking areas; commercial vehicle parking areas; terminal roadways, and associated landside support facilities and areas; (iii) *Landing Area*: the airfield at the Airport, including runways, taxiways, aprons, approach and runway protection zones, safety areas, infield areas, landing and navigational aids, and land areas at the Airport required by or related to aircraft operations (landing, takeoffs, and taxiing); (iv) *General and Commercial Aviation Areas*: the hangars, buildings, and apron areas occupied by the Airport's fixed base operators, corporate/private aircraft operators, and other commercial aviation operators; (v) *Air Freight/Cargo Facilities*: certain air freight and cargo facilities southwest and northeast of the terminal building; (vi) *New Cargo Facility*: the new air cargo complex south of the end of Runway 4-22; (vii) *Industrial Parks*: those portions of the Airport set aside for nonaviation-related commercial and industrial uses, including but not limited to portions of the El Paso International Airport Tracts, Butterfield Trail Industrial Park, and any non-aviation areas located now or as may be located in the future, in any portion of the Airport; and (viii) *Golf Course*: Lone Star Golf Club located south of Montana Avenue.

(2) Indirect Cost Centers: *Administration*: all personnel, services, supplies, equipment, and facilities used to provide administrative support to Airport operations.

The City has identified the following Direct Cost Centers:

- **Airfield.** The Airfield cost center includes the portion of the Airport provided for the landing, taking off, and taxiing of aircraft, including runways, taxiways, approach and runway protection zones, safety areas, infield areas, landing and navigational aids, and land areas required by or related to aeronautical use of the Airport. This cost center includes the apron areas of the Airport.
- **Terminal Building.** The Terminal Building cost center includes the passenger terminal building and associated curbside entrance areas and adjoining landscaped areas.
- **Aviation.** The Aviation cost center includes the hangars, building and apron areas occupied by the Airport's fixed base operators, other commercial aviation operators, and corporate/private aircraft operators.
- **Non-Aviation.** The Non-Aviation cost center includes those portions of the Airport set aside for non-aviation related commercial and industrial uses, including but not limited to industrial parks, golf courses, and any non-aviation related areas located, now or as may be located in the future, in any portion of the Airport.
- **Ground Transportation.** The Ground Transportation cost center includes the public and employee vehicle parking areas; rental car, ready/return parking areas; commercial vehicle parking areas; terminal roadways; and associated landside support facilities and areas.
- **Air Cargo.** The Air Cargo cost center includes the air freight and cargo facilities located southwest of the Terminal Building on Convair Road and northwest of the Terminal Building on George Perry Boulevard.

The City also defined the following Indirect Cost Centers:

- **Administration.** The Administration cost center includes the administrative functions of the Airport and allocated expenses from the City.
- **Public Safety.** The Public Safety cost center includes all expenses and capital costs related to Aircraft Rescue Fire Fighting (ARFF), Airport Police (including parking enforcement), Canine, and Airport Fire and Medical Services.
- **Dispatch/Badging.** The Dispatch/Badging cost center includes all expenses and capital costs related to dispatch duties and processing employee badges.

Airline terminal building space rentals are to be calculated according to a compensatory formula based on the recovery of Maintenance and Operating Expenses, Equipment and Capital Outlays, Debt Service Requirements, plus 25% of the difference between prior year and current year Debt Service Coverage, and Debt Service Reserve Fund Requirements allocable to the Terminal Building. Landing fees are to be calculated according to a cost center residual cost methodology, taking into consideration all nonairline revenues collected in the Landing Area. The Landing Area Requirement is defined to include Maintenance and Operating Expenses, Equipment and Capital Outlays, Debt Service Requirements, plus 25% of the difference between prior year and current year Debt Service Coverage, and Debt Service Reserve Fund Requirements allocable to the Landing Area.

**AUTHORIZATION FOR THE PFC . . .** The PFC is collected by the air carriers using the Airport and remitted to the City pursuant to Section 1113(e) of the Federal Aviation Act, as amended, and the regulations promulgated thereunder (collectively, the "PFC Laws"). The PFC Laws empower the FAA to authorize a public agency that controls an airport to impose a PFC of \$1.00, \$2.00, \$3.00, \$4.00, or \$4.50 (the current maximum level) for each explained passenger at such airport, subject to certain exceptions. Proceeds of an authorized PFC may be used only to pay "allowable costs" of specific airport projects approved by the FAA, including debt service and other financing costs on bonds issued to finance such specific projects. Projects for which the FAA may authorize a PFC must (i) preserve or enhance safety, security or capacity of the national air transportation system, (ii) reduce noise or mitigate noise impacts resulting from an airport, or (iii) furnish opportunities for enhanced competition between or among air carriers. The

authority to collect a PFC expires once collections reach a maximum amount prescribed by the FAA. Such maximum collection amount may be unilaterally increased by up to 15% by the airport agency charging the PFC or otherwise increased upon approval of the FAA.

**THE CITY'S PFC PROGRAM . . .** The City's PFC program is administered by the Airport in accordance with the PFC Laws. The City imposed a \$4.50 PFC effective August 1, 2010, pursuant to authorization of the FAA, which was received May 10, 2010. The FAA's records of decision permit the City to collect up to \$147,935,120 in PFC revenues, including \$46,006,915 associated with projects being financed in whole or paid from the Bonds. The City is authorized to use PFC's to pay allowable cost of certain approved projects. As of the end of May 2018, the City has collected \$101,414,466 in PFC Revenues and \$3,252,390 of interest earnings with approximately \$43,268,264 remaining to be collected on the approved applications. Pursuant to a letter dated September 13, 2017, the FAA authorized the Airport to use PFC revenues to pay for all or a portion of the projects being financed with the proceeds of the Bonds. The City is authorized to impose a PFC at the Airport until the date on which the total net PFC revenue collected plus interest thereon equals the allowable cost of the approved projects or the charge expiration date is reached, whichever comes first. Based on information submitted by the City, the FAA estimated the charge expiration date for its most recent decision to be April 1, 2025.

**FLOW OF PFC REVENUES . . .** PFC Revenues payable to the Airport are gross PFC collections derived from qualifying passenger enplanements at the Airport, less the compensation (i.e., any accrued interest prior to remittance and \$.11 per PFC collected) that air carriers are permitted to deduct from the PFCs they collect prior to remitting the proceeds of such PFCs to the Airport. Approximately 90% of all passenger enplanements at the Airport qualify and are subject to the City's PFC. The City is required to deposit all PFC Revenues received by it to the PFC Fund and then transfer them monthly from the PFC Fund to the PFC Debt Service Escrow Fund until there has been transferred during the applicable Fiscal Year an amount equal to the principal and interest scheduled to come due during the ensuing Fiscal Year on the portion of the Bonds used to finance or refinance PFC-approved Project Costs. Any PFC Revenues not transferred to the PFC Debt Service Escrow Fund may be transferred, at the direction of the City, to the PFC Account in the Capital Improvement Fund to pay PFC-approved Project Costs. No assurance can be given that the PFC Laws will not be modified or restricted by the FAA or the U.S. Congress so as to reduce the amount of PFC Revenues available to the City. See "CERTAIN INVESTMENT CONSIDERATIONS."

**The proceeds of the PFCs are not part of the Net Revenues pledged by the City to the payment of Parity Bonds, including the Bonds. However, as part of the Pledged Funds, the PFC Debt Service Escrow Fund is pledged to secure the payment of principal of, premium, if any, and interest on the portion of Parity Bonds used to finance or refinance PFC-approved Project Costs. Pursuant to the terms of the Ordinance, PFCs are expressly excluded from the definition of "Gross Revenues." Consistent with the definition of "Debt Service Requirements" in the Ordinance, debt service on Parity Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account (e.g., the PFC Debt Service Escrow Account), the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Bonds, is excluded from the calculation of Debt Service Requirements. See "CERTAIN INVESTMENT CONSIDERATIONS — Passenger Facility Charges."**

**CUSTOMER FACILITY CHARGE . . .** Beginning February 1, 2012, the City imposed a customer facility charge (CFC) in the initial amount of \$3.50 per transaction day on each customer renting a motor vehicle from an on-airport vehicle rental concessionaire. Each on-airport vehicle rental concessionaire charges each customer the total amount of CFCs due under the customer's contract at the time the final number of transaction days are determined under the contract, and then remits such total amount of the CFCs to the City pursuant to the terms and conditions of its vehicle rental concession agreement. CFC revenues may only be used to pay certain permitted costs associated with the Airport's consolidated rental car facility, including debt service on the Series 2014 Certificates. Revenues from the CFC are not part of the Net Revenues pledged by the City to the payment of Parity Bonds.

**PARKING . . .** The Airport's public parking facilities include short-term parking spaces in a lot adjacent to the passenger terminal building and long-term parking spaces located in a remote lot, which has free shuttle service to the passenger terminal. The Airport also has a free cell phone waiting lot, located adjacent to the long-term parking lot exit plaza. Parking operations are managed and operated by SP Plus Corporation (formerly Standard Parking) on behalf of the City. The Director of Aviation has the authority to propose parking rates which are then typically established as part of the City's budget approval process. Other than revenues from airline landing fees and terminal rentals, parking revenues from City-owned facilities historically have been the largest single source of revenues of the Airport. The City's budget for Fiscal Year 2019 included an increase in the maximum daily rate for long-term parking from \$5.00 to \$7.00, which is anticipated to increase parking revenue by approximately \$1.6 million.

**INDUSTRIAL PARKS AND OTHER NON-AERONAUTICAL LAND DEVELOPMENT . . .** The Airport has been one of the nation's leading airports in pioneering non-aeronautical land development, supporting over 200 commercial businesses and industrial operations within the Airport's Butterfield Trail Industrial Park, Butterfield Trail Air Cargo Center and other sites adjacent to the Airport. Butterfield Trail Golf Club and Lone Star Golf Club are included within more than 900 acres of fully developed industrial and retail property supporting light manufacturing, warehousing, distribution and transportation operations, as well as call centers, hotels, retail, and restaurants. The following notable companies are included among the industrial parks tenants and subtenants on Airport property: Yazaki North American, Delphi Technologies, Allegiance, a subsidiary of Cardinal Health, United Parcel Service, DHL Lockheed Martin, Spectrum, Xerox, Raytheon, Lucchese, and United States Postal Service. Industrial park leases are for varying periods and require the payment of minimum annual rentals.

**FEDERAL GRANTS-IN-AID** . . . The Airport received multiyear grants totaling \$36,775,289 during fiscal years 2013 through 2017. Projects completed/in progress during this period include:

- \$6,035,548 - Apron Rehabilitation, Realignment and reconstruction of Taxiway A;
- \$12,600,000 - Runway 8L-26R Reconstruction and construction of parallel Taxiway Y and reconstruction of Taxiway U & V;
- \$4,950,000 - Reconstruction and construction of parallel Taxiway Y. Reconstruction of Taxiway U & V;
- \$704,476 - ARFF Vehicle replacement;
- \$12,485,265 - Runway 4-22 Reconstruction.

The Airport also receives federal funds in the amount \$202,000 annually for canine units. No assurances can be given that any federal funds or grants will actually be received by the Airport at the times or in the amounts contemplated by the Airport.

### FINANCIAL INFORMATION

**TABLE 7 - HISTORICAL GROSS REVENUES AND OPERATION AND MAINTENANCE EXPENSES <sup>(1)</sup>**

	Fiscal Years Ended August 31,				
	2018 <sup>(4)</sup>	2017 <sup>(2)</sup>	2016 <sup>(2)</sup>	2015 <sup>(3)</sup>	2014
<b>Operating Revenues:</b>					
Landing Area	\$ 4,948,554	\$ 5,240,316	\$ 5,408,887	\$ 6,095,299	\$ 3,212,136
Terminal Building	11,703,614	13,178,638	13,075,351	11,868,976	12,339,999
Parking Lot	6,016,985	6,255,488	6,225,763	6,166,460	5,607,293
Air Freight/Cargo Facilities	1,379,644	1,495,426	1,332,033	1,225,405	1,222,193
Industrial Parks	4,990,351	5,376,824	5,336,342	5,228,994	4,926,791
General & Commercial Aviation Area	1,480,359	1,683,503	1,702,890	1,704,085	1,690,497
Other <sup>(5)</sup>	4,146,022	4,638,869	4,251,404	4,302,532	4,573,521
<b>Gross Revenues <sup>(6)</sup></b>	<b>\$ 34,665,529</b>	<b>\$ 37,869,063</b>	<b>\$ 37,332,670</b>	<b>\$ 36,591,751</b>	<b>\$ 33,572,430</b>
<b>Other:</b>					
Customer Facility Charges	\$ 3,186,845	\$ 3,418,455	\$ 3,435,217	\$ 3,344,072	\$ 326,974
Interest Income	18,699	198,788	251,983	99,872	226,921
<b>Total Revenues</b>	<b>\$ 37,871,073</b>	<b>\$ 41,486,306</b>	<b>\$ 41,019,870</b>	<b>\$ 40,035,695</b>	<b>\$ 34,126,325</b>
<b>Maintenance and Operating Expenses</b>					
<b>(Excluding Depreciation):</b>					
Personnel Services	\$ 15,616,138	\$ 17,908,931	\$ 17,750,808	\$ 16,746,131	\$ 17,579,391
Professional Services	391,100	535,437	681,435	590,440	493,566
Outside Contracts	5,073,525	7,522,086	6,385,370	5,987,228	6,196,299
Communications	100,739	226,999	221,715	332,050	401,842
Utilities	1,569,261	1,822,383	1,642,994	1,474,552	1,741,138
Rentals & Leases	23,226	21,916	28,883	32,951	42,310
Travel & Training	180,892	132,387	204,365	137,389	128,689
Maintenance Repairs & Supplies	413,068	863,496	895,725	1,350,377	752,881
Other Operating Expenses	1,961,318	514,921	454,498	728,315	962,578
Engine Fuels	202,474	220,194	148,367	249,433	121,981
Supplies and Materials	1,150,223	1,260,164	1,223,628	1,134,677	1,733,786
Services Charges/City	1,550,457	1,714,014	1,691,408	1,299,049	1,273,231
<b>Total Maintenance and Operating Expenses</b>	<b>\$ 28,232,421</b>	<b>\$ 32,742,928</b>	<b>\$ 31,329,196</b>	<b>\$ 30,062,592</b>	<b>\$ 31,427,692</b>
<b>Net Revenues</b>	<b>\$ 9,638,652</b>	<b>\$ 8,743,378</b>	<b>\$ 9,690,674</b>	<b>\$ 9,973,103</b>	<b>\$ 2,698,633</b>
<b>Less: Customer Facility Charges</b>	<b>\$ (3,186,845)</b>	<b>\$ (3,418,455)</b>	<b>\$ (3,435,217)</b>	<b>\$ (3,344,072)</b>	<b>\$ (326,974)</b>
<b>REVENUE AVAILABLE FOR</b>					
<b>DEBT SERVICE <sup>(7)</sup></b>	<b>\$ 6,451,807</b>	<b>\$ 5,324,923</b>	<b>\$ 6,255,457</b>	<b>\$ 6,629,031</b>	<b>\$ 2,371,659</b>

(1) The methodology used in this table differs from the methodology used in the Report of the Airport Consultant, which is based on the Airport's rates and charges calculations and the definitions in the Bond Ordinance

(2) Provided by City staff.

(3) Analysis provided by the Airport Staff. Starting with FYE 2015, the Airport no longer provides separate financial audits.

(4) Interim Draft Financials through July 31, 2018.

(5) The City has other non-related revenues it receives from hotel concession leases, golf course fees, ground rentals, etc.

(6) Does not include PFC Revenues.

(7) Used to calculate Debt Service Coverage for purposes of the Bond Ordinance.

**TABLE 8 – COVERAGE AND COST PER ENPLANED PASSENGER**

	Fiscal Years Ended August 31,				
	2018 <sup>(4)</sup>	2017 <sup>(2)</sup>	2016 <sup>(2)</sup>	2015	2014
Revenues Available for Debt Service <sup>(1)(3)</sup>	\$ 6,451,807	\$ 5,324,923	\$ 6,255,457	\$ 6,629,031	\$ 2,371,659
Debt Service	\$ 1,446,225	\$ 1,443,425	\$ 2,128,781	\$ 2,124,806	\$ 2,127,088
Coverage	4.46x	3.69x	2.94x	3.12x	1.11x
Landing Fee	\$ 1.80	\$ 1.79	\$ 1.83	\$ 1.81	\$ 1.71
Cost Per Enplaned Passenger	\$ 6.37	\$ 6.21	\$ 6.32	\$ 5.96	\$ 5.93

(1) Net Revenues include interest income.

(2) Provided by City Staff.

(3) The City has historically and intends to use Customer Facility Charges to pay debt service on City of El Paso Certificates of Obligation, Taxable Series 2014.

(4) Interim Draft Financials through July 31, 2018.

**TABLE 9 – FUND BALANCES<sup>(1)</sup>**

Reserves:	
Debt Service Fund	\$ 3,100,364
Debt Service Reserve Fund	1,448,475
Maintenance and Operating Reserve Fund	8,564,913
Renewal and Replacement Fund	1,000,000
Total Reserves	<u>\$ 14,113,752</u>
PFC Funds	5,800,489
CFC Funds	4,351,272
Other Funds	21,403,856
Total Funds	<u><u>\$ 45,669,369</u></u>

(1) As of July 31, 2018. Provided by City Staff.

### AIRPORT MANAGEMENT'S DISCUSSION REGARDING OPERATIONS

Audited financial statements of the Airport for the fiscal year ended August 31, 2017, are presented in Appendix B to this Official Statement. The following are additional comments on certain aspects of such statements.

Gross Revenues for the Airport increased from \$37.3 million in fiscal year 2016 to \$37.9 million in fiscal year 2017. The increase is due primarily to increases in ground rentals and building lease revenues.

Maintenance and operating expense before depreciation increased by \$1.4 million from \$31.3 million in fiscal year 2016 to \$32.7 million in fiscal year 2017. The increase is due primarily to increases in personnel services, utility charges, fuel, and outside contracts.

The Airport's enplanements increased from 1,384,737 in fiscal year 2016 to 1,461,620 in fiscal year 2017, an increase of 5.6%. Year-to-date totals for fiscal year 2018 (through July 2018) are 1,433,705, a 7.2% increase over the fiscal year 2017 year-to-date total of 1,337,283. The positive trends can be attributed to the continuing economic expansion, improving conditions across the border, and increases in airline capacity. The Airport is projecting passenger traffic to remain stable through fiscal year 2028.

All cargo carriers during fiscal years 2016 and 2017 reported a decrease in enplaned freight. The decreases were 1.6% and 5.0%, respectively. However, year-to-date totals for fiscal year 2018 (through July, 2018) are 41,761.3 an increase of 8.5% over the fiscal year 2017 year-to-date total of 38,498. The Airport is projecting cargo traffic to continue in this trend.

## REPORT OF THE AIRPORT CONSULTANT

**GENERAL . . .** In connection with the issuance of the Bonds, the City retained Unison Consulting, Inc., which is recognized as an expert in its field, to prepare the Report of the Airport Consultant. The Report of the Airport Consultant is included as Appendix C hereto, with the Airport Consultant's consent. The information regarding the analyses and conclusions contained in the Report of the Airport Consultant is included in the Official Statement in reliance upon the expertise of the Airport Consultant. The Report of the Airport Consultant will not be revised to reflect the final terms of the Bonds.

The financial forecasts in the Report of the Airport Consultant are based on certain information and assumptions that were provided by, or reviewed and agreed to by, the Airport's management. In the opinion of the Airport Consultant, these assumptions provide a reasonable basis for the forecasts.

**PROJECTED NET REVENUES AND DEBT SERVICE COVERAGE . . .** The following table sets forth the Airport Consultant's projected Net Revenues, projected debt service requirements for the Bonds and the coverage of such debt service requirements based upon the Net Revenues, as forecast by the Airport Consultant, for the years 2018 through 2023.

The forecasted financial information in the following table was not prepared with a view toward complying with the guidelines established by the American Institute of Certified Public Accountants with respect to forecasted financial information, but, in the view of the Airport's management, was prepared on a reasonable basis, to reflect the best currently available estimates and judgments and present, to the best of the Airport Consultant's knowledge and belief, the expected course of action and the expected future financial performance of the Airport. However, this information is not fact and should not be relied upon as necessarily indicative of future results, and readers of this Official Statement are cautioned not to place undue reliance on the forecasted financial information.

Neither the independent auditors for the Airport, nor any other independent accountants, have compiled, examined, or performed any procedures with respect to the forecasted financial information contained herein or in the Report of the Airport Consultant, nor have they expressed any opinion or any form of assurance on such information or its achievability, and assume no responsibility for, and disclaim any association with, the forecasted financial information.

The assumptions and estimates underlying the forecasted information are inherently uncertain and, though considered reasonable by Airport management and the Airport Consultant as of the date hereof, are subject to a wide variety of significant business, economic, and competitive risks and uncertainties that could cause actual results to differ materially from those contained in the forecasted financial information, including, among others, the risks and uncertainties described under "CERTAIN INVESTMENT CONSIDERATIONS." Accordingly, there can be no assurance that the forecasted results are indicative of the future performance of the Airport or that actual results will not be materially higher or lower than those contained in the forecasted financial information. Inclusion of the forecasted financial information in this Official Statement should not be regarded as a representation by any person that the results contained in the forecasted financial information will be achieved.

**The Report of the Airport Consultant should be read in its entirety regarding all of the assumptions used to prepare the forecasts made therein. No assurances can be given that these or any of the other assumptions contained in the Report of the Airport Consultant are correct. As noted in the Report of the Airport Consultant, any forecast is subject to uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized, and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecast and actual results, and those differences may be material.** See also "CERTAIN INVESTMENT CONSIDERATIONS – Report of the Airport Consultant."

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**CONSULTANT’S PROJECTED APPLICATION OF REVENUE**

	For Fiscal Years Ended August 31					
	2018	2019	2020	2021	2022	2023
Total Gross Revenues	\$ 38,144,726	\$ 40,122,636	\$ 41,144,790	\$ 42,188,028	\$ 43,237,312	\$ 44,338,613
M&O Expenses	34,909,232	35,099,203	36,062,626	37,058,564	38,088,403	39,153,515
Deposit to M&O Reserve Account	-	-	118,993	122,571	126,284	130,138
Net Revenues	\$ 3,235,494	\$ 5,023,433	\$ 4,963,171	\$ 5,006,892	\$ 5,022,625	\$ 5,054,961
Debt Service						
Series 2011 Bonds	\$ 1,446,225	\$ 1,448,150	\$ 1,447,425	\$ 1,447,025	\$ 1,445,425	\$ 1,447,625
Series 2014 Bonds	2,876,004	2,877,686	2,879,090	2,969,986	2,972,677	2,970,902
Series 2018 Bonds	-	5,398,725	5,397,750	5,393,750	5,396,250	5,394,500
Total Debt Service	\$ 4,322,229	\$ 9,724,561	\$ 9,724,265	\$ 9,810,761	\$ 9,814,352	\$ 9,813,027
Less: CFCs applied	(2,876,004)	(2,877,686)	(2,879,090)	(2,969,986)	(2,972,677)	(2,970,902)
Less: PFCs applied	-	(4,269,312)	(4,268,541)	(4,265,378)	(4,267,355)	(4,265,971)
Debt Service net of PFCs and CFCs	\$ 1,446,225	\$ 2,577,562	\$ 2,576,634	\$ 2,575,398	\$ 2,574,321	\$ 2,576,154
Remaining Net Revenues	\$ 1,789,269	\$ 2,445,871	\$ 2,386,536	\$ 2,431,495	\$ 2,448,304	\$ 2,478,806

**CONSULTANT’S PROJECTED DEBT SERVICE COVERAGE RATIO CALCULATION**

	For Fiscal Years Ended August 31					
	2018	2019	2020	2021	2022	2023
Gross Revenues	\$ 38,144,726	\$ 40,122,636	\$ 41,144,790	\$ 42,188,028	\$ 43,237,312	\$ 44,338,613
M&O Expenses	34,909,232	35,099,203	36,062,626	37,058,564	38,088,403	39,153,515
Deposits to M&O Reserve Account	-	-	118,993	122,571	126,284	130,138
Net Revenues	\$ 3,235,494	\$ 5,023,433	\$ 4,963,171	\$ 5,006,892	\$ 5,022,625	\$ 5,054,961
Other Available Funds	361,556	1,711,719	1,711,294	1,710,194	1,710,419	1,710,531
Net Revenues plus Other Available Funds	\$ 3,597,050	\$ 6,735,152	\$ 6,674,464	\$ 6,717,086	\$ 6,733,043	\$ 6,765,492
Debt Service on Airport Revenue Bonds						
Series 2011 Bonds	\$ 1,446,225	\$ 1,448,150	\$ 1,447,425	\$ 1,447,025	\$ 1,445,425	\$ 1,447,625
Series 2018 Bonds	-	5,398,725	5,397,750	5,393,750	5,396,250	5,394,500
Total Debt Service	\$ 1,446,225	\$ 6,846,875	\$ 6,845,175	\$ 6,840,775	\$ 6,841,675	\$ 6,842,125
Less: PFCs applied	-	(4,269,312)	(4,268,541)	(4,265,378)	(4,267,355)	(4,265,971)
Debt Service net of PFCs	\$ 1,446,225	\$ 2,577,563	\$ 2,576,634	\$ 2,575,398	\$ 2,574,321	\$ 2,576,154
Debt Service Coverage on GARBs	2.49	2.61	2.59	2.61	2.62	2.63

**REGULATION**

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

**RATES AND CHARGES AND REVENUE USE; FEDERAL STATUTES . . .** Federal statutes and FAA regulations require that an airport maintain a rate structure that is as self-sustaining as possible and generally (with certain exceptions) limit the use of all revenue (including local taxes on aviation fuel and other airport related receipts) generated by an airport receiving federal financial

assistance to purposes related to the airport. The Federal Aviation Administration Authorization of 1994 as amended (the “FAA Act”) and the Airport and Airway Improvement Act of 1982 (the “AAIA”) and regulations provide that for all airports, with certain exceptions, the use of airport revenue (and taxes on aviation fuel) for purposes other than the capital or operating costs of the airport, the local airport system or other local facilities owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property is unlawful revenue diversion and provide for monetary penalties and other remedies in the event of violations.

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

**PASSENGER FACILITY CHARGES . . .** PFCs are fees collected from enplaned paying passengers to finance eligible, approved airport-related project costs, subject to FAA regulation. For additional information with respect to PFC Revenues and their use to pay PFC-approved Project Costs, including a portion of the debt service on the Bonds, see “AIRPORT REVENUES AND AGREEMENTS - Passenger Facility Charges” and “CERTAIN INVESTMENT CONSIDERATIONS-- Passenger Facility Charges.”

**FEDERAL AND STATE NOISE REGULATION . . .** State statutes and administrative regulations require all airports in the State to institute noise abatement programs under certain circumstances. The City is not currently required to institute a noise abatement program under applicable law.

The United States Congress enacted the Airport Noise and Capacity Act of 1990 (“ANCA”) to balance local needs for airport noise abatement with the needs of the national air transportation system. ANCA established criteria and standards that are intended to ensure an airport operator does not impose local restrictions that negatively affect the national air transportation system. Airport management believes that the Airport is in material compliance with ANCA, and there is no pending litigation known to the City challenging noise levels of airborne aircraft.

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

**FEDERAL FUNDING CONSIDERATIONS . . .** The City depends upon federal funding for the Airport not only in connection with grants and PFC authorizations but also because it is federal funding that provides for TSA, air traffic control and other FAA staffing and facilities. The FAA currently operates under the FAA Extension, Safety, and Security Act of 2016, which extends the authorization of the FAA Modernization and Reform Act of 2012. The FAA Extension, Safety, and Security, Act of 2016 extended the FAA’s authority and provides funding through September 2017. Since October 1, 2017, FAA has operated under two short-term extensions of FAA’s legislative authority: The Disaster Tax Relief and Airport and Airway Extension Act of 2017 extended FAA’s funding and authorities through March 31, 2018; and the Consolidated Appropriations Act, 2018 further extended FAA’s funding and authority through September 30, 2018.

Federal funding also is impacted by sequestration under the federal Budget Control Act of 2011. Except to the extent changed by Congress from time to time, sequestration is a multiyear process and could continue to affect FAA, TSA and Customs and Border Control budgets and staffing, which results in staffing shortages and furloughs and traffic delays at the Airport and also nationwide. Some of the TSA funding shortages are being addressed by increasing the amount (and removing the cap) on the security fees on tickets, but such fees have been controversial and no assurance can be given that such fees will be sufficient or that the increased ticket costs will not result in lower passenger enplanements.

## **THE AIRLINES AND THE AIRLINE INDUSTRY**

**GENERAL INFORMATION . . .** Gross Revenues may be affected by the ability of the airlines serving the Airport, individually or collectively, to meet their obligations to pay rates, rentals, fees and charges. Certain of the airlines (or their respective parent corporations) utilizing the Airport are subject to the information reporting requirements of the Securities Exchange Act of 1934 (the “Exchange Act”) and in accordance therewith file reports and other information (collectively, the “SEC Reports”) with the Securities and Exchange Commission (the “SEC”). Only companies with securities listed on a national securities exchange, with securities traded over the counter which are registered under the Exchange Act or which are required to file with the SEC pursuant to the information-reporting requirements will have information on file. Certain information, including financial information, as of particular dates, concerning each such airline (or their respective parent corporations) is included in the SEC Reports. The SEC Reports can be inspected in the Public Reference Room of the SEC at Room 1580, 100 F Street, N.E., Washington, D.C. 20549, and at the SEC’s regional office at 500 West Madison Street, Suite 1400, Chicago, IL 60661 and copies of such SEC Reports can be obtained from the Public Reference Section of the SEC at 100 F Street, N.E., Washington, D.C. 20549 at prescribed rates. The

SEC maintains a web site at <http://www.sec.gov>. In addition, each domestic airline is required to file periodic reports of financial and operating statistics with the United States Department of Transportation (“DOT”). Such reports can be inspected at the following location: DOT Dockets Office, Research and Innovative Technology Administration, Bureau of Transportation Statistics, 1200 New Jersey Avenue, S.E., Room W12-140, Washington, D.C. 20590, and copies of such reports can be obtained from DOT at prescribed rates. In addition, further information regarding Southwest Airlines or American Airlines, the two primary carriers servicing the Airport, may be found at their respective web sites: [www.southwestairlines.com](http://www.southwestairlines.com) and [www.aa.com](http://www.aa.com). The internet sites are provided for reference purposes only.

Airlines owned by foreign governments or foreign corporations operating airlines (other than foreign airlines that have American Depository Receipts registered on a national exchange) are not required to file information with the SEC. Airlines owned by foreign governments, or foreign corporations operating airlines, file limited information only with the U.S. Department of Transportation.

*None of the City, the Airport staff or the Underwriters undertake any responsibility for and make no representation as to the accuracy or completeness of the content of information available from the SEC, DOT, Southwest Airlines, or American Airlines as discussed in the preceding paragraph, including updates of such information or links to other information or links to other Internet sites accessed through the SEC’s web site. Any such information is not a part of this Official Statement nor has such information been incorporated by reference herein.*

## CERTAIN INVESTMENT CONSIDERATIONS

**GENERAL . . .** The purchase and ownership of the Bonds involve investment risks. The principal of and interest on the Parity Bonds, including the Bonds, is payable pursuant to the Bond Ordinance and the ordinance relating to the Series 2011 Bonds from the Net Revenues and Pledged Funds. The ability to pay debt service on the Bonds will depend on the receipt of sufficient Net Revenues.

The Airport’s ability to generate Gross Revenues depends upon sufficient levels of aviation activity and passenger traffic at the Airport. The achievement of increased passenger traffic will depend partly on the profitability of the airline industry and the ability of individual airlines to provide sufficient capacity to meet demand. A weak economy, war and the threat of terrorist activity reduce demand for air travel. Most of the factors that affect traffic at the Airport are beyond the City’s control. If the Airport’s aviation activity and passenger traffic do not meet certain levels, the City’s ability to pay Debt Service on the Bonds and any outstanding Parity Bonds may be adversely affected.

In considering the matters set forth in this Official Statement, prospective investors should carefully review all investment considerations set forth throughout this Official Statement, and should specifically consider certain risks associated with the Bonds. There follows a discussion of some, but not necessarily all, of the possible considerations and risks which should be carefully evaluated by prospective purchasers of the Bonds prior to purchasing any Bonds. The Bonds may not be suitable investments for all persons. Prospective purchasers should be able to evaluate the risks and merits of an investment in the Bonds and should confer with their own legal and financial advisors before considering a purchase of the Bonds. In addition, the order in which the following information is presented is not intended to reflect the relative importance of any such considerations. There can be no assurance that other risks or considerations not discussed herein will not become material in the future.

**STATE OF THE AIRLINE INDUSTRY . . .** Airlines generally have faced volatile economic cycles, and after September 11, 2001 and the economic recession of 2008-2009, have suffered significant losses. In 2010 through 2013, the U.S. passenger airline industry as a whole recorded net income of approximately \$18 billion, notwithstanding sustained high fuel prices, by controlling capacity and nonfuel expenses, increasing airfares, recording high load factors, and increasing ancillary revenues. Between 2009 and 2013, the airlines collectively increased domestic seat-mile capacity by an average of 1.0% per year.

In 2014, the U.S. passenger airline industry reported net income of \$9 billion, assisted by reduced fuel prices in the second half of the year. In 2015, the industry achieved record net income of \$27 billion as fuel prices decreased further, demand remained strong, and capacity control allowed average fares and ancillary charges to remain high. Strong industry profitability continued in 2016 and 2017. Sustained industry profitability will depend on, among other factors, economic growth to support airline travel demand, continued capacity control to enable increased airfares, and stable fuel prices. Profitability of airlines generally continued to be strong in early 2018, but future profitability can be negatively affected by a number of factors.

From 2001 through 2016 the U.S. airline industry saw significant consolidation of carriers. Such consolidation has resulted in four airlines (American, Delta, Southwest, and United) and their regional affiliates now accounting for approximately 80% of domestic seat-mile capacity. The consolidation may have contributed to current industry profitability, however, any resumption of financial losses could cause U.S. airlines to seek bankruptcy protection or liquidate. The liquidation of any of the large network airlines would drastically affect airline service at certain connecting hub airports, present business opportunities for the remaining airlines, and change airline travel patterns nationwide.

## GENERAL FACTORS AFFECTING THE AIRLINE INDUSTRY . . .

***Uncertainties of the Airline Industry.*** Since the economic deregulation of the airline industry in 1978, the industry has undergone an ongoing number of significant changes, including the number of airline mergers, acquisitions, bankruptcies and closures. In addition, the financial results of the airline industry have been subject to substantial volatility since deregulation. The airline industry is highly competitive and susceptible to price discounting. Carriers have used discount fares to stimulate traffic during periods of slack demand, to generate cash flow and to increase market share. Airline profit levels are highly sensitive to changes in fuel costs, fare levels and passenger demand. Passenger demand and fare levels have in the past been influenced by, among other things, the general state of the economy (both internationally and domestically), international events, airline capacity and pricing actions taken by carriers. Bankruptcy filings and major restructurings by airlines are possible.

In recent years, the major U.S. airlines have sought to form marketing alliances with other U.S. and foreign air carriers. Such alliances generally provide for “code-sharing,” frequent flyer reciprocity, coordinated scheduling of flights of each alliance member to permit convenient connections and other joint marketing activities. Such arrangements permit an airline to market flights operated by other alliance members as its own. This increases the destinations, connections and frequencies offered by the airline, which provide an opportunity to increase traffic on such airline's segment of flights connecting with alliance partners.

The financial strength and stability of airlines serving the Airport are key determinants of future airline traffic. In addition, individual airline decisions regarding level of service, particularly hubbing activity, at the Airport will affect total enplanements. No assurance can be given as to the levels of aviation activity that will be achieved by the Airport. There is no assurance that the Airport, despite a demonstrated level of airline service and operations, will continue to maintain such levels in the future.

***General Factors Affecting Air Carrier Revenues.*** The revenues of both the Airport and the airlines serving the Airport may be materially affected by many factors including, without limitation, the following: declining demand; service and cost competition; mergers; the availability and cost of fuel and other necessary supplies; high fixed costs; high capital requirements; the cost and availability of financing; technological changes; national and international disasters and hostilities; the cost and availability of employees; strikes and other employee disruptions; the maintenance and replacement requirements of aircraft; the availability of routes and slots at various airports; litigation liability; regulation by the federal government; environmental risks and regulations; noise abatement concerns and regulation; deregulation; federal and state bankruptcy and insolvency laws; acts of war and terrorism, such as the Middle East conflicts and terrorist attacks of September 11, 2001; world health concerns, such as the outbreak of SARS in Asia and Canada; and other risks.

The City's ability to derive Gross Revenues from its operation of the Airport depends on the factors mentioned above, among others, many of which are not subject to the City's control. Revenues may also be affected by the ability of the Signatory Airlines, individually and collectively, to meet their respective obligations under the Airline Agreements. Many airlines, as a result of these and other factors, have operated at a loss in the past and several have filed for bankruptcy, ceased operations or have merged with other airlines. In an effort to remain profitable and avoid such actions, Airlines may impose route reductions or increase ticket prices. The City may anticipate but can never predict the occurrence of any particular event or trend that could adversely impact Airport revenues.

***General Factors Affecting Airline Activity.*** Air travel demand nationwide is directly correlated to consumer income, business profits, and U.S. Gross Domestic Product (“GDP”). As consumer income, business profits, and GDP increases, so does demand for air travel. In turn, as those same factors decline, demand for travel decreases. Therefore, future airline traffic of the Airport will be affected by those factors, along with others such as, without limitation, the growth or decline in the population and the economy of the Airport Service Region, airline service, air fare levels and the operation of the air traffic control system. Although the national economy has improved, the 2008 domestic financial crisis has had, and may continue to have, negative repercussions upon the national economy, including a scarcity of credit, lack of confidence in the financial sector, extreme volatility in the financial markets, fluctuations in interest rates, reduced business activity, increased unemployment, increased consumer bankruptcies and increased business failures and bankruptcies. The City may anticipate but can never predict the occurrence of any particular event or trend that could adversely impact airline traffic.

***Airline Mergers and Acquisitions.*** In recent years airlines have experienced increased costs and industry competition both domestically and internationally. As a result, airlines have merged and acquired competitors in an attempt to combine operations in order to increase cost synergies and become more competitive. The most recent examples of large mergers include Delta and Northwest in 2008, Midwest and Frontier in 2010, United and Continental in 2010, Southwest and AirTran in 2011, American and US Airways in 2013 and Alaska and Virgin America in 2016. Airline mergers affect service and traffic at airports when they consolidate facilities, optimize route networks, and route connecting traffic through other hubs. The impact on affected airports usually plays out within a few years, although sometimes immediately following the merger. The impact can be significant or trivial, depending upon whether the merging airlines have a large market share at the airport, they serve the same markets, and they carry significant connecting traffic through the airport.

Further airline consolidation remains possible and future mergers or alliances among airlines operating at the Airport may result in fewer flights or decreases in gate utilization as airlines reduce duplicative capacity. Such decreases could result in reduced Net Revenues, reduced PFC collections and increased costs for the other airlines using the Airport.

**Cost of Aviation Fuel.** The price of fuel is one of the most significant forces affecting the airline industry today. In 2000, jet fuel accounted for nearly 14 percent of airline industry operating expenses and, historically, fuel expense was the second highest operating expense for the airline industry behind labor. In 2008, jet fuel surpassed labor as an airline's largest operating expense and, according to the ATA, fuel comprised approximately 30.6 percent of an airline's total operating costs while labor represented approximately 20.3 percent of the total. As oil prices fell in the first quarter of 2009, fuel expenses retreated and labor once again became the airline industry's largest operating expense representing 25.8 percent of total operating expenses while fuel was at 21.3 percent. As of the third quarter of CY 2010, fuel once again was the largest percentage of total operating expense at 25.4 percent followed by labor at 24.7 percent.

Between early 2011 and mid-2014, aviation fuel prices were relatively stable, partly as a result of increased oil supply from U.S. domestic production. As of mid-2014, average fuel prices were approximately three times those prevailing at the end of 2003. Beginning in mid-2014, an imbalance between worldwide supply and demand resulted in a precipitous decline in the price of oil and aviation fuel. Decreased demand from China and other developing countries, combined with a continued surplus in the worldwide supply (and the potential for further surpluses from Iran as trade sanctions are lifted) resulted in further reductions in fuel prices through 2016. Fuel prices have since increased, but the average price of aviation fuel at mid-2018 was still approximately 65% of the price at mid-2014. Lower fuel prices are having a positive effect on airline profitability as well as far-reaching implications for the global economy.

Airline industry analysts hold differing views on how oil and aviation fuel prices may change in the near term, although, absent unforeseen disruptions, prices are expected to remain low for some time. However, there is widespread agreement that fuel prices are likely to increase over the long term as global energy demand increases in the face of finite oil supplies that are becoming more expensive to extract, although some economists predict that the development of renewable sources of energy, pressures to combat global climate change, the widespread use of electric cars, and other trends will eventually result in a decline in the demand for oil and associated downward pressure on fuel prices.

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

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

With enactment of the Aviation and Transportation Security Act ("ATSA") in November 2001, the TSA was created and established different and improved security processes and procedures. The ATSA mandates certain individual, cargo and baggage screening requirements, security awareness programs for airport personnel and deployment of explosive detection devices. The act also permits the deployment of air marshals on all flights and requires air marshals on all "high-risk" flights. The federal government controls aviation industry security requirements, which can significantly impact the economics of the industry. Security requirements due to unexpected events could increase costs directly and indirectly to the industry and could have an adverse effect on passenger demand. No assurance can be given that these precautions will be successful. Also, the possibility of intensified international hostilities and further terrorist attacks involving or affecting commercial aviation are a continuing concern that may affect future travel behavior and airline passenger demand.

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

**Structural Changes in the Travel Market.** Many factors have combined to alter consumer travel patterns. The terrorist attacks in 2001 caused an already weak air travel demand to fall sharply and caused the U.S. airline industry to suffer financial losses. After the terrorist attacks, airports tightened security screening, resulting in longer wait times and changes in air travel behavior. Intense fare competition and the ease of comparison shopping allowed by the internet have made consumers more price-sensitive. The widespread use of tele- and videoconferencing has decreased the need for business travel. Meanwhile, jet fuel cost per gallon

quadrupled from 2000 to 2008, remaining at record high levels through 2014. Facing weak air travel demand and high fuel prices, airlines responded with cuts in domestic seat capacity, increases in load factors, retirement of old aircraft, addition of seats to existing aircraft, changes in route networks, pricing changes, and various other cost-cutting measures. The cuts in domestic seat capacity—approximately 20 percent between 2005 and 2014—fell disproportionately on smaller airports like the Airport.

**Airline Capital Markets Access.** Historically, airlines have required access to third-party capital to finance significant portions of their aircraft and non-aircraft capital needs. If the capital markets were to become inaccessible by either U.S. airlines or international airlines, it could significantly impact their ability to provide scheduled service to and from the Airport or undertake contractual capital commitments.

**PASSENGER FACILITY CHARGES . . .** Revenues from PFCs are not part of the Net Revenues pledged by the City to the payment of Parity Bonds, including the Bonds; however, the PFC Debt Service Escrow Fund (which is funded from PFC revenues) is pledged to secure the payment of principal of, premium, if any, and interest on the portion of Parity Bonds used to finance or refinance PFC-approved Project Costs. The City has received FAA approval to use PFC revenues to pay certain Series 2018 Project costs and expects to use such revenues to pay a portion of debt service on the Bonds. Consistent with the definition of “Debt Service Requirements” in the Bond Ordinance, debt service on Parity Bonds for which PFCs have been appropriated and deposited into a dedicated fund or account, the proceeds of which are required to be transferred into the Debt Service Fund or directly to the Paying Agent/Registrar for such Bonds, is excluded from the calculation of Debt Service Requirements. Consequently, PFC Revenues are being taken into account when calculating the Debt Service Requirements for the Bonds. See “PASSENGER FACILITY CHARGE.”

The amount of PFC revenue received by the City in future years will vary based upon the actual number of PFC-eligible passenger enplanements at the Airport. No assurance can be given that any level of enplanements will be realized. Additionally, the FAA may terminate the City’s authority to impose the PFC, subject to informal and formal procedural safeguards, if (a) PFC revenues are not being used for approved projects in accordance with the FAA’s approval, the PFC Act or regulations promulgated by the FAA under authority, of the PFC Act (“PFC Regulations”), or (b) the City otherwise violates the PFC Act or the PFC Regulations. The City’s authority to impose a PFC may also be terminated if the City violates certain provisions of the ANCA and its implementing regulations relating to the implementation of noise and access restrictions for certain types of aircraft. The regulations under ANCA also contain procedural safeguards to ensure that the City’s authority to impose a PFC would not be summarily terminated. No assurance can be given that the City’s authority to impose a PFC will not be terminated by Congress or the FAA, that the PFC program will not be modified or restricted by Congress or the FAA so as to reduce PFC revenues available to the City, or that the City will not seek to decrease the amount of PFCs to be collected, provided such decrease does not violate the City’s covenant in the Ordinance. A shortfall in PFC revenues may cause the City to increase rates and charges at the Airport to meet the Debt Service Requirements on the Bonds that the City plans to pay from PFCs, and/or require the City to identify other sources of funding for its bond capital program (including the 2018 Projects), including issuing Additional Parity Bonds and/or Subordinate Obligations, to finance the pay-as-you-go projects currently expected to be paid with PFC revenues.

**ABILITY TO MEET RATE COVENANT . . .** As described in “SECURITY OF THE PARITY BONDS — Rate Covenant,” the City covenanted in the Bond Ordinance that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport, and, unless prohibited by state or federal law, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the rate covenant set forth in the Bond Ordinance is met.

If the Net Revenues in any Fiscal Year are less than the amounts specified in the Bond Ordinance, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City’s rentals, rates, fees and other charges, its Maintenance and Operating Expenses or the method of operation of the Airport in order to satisfy as quickly as practicable the foregoing requirements. Increasing the schedule of rentals, rates, fees and other charges for the use of the Airport and for services rendered by the City in connection with the Airport is subject to contractual, statutory and regulatory restrictions (see “REGULATION”). Implementation of an increase in the schedule of rentals, rates, fees and other charges for the use of the Airport could have a detrimental impact on the operation of the Airport by making the cost of operating at the Airport unattractive to airlines, concessionaires and others in comparison to other airports, or by reducing the operating efficiency of the Airport. Notwithstanding this potential detrimental impact, the Airline Agreements acknowledge the existence of the rate covenant under the Bond Ordinance and include an agreement by the Signatory Airlines to pay such rentals, rates, fees and charges.

**AIRLINE AGREEMENTS . . .** The current Airline Agreements will expire on August 31, 2019. Prior to the expiration of the Airline Agreements, the City intends to enter into new agreements with the users of the Airport that will generate Net Revenues at a rate sufficient at least to satisfy the rate covenant contained in the Bond Ordinance. No assurances can be made concerning the outcome of any such negotiations or the content or rate-setting mechanism of any new use agreements with the airlines utilizing the Airport. Any reduction in Net Revenues or change in the manner of assessing rentals, fees and charges could have an adverse impact on the timely payment of principal of or interest on the Bonds. See “THE AIRLINE AGREEMENTS AND THE RATE ORDINANCE.”

**COST OF CAPITAL PROJECTS . . .** The estimated costs of, and the projected schedule for, the Airport’s capital projects are subject to a number of uncertainties. The ability of the City to complete the Airport’s capital projects may be adversely affected by various factors including: (1) estimating errors, (2) design and engineering errors, (3) changes to the scope of the projects, (4) delays in contract awards, (5) material and/or labor shortages, (6) unforeseen site conditions, (7) adverse weather conditions, (8) contractor

defaults, (9) labor disputes, (10) unanticipated levels of inflation and (11) environmental issues. No assurance can be made that the existing projects will not cost more than the current budget for these projects. Any schedule delays or cost increases could result in the need to issue Parity Bonds and may result in increased costs per enplaned passenger to the airlines, thereby making the Airport less economically competitive.

**REPORT OF AIRPORT CONSULTANT . . .** The Report of the Airport Consultant included as Appendix C attached hereto incorporates numerous assumptions regarding the future utilization and financial results of the Airport, the terms of the proposed Airline Agreements and other matters. The Report of the Airport Consultant should be read in its entirety for an understanding of all of the assumptions used to prepare the forecasts made therein. No assurances can be given that the assumptions on which the forecasts in the Report of the Airport Consultant are based will materialize. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances will occur. Therefore, actual results achieved during the forecast period will vary from those set forth in Report of the Airport Consultant and the variations may be material. Further, the forecast period covered by the Report of the Airport Consultant does not cover the entire period through maturity of the Bonds. See “Appendix C – REPORT OF THE AIRPORT CONSULTANT” attached hereto.

**SIGNIFICANCE OF SOUTHWEST AIRLINES OPERATIONS . . .** Southwest Airlines is the largest airline in terms of enplaned passengers operating at the Airport. From 2013 to 2017, Southwest Airlines had the majority of passenger’s activity with 52.3% to 47.7% of annual enplanements at the Airport. During the same period, American Airlines accounted for between 23.2% and 32.2% of the passenger enplanements at the Airport and United Express accounted for between 11.1% and 9.9% of the passenger enplanements at the Airport. No other airline accounted for more than 10% of the passenger enplanements during that time. In addition, Southwest Airlines accounted for approximately 45.7% of the Airport’s direct airline revenues (landing fees, charges and rents) in Fiscal Year 2017.

The City has no information regarding the financial condition of Southwest Airlines other than from SEC filings and press releases made by Southwest Airlines. Any such information is not part of this Official Statement, nor has such information been incorporated by reference herein. See “THE AIRLINES AND THE AIRLINE INDUSTRY.” Any significant financial or operational difficulties incurred by Southwest Airlines may have a material adverse effect on the Airport, although financial or operational difficulties by any of the other carriers also may have an adverse impact on the Airport, the effect of which may be material. No assurance can be given that Southwest Airlines level of activity at the Airport will continue, regardless of Southwest Airlines financial condition.

The continual phase out and ultimate repeal of the Wright Amendment in 2014 has impacted Southwest Airlines operations at the Airport. For instance, the Airport has lost five mainline Southwest flights, which reduced the landed weight at the Airport. From 2013 passenger statistics, however, have increased slightly as more planes that serve the Airport fly point-to-point routes that do not use the Airport as an independent stop for routes to and from larger market airports, which has helped to increase the number of passengers utilizing the Airport. Additionally, from 2013 to 2015, Southwest’s scheduled seats from the Airport decreased 23%, while its scheduled seats system-wide increased 16%. Southwest’s capacity cuts at the Airport ended in 2015. Its scheduled seats at the Airport increased 2.8% in 2016 and another 2.4% in 2017. Other future impacts of the repeal of the Wright Amendment on the Airport cannot be predicted at this time. In the event Southwest Airlines discontinues or reduces its operations at the Airport, Southwest’s current level of activity may not be replaced by other carriers, thereby resulting in reduced revenue collections by the Airport. See “APPENDIX C – REPORT OF THE AIRPORT CONSULTANT.”

**EFFECT OF BANKRUPTCY ON AIRLINE AGREEMENTS . . .** The profitability of the airline industry has declined drastically since 2000, with most airlines posting significant losses every fiscal quarter since the beginning of 2001. As a result, increasing numbers of carriers have already declared or are threatened with bankruptcy.

When a Signatory Airline seeks protection under the bankruptcy laws, such airline or its bankruptcy trustee must determine whether to assume or reject its agreements with the City (1) within 120 days or later, if ordered by the court, with respect to its Airline Agreements or other leases of real property, or (2) prior to the confirmation of a plan of reorganization with respect to any other agreement. In the event of assumption, the airline would be required to cure any prior defaults and to provide adequate assurance of future performance under the applicable Airline Agreements or other agreements. Rejection of an Airline Agreements or other agreement or executory contract would give rise to an unsecured claim of the City for damages, the amount of which in the case of an Airline Agreements or other agreement is limited by the Bankruptcy Code generally to the amounts unpaid prior to bankruptcy plus the greater of (a) one year of rent or (b) 15% of the total remaining lease payments, not to exceed three years. However, the amount ultimately received in the event of a rejection of an Airline Agreements or other agreement could be considerably less than the maximum amounts allowed under the Bankruptcy Code. Additionally, during the pendency of a bankruptcy proceeding, a debtor airline may not, absent a court order, make any payments to the City on account of goods and services provided prior to the bankruptcy. Thus, the City’s stream of payments from a debtor airline would be interrupted to the extent of pre-petition goods and services, including accrued rent and landing fees.

**LIMITATION AND ENFORCEABILITY OF REMEDIES . . .**

**Limited Obligations.** The Bonds, together with the currently outstanding Parity Bonds and any Additional Parity Bonds, when and if issued, are limited special obligations of the City payable from, and equally and ratably secured by, a first lien on the Net Revenues of the Airport and the Debt Service Fund and Debt Service Reserve Fund established in the Ordinance. No mortgage of any of the physical properties forming a part of the Airport system or any lien thereon or security interest therein has been given.

The Bonds are not general obligations of the City, and neither the taxing power of the City nor the State of Texas is pledged as security for the Parity Bonds.

**Limitation of Remedies Under the Ordinance.** The remedies available to owners of the Bonds upon an Event of Default under the Ordinance are limited to the seeking of specific performance or a writ of mandamus or other suit, action or proceeding compelling and requiring the City and its officers to observe and perform any covenant, condition or obligation prescribed in the Ordinance. See “THE BONDS — Bondholder Remedies.”

**No Right to Accelerate Debt Service. NO ACCELERATION REMEDY IS AVAILABLE TO OWNERS OF THE BONDS.** Owners of the Bonds will, therefore, be able to collect principal and interest that become due after an Event of Default only from the Net Revenues (after payment of Operating Expenses and Maintenance Expenses) and the Pledged Funds, as applicable, and only when such principal and interest are scheduled to be paid.

**Enforceability of Remedies.** The remedies available under the Bond Ordinance are in many respects dependent upon regulatory and judicial actions that are often subject to discretion and delay. Under existing law, such remedies may not be readily available. In addition, enforcement of such remedies (i) may be subject to general principles of equity which may permit the exercise of judicial discretion, (ii) are subject to the exercise in the future by the State and its agencies and political subdivisions of the police power inherent in the sovereignty of the State, (iii) are subject, in part, to the provisions of the United States Bankruptcy Act and other applicable bankruptcy, insolvency, reorganization, moratorium or similar laws relating to or affecting the enforcement of creditors’ rights generally, now or hereafter in effect, and (iv) are subject to the exercise by the United States of the powers delegated to it by the federal Constitution. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified to the extent that the enforceability of certain legal rights related to the Bonds is subject to limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors generally and by equitable remedies and proceedings generally.

**FUTURE AND PROPOSED LEGISLATION . . .** Texas Legislature will convene its Regular Session of the 86th Legislature in January 2019. The City makes no representations or predictions concerning the substance or effect of any legislation that may be proposed and ultimately passed in such Regular Session or any special session that may convene after the end of the Regular Session, or how any such legislation would affect the Net Revenues or the financial condition or operations of the Airport.

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

*(Remainder of page intentionally left blank.)*

## TAX MATTERS

**TAX EXEMPTION...** The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, except with regard to any Bond for any period of time during which such Bond is held by a "substantial user" of any of the facilities financed with proceeds of the Bonds or by a "related person" within the meaning of Section 147(a) of the Code. A form of Bond Counsel's opinion is reproduced as Appendix E. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

BOND COUNSEL'S OPINION WILL NOTE THAT INTEREST ON THE BONDS WILL BE AN ITEM OF TAX PREFERENCE THAT IS INCLUDABLE IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF OWNERS OF THE BONDS WHICH ARE INDIVIDUALS, TRUSTS, ESTATES, OR, FOR TAXABLE YEARS THAT BEGAN BEFORE JANUARY 1, 2018, CORPORATIONS. Alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Bond Ordinance subsequent to the issuance of the Bonds. The Bond Ordinance contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

**TAX ACCOUNTING TREATMENT OF DISCOUNT AND PREMIUM ON CERTAIN BONDS...** The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest will be required to be taken into account as an item of tax preference includable in the alternative minimum taxable income of owners of the bonds which are individuals, trusts, estates, or, for taxable years that began before January 1, 2018, corporations, for purposes of calculating the alternative minimum tax imposed by Section 55 of the Code, even though there will not be a corresponding cash payment. Further, such interest may be required to be taken into account in determining the amount of branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

## LITIGATION

The City, like other similar bodies, is subject to a variety of suits and proceedings arising in the ordinary conduct of its affairs. The City, after reviewing the current status of all pending and threatened litigation, believes that, while the outcome of litigation cannot be predicted, the final settlement of all lawsuits which have been filed and of any actions or claims pending or, to the knowledge of the City, threatened against the City or its officials in such capacity are adequately covered by insurance or sovereign immunity or will not have a material adverse effect upon the financial position or results of operations involving the Airport.

There is no litigation now pending or, to the knowledge of the City, threatened against the City which restrains or enjoins the issuance or delivery of the Bonds or the use of the proceeds of the Bonds or which questions or contests the validity of the Bonds or the proceedings and authority under which they are to be issued, executed and delivered. Neither the creation, organization, nor existence of the City or the Airport, nor the title of the present members or other officials of the City to their respective offices, is being currently contested or questioned to the knowledge of the City.

## CONTINUING DISCLOSURE OF INFORMATION

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

**ANNUAL REPORTS . . .** The City will provide certain updated financial information and operating data to the MSRB on an annual basis. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in this Official Statement under Tables numbered 1 through 9 and in Appendix B. The City will update and provide this information within six months after the end of each fiscal year ending in and after 2018.

The financial information and operating data to be provided may be set forth in full in one or more documents or may be included by specific reference to any document available to the public on the MSRB's Internet Web site or filed with the United States Securities and Exchange Commission (the "SEC"), as permitted by SEC Rule 15c2-12 (the "Rule"). The updated information will include audited financial statements, when and if available. Any such financial statements will be (i) prepared in accordance with the accounting principles described in Appendix B or such other accounting principles as the City may be required to employ from

time to time pursuant to State law or regulation and (2) audited, if the City commissions an audit of such statements and the audit is completed within the period during which they must be provided. If the audit of such financial statements is not complete within 12 months after any such fiscal year end, then the City is obligated to file unaudited financial statements within such 12-month period and audited financial statements for such fiscal year when and if the audit report on such financial statements become available.

The City's current fiscal year end is August 31. Accordingly, it must provide updated information by the last day of February in each year, unless the City changes its fiscal year. If the City changes its fiscal year, it will notify the MSRB of the change.

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

As used above in item (12), the phrase "bankruptcy, insolvency, receivership or similar event" means the appointment of a receiver, fiscal agent or similar officer for the City in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court of governmental authority has assumed jurisdiction over substantially all of the assets or business of the City, or if jurisdiction has been assumed by leaving the existing City Council and officials or officers of the City in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the City. In addition, the City will provide timely notice of any failure by the City to provide information, data, or financial statements in accordance with its agreement described herein under "Annual Reports."

**AVAILABILITY OF INFORMATION . . .** The City has agreed to provide the foregoing information only as described above. Investors will be able to access continuing disclosure information filed with the MSRB free of charge at [www.emma.msrb.org](http://www.emma.msrb.org).

**LIMITATIONS AND AMENDMENTS . . .** The City has agreed to update information and to provide notices of certain specified events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if (i) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. If the City so amends the agreement, it has agreed to include with the next financial information and operating data provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

**COMPLIANCE WITH PRIOR UNDERTAKINGS . . .** During the past five years, the City has complied in all material respects with its continuing disclosure undertakings pursuant to the Rule, except as described below.

On March 18, 2014, the Insurer Financial Strength ratings of Assured Guaranty Municipal Corporation and National Public Finance Guarantee Corporation were upgraded by Standard and Poor's Ratings Service ("S&P"). The City did not file a Notice of Material Event related to the ratings upgrades for a number of then outstanding City obligations until June 23, 2014.

For fiscal years ending August 31, 2012, 2013 and 2014, the City filed annual disclosure reports for the Airport in a timely manner, but did not file the separate audited financial statements of the Airport until October 21, 2015 for fiscal year 2012 and fiscal year 2013, and February 29, 2016 for fiscal year 2014. Beginning in fiscal year 2015, the City consolidated the Airport audited financial

statements with the City's comprehensive annual financial report ("CAFR"), therefore, beginning in fiscal year 2015, the Airport audited financial statements were reported as part of the City's CAFR.

For fiscal years ending August 31, 2014 and 2015, the City filed annual disclosure reports in a timely manner, but did not file its CAFR until May 4, 2015 for fiscal year 2014 and April 15, 2016 for fiscal year 2015. Due to an administrative oversight, unaudited financial information was not timely filed for fiscal years ending August 31, 2014 and 2015, pending the availability of the City's CAFR. The City has implemented procedures to ensure timely filing of all future financial information and material event notices.

## **OTHER INFORMATION**

### **RATINGS**

The Bonds and the presently outstanding airport revenue debt of the City are rated "A" (stable outlook) by Fitch Ratings ("Fitch") and "A+" (stable outlook) by Standard & Poor's Ratings Group ("S&P") without regard to credit enhancement. An explanation of the significance of such ratings may be obtained from the company furnishing the rating. The ratings reflect only the respective views of such organizations and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by either or both of such rating companies, if in the judgment of such companies, circumstances so warrant. Any such downward revision or withdrawal of either or both of such ratings may have an adverse effect on the market price of the Bonds.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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

### **LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

Under the Texas Public Security Procedures Act (Texas Government Code, Chapter 1201, the Bonds (i) are negotiable instruments, (ii) are investment securities to which Chapter 8 of the Texas Uniform Commercial Code applies, and (iii) are legal and authorized investments for (A) an insurance company, (B) a fiduciary or trustee, or (C) a sinking fund of a municipality or other political subdivision or public agency of the State. The Bonds are eligible to secure deposits of any public funds of the State, its agencies and political subdivisions, and are legal security for those deposits to the extent of their market value. For political subdivisions of the State which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds must be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds. In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with at least \$1 million of capital and savings and loan associations.

The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes. The City has been made no review of laws in other states to determine whether the Bonds are legal investments for various institutions in those states.

### **LEGAL MATTERS**

The City will furnish to the Underwriters a complete transcript of proceedings had incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the Initial Bond and to the effect that the Bonds are valid and legally binding obligations of the City, and based upon examination of such transcript of proceedings, the approving legal opinion of Bond Counsel, to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under "Tax Matters" herein. Bond Counsel was not requested to participate, and did not take part, in the preparation of the Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information under captions "THE BONDS" (excluding the information under the subcaptions "Book-Entry-Only System"), "SECURITY FOR THE PARITY BONDS" (excluding the information under the subcaption "Bondholders' Remedies"), "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" (excluding the information under the subcaption "Compliance with Prior Undertakings") and the subcaptions "Registration and Qualification of Bonds for Sale", "Legal Matters" (excluding the last sentence of the first paragraph thereof) and "Legal Investments and Eligibility to Secure Public Funds in Texas" under the caption "OTHER INFORMATION" in the Official Statement and such firm is of the opinion that the information relating to the Bonds and the legal issues contained under such captions and subcaptions is an accurate and fair description of the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Ordinance. The legal fee to be paid to Bond Counsel

for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. Certain legal matters will be passed upon for the Underwriters by their counsel, Orrick, Herrington & Sutcliffe LLP, Austin, Texas, whose legal fee is contingent on the sale and delivery of the Bonds.

The legal opinions to be delivered concurrently with the delivery of the Bonds express the professional judgment of the attorneys rendering the opinions as to the legal issues explicitly addressed therein. In rendering a legal opinion, the attorney does not become an insurer or guarantor of that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### **FINANCIAL ADVISOR**

Hilltop Securities Inc. is employed as Financial Advisor to the City in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Hilltop Securities Inc., in its capacity as Financial Advisor, has not verified and does not assume any responsibility for the information, covenants and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor to the City has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the City and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

#### **UNDERWRITING**

The Underwriters have agreed, subject to certain conditions, to purchase the Bonds from the City, at an underwriting discount of \$207,400.66. The Underwriters will be obligated to purchase all of the Bonds if any Bonds are purchased. The Bonds to be offered to the public may be offered and sold to certain dealers (including the Underwriters and other dealers depositing Bonds into investment trusts) at prices lower than the public offering prices of such Bonds, and such public offering prices may be changed, from time to time, by the Underwriters.

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

#### **FORWARD-LOOKING STATEMENTS DISCLAIMER**

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

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

#### **MISCELLANEOUS**

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

all of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information. Reference is made to original documents in all respects.

The Bond Ordinance authorizing the issuance of the Bonds approved the form and content of this Official Statement, and any addenda, supplement or amendment thereto, and authorized its further use in the reoffering of the Bonds by the Underwriters.

CITY OF EL PASO, TEXAS

DEE MARGO  
Mayor

ATTEST:

LAURA PRINE  
City Clerk

**APPENDIX A**

GENERAL INFORMATION REGARDING THE CITY

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**LOCATION AND HISTORY** . . . The City of El Paso (the “City” or “El Paso”) is located in far West Texas on the international boundary between the United States and the Republic of Mexico, on the Rio Grande, and is the lowest altitude, all-weather pass through the Rocky Mountains. It is approximately equidistant from the Cities of Houston, Texas, Denver, Colorado, and Los Angeles, California. Since the first appearance of Europeans on the North American Continent, it has been a major crossroads for continental north-south and east-west traffic. In 1536, Cabeza de Vaca and his party crossed the Rio Grande at El Paso. In 1659, the first permanent European settlement was established in the El Paso region, and the Mission of Guadalupe was erected (the Mission still stands in the central square of the City of Ciudad Juarez, Mexico). The first trading post was erected in central El Paso in 1848, and the same year, the United States Military Post, later named Fort Bliss, was established. El Paso has continued since that time to be a highly strategic military base. The City's corporate limits encompass 247 square miles.

This historic City, situated at the foot of the Franklin Mountains, enjoys a diversified economy. Mining and manufacturing, important military establishments, domestic and foreign commerce, farming and tourist trade are major contributors to the economy. El Paso's large natural retail and wholesale trade territory extends into New Mexico and Arizona, as well as Texas and Mexico.

El Paso is the largest U.S. city on the Mexico border, the sixth largest city in Texas, and the nineteenth largest city in the U.S. according to estimates by the US Census Bureau. Population increased 112% during the period from 1950 to 1960. Population in the 1960 Census was 276,687; the 1970 Census was 322,261; the 1980 Census was 425,259; the 1990 Census was 515,342, the 2000 Census was 563,662, and the 2010 Census was 649,121. From 2000 – 2006, El Paso was the seventh fastest growing large city in the nation. The City's January 1, 2017 estimated population was 681,124. The population of El Paso County was estimated at 835,593 and the population of the sister Mexican city of Ciudad Juarez was estimated at 1,397,400. According to Department of Commerce / International Trade Administration based in Washington, D.C., in 2016, El Paso was the tenth largest exporter in the United States with a goods export value of \$26.5 billion. In 2016, goods exports from the El Paso area grew by 8% over the previous year and have increased by 10.1% annually over the past 10 years.

**EDUCATION** . . . Most of the public schools in El Paso are under the supervision of three independent school districts, the El Paso Independent School District (with approximately 58,549 students on 84 campuses), the Ysleta Independent School District (with approximately 41,524 students on 62 campuses) and the Socorro Independent School District (with approximately 46,500 students on 47 campuses). In addition to public schools, there are several private and parochial schools in the El Paso area, with enrollment of approximately 5,500.

A number of excellent junior colleges, colleges and universities are located within the El Paso trade area. Among these are: El Paso Community College (El Paso); University of Texas at El Paso (El Paso); New Mexico State University (Las Cruces, New Mexico); Sul Ross State College (Alpine, Texas); Western New Mexico University (Silver City, New Mexico); New Mexico School of Mines (Socorro, New Mexico); Eastern New Mexico University (Portales, New Mexico); and New Mexico Military Institute (Roswell, New Mexico).

The University of Texas at El Paso (the “University”) was established in 1914, and attracts thousands of visitors to seminars, conferences, convocations, sport contests and other events. The University offers degrees in nine schools: Engineering, Business Administration, Science, Education, Health Sciences, Liberal Arts, Nursing, Multidisciplinary Studies and Graduate. At the University, 23,922 students were enrolled to the school for academic year 2016-2017 including in undergraduate and graduate programs with both full-time and part-time attending status.

The Texas Tech University Health Sciences Center (the “Health Sciences Center”) is an educational multi-campus institution created under Chapter 110 of the Texas Education Code and is governed by the Texas Tech University Board of Regents. The Health Sciences Center's administrative center is located in Lubbock, Texas. Currently, the Health Sciences Center located in the City of El Paso includes the Paul L. Foster School of Medicine at El Paso, the Gayle Greve Hunt School of Nursing, and the Graduate School of Biomedical Sciences. In addition, approval was given to open the Woody L Hunt School of Dental Medicine in 2020.

El Paso County Community College, which offers a range of studies for both daytime and evening classes, had a Fall 2017 enrollment of 28,993.

Across the border, Ciudad Juárez is home to five colleges: El Colegio de Chihuahua, Instituto Tecnológico de Ciudad Juárez, Universidad Autónoma de Ciudad Juárez, Universidad Tecnológica de Ciudad Juárez and Tecnológico de Monterrey.

**HOSPITALS** . . . El Paso is a major medical center, with eight hospitals providing approximately 2,658 beds, including William Beaumont Army Medical Center.

**AGRICULTURE** . . . Agriculture is an important activity in El Paso County, with crop production in the lowlands and livestock in upland areas. Major farm products include beef and dairy cattle, cotton, alfalfa, grain, pecans, onions, forage and peppers. As reported in the Texas Almanac, the average annual income from El Paso County farm products sold is about \$45.5 million.

**CONVENTIONS AND TOURISM . . .** The El Paso Civic and Convention Center (the “Center”) includes a 70,000 square foot Assembly-Exhibition Hall, theatre-auditorium, and headquarters for the Chamber of Commerce. To accommodate conventioners, approximately 8,743 hotel and motel rooms are available.

Ciudad Juarez, immediately adjacent to El Paso, is a major factor and attraction in the area.

**TRANSPORTATION . . .** Regional transportation facilities, together with El Paso's strategic location, have contributed to development and growth of the City. Four rail lines operate through El Paso, with the National Railway of Mexico serving Ciudad Juarez. Interstate Highways 10 and 25 provide direct access to El Paso for commercial truckers and tourists. Five other U.S. Highways and the Central Highway of Mexico link El Paso to its surrounding market areas.

The El Paso International Airport is a large, modern airport with facilities equipped for handling many types and sizes of commercial aircraft. The Airport is classified as a medium air traffic hub by the Federal Aviation Administration and is currently served by six passenger airlines and four all-cargo airlines. The following table shows the total airline passenger enplanements for the past six years (Airport Fiscal Year):

2012	1,471,845	2015	1,369,943
2013	1,390,274	2016	1,384,737
2014	1,395,696	2017	1,461,620

**MINING, SMELTING AND REFINERIES . . .** Freeport-McMoRan Copper & Gold Inc., with facilities located in El Paso, processes approximately 30% of all copper refined in the United States. While mining within El Paso County is of negligible proportions, substantial supplies of ore are produced in the trade territory, both domestic and in Mexico. Other minerals are also processed in the trade area, notably potash from the Carlsbad vicinity where 90% of the United States’ production is mined.

The steel rolling mill facility of Border Steel Rolling Mill, Inc. currently has the capacity to produce 16,500 tons per month of merchants rod and bar steel products. The modern electric furnaces use scrap metal as the basic ingredient.

Two oil refineries provide asphalt, jet fuel, gasoline and fuel oil for a market area encompassing West Texas, New Mexico and Arizona.

**MANUFACTURING . . .** Because of El Paso's location on the Mexican border, firms can maintain manufacturing plant operations in the United States but can assemble their goods in Mexico. This “dual plant” operation is commonly called the Maquila Program and enables certain firms to cut production costs by producing the main component of goods across the border while assembling the finished product in the United States.

The Directory of El Paso Manufacturers lists more than 500 industrial firms in El Paso County and Ciudad Juarez. Currently, according to employment and value, the electronics industry has emerged as the leader among El Paso manufacturers, surpassing both the automotive and apparel industries. Other current growth industries in the area include plastics (primarily injected molded parts), electrical equipment, and military defense manufacturing. Approximately 70 Fortune 500 companies are located in El Paso.

#### MAJOR EMPLOYERS

<u>Name of Business</u>	<u>Nature of Business</u>	<u>Number of Employees</u>
Fort Bliss (Military and Civilian)	Army base	47,316
El Paso Independent School District	Education	8,380
Ysleta Independent School District	Education	7,602
City of El Paso	City government	5,484
T&T Staff Management, LP	Professional employment organization	5,348
Tenet Hospitals LTD	Healthcare	5,100
Socorro Independent School District	Education	5,039
El Paso Community College	Education	3,089
County of El Paso	County government	2,892
University Medical Center	Healthcare	2,858

Source: City of El Paso 2017 CAFR.

**APPENDIX B**

EXCERPTS FROM THE  
CITY OF EL PASO, TEXAS  
COMPREHENSIVE ANNUAL FINANCIAL REPORT  
For the Year Ended August 31, 2017

The information contained in this Appendix consists of excerpts from the City of El Paso, Texas Comprehensive Annual Financial Report for the Year Ended August 31, 2017, and is not intended to be a complete statement of the City's financial condition. Reference is made to the complete Report for further information.

BKD LLP, the City's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. BKD LLP also has not performed any procedures relating to this Official Statement.

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## Independent Auditor's Report

The Honorable Mayor and  
Members of the City Council  
City of El Paso, Texas

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of El Paso, Texas (City), as of and for the year ended August 31, 2017, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the El Paso Water Utilities Public Service Board, a discretely presented component unit of the City, which represent 100 percent, 99 percent and 100 percent, respectively, of the assets, net position and revenues of the aggregate discretely presented component units. We also did not audit the financial statements of El Paso Firemen and Policemen's Pension Fund, a pension trust fund of the City, which represent 53 percent, 61 percent and 31 percent, respectively, of the assets, net position and revenues of the aggregate remaining fund information. Those statements were audited by other auditors, whose reports have been furnished to us, and our opinions, insofar as they relate to the amounts included for such entities, are based solely on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

### *Opinions*

In our opinion, based on our audit and the reports of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund and the aggregate remaining fund information of the City of El Paso, Texas, as of August 31, 2017, and the respective changes in financial position and, where applicable, cash flows, thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### *Other Matters*

#### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison, pension and other post-employment benefits information as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We and the other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

#### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The combining and individual fund statements and schedules, introductory and statistical sections as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Honorable Mayor and  
Members of the City Council  
City of El Paso, Texas  
Page 3

The combining and individual fund statements and schedules are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, based on our audit, the procedures performed as described above, and the report of the other auditors, the combining and individual fund financial statements and schedules are fairly stated in all material respects in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

*BKD, LLP*

Dallas, Texas  
February 28, 2018

**CITY OF EL PASO, TEXAS**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**August 31, 2017**

The Management Discussion and Analysis (MD&A) presents an overview and analysis of the financial activities of the City's for the fiscal year ended August 31, 2017. This document is designed to:

- Provide a comparison of current year to prior year and identify specific economic factors contributing to changes;
- Help users of the financial statements understand the relationship between the results reported in the government-wide financial statements for governmental activities and the results reported in the major governmental fund financial statements;
- Help the reader focus on the City's financial condition as a whole, describing currently known facts, decisions or conditions expected to impact the City's financial condition and the availability of fund resources for future years; and
- Identify significant variances between the adopted budget, final budget and actual expenditures, discussing the impact of these variances on future liquidity.

Management's Discussion and Analysis should be considered in conjunction with the Letter of Transmittal as well as the City's financial statements. The information contained in these three sections of the Comprehensive Annual Financial Report (CAFR) complement each other.

## **FINANCIAL HIGHLIGHTS**

- On a government-wide basis, the Primary Government's total assets and deferred outflows exceeded its liabilities and deferred inflows by \$13.7 million (net position). Within the Total Net Position, Unrestricted Net Position is \$707.4 million deficit.
- The Primary Government's total net position decreased by \$26.1 million. Governmental activities decreased net assets by \$25.1 million while decreases from business-type activities totaled \$1.0 million. This decrease in net position is attributable to increases in pension liability. The Primary Government's total expenses were \$811.9 million, an increase of \$53.3 million from 2016.
- The cost of the Primary Government's governmental activities was \$619.3 million for the 2017 fiscal year, an increase of 9.9% over the prior year.
- The City's governmental funds reported combined ending fund balances of \$381.7 million, a decrease of \$41.0 million compared with the prior year. Approximately 5.4% of the combined fund balances, or \$20.7 million, is unassigned and available for the discrete purposes for which these funds are collected.
- The unassigned fund balance in the General Fund was \$22.7 million or 6.1% of total General Fund current year expenditures.

**CITY OF EL PASO, TEXAS**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**August 31, 2017**

**OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to serve as an introduction to the City’s basic financial statements. The City’s basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

These components of the Comprehensive Annual Financial Report are graphically illustrated below:

CAFR	Introductory Section	Letter of Transmittal, Organization Chart, Other Introductory Information			
	Financial Section	Management’s Discussion and Analysis			
		Government-Wide Financial Statements	Fund Financial Statements		
		Statement of Net Position	Governmental Funds	Proprietary Funds	Fiduciary Funds
			Balance Sheet	Statement of Net Position	Statement of Fiduciary Net Position
			Statement of Revenues Expenditures and Changes in Fund Balances	Statement of Revenues, Expenses and Changes in Net Position	Statement of Changes in Fiduciary Net Position
		Statement of Activities	Statement of Cash Flows		
	Notes to Financial Statements				
	Required Supplementary Information				
	Combining Statements and Schedules				
Statistical Section	Other Statistical Information				

The basic financial statements include both government-wide and fund financial statements. These statements differ in scope, measurement focus and basis of accounting, as well as in the information provided. The following chart illustrates these differences:

	Government-Wide Statement	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the City for basic governmental services	The day-to-day operating activities of the City for business-type enterprises	Instances in which the City administers resources on behalf of others, such as property tax and pension
Accounting basis and measurement focus	Accrual accounting and economic resources measurement focus	Modified accrual and current financial resources measurement focus	Accrual accounting and economic resources measurement focus	Accrual accounting and economic resources measurement focus; except agency funds do not have measurement focus
Type of asset, deferred outflows, liability and deferred inflows information	All assets, deferred outflows, liabilities and deferred inflows, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets, deferred outflows, liabilities and deferred inflows both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others and all liabilities
Type of inflow and outflow information	All revenues and expenses during the year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

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**Government-wide Financial Statements**

The *government-wide financial statements* are designed to provide readers with a broad overview of the City's finances in a manner that resemble those of private-sector business. All governmental and business-type activities are consolidated into columns which add to a total for the Primary Government.

The *Statement of Net Position* presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference being reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

Component Units, which are other governmental units over which City Council, acting as a group, can exercise influence or may be obligated to provide financial subsidy. Discretely presented Component Units are presented separately in the government-wide statements, while Blended Component Units are presented as special revenue funds in the fund financial statements. The focus of the statements is clearly on the Primary Government and the presentation allows the user to address the relative relationship with the component units.

The *Statement of Activities* is focused on both the gross and net cost of various functions (including governmental, business-type and component unit) supported by the government's general tax and other revenues. This is intended to summarize and simplify the user's analysis of the costs of various governmental services and/or subsidies to various business-type activities and/or component units.

Governmental activities of the City include general government, public safety, public works, facilities, economic development, community development, and recreation and cultural services. Property and sales taxes finance the majority of these services.

Business-type activities reflect private sector type operations (where user charges or fees for services typically cover all or most of the cost of operations, including depreciation). Business-type activities include Environmental Services, Airport Operations, International Bridges, Sun Metro Transit, and the Tax Office Administration.

**Fund Financial Statements**

A fund is a set of self-balancing accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City of El Paso uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

*Governmental Funds*

Governmental funds are used to account for essentially the functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on how cash and other financial assets can readily be converted into available resources, as well as on the balances at the end of the fiscal year that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the City's operations.

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The focus of governmental funds financial statements is narrower than that of the government-wide financial statements; therefore it is useful to compare the information presented for governmental funds with similar information presented for the governmental activities in the government-wide financial statements. Because governmental fund financial statements do not encompass the additional long-term focus of the government-wide financial statement, additional information is provided that explains the relationship between them.

Both, the *Governmental Funds Balance Sheet* and the *Governmental Funds Statement of Revenues Expenditures and Changes in Fund Balances* provide a reconciliation between governmental funds and governmental activities. The flow of current financial resources will reflect bond proceeds and inter-fund transfers as other financial sources as well as capital expenditures and bond principal payments as expenditures. The reconciliation will eliminate these transactions and incorporate the capital assets and long-term obligations into the Governmental Activities column in the government-wide statements. The reconciliation will help readers better understand the long-term impact of the government's near-term financing decisions.

The City maintains five governmental fund types for financial reporting purposes. The governmental fund types are General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds, and Fiduciary Funds. Information is presented separately in the *Governmental Funds Balance Sheet* and in the *Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances* for the General Fund, Community Development Block Grants Fund, Debt Service Fund, and Capital Projects Fund, all of which are considered major governmental funds. The remaining governmental funds are combined into a single aggregated presentation as Non-major Governmental Funds. Individual fund data for the non-major governmental funds is provided in the combining financial statements and schedules that follow the basic financial statements in this report.

### *Proprietary Funds*

Proprietary funds are generally used to account for services for which the City charges customers— either outside customers or internal departments of the City. Proprietary funds provide a more detailed report of the same type of information as shown in the government-wide financial statements. The City maintains two types of proprietary funds:

- o Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for its airport, mass transit, environmental services, international bridges, and tax office operations. It should be noted that the Tax Office administrative operations are reported as an enterprise fund and are separate from the agency fund set up to collect and distribute taxes on behalf of regional taxing authorities.
- o Internal service funds are an accounting device used to accumulate and allocate costs internally among the City's various functions. The City uses its internal service funds to account for its employee health benefits and welfare programs, risk management, fleet services, printing and mail services. As these internal services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements.

The proprietary funds financial statements provide separate information for the enterprise funds (i.e., El Paso International Airport, Environmental Services, Sun Metro Transit, International Bridges, and the Tax Office Operations) since they are considered major funds of the City. All internal service funds are combined into a

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**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
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single aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds are provided in the Combining Statements and Schedules section of this report.

*Fiduciary Funds*

Fiduciary funds are used to account for resources held by the City in a trustee capacity or as an agent for the benefit of parties outside the City, individuals, private organizations or other governmental entities. Fiduciary funds include both trust and agency type funds. Trust fund statements allow the City to present its blended component units, the City's Employee Pension trust funds, as well as other private purpose trusts. Agency funds include tax office collections on behalf of the other taxing entities. While these funds represent a trust responsibility, these assets are restricted in purpose and do not represent discretionary resources of the government. Therefore, these assets are not presented as part of the government-wide financial statements.

*Notes to the Financial Statements*

The Notes are an integral part of the financial statements and provide additional information that is essential to a full understanding and fair presentation of the data provided in both the government-wide and fund financial statements. The notes immediately follow the financial statements.

*Other Information*

In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information of the City's governmental and proprietary funds. Budgetary comparison schedules have been provided which demonstrate budgetary compliance.

*Statistics*

The statistical section provides data on financial trends, revenue, and debt capacity, demographic and economic data, and operating information.

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**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Comparative information for the current and preceding year is presented below:

	<b>Net Position (in 000's)</b>					
	<b>Governmental Activities</b>		<b>Business-type Activities</b>		<b>Total</b>	
	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>	<b>2017</b>	<b>2016</b>
Current and other assets	\$ 508,956	\$ 574,170	\$ 83,293	\$ 92,097	\$ 592,249	\$ 666,267
Capital Assets	1,075,465	1,048,382	496,958	489,286	1,572,423	1,537,668
Total Assets	1,584,421	1,622,552	580,251	581,383	2,164,672	2,203,935
Deferred Outflows of Resources	197,341	174,646	23,933	13,191	221,274	187,837
Total assets and deferred outflows	1,781,762	1,797,198	604,184	594,574	2,385,946	2,391,772
Other liabilities	164,306	142,000	35,381	27,395	199,687	169,395
Long-term liabilities	1,904,933	1,921,760	229,447	232,096	2,134,380	2,153,856
Total Liabilities	2,069,239	2,063,760	264,828	259,491	2,334,067	2,323,251
Deferred inflows	32,902	28,673	5,252	12	38,154	28,685
Total liabilities and deferred inflows	2,102,141	2,092,433	270,080	259,503	2,372,221	2,351,936
Net position:						
Net investment in capital assets	158,948	186,813	360,990	346,918	519,938	533,731
Restricted	181,218	127,479	19,934	26,658	201,152	154,137
Unrestricted	(660,546)	(609,527)	(46,820)	(38,505)	(707,366)	(648,032)
Total net position	\$ (320,380)	\$ (295,235)	\$ 334,104	\$ 335,072	\$ 13,724	\$ 39,836

**Analysis of the City's Net Position**

The net position may serve over time as a useful indicator of a government's financial position. For fiscal year 2017, the City's assets and deferred outflows of resources exceeded liabilities and deferred inflows of resources by \$13.7 million. Increases in tax revenue and grant funding was offset by additional debt service and pension obligations.

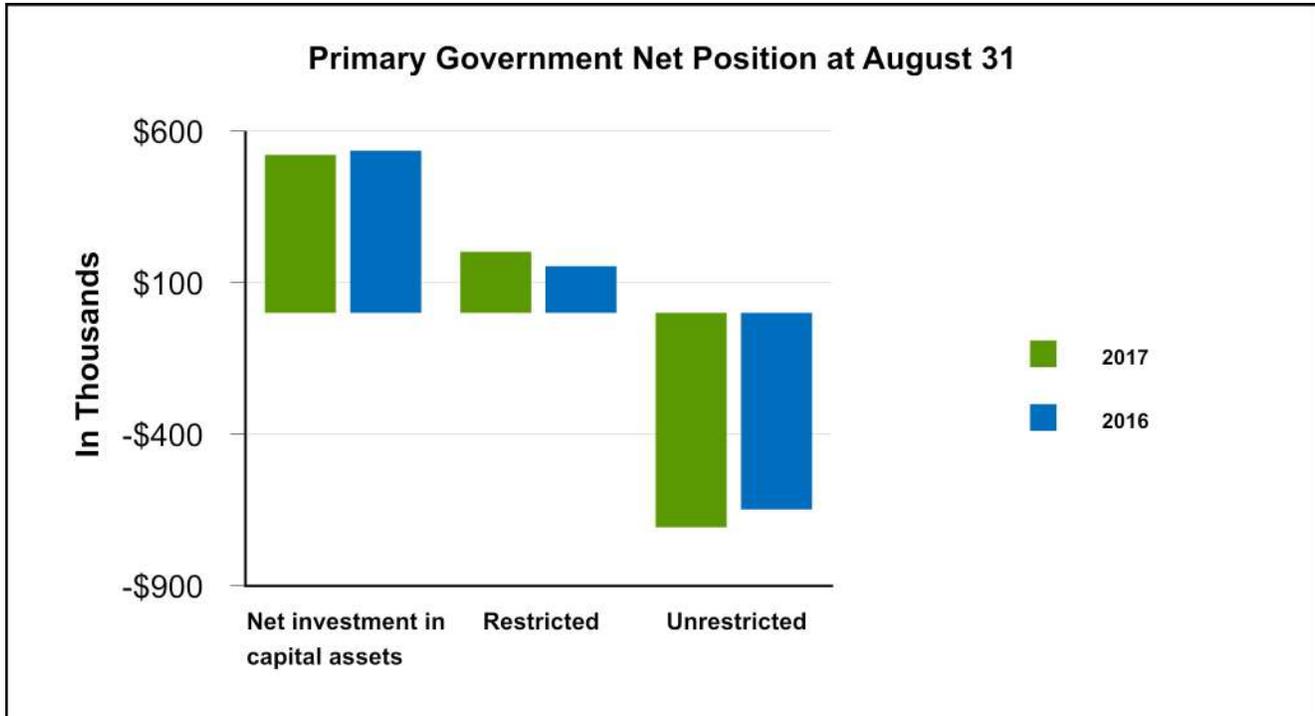
The largest portion of the City's net position, \$519.9 million, reflects its investment in capital assets (e.g. land, buildings, equipment, improvements, construction in progress and infrastructure), less any outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources because the capital assets themselves cannot be used to liquidate these liabilities.

A portion of the City's net position, \$201.2 million, represents resources that are subject to external restrictions on how they may be used. This restricted net position is held for debt service, amounts restricted by other funding agencies, amounts from bond proceeds for capital projects, as well as a \$18.4 million cash reserve required by the City Charter. Restricted net position increased \$47.0 million over the prior fiscal year, due mainly to an increase in capital projects in the current year.

Generally, all net position generated by governmental activities are either externally restricted or invested in capital assets. Unrestricted governmental activities net position showed a \$660.5 million deficit at the end of this year. This deficit indicates that the City has long-term commitments that exceed its related assets, related largely to pension obligations.

Unrestricted net position in business-type activities decreased a total of \$8.3 million, ending the year at a \$46.8 million deficit.

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**Analysis of the City's Operations**

The following table provides a summary of the City's activities for the years ended August 31, 2017 and 2016. Governmental activities decreased the City of El Paso's net position by \$25.1 million which was in addition to a decrease in the business-type activities of \$1.0 million resulting in a net position decrease of \$26.1 million.

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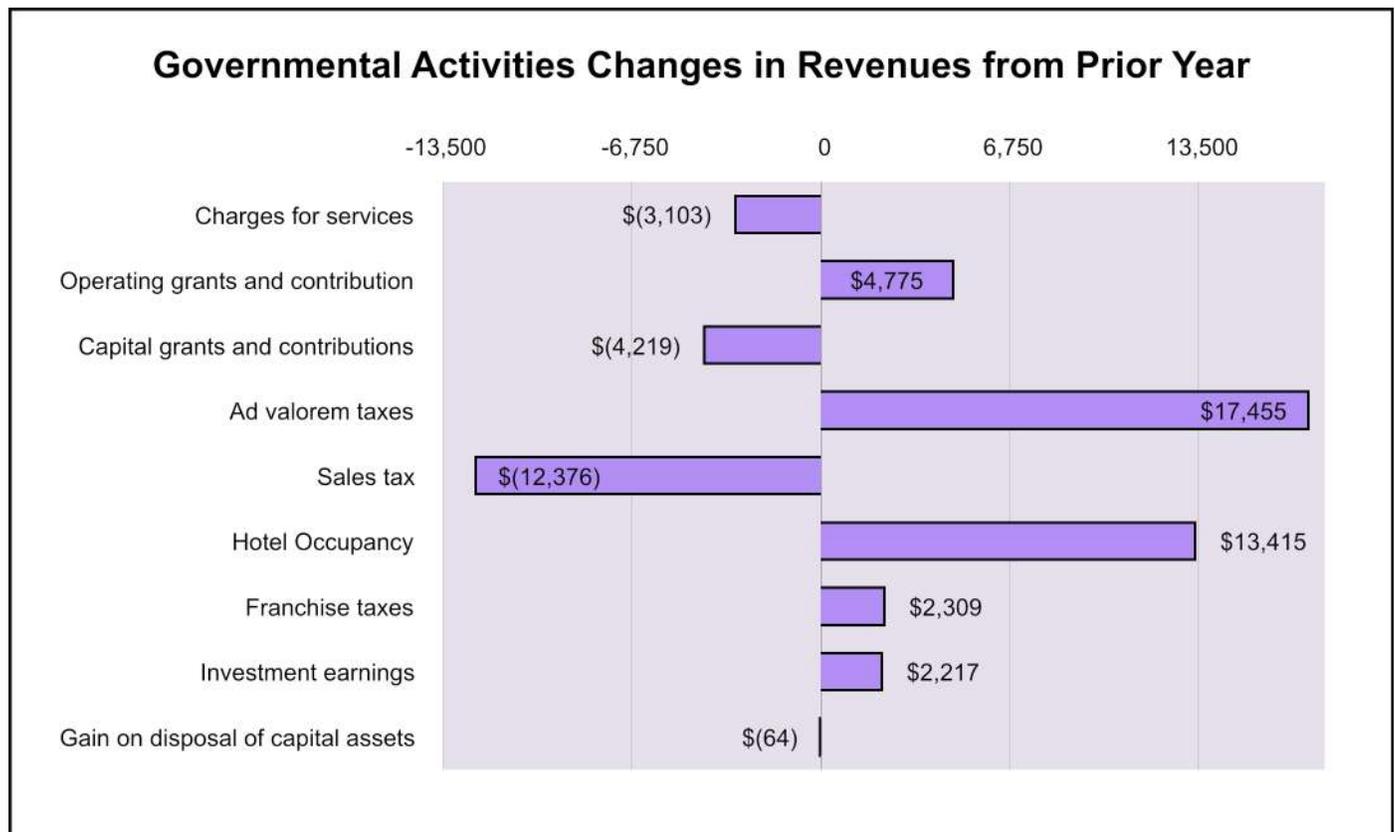
**Condensed Schedule of Changes in Net Position**  
**For the Year Ended August 31**  
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2017	2016	2017	2016	2017	2016
<b>Revenues</b>						
<b>Program revenues</b>						
Charges for services	\$ 121,034	\$ 124,137	\$ 127,594	\$ 127,936	\$ 248,628	\$ 252,072
Operating grants and contribution	38,597	33,822	11,607	16,431	50,204	50,253
Capital grants and contributions	2,950	7,169	17,943	16,138	20,893	23,307
<b>General revenues</b>						
Ad valorem taxes	254,897	237,442	3,894	2,100	258,791	239,542
Sales tax	87,705	100,081	42,098	41,236	129,803	141,317
Hotel occupancy tax	13,415	—	—	—	13,415	—
Franchise taxes	58,295	55,987	—	—	58,295	55,987
Investment earnings	2,868	650	511	275	3,379	926
BABS federal tax credit	2,058	—	229	—	2,287	—
Gain on disposal of capital assets	28	92	32	(23)	60	68
<b>Total revenues</b>	<b>581,847</b>	<b>559,380</b>	<b>203,908</b>	<b>204,093</b>	<b>785,755</b>	<b>763,473</b>
<b>Expenses</b>						
<b>Governmental activities</b>						
General government	59,192	93,448	—	—	59,192	93,448
Public safety	278,649	241,548	—	—	278,649	241,548
Public works	76,781	67,039	—	—	76,781	67,039
Public health	33,794	21,849	—	—	33,794	21,849
Parks	31,298	26,478	—	—	31,298	26,478
Library	12,421	10,888	—	—	12,421	10,888
Culture and recreation	33,398	32,080	—	—	33,398	32,080
Community and economic development	37,844	34,224	—	—	37,844	34,224
Interest on long-term debt	55,962	36,192	—	—	55,962	36,192
<b>Business-type activities</b>						
Airport operations	—	—	53,963	50,650	53,963	50,650
Industrial park & other operations	—	—	—	1,577	—	1,577
International Bridges	—	—	10,002	8,508	10,002	8,508
Environmental Services	—	—	45,701	51,151	45,701	51,151
Mass Transit	—	—	80,848	80,975	80,848	80,975
Tax Office	—	—	2,015	1,932	2,015	1,932
<b>Total expenses</b>	<b>619,339</b>	<b>563,746</b>	<b>192,529</b>	<b>194,793</b>	<b>811,868</b>	<b>758,539</b>
Excess (deficiency ) before transfers	(37,492)	(4,366)	11,379	9,300	(26,112)	4,934
Transfers	12,346	(1,164)	(12,346)	1,164	—	—
Increase (decrease) in net position	(25,145)	(5,530)	(968)	10,464	(26,112)	4,934
Net position - beginning	(295,235)	(289,705)	335,072	324,608	39,836	34,903
<b>Net position - ending</b>	<b>\$ (320,380)</b>	<b>\$ (295,235)</b>	<b>\$ 334,104</b>	<b>\$ 335,072</b>	<b>\$ 13,724</b>	<b>\$ 39,836</b>

**Program Revenues and Expenses – Governmental Activities**

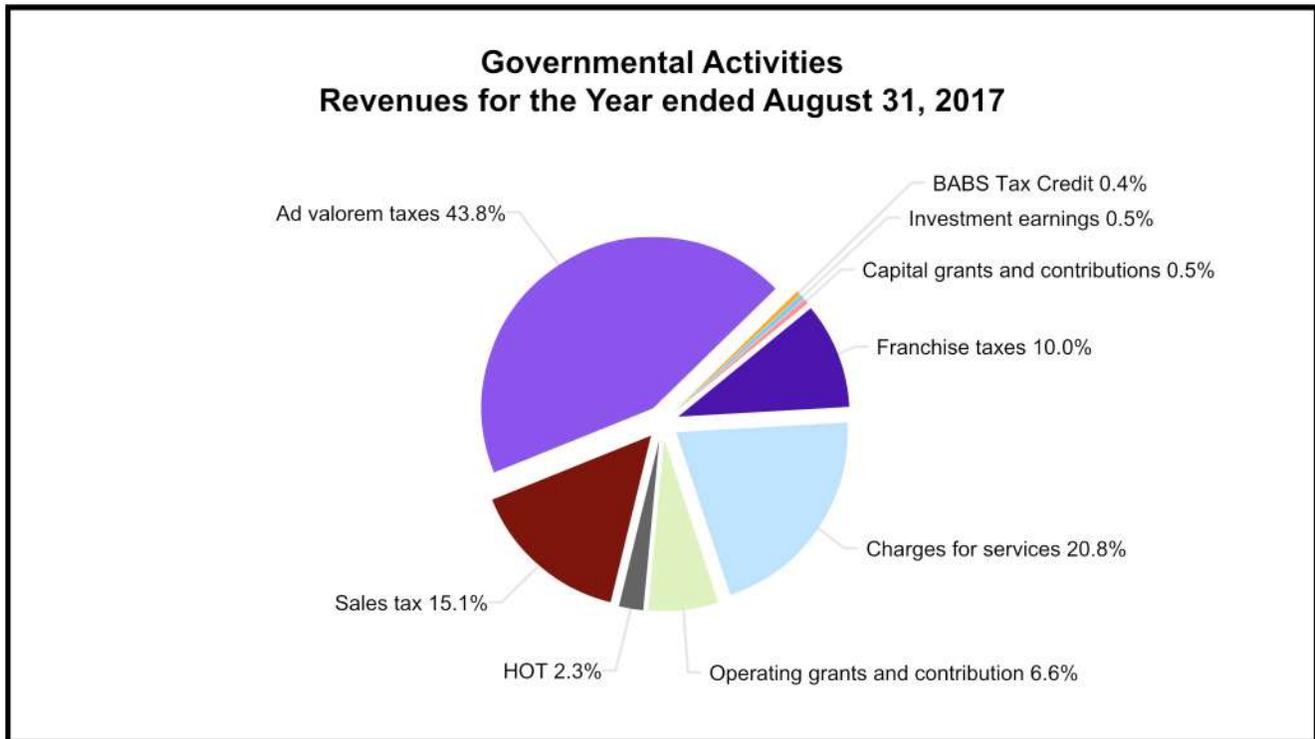
Governmental activities cover a range of typical City services and are directly supported by charges for these services, grants and contributions. In general, revenues generated by charges for services are inadequate to support the cost of the services with public safety creating the greatest burden on the taxpayer. Consequently, general revenues cover any net expense after program-specific revenues are applied. These general revenues include taxes, investment earnings and gains on sales of capital assets.

The following chart (in thousands) shows the change in governmental activities' revenues from the previous year.



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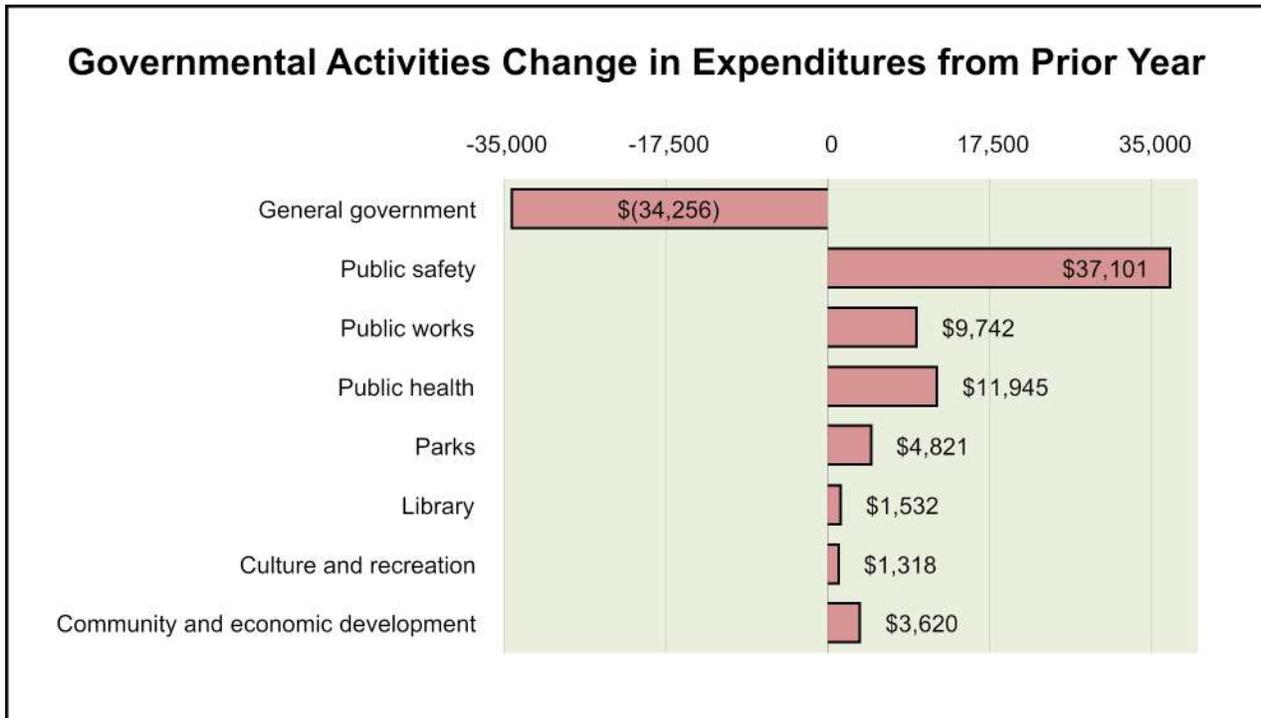
Revenues for governmental activities totaled \$581.8 million, an increase of \$22.5 million or 4.0% from 2016.



The total ad valorem taxable valuation increased 1.8% while the overall tax rate increased 4.1% from 2016. Ad valorem property tax revenues increased \$17.5 million (7.4%). Sales taxes decreased \$12.4 million (12.4%) due to reclassification of Hotel Occupancy Tax to its own line item amounting to \$13.4 million, Franchise taxes increased \$2.3 million (4.1%), Operating/capital grants and contributions increased \$0.6 million (1.4%).

The cost of governmental programs and services was \$619.3 million, an increase of \$55.6 million (9.9%) from 2016. The net pension expense for governmental activities increased \$39.5 million for the year, and other post-employment benefits expense increased \$4.1 million, compensated absence expense increased \$10.1 million, and interest on governmental long-term debt increased \$19.8 million.

The following chart (in thousands) shows changes in governmental activities’ expenses from 2016.



**Program Revenues and Expenses – Business-type Activities**

Charges for services decreased \$342 thousand to \$127.6 million. Operating expenses, net of depreciation, decrease \$2.5 million to \$146.8 million (1.7%) and depreciation expense increased \$2.6 million to \$42.5 million (6.6%). The decrease in operating expenses is primarily due to decreased personnel services of \$2.3 million, increase in outside contracts of \$1.3 million, and decrease in materials and supplies of \$0.9 million. Non-operating revenues, excluding operating and capital grants, increased \$1.7 million to \$57.9 million. Non-operating expenses decreased \$2.4 million to \$3.3 million. Capital contributions decreased \$3.3 million to \$17.9 million. Transfers- out decreased \$2.3 million to \$17.3 million. Transfers in decreased \$11.2 million to \$5.0 million.

**El Paso International Airport**

This fund accounts for the operations of the El Paso International Airport, industrial parks, and golf courses located on Airport property.

Operating revenues increased \$5.8 million to \$43.4 million, due primarily to the increased rental fees related to the opening of the new facility for car rentals. There was an increase in operating expenses of \$2.6 million from \$49.6 million to \$52.2 million related primarily to increases in outside contracts and depreciation expense. Non- operating revenues increased \$42 thousand to \$3.6 million and non-operating expenses decreased to \$1.8 million. Capital contributions decreased \$9.8 million from \$14.3 million to \$4.5 million.

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Other significant changes from prior fiscal year include:

- Increase in personnel expenses of \$0.2 million
- All other operating expenses, excluding depreciation and personnel services, increased \$1.2 million
- Depreciation expense increased \$1.2 million
- Investment earnings increased \$56 thousand
- Customer facility charge revenue decreased \$17 thousand

**Environmental Services**

This fund accounts for the solid waste collection/disposal activities of the City.

Operating revenues decreased \$3.8 million to \$48.4 million. Transfer of Animal Services out of Environmental Services offset by population growth in the community and continued construction activity decreased collection fees and landfill fees by \$2.8 million.

Operating expenses decreased \$5.3 million to \$45.2 million, and includes \$0.3 million increase in landfill utilization expense. The increase was based on a revised landfill study. Other significant changes were:

- Personnel expense decreased by \$3.1 million due primarily to the additional staff for the Animal Shelter expansion.
- Outside contracts decreased by \$737 thousand related to payment for recycling services that resulted from a new revenue-sharing agreement.
- Materials and supplies decreased by \$1.2 million related to the Animal Shelter expansion and fleet maintenance supplies.
- Depreciation expense decreased \$305 thousand

**Sun Metro Mass Transit**

Sun Metro Mass Transit operating revenues decreased \$676 thousand to \$11.6 million primarily due to decreased revenues from fares. Ridership has slipped as lower gas prices offer alternatives for transportation. The sales tax subsidy increased \$862 thousand.

Operating expenses increased \$1.1 million to \$80.1 million. Depreciation expense increased by \$1.7 million. Other significant changes were:

- Personnel expenses increased \$0.6 million related to adjustments for net pension liability
- Fuel expense decreased \$774 thousand as fuel prices remained low during the year. In addition, operations has transitioned from LNG to CNG fuel. The corresponding increase for CNG in the Utilities expense was an increase of \$90 thousand.
- Maintenance and repair decreased \$985 thousand relating to major vehicle repairs in prior year.
- Outside contracts increased by \$789 thousand due to continued outsourcing of the management and operations of the LIFT program.
- FTA entitlement grant increased \$329 thousand due to reduction in grant revenue in the prior year timing of grant receipts.

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- Capital contributions from the FTA increased by \$8.8 million as capital projects were completed during the year.

**International Bridges**

This fund represents activity related to the City's international bridges.

Operating revenues decreased \$159 thousand to \$22.2 million due to a decrease in vehicular and pedestrian traffic crossing the City's bridges.

Operating expenses increased \$1.6 million, primarily attributed to increases in contractual services of \$635 thousand.

Other significant changes were:

- Outside contracts increased by \$177 thousand
- Maintenance and repair increased by \$499 thousand
- Depreciation expense increased by \$35 thousand

**Tax Office Administration**

This fund represents activity related to the operations of the Tax Office as it relates to the 38 taxing entities managed through this office, including the City of El Paso.

Operating revenues increased \$328 thousand to \$2.4 million relating to administrative fees allocated to the taxing entities.

Operating expenses increased \$83 thousand to \$2.0 million relating to a net increase in indirect costs offset by a decrease due to position vacancies of \$175 thousand .

Other significant changes were:

- General revenues increased by \$66 thousand from updated banking agreements
- Outside contracts decreased by \$19 thousand due to lock box conversion
- Depreciation increased by \$16 thousand

**FINANCIAL ANALYSIS OF THE FUND LEVEL STATEMENTS**

**Governmental Funds**

At the end of the current fiscal year, the City of El Paso's governmental funds reported total fund balance of \$381.7 million, a decrease of \$41.0 million from 2016. Approximately 5.4% of this total amount or \$20.7 million constitutes unassigned fund balance. Non-spendable fund balance of \$4.0 million indicates that inventory is not available to liquidate liabilities. Restricted fund balance of \$342.5 million indicates there are legal restrictions on how these funds may be expended. Committed fund balance of \$14.5 million indicates City Council has restricted how these funds may be expended.

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**General Fund**

The General Fund is the general operating fund of the City. The fund balance for the General Fund totaled \$44.8 million, increasing by \$0.2 million from the prior year. Restricted Fund Balance totaled \$18.4 million, increasing by \$0.4 million from prior year. The Non-Spendable Fund Balance related to inventories decreased \$0.1 million to \$3.8 million.

There were no changes in sales tax/franchise fee rates and no material changes to the City's revenue fee schedules from 2016.

Revenues increased \$7.8 million and transfers in decreased \$1.8 million from 2016.

Property tax revenues increased \$5.5 million or 3.5%. The adjusted assessed taxable valuation increased 1.8% and the general fund property tax rate increased to 48.6 per \$100 of assessed valuation.

Sales taxes increased \$2.4 million or 2.9%. Franchise taxes increased \$2.1 million due to increases in related services. Charges for Services decreased \$0.7 million while Intergovernmental Revenues increased \$0.1 million.

Investment earnings increased slightly by \$201 thousand. Amounts invested during 2017 were slightly higher compared to 2016.

Revenue from the County of El Paso, relating to providing health services to County residents, remained flat at \$469 thousand.

Overall, expenditures including transfers increased \$6.7 million or 1.8% over the prior fiscal year.

**Community Development**

The Community Development Block Grants Fund is the only Special Revenue Fund designated as a major fund for reporting purposes. These activities are funded by the U. S. Department of Housing and Urban Development (HUD). Program revenues of the revolving loan funds (RLF) were initially funded by HUD. Recognition of these revenues is dependent upon the City expending these funds in accordance with the entitlement grants and is earned as expended. Expenditures decreased \$4.8 million dollars from 2016 to \$11.9 million. The City utilized \$13.6 million in program revenues in 2017.

**Debt Service Fund**

Ad valorem property tax revenues increased \$8.9 million (11.0%) as a result of an increase in the debt service ad valorem property tax rate. Principal and interest payments increased \$2.5 million. Fund balance for the debt service fund increased \$3.0 million from 2016.

The City's debt management policy requires the fund balance remain in excess of the debt service portion of the largest taxpayer's tax levy for the year, \$1,338,900 in 2017. The policy also requires that a plan, without causing large variances in the tax rate, should be adopted to reduce the fund balance should it exceed 25% of the current year's expenditure budget.

**Capital Projects Fund**

Capital Projects Fund expenditures totaled \$69.5 million. Tax Notes were issued in 2017 were \$3.5 million while other funding sources (Hotel/Motel Tax, Interest and other) were \$11.5 million. Net transfers between

**CITY OF EL PASO, TEXAS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
August 31, 2017**

other funds were \$4.1 million of which \$5.1 million was transferred to the Debt Service Fund as part of the debt refinancing that occurred during the year.

This resulted in an decrease in fund balance of \$58.5 million to \$282.3 million.

**Non-major Governmental Funds**

Revenues in these funds were \$88.8 million and expenditures were \$88.8 million. Net transfers-in were \$7.2 million. Fund balance increased \$14.6 million to \$47.9 million.

**Federal Grants**

Funding for these activities is program specific and is provided by the U. S. Congress. Expenditures totaled \$7.9 million primarily from programs as follows:

- Public Safety – Police and Fire \$5.2 million including capital outlays.
- Economic Development – Incentives \$2.5 million.

**State Grants**

Expenditures for these activities are program specific and are provided by State Agencies or Departments. Expenditures by the City totaled \$4.2 million primarily from programs as follows:

- Community and Human Development - \$0.7 million
- Police Department \$3.2 million
- Museums - \$0.3 million

**Public Health Grants**

Expenditures for preventative healthcare and nutrition programs were \$11.8 million. Grant funding from the state provided \$10.7 million.

**Public Health Waiver Program**

Medicaid Waiver Expenditures totaled \$1.9 Million in FY2017. The Medicaid funding was \$7.9 million and also includes \$3.6 million in program revenues.

**Destination El Paso**

Destination El Paso had revenues and transfers totaling \$17.3 million for FY2017 and program expenditures of \$17.1 million.

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**Non-grants**

Funding for these activities comes from a variety of sources including property taxes, sales taxes, fines and forfeitures and charges for services. Generally, funding for these activities occurs over several fiscal years and expenditures are made as accumulated funding allows. Revenues totaled \$47.0 million and expenditures were \$48.8 million and a net transfer in of \$7.3 million, resulting in a \$5.5 million increase in fund balance from fiscal year 2016. The ending fund balance as of August 31, 2017 was \$35.5 million.

Fund balances as of August 31, 2017 include the following:

- PEG \$5.1 million
- Municipal Court \$3.9 million
- Parks Department \$4.0 million
- Police Department \$5.5 million
- Economic Development \$10.1 million
- Mayor and council \$0.3 million

**Proprietary Funds**

The City’s proprietary fund statements provide the same type of information found in the government-wide financial statements but in more detail.

Net position of the respective proprietary funds is shown on the Statement of Net Position for these funds. These funds had net position increases/decreases as follows:

	2017	2016
El Paso International Airport	\$ (2,417,373)	\$ 3,313,054
Environmental Services	1,077,239	7,487,542
Mass Transit	(187,638)	(1,770,661)
International Bridges	142,912	1,235,830
Tax Office Administration	416,692	198,096
Net position increase/(decrease)	<u>\$ (968,168)</u>	<u>\$ 10,463,861</u>

Factors that contributed to the increase/decrease in net position are discussed in the business-type activities section of the government-wide section.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The City originally budgeted a flat budget in General Fund in 2017. Under the City Charter the overall tax rate at \$1.85 per \$100 in taxable value. The General Fund property tax rate remained \$1.372 and the Debt Service property tax rate remained \$.478. The taxable assessed valuation of real and personal property increased approximately 1.8% from 2016.

During 2017, charges to appropriations were increased a total of \$17.7 million over the prior year. Appropriation increases included \$0.2 million in general government, \$2 million in public works, and \$1.7 million in Parks. City resource appropriations increased by \$6 million , primarily due to increases in taxes and charges for services.

**CITY OF EL PASO, TEXAS**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**August 31, 2017**

**CAPITAL ASSETS**

The City of El Paso’s investment in capital assets for its governmental and business-type activities as of August 31, 2017 amounts to \$1.6 billion (net of accumulated depreciation).

General capital assets include land, improvements to land, easements, buildings, vehicles, machinery and equipment, infrastructure and all other tangible assets that are used in operations and that have initial useful lives greater than one year and exceed the government’s capitalization threshold (see Note 5). The City has capitalized assets with a cost of \$5,000 or more. The City's depreciation of assets can be found in Note 5.

The schedule below presents governmental assets net of depreciation, as reported in the government-wide statements.

	Governmental Activities	Business- Type Activities	Total
Land	\$ 182,390,084	22,713,850	205,103,934
Artwork	—	979,637	979,637
Buildings	234,638,856	164,994,874	399,633,730
Equipment	50,547,155	74,991,191	125,538,346
Improvements	18,855,243	182,750,082	201,605,325
Infrastructure	397,562,612	—	397,562,612
Construction in Progress	191,470,884	50,528,346	241,999,230
Total	<u>\$ 1,075,464,834</u>	<u>\$ 496,957,980</u>	<u>\$ 1,572,422,814</u>

This year's major additions included:

Land	\$ 6,753,760
Buildings	7,401,095
Infrastructure/Improvements	48,136,094
Vehicles and Major Equipment	12,372,602
Total	<u>\$ 74,663,551</u>

**DEBT ADMINISTRATION**

At the end of the fiscal year, the City of El Paso had total debt payable of \$2.3 billion. Of this amount, \$1.3 billion is bonded debt backed by the full faith and credit of the government. Revenue Bonds of \$76.3 million are secured solely by fees for services. The loans of \$13.0 million are bank loans secured by the Fire Department equipment financed by the loans. This debt also includes Capital Lease obligations of \$21.1 million to acquire buses and IT equipment. The net pension liability is \$578.5 million and the liability for other post-employment benefits is \$100.5 million .

**OUTSTANDING DEBT**  
**BONDS, NOTES PAYABLE AND MASTER EQUIPMENT LEASE/PURCHASE**  
**AGREEMENTS**

	Governmental Activities	Business- Type Activities	Total
General Obligations	716,726,862	18,453,137	735,179,999
Certificate of Obligations	419,396,513	96,123,488	515,520,001
Revenue Bonds Payable	60,685,000	15,650,000	76,335,000
Unamortized (Discount) premium, net	97,524,649	4,431,500	101,956,149
Loans	13,048,732	—	13,048,732
Capital Lease Obligations	21,114,961	—	21,114,961
Chapter 380 Agreement Obligations	27,364,727	—	27,364,727
Compensated Absences	60,095,254	6,033,192	66,128,446
Landfill Closure and Post-Closure	—	20,976,770	20,976,770
Claims and Judgments	16,533,064	364,687	16,897,751
Net Pension Liability	517,405,905	61,099,430	578,505,335
OPEB	76,471,050	23,980,619	100,451,669
Total	<b><u>\$ 2,026,366,717</u></b>	<b><u>\$ 247,112,823</u></b>	<b><u>\$ 2,273,479,540</u></b>

The City's General Obligation, Revenue Bonds, and Certificate of Obligations ratings are listed below:

	Standard & Poor's	Fitch Ratings
General Obligations	AA	AA
Certificate of Obligations	AA	AA
Revenue Bonds Payable-EI		
Paso International Airport	A+	A+
Revenue Bonds Payable-EI		
Paso International Airport	AA-	A2

Additional information on the City of El Paso's long-term debt can be found in Note 8 of this report.

**ECONOMIC FACTORS**

The City's financial position remains stable as both tax and operating revenues out-performed budgeted revenues this fiscal year. In addition, City management continued to exercise conservative fiscal practices and careful monitoring of departmental spending during the year. The City's 2017 General Fund activities reflect a \$0.2 million increase in fund balance. Approximately \$2.9 million was due to revenues collected over budgeted revenues, offset by more than \$3.2 million budgeted expenditures.

General Fund Unassigned Fund Balance of \$22.7 million, plus the \$18.4 million in cash reserves restricted by the City Charter, totaled \$41.0 million as of August 31, 2017 or 11.1% of spending in fiscal year 2017. In fiscal year 2016, the General Fund activities reflected a \$1.6 million increase in fund balance, with undesignated cash reserves of \$40.7 million at approximately 11.6% of spending in fiscal year 2016.

**CITY OF EL PASO, TEXAS**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**August 31, 2017**

Economic development in the City remains steady in both the commercial and residential regions. Redfin.com named the El Paso on of the best Cities for National Park Lovers. El Paso has been named by US News and World Report as the one of the best places to live in the US for quality of life. WalletHub has listed El Paso in the #1 Best Run Cities in America.

These recognitions combined with economic initiatives and a stable workforce are reflected in continued economic activity.

- El Paso has the largest bilingual and bicultural workforce in the western hemisphere for young and growing populations.
- In October 2017, El Paso's metropolitan statistical area (MSA) projected unemployment rate fell to 3.8% with a projected labor force of 355,936.
- Employment numbers at the end of October 2017 reflected a positive change of 5,982 jobs from October 2016.
- Lowest crime rate in the U.S. for population > 500,000 for 5th year in a row.

**General Fund Budget**

Fiscal year 2017 appropriations increased \$17.7 million (5.0%) to \$369.2 million from 2016 actual expenditures and transfers. Appropriations, by function, increased (decreased) as follows:

<u>Function</u>	<u>Change</u>
General government	\$ 210,780
Public Safety	13,772,271
Public Works	1,981,002
Economic development	383,438
Community and human development	(977,245)
Culture and recreation	173,154
Parks	1,745,127
Library	174,906
Public health	78,298
Debt service	1,198,634
Nondepartmental	(1,067,469)
Total	<u><u>\$ 17,672,896</u></u>

**CITY OF EL PASO, TEXAS**  
**MANAGEMENT’S DISCUSSION AND ANALYSIS**  
**August 31, 2017**

Estimated revenue and transfers increased \$6.0 million (1.6%) to \$379.5 million from 2016 actual revenues and transfers. Revenues and transfers increased (decreased) as follows:

<u>Revenue and transfers in:</u>	<u>Change</u>
Property taxes	5,353,871
Sales taxes	2,435,108
Franchise fees	2,073,100
Licenses and permits	946,361
Fines and forfeits	(2,889,077)
Charges for services	(694,550)
Intergovernmental revenues	103,100
County participation	—
Rents and other	247,268
Interest	201,307
Transfers in	(1,767,623)
	<u>\$ 6,008,865</u>

The City’s overall certified taxable assessed valuation for real and personal property increased 1.8% for the fiscal year 2017 tax levy. City Council increased the general fund rate from \$0.47813 to \$0.485641 and the Debt Service tax rate from \$0.251595 to \$0.274015 from 2016 to 2017; however the composition of the debt and general fund tax changed only slightly.

**REQUEST FOR INFORMATION**

The City of El Paso’s Comprehensive Annual Financial Report is designed to provide citizens, customers, investors and creditors with a general overview of the City’s finances. It is available at the following website: <http://www.elpasotexas.gov/comptroller/accounting-and-reporting/financial-reports>. If you have questions about this report or need any additional information, you may contact:

Office of the Comptroller  
300 N. Campbell  
El Paso, Texas 79901

**CITY OF EL PASO, TEXAS**  
**Statement of Net Position**  
**August 31, 2017**

	Primary Government			Component Units	
	Governmental Activities	Business-type Activities	Total	El Paso Water Utilities February 28, 2017	El Paso Housing Finance Corporation December 31, 2016
<b>ASSETS</b>					
Cash and Cash Equivalents	15,617,371	1,137,751	16,755,122	36,308,710	1,540,818
Cash with Fiscal Agent	11,169,547	—	11,169,547	—	—
Investments	326,740,147	25,964,604	352,704,751	7,339,172	2,154,800
Receivables, Net of Allowances	111,398,348	36,446,253	147,844,601	31,072,516	236,159
Interest and Dividends	—	—	—	354,174	—
Other Assets	—	—	—	1,543,109	—
Prepaid Items	111,980	416,818	528,798	2,015,679	337
Internal Balances	35,816,189	(35,816,189)	—	—	—
Due from Component Unit	3,286,912	3,749,311	7,036,223	—	—
Inventory	4,815,226	5,838,516	10,653,742	1,735,474	—
Restricted Cash and Cash Equivalents	—	3,578,575	3,578,575	225,244,600	271,093
Restricted Investments	—	41,976,901	41,976,901	42,925,485	—
Restricted Trade and Other Receivables	—	—	—	603,287	—
Capital Assets, not being Depreciated	375,493,968	74,414,023	449,907,991	286,900,096	—
Capital Assets being Depreciated, Net	699,970,866	422,543,957	1,122,514,823	1,276,606,028	2,613,174
<b>Total Assets</b>	<b>1,584,420,554</b>	<b>580,250,520</b>	<b>2,164,671,074</b>	<b>1,912,648,330</b>	<b>6,816,381</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>					
Deferred Charge on Refunding	15,036,084	—	15,036,084	5,267,208	—
Deferred Chapter 380 Agreement Charges	27,364,727	—	27,364,727	—	—
Pension Contributions Subsequent to Measurement Date	29,322,871	6,901,527	36,224,398	2,378,270	—
Difference in Actual and Expected Pension Experience	5,804,711	490,218	6,294,929	386,908	—
Difference in Projected and Actual Earnings on Pension Investments	97,276,223	7,859,086	105,135,309	5,675,305	—
Change in Assumptions for Pensions	22,536,235	8,682,222	31,218,457	5,883,108	—
Change in Proportionate Share of Pension	—	—	—	141,325	—
<b>Total Deferred Outflows of Resources</b>	<b>197,340,851</b>	<b>23,933,053</b>	<b>221,273,904</b>	<b>19,732,124</b>	<b>—</b>
<b>LIABILITIES</b>					
Accounts Payable	22,454,382	12,177,331	34,631,714	21,830,117	—
Accrued Payroll	9,102,248	2,065,149	11,167,397	4,163,101	—
Taxes and Fees Payable	987,144	159,596	1,146,740	—	—
Accrued Interest Payable	2,759,601	262,105	3,021,706	14,785,483	—
Due to Primary Government	—	—	—	6,140,784	—
Unearned Revenue	6,550,463	2,003,012	8,553,475	642,248	—
Other Current Liabilities	—	—	—	4,749,229	—
Construction Contracts and Retainage Payable	1,018,721	1,048,065	2,066,786	1,332,275	—
Long-term Liabilities-due within one year	89,337,884	12,107,442	101,445,326	43,596,369	—
Net Pension Liability-due within one year	32,095,473	5,558,634	37,654,106	—	—
Long-term Liabilities-due beyond one year	1,392,258,201	173,905,948	1,566,164,149	826,217,198	—
Chapter 380 Agreement Obligations	27,364,727	—	27,364,727	—	—
Net Pension Liability-due beyond one year	485,310,432	55,540,796	540,851,229	43,921,002	—
<b>Total Liabilities</b>	<b>2,069,239,276</b>	<b>264,828,079</b>	<b>2,334,067,355</b>	<b>967,377,806</b>	<b>—</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>					
Deferred Gain on Refunding	—	—	—	266,273	—
Difference in Actual and Expected Pension Experience	15,273,553	5,251,968	20,525,521	3,558,754	—
Change in Assumptions for Pensions	17,628,091	—	17,628,091	—	—
Change in Proportionate Share of Pension	—	—	—	507,553	—
<b>Total Deferred Inflows of Resources</b>	<b>32,901,644</b>	<b>5,251,968</b>	<b>38,153,612</b>	<b>4,332,580</b>	<b>—</b>
<b>NET POSITION</b>					
Net Investment in Capital Assets	158,948,296	360,989,685	519,937,981	846,264,889	2,613,174
Restricted for:					
Debt Service	6,985,660	1,633,000	8,618,660	73,714,813	—
Cash Reserve	18,370,749	—	18,370,749	—	—
Municipal Court	3,886,051	—	3,886,051	—	—
Public Education in Government (PEG)	5,122,356	—	5,122,356	—	—
Civic Center	3,237,756	—	3,237,756	—	—
Public Health	10,567,072	—	10,567,072	—	—
Public Works	162,140	—	162,140	—	—
Library	881,333	—	881,333	—	—
Police	3,635,130	—	3,635,130	—	—
Economic Development	6,722,120	—	6,722,120	—	—
Thunder Canyon (PID #1)	28,421	—	28,421	—	—
Capital Projects	64,606,178	—	64,606,178	—	—
Community Development	57,013,403	—	57,013,403	—	—
Passenger Facilities	—	3,150,891	3,150,891	—	—
Customer Facility Charge	—	15,150,337	15,150,337	—	—
Facilities, infrastructure and equipment	—	—	—	33,841,475	—
Unrestricted	(660,546,184)	(46,820,387)	(707,366,571)	6,848,891	4,203,207
<b>TOTAL NET POSITION/(DEFICIT)</b>	<b>(320,379,518)</b>	<b>334,103,526</b>	<b>13,724,008</b>	<b>960,670,068</b>	<b>6,816,381</b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF EL PASO, TEXAS**  
**Statement of Activities**  
**For the Year Ended August 31, 2017**

Functions/Programs	Net (Expense) Revenue and Changes in Net Position								
	Program Revenues				Primary Government			Component Units	
	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-type Activities	Total	El Paso Water Utilities - February 28, 2017	El Paso Housing Finance Corporation - December 31, 2016
<b>Primary Government:</b>									
<b>Governmental Activities:</b>									
General government	59,192,090	36,978,957	305,364	—	(21,907,769)	—	(21,907,769)	—	—
Public safety	278,648,815	20,496,087	7,275,939	44,105	(250,832,685)	—	(250,832,685)	—	—
Public works	76,780,581	8,223,634	3,463,636	—	(65,093,311)	—	(65,093,311)	—	—
Public health	33,794,360	18,352,936	14,556,465	235,721	(649,238)	—	(649,238)	—	—
Parks	31,298,298	4,431,003	264,362	165,821	(26,437,113)	—	(26,437,113)	—	—
Library	12,420,754	491,142	(99,344)	—	(12,028,957)	—	(12,028,957)	—	—
Culture and recreation	33,397,565	13,141,095	277,157	—	(19,979,313)	—	(19,979,313)	—	—
Community and economic development	37,843,697	18,918,679	12,553,906	2,504,584	(3,866,528)	—	(3,866,528)	—	—
Interest on long-term debt	55,962,214	—	—	—	(55,962,214)	—	(55,962,214)	—	—
<b>Total governmental activities</b>	<b>619,338,374</b>	<b>121,033,533</b>	<b>38,597,485</b>	<b>2,950,231</b>	<b>(456,757,128)</b>	<b>—</b>	<b>(456,757,128)</b>	<b>—</b>	<b>—</b>
<b>Business-type Activities:</b>									
El Paso International Airport	53,963,454	46,671,121	—	4,481,938	—	(2,810,395)	(2,810,395)	—	—
Solid waste disposal operations	45,701,064	48,094,965	—	(1,628,411)	—	765,491	765,491	—	—
Mass transit operations	80,848,329	9,253,342	11,606,771	15,089,176	—	(44,899,040)	(44,899,040)	—	—
Tax Office	2,015,098	1,843,339	—	—	—	(171,759)	(171,759)	—	—
International bridges operations	10,002,271	21,731,391	—	—	—	11,729,120	11,729,120	—	—
<b>Total business-type activities</b>	<b>192,530,216</b>	<b>127,594,158</b>	<b>11,606,771</b>	<b>17,942,703</b>	<b>—</b>	<b>(35,386,584)</b>	<b>(35,386,584)</b>	<b>—</b>	<b>—</b>
<b>Total Primary Government</b>	<b>811,868,590</b>	<b>248,627,691</b>	<b>50,204,256</b>	<b>20,892,934</b>	<b>(456,757,128)</b>	<b>(35,386,584)</b>	<b>(492,143,712)</b>	<b>—</b>	<b>—</b>
<b>Component Units:</b>									
Water and reclaimed water	172,341,872	151,855,720	196,329	13,665,028	—	—	—	(6,624,795)	—
Wastewater	21,994,524	69,631,768	—	—	—	—	—	47,637,244	—
Stormwater district	10,508,424	19,480,512	730,547	—	—	—	—	9,702,635	—
Low/moderate income housing	134,822	44,358	—	—	—	—	—	—	(90,464)
<b>Total Component Units</b>	<b>204,979,642</b>	<b>241,012,358</b>	<b>926,876</b>	<b>13,665,028</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>50,715,084</b>	<b>(90,464)</b>
<b>General revenues:</b>									
<b>Taxes:</b>									
Property taxes, levied for general purposes					164,680,106	3,894,131	168,574,237	—	—
Property taxes, levied for debt service					90,217,358	—	90,217,358	—	—
Franchise taxes					58,295,404	—	58,295,404	—	—
Sales taxes					87,704,730	42,098,342	129,803,072	—	—
Hotel Occupancy Tax					13,415,214	—	13,415,214	—	—
Investment earnings					2,867,819	511,087	3,378,906	1,347,567	23,767
BABS federal tax credit					2,058,173	228,925	2,287,098	—	—
Gain on disposition of capital assets					28,103	31,858	59,961	5,737,097	—
Transfers					12,345,926	(12,345,926)	—	—	—
<b>Total general revenues and transfers</b>					<b>431,612,834</b>	<b>34,418,417</b>	<b>466,031,250</b>	<b>7,084,664</b>	<b>23,767</b>
Change in net position					(25,144,295)	(968,167)	(26,112,462)	57,799,748	(66,697)
Net position/(Deficit) - beginning					(295,235,223)	335,071,693	39,836,470	902,870,320	6,883,078
<b>Net position/(Deficit) - ending</b>					<b>(320,379,518)</b>	<b>334,103,526</b>	<b>13,724,008</b>	<b>960,670,068</b>	<b>6,816,381</b>

*The accompanying notes are an integral part of these financial statements*

# CITY OF EL PASO, TEXAS

## Balance Sheet

### Governmental Funds

August 31, 2017

	General Fund	Community Development Block Grants	Debt Service	Capital Projects	Non-major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>						
Cash	7,586,119	121,189	782,250	2,290,506	459,465	11,239,529
Cash with Fiscal Agent	—	—	—	8,072,048	3,097,499	11,169,547
Investments	25,021,866	943,254	4,788,742	243,234,935	34,647,773	308,636,570
Receivables - Net of Allowances						
Taxes	20,212,845	—	3,001,732	568,172	1,480,714	25,263,463
Interest	1,254	169,622	978	2,392	135,558	309,804
Trade	2,420,933	—	1,008,237	1,723,246	1,150,072	6,302,488
Notes	1,900,000	54,120,185	—	—	1,964,737	57,984,922
Due from Other Government Agencies	203,299	1,766,422	—	1,969,235	5,478,094	9,417,050
Other	9,107,731	—	—	—	2,811,435	11,919,166
Prepaid Items	—	—	—	—	111,980	111,980
Due from Other Funds	—	—	—	33,923,898	12,662,962	46,586,860
Due from Component Unit	1,554,409	—	—	318,688	1,413,815	3,286,912
Inventory	3,798,045	—	—	—	58,844	3,856,889
<b>Total Assets</b>	<b>71,806,501</b>	<b>57,120,672</b>	<b>9,581,939</b>	<b>292,103,121</b>	<b>65,472,948</b>	<b>496,085,180</b>
<b>LIABILITIES</b>						
Accounts Payable	8,634,177	394,538	3,500	6,663,625	5,471,451	21,167,291
Accrued Payroll	8,240,166	35,773	—	15,831	511,110	8,802,880
Due to Other Funds	—	—	—	2,107,710	8,662,962	10,770,672
Taxes Payable	968,518	—	9,300	—	9,326	987,144
Unearned Revenue	3,933,126	—	—	—	2,617,337	6,550,463
Due to Other Government Agencies	2,588	4,823	—	—	315,696	323,107
Other Payable	263	40,501	—	975,953	2,004	1,018,721
<b>Total Liabilities</b>	<b>21,778,838</b>	<b>475,636</b>	<b>12,800</b>	<b>9,763,119</b>	<b>17,589,885</b>	<b>49,620,278</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>						
Unavailable Revenues Low Income Housing	—	57,013,403	—	—	—	57,013,403
Unavailable Revenues Property Taxes	5,207,229	—	2,583,478	—	—	7,790,707
<b>Total Deferred Inflows of Resources</b>	<b>5,207,229</b>	<b>57,013,403</b>	<b>2,583,478</b>	<b>—</b>	<b>—</b>	<b>64,804,110</b>
<b>FUND BALANCES:</b>						
Nonspendable	3,798,045	—	—	—	170,824	3,968,869
Restricted	18,370,749	—	6,985,660	282,340,002	34,800,972	342,497,383
Committed	—	—	—	—	14,486,568	14,486,568
Unassigned	22,651,640	(368,368)	—	—	(1,575,301)	20,707,971
<b>Total Fund Balances/(Deficits)</b>	<b>44,820,434</b>	<b>(368,368)</b>	<b>6,985,660</b>	<b>282,340,002</b>	<b>47,883,063</b>	<b>381,660,791</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>71,806,501</b>	<b>57,120,672</b>	<b>9,581,939</b>	<b>292,103,121</b>	<b>65,472,948</b>	<b>496,085,180</b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF EL PASO, TEXAS**  
**Reconciliation of the Balance Sheet to the Statement of Net Position**  
**Governmental Funds**  
**August 31, 2017**

Fund balances - total governmental funds balance sheet		381,660,791
<p>Amounts reported for governmental activities in the statement of net assets are different because:</p>		
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.</p>		
Governmental capital assets (excluding internal service funds)	2,048,836,626	
Accumulated depreciation	(973,717,673)	
		1,075,118,953
<p>Other long-term assets are not available to pay for current period expenditures and therefore are omitted or deferred in the funds.</p>		
Unavailable revenues from property taxes	7,790,707	
Unavailable revenue from low income housing loans and community development	57,013,403	
		64,804,110
<p>Internal service funds are used to charge the costs of certain activities, such as health insurance, workers' compensation, unemployment, postage, copy center and equipment maintenance to individual funds. The internal service fund's net position is included in the governmental activities in the statement of net position.</p>		
		440,699
<p>Long-term liabilities (excluding internal service funds), including bonds payable and net pension liability (and the related deferred inflows and outflows of resources), are not due and payable in the current period and therefore are not reported as liabilities, deferred inflows or deferred outflows of resources in the governmental funds. Long-term liabilities consist of:</p>		
Accrued interest payable	(2,759,601)	
Claims and judgments	(500,000)	
Compensated absences	(59,380,465)	
Net pension liability	(512,492,156)	
Deferred Outflow - Pension contributions subsequent to measurement date	28,767,835	
Deferred Outflow - Difference in projected and actual pension earnings	96,644,179	
Deferred Outflow - Difference in actual and expected pension experience	5,765,286	
Deferred Outflow - Change in assumptions for pensions	21,837,992	
Deferred Outflow - Chapter 380 Agreement Charges	27,364,727	
Deferred Inflow - Difference in actual and expected pension experience	(14,851,179)	
Deferred Inflow - Change in assumptions for pensions	(17,628,091)	
Other post-employment benefits	(74,347,240)	
Unamortized bond issuance premium	(97,524,649)	
Deferred charge on refunding	15,036,084	
Chapter 380 Agreement Obligations	(27,364,727)	
Bonds, notes payable, and capital leases, and other obligations	(1,230,972,068)	
		(1,842,404,073)
Net position (deficit) of governmental activities		(320,379,518)

*The accompanying notes are an integral part of these financial statements.*

**CITY OF EL PASO, TEXAS**  
**Statement of Revenues, Expenditures and Changes in Fund Balances**  
**Governmental Funds**  
**For the Year Ended August 31, 2017**

	General Fund	Community Development Block Grants	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Property Taxes	158,844,476	—	89,543,410	—	3,603,475	251,991,361
Penalties and Interest-Delinquent taxes	1,289,169	—	673,948	—	320	1,963,437
Sales Taxes	87,704,730	—	—	—	—	87,704,730
Hotel Occupancy Tax	—	—	—	3,716,640	9,698,574	13,415,214
Franchise Fees	53,599,045	—	—	—	4,696,359	58,295,404
Charges for Services	37,485,337	2,886,434	1,208,750	2,534,363	35,707,539	79,822,423
Fines and Forfeitures	7,760,033	—	—	—	1,653,755	9,413,787
Licenses and Permits	14,939,427	—	—	—	1,018,261	15,957,687
Ticket Sales	—	—	—	—	258,657	258,657
Intergovernmental Revenues	452,977	10,435,066	—	2,719,325	24,912,341	38,519,710
County Participation	469,169	—	—	—	—	469,169
Interest	286,712	17,486	261,723	2,094,677	207,221	2,867,819
Rents and Other	1,536,669	232,680	—	421,657	6,997,919	9,188,925
<b>Total Revenues</b>	<b>364,367,743</b>	<b>13,571,666</b>	<b>91,687,831</b>	<b>11,486,662</b>	<b>88,754,421</b>	<b>569,868,323</b>
<b>EXPENDITURES</b>						
<b>Current:</b>						
General Government	28,278,533	162,254	—	84,169	826,154	29,351,110
Public Safety	223,762,410	—	—	—	14,437,291	238,199,701
Public Works	37,771,710	—	—	6,033,518	8,643,201	52,448,429
Public Health	5,936,208	—	—	—	13,108,529	19,044,737
Parks Department	22,263,171	177,837	—	8,942	1,787,183	24,237,133
Library	8,876,913	—	—	—	120,098	8,997,011
Non Departmental	18,473,482	—	—	34,217	1,602,511	20,110,210
Culture and Recreation	6,600,337	—	—	701,607	19,944,564	27,246,508
Economic Development	8,941,212	—	—	—	12,171,553	21,112,765
Animal Services	—	—	—	—	7,780,460	7,780,460
Community and Human Development	60,800	9,094,596	—	38,959	986,954	10,181,309
<b>Debt Service:</b>						
Principal	6,941,373	—	37,416,071	—	460,000	44,817,444
Interest Expense	800,224	—	58,295,778	—	3,857,392	62,953,393
Fiscal Fees	—	—	23,130	35,000	18,195	76,325
Capital Outlay	533,914	2,504,584	—	62,572,039	3,092,101	68,702,638
<b>Total Expenditures</b>	<b>369,240,288</b>	<b>11,939,271</b>	<b>95,734,979</b>	<b>69,508,451</b>	<b>88,836,186</b>	<b>635,259,173</b>
Excess(Deficiency) of revenues over(under) expenditures	(4,872,545)	1,632,395	(4,047,148)	(58,021,788)	(81,765)	(65,390,851)
<b>OTHER FINANCING SOURCES(USES):</b>						
Transfers In	15,153,272	—	5,097,978	1,330,992	12,427,226	34,009,467
Transfers Out	(9,303,627)	(2,000,763)	(125,930)	(5,433,251)	(5,265,055)	(22,128,627)
Proceeds from Sale of Capital Assets	—	—	—	46,183	—	46,183
Issuance of Debt	—	—	—	3,500,000	—	3,500,000
Capital Contributions	—	—	—	(34,507)	546,603	512,096
Other Sources (Uses)	(740,585)	—	2,058,173	129,644	6,995,235	8,442,467
<b>Total Other Financing Sources (Uses)</b>	<b>5,109,059</b>	<b>(2,000,763)</b>	<b>7,030,220</b>	<b>(460,939)</b>	<b>14,704,009</b>	<b>24,381,586</b>
<b>Net Change in Fund Balances</b>	<b>236,513</b>	<b>(368,368)</b>	<b>2,983,072</b>	<b>(58,482,728)</b>	<b>14,622,244</b>	<b>(41,009,265)</b>
Fund Balances - Beginning of Year	44,583,921	—	4,002,588	340,822,730	33,260,819	422,670,058
<b>Fund Balances/(Deficit) - End of Year</b>	<b>44,820,434</b>	<b>(368,368)</b>	<b>6,985,660</b>	<b>282,340,002</b>	<b>47,883,063</b>	<b>381,660,791</b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF EL PASO, TEXAS**  
**Reconciliation of the Statement of Revenues, Expenditures and**  
**Changes in Fund Balances of Governmental Funds to the Statement of Activities**  
**For the Year Ended August 31, 2017**

Change in net position reported for governmental activities in the statement of activities are different because:

Net change in fund balances (deficit)- total governmental funds (41,009,265)

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.

Capital acquisitions	68,702,638
Depreciation	<u>(43,717,683)</u>

24,984,955

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, disposals) is to decrease net position.

Cost of disposed assets	(1,255,176)
Accumulated depreciation on disposed assets	<u>1,242,773</u>

(12,403)

Certain revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the governmental funds. This amount is the net change in deferred inflows of resources.

Unavailable revenue from low income housing loans and community development	(1,681,954)
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Unavailable revenue from property taxes	<u>942,667</u>
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(739,287)

Contributions of capital assets that will be used in operations because they are not relevant to the assessment of near-term liquidity are not reported in the governmental funds

2,012,283

The issuance of long-term debt (e.g., bonds) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the current financial resources of governmental funds. Neither transaction, however, has any effect on net position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas, these amounts are deferred and amortized in the statement of activities. This amount is the net effect of these differences in the treatment of long-term debt and related items.

Principal amount of debt issued	(3,500,000)
Principal payments	44,817,444
Amortization of deferred charge on refunding	(3,101,513)
Amortization of premiums on bonds issued	<u>10,528,442</u>

48,744,373

Some expenses (excluding internal service funds) reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds.

Increase in compensated absences	(10,076,771)
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Increase in accrued interest payable	(435,750)
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Other adjustments	2,028
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Increase in deferred outflow - Pension contributions subsequent to measurement date	988,305
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Decrease in deferred outflow - Difference in actual and expected pension experience	(1,451,180)
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Increase in deferred outflow - Change in assumptions for pension	14,850,652
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Decrease in deferred outflow - Difference in projected and actual earnings on Investment Pension	(16,826,585)
--	--------------

Increase in net pension liability	(38,844,990)
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Increase in deferred inflow - Difference in actual and expected pension experience	(8,349,669)
--	-------------

Increase in deferred inflow - Change in assumptions for pensions	4,543,322
--	-----------

Increase in other post-employment benefits	<u>(4,007,460)</u>
--	--------------------

(59,608,097)

Internal service funds are used by management to charge the costs of health insurance, worker's compensation, unemployment benefits, postage, copy center and equipment maintenance to individual funds. The net revenue of the internal service funds is reported by function within governmental activities.

483,147

Change in net position of governmental activities	<u><u>(25,144,295)</u></u>
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# CITY OF EL PASO, TEXAS

## Statement of Net Position

### Proprietary Funds

### August 31, 2017

	El Paso International Airport	Environmental Services	Mass Transit	International Bridges	Tax Office Enterprise Fund	Totals	Internal Service Funds
<b>ASSETS</b>							
<b>Current assets:</b>							
Cash	623,211	246,056	—	158,039	110,446	1,137,752	4,377,842
Investments	6,001,790	18,920,687	—	363,364	678,763	25,964,604	18,103,576
<b>Receivables - Net of Allowances:</b>							
Taxes	—	—	6,742,237	—	600	6,742,837	—
Interest	1,030	—	—	143	—	1,173	568
Trade	2,984,682	2,983,273	2,790,133	—	—	8,758,088	9,353
Due from Other Government Agencies	3,684,310	153,864	17,105,981	—	—	20,944,155	191,534
Due from Component Unit	—	3,749,311	—	—	—	3,749,311	—
Prepaid Items	358,178	—	58,639	—	—	416,817	—
Due From Other Funds	5,000,000	3,000,000	2,107,710	—	—	10,107,710	—
Inventory	1,372,871	—	4,465,645	—	—	5,838,516	958,337
<b>Total current assets</b>	<b>20,026,072</b>	<b>29,053,190</b>	<b>33,270,343</b>	<b>521,546</b>	<b>789,809</b>	<b>83,660,963</b>	<b>23,641,210</b>
<b>Noncurrent assets:</b>							
Restricted Cash	—	2,978,713	—	599,861	—	3,578,574	—
Restricted Investments	19,934,228	17,998,057	—	4,044,616	—	41,976,901	—
<b>Capital Assets:</b>							
Land	1,381,099	6,887,813	11,975,407	2,469,531	—	22,713,850	—
Buildings, Improvements, Equipment & Other, Net	238,730,014	36,858,941	133,284,050	14,761,470	81,310	423,715,785	345,881
Construction in Progress	20,129,008	6,531,578	23,767,909	99,850	—	50,528,345	—
<b>Total noncurrent assets</b>	<b>280,174,349</b>	<b>71,255,102</b>	<b>169,027,366</b>	<b>21,975,328</b>	<b>81,310</b>	<b>542,513,455</b>	<b>345,881</b>
<b>TOTAL ASSETS</b>	<b>300,200,421</b>	<b>100,308,292</b>	<b>202,297,709</b>	<b>22,496,875</b>	<b>871,119</b>	<b>626,174,418</b>	<b>23,987,090</b>
<b>DEFERRED OUTFLOWS OF RESOURCES</b>							
Pension Contributions Subsequent to Measurement Date	1,279,581	1,918,920	3,465,279	237,747	—	6,901,527	555,036
Difference in Projected and Actual Earnings on Pension Investment	1,457,117	2,185,163	3,946,071	270,735	—	7,859,086	632,044
Difference in Actual and Expected Pension Experience	90,889	136,302	246,139	16,888	—	490,218	39,425
Change in Assumptions for Pensions	1,609,731	2,414,030	4,359,371	299,090	—	8,682,222	698,243
<b>Total Deferred Outflows of Resources</b>	<b>4,437,318</b>	<b>6,654,415</b>	<b>12,016,860</b>	<b>824,460</b>	<b>—</b>	<b>23,933,053</b>	<b>1,924,748</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS</b>	<b>304,637,739</b>	<b>106,962,707</b>	<b>214,314,569</b>	<b>23,321,335</b>	<b>871,119</b>	<b>650,107,471</b>	<b>25,911,838</b>
<b>LIABILITIES</b>							
<b>Current liabilities:</b>							
Accounts Payable	4,473,642	3,109,585	4,041,554	449,041	103,509	12,177,331	963,987
Accrued Payroll	489,836	513,258	953,607	90,067	18,382	2,065,150	299,367
Bonds, Notes, and Capital Leases - Due within one year	1,876,944	1,511,033	1,711,105	1,259,907	—	6,358,989	—
Due to Other Funds	808,651	1,291,863	43,570,032	253,352	—	45,923,898	—
Taxes Payable	52,503	107,093	—	—	—	159,596	—
Interest Payable on Bonds and Notes	107,057	37,451	107,679	9,918	—	262,105	—
Unearned Revenue	1,996,684	563	764	5,000	—	2,003,012	—
Construction Contracts and Retainage Payable	566,150	—	481,916	—	—	1,048,065	—
Compensated Absences - Due within one year	2,005,358	980,025	1,448,502	167,141	104,863	4,705,889	71,479
Landfill Closure Costs - Due within one year	—	1,042,564	—	—	—	1,042,564	—
Net Pension Liability - Due within one year	1,030,579	1,545,868	2,791,489	190,698	—	5,558,634	608,357
<b>Total current liabilities</b>	<b>13,407,403</b>	<b>10,139,304</b>	<b>55,106,648</b>	<b>2,425,124</b>	<b>226,754</b>	<b>81,305,233</b>	<b>1,943,191</b>
<b>Non-current liabilities:</b>							
Bond Obligations	37,640,200	18,274,457	53,784,480	3,659,998	—	113,359,135	—
Revenue Bonds	14,940,000	—	—	—	—	14,940,000	—
Compensated Absences	565,614	276,417	408,550	47,143	29,577	1,327,301	643,310
Landfill Closure Costs	—	19,934,206	—	—	—	19,934,206	—
Claims and Judgments	—	—	364,687	—	—	364,687	16,033,064
Net Pension Liability	10,297,584	15,442,392	27,886,728	1,914,092	—	55,540,795	4,305,391
Other Post-employment Benefits	5,202,241	6,901,079	10,636,710	1,240,589	—	23,980,619	2,123,809
<b>Total Non-current Liabilities</b>	<b>68,645,639</b>	<b>60,828,551</b>	<b>93,081,155</b>	<b>6,861,822</b>	<b>29,577</b>	<b>229,446,744</b>	<b>23,105,574</b>
<b>Total Liabilities</b>	<b>82,053,042</b>	<b>70,967,855</b>	<b>148,187,803</b>	<b>9,286,945</b>	<b>256,331</b>	<b>310,751,977</b>	<b>25,048,765</b>
<b>DEFERRED INFLOWS OF RESOURCES</b>							
Difference in Actual and Expected Pension Experience	973,743	1,460,272	2,637,030	180,923	—	5,251,968	422,374
<b>Total Deferred Inflows of Resources</b>	<b>973,743</b>	<b>1,460,272</b>	<b>2,637,030</b>	<b>180,923</b>	<b>—</b>	<b>5,251,968</b>	<b>422,374</b>
<b>NET POSITION (Deficit)</b>							
Net investment in capital assets	205,109,770	30,455,391	112,942,185	12,401,028	81,310	360,989,685	345,881
<b>Restricted for:</b>							
Debt Service	1,633,000	—	—	—	—	1,633,000	—
Passenger Facilities	3,150,891	—	—	—	—	3,150,891	—
Customer Facility Charge	15,150,337	—	—	—	—	15,150,337	—
Unrestricted	(3,433,044)	4,079,189	(49,452,449)	1,452,439	533,477	(46,820,387)	94,818
<b>Total Net Position</b>	<b>221,610,954</b>	<b>34,534,580</b>	<b>63,489,736</b>	<b>13,853,467</b>	<b>614,788</b>	<b>334,103,526</b>	<b>440,699</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND NET POSITION</b>	<b>304,637,739</b>	<b>106,962,707</b>	<b>214,314,569</b>	<b>23,321,335</b>	<b>871,119</b>	<b>650,107,471</b>	<b>25,911,838</b>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF EL PASO, TEXAS**  
**Statement of Revenues, Expenses and Changes in Net Position**  
**Proprietary Funds**  
**For the Year Ended August 31, 2017**

	El Paso International Airport	Environmental Services	Mass Transit	International Bridges	Tax Office Enterprise Fund	Totals	Internal Service Funds
<b>OPERATING REVENUES:</b>							
Charges of Rentals and Fees	42,897,390	48,005,424	163,846	44,435	—	91,111,095	—
Charges of Tolls	—	—	—	21,686,955	—	21,686,955	—
Charges of Fares and Fees	355,275	—	9,089,495	—	—	9,444,771	—
Sales to Departments	—	89,542	—	—	—	89,542	17,673,081
Premium Contributions	—	—	—	—	—	—	60,959,091
Intergovernmental Revenues	—	—	—	—	1,843,339	1,843,339	—
Penalties and Interest-Delinquent taxes	—	—	—	—	518,368	518,368	—
General Revenues	192,033	286,038	2,384,135	447,841	65,716	3,375,763	876,257
<b>Total Operating Revenues</b>	<b>43,444,699</b>	<b>48,381,003</b>	<b>11,637,477</b>	<b>22,179,231</b>	<b>2,427,423</b>	<b>128,069,833</b>	<b>79,508,429</b>
<b>OPERATING EXPENSES:</b>							
Personnel Services	17,908,931	18,454,324	36,731,386	3,281,180	1,027,444	77,403,265	7,506,159
Contractual Services	22,300	6,827	—	2,090,071	—	2,119,198	—
Professional Services	535,437	60,409	112,559	62,144	—	770,549	1,190,815
Outside Contracts	7,522,086	1,818,749	13,450,816	1,634,892	226,195	24,652,737	3,545,150
Fuel and Lubricants	220,194	2,356,944	2,447,703	5,432	77	5,030,349	5,030,594
Materials and Supplies	1,260,164	7,296,501	4,409,959	148,417	146,550	13,261,591	4,819,856
Communications	226,999	164,718	117,204	20,480	—	529,401	1,423
Utilities	1,822,383	102,702	1,435,385	88,895	—	3,449,365	28,725
Operating Leases	21,916	25,190	808,820	342,671	130,019	1,328,615	12,780
Travel and Training	132,387	57,864	39,265	22,255	8,145	259,915	5,243
Benefits Provided	306	—	42,768	—	—	43,074	55,686,560
Maintenance and Repairs	863,496	305,731	444,790	757,550	—	2,371,568	1,633,011
Landfill and Transfer Station Utilization	—	3,293,334	—	—	—	3,293,334	—
Other Operating Expenses	2,206,329	3,531,079	5,922,157	122,055	457,291	12,238,911	28,010
Depreciation	19,450,701	7,681,971	14,156,897	1,196,096	19,378	42,505,043	108,288
<b>Total Operating Expenses</b>	<b>52,193,628</b>	<b>45,156,343</b>	<b>80,119,708</b>	<b>9,772,137</b>	<b>2,015,099</b>	<b>189,256,915</b>	<b>79,596,612</b>
<b>Operating Income (Loss)</b>	<b>(8,748,929)</b>	<b>3,224,660</b>	<b>(68,482,232)</b>	<b>12,407,094</b>	<b>412,324</b>	<b>(61,187,083)</b>	<b>(88,184)</b>
<b>NONOPERATING REVENUES (EXPENSES):</b>							
Interest Revenue	198,789	272,837	—	35,092	4,368	511,087	106,244
Interest Expense	(1,769,826)	(544,720)	(728,620)	(230,133)	—	(3,273,300)	—
Federal Tax Credit - Build America Bonds	—	—	228,925	—	—	228,925	—
Gain(Loss) on Sale of Equipment and Land	2,200	29,658	—	—	—	31,858	—
Customer Facility Charge	3,418,455	—	—	—	—	3,418,455	—
Sales Tax	—	—	42,098,342	—	—	42,098,342	—
FTA Subsidy	—	—	11,606,771	—	—	11,606,771	—
<b>Total Non-Operating Revenues (Expenses)</b>	<b>1,849,619</b>	<b>(242,225)</b>	<b>53,205,417</b>	<b>(195,041)</b>	<b>4,368</b>	<b>54,622,138</b>	<b>106,244</b>
<b>Income (Loss) Before Capital Contributions and Transfers</b>	<b>(6,899,311)</b>	<b>2,982,435</b>	<b>(15,276,815)</b>	<b>12,212,053</b>	<b>416,692</b>	<b>(6,564,946)</b>	<b>18,061</b>
Capital Contributions	4,481,938	(1,628,411)	15,089,176	—	—	17,942,704	—
Transfers Out	—	(5,261,435)	—	(12,069,141)	—	(17,330,576)	—
Transfers In	—	4,984,650	—	—	—	4,984,650	465,086
<b>Change in net position</b>	<b>(2,417,373)</b>	<b>1,077,239</b>	<b>(187,638)</b>	<b>142,912</b>	<b>416,692</b>	<b>(968,168)</b>	<b>483,147</b>
<b>Net Position, Beginning of Year</b>	<b>224,028,330</b>	<b>33,457,341</b>	<b>63,677,373</b>	<b>13,710,553</b>	<b>198,096</b>	<b>335,071,695</b>	<b>(42,447)</b>
<b>Net Position, End of Year</b>	<b>221,610,954</b>	<b>34,534,580</b>	<b>63,489,736</b>	<b>13,853,467</b>	<b>614,788</b>	<b>334,103,526</b>	<b>440,699</b>

*The accompanying notes are an integral part of these financial statements.*

# CITY OF EL PASO, TEXAS

## Statement of Cash Flows

### Proprietary Funds

For the Year Ended August 31, 2017

	El Paso International Airport	Environmental Services	Mass Transit	International Bridges	Tax Office Enterprise Fund	Totals	Internal Service Funds
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Receipts from Customers	43,203,363	48,586,891	9,113,641	22,118,861	2,429,005	125,451,763	79,317,750
Payments to Suppliers	(15,081,263)	(14,318,805)	(29,789,662)	(4,999,903)	(968,276)	(65,157,909)	(72,111,116)
Payments to Employees	(17,173,288)	(17,384,610)	(35,094,656)	(2,877,777)	(992,401)	(73,522,732)	(7,017,472)
Subsidy from Federal Grant	—	—	11,606,771	—	—	11,606,771	—
Operating expense to be reimbursed by grants	—	—	(16,201,982)	—	—	(16,201,982)	—
Net cash provided by (used for) operating activities	<u>10,948,812</u>	<u>16,883,477</u>	<u>(60,365,888)</u>	<u>14,241,181</u>	<u>468,328</u>	<u>(17,824,090)</u>	<u>189,162</u>
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>							
Transfers to Other Funds	—	(5,261,435)	—	(12,069,141)	—	(17,330,576)	465,086
Transfers from Other Funds	—	4,984,650	—	—	—	4,984,650	—
Advances to Other Funds	(5,000,000)	(4,628,411)	—	—	—	(9,628,411)	—
Advances from Other Funds	—	—	21,386,881	—	—	21,386,881	—
Sales Tax	—	107,093	42,395,141	—	(600)	42,501,634	—
Net Cash Provided by (used for) Non-capital Financing Activities	<u>(5,000,000)</u>	<u>(4,798,103)</u>	<u>63,782,022</u>	<u>(12,069,141)</u>	<u>(600)</u>	<u>41,914,178</u>	<u>465,086</u>
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>							
Customer Facility Charges	3,418,455	—	—	—	—	3,418,455	—
Contributions from Federal Government	4,481,938	—	15,318,101	—	—	19,800,039	—
Purchases of Capital Assets	(18,061,894)	(14,614,686)	(16,436,815)	(209,681)	(71,565)	(49,394,642)	(53,869)
Payment of Landfill Closure and Transfer Station costs	—	(2,462,858)	—	—	—	(2,462,858)	—
Proceeds from the Issue of Capital Debt	—	—	145,424	—	—	145,424	—
Principal Paid on Capital Debt	(1,831,900)	(1,488,780)	(1,720,859)	(1,248,323)	—	(6,289,862)	—
Interest Paid on Capital Debt	(1,771,714)	(547,407)	(721,984)	(232,577)	—	(3,273,683)	—
Proceeds from Sale of Capital Assets	290,606	29,659	—	—	—	320,265	—
Net Cash Used for Capital and Related Financing Activities	<u>(13,474,509)</u>	<u>(19,084,072)</u>	<u>(3,416,134)</u>	<u>(1,690,582)</u>	<u>(71,565)</u>	<u>(37,736,862)</u>	<u>(53,869)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
Purchase of Investments	(2,621,614)	(18,026,002)	—	(4,002,127)	(403,975)	(25,053,719)	(2,709,186)
Interest	200,985	272,837	—	35,092	4,368	513,283	106,244
Net Cash Provided by (Used for) Investing Activities	<u>(2,420,629)</u>	<u>(17,753,165)</u>	<u>—</u>	<u>(3,967,035)</u>	<u>(399,607)</u>	<u>(24,540,436)</u>	<u>(2,602,942)</u>
Net decrease in cash	(9,946,325)	(24,751,864)	—	(3,485,577)	(3,444)	(38,187,210)	(2,002,564)
Cash - beginning of the year	10,569,536	27,976,633	—	4,243,477	113,890	42,903,536	6,380,405
Cash - end of the year	<u>623,211</u>	<u>3,224,769</u>	<u>—</u>	<u>757,900</u>	<u>110,446</u>	<u>4,716,326</u>	<u>4,377,842</u>
<b>RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:</b>							
Operating Income (Loss)	(8,748,929)	3,224,660	(68,482,232)	12,407,094	412,324	(61,187,083)	(88,184)
Adjustments to Reconcile Operating Income to Net Cash Provided (Used) by Operating Activities:							
Landfill and Transfer Station Utilization	—	3,293,334	—	—	—	3,293,334	—
Depreciation Expense	19,450,701	7,681,971	14,156,897	1,196,096	19,378	42,505,043	108,288
Compensated Absences	(195,556)	96,380	(268,967)	(21,654)	(42,360)	(432,157)	(10,538)
Other Post Employment Benefits	305,674	236,361	437,181	142,835	—	1,122,051	124,059
Net Pension Liability	369,163	528,926	999,744	236,391	—	2,134,223	165,319
Change in Assets and Liabilities:							
Receivables, Net Cash	234,672	795,171	(7,119,188)	5,754	1,583	(6,082,008)	855
Inventories	184,308	—	(222,972)	—	—	(38,664)	(18,560)
Other Assets	(9,925)	5,049	574	—	—	(4,302)	(295,347)
Accounts and other payables	(706,982)	908,163	(232,682)	228,835	—	197,335	(223,216)
Accrued Expenses	65,687	113,460	365,757	45,831	77,403	668,138	426,487
Net Cash Provided by (Used for) Operating Activities	<u>10,948,812</u>	<u>16,883,477</u>	<u>(60,365,888)</u>	<u>14,241,181</u>	<u>468,328</u>	<u>(17,824,090)</u>	<u>189,162</u>
Unrestricted Cash	623,211	246,056	—	158,039	110,446	1,137,752	4,377,842
Restricted Cash	—	2,978,713	—	599,861	—	3,578,574	—
Total Cash	<u>623,211</u>	<u>3,224,769</u>	<u>—</u>	<u>757,900</u>	<u>110,446</u>	<u>4,716,326</u>	<u>4,377,842</u>

*The accompanying notes are an integral part of these financial statements.*

**CITY OF EL PASO, TEXAS**  
**Statement of Fiduciary Net Position**  
**August 31, 2017**

ASSETS	Pension Trust Funds	Private-Purpose Trusts	Agency Funds
Cash	26,983,020	1,367,646	291,041,770
Investments	—	2,906,490	—
Commingled Funds	164,011,312	—	—
U.S. Government Securities	27,104,666	—	—
Absolute Return Investments	109,573,856	—	—
Corporate Stocks	83,883,305	—	—
Bank Collective Investment Funds	176,342,988	—	—
Master Limited Partnerships	37,030,451	—	—
Private Equities	133,194,545	—	—
Investment in Real Estate Funds	194,810,322	—	—
Fixed Income Securities	378,965,761	—	—
Domestic Equities	366,450,206	—	—
International Equities	375,400,413	—	—
Invested securities lending collateral	82,219,120	—	—
Receivables - Net of Allowances			
Commission Credits Receivable	128,931	—	—
Due from Brokers For Securities Sold	967,188	—	—
Employer Contributions	1,475,438	—	—
Employee Contributions	1,024,031	—	—
Interest	620,705	—	—
Other Receivable	7,088	540,216	—
Taxes	—	—	67,023,324
Prepaid Items	21,857	—	—
Capital Assets:			
Land	891,306	—	—
Buildings, Improvements & Equipment, Net	1,788,498	—	—
<b>Total Assets</b>	<b>2,162,895,007</b>	<b>4,814,352</b>	<b>358,065,094</b>
LIABILITIES			
Accounts Payable	87,611,513	901,303	27,690,866
Accrued Expenses	2,138,191	—	—
Accrued Drawdown	855,764	—	—
Prepaid Property Taxes	—	—	2,526,754
Unearned Revenue - Commission Credits	128,931	—	—
Due to Other Government Agencies	—	—	258,359,841
Property Taxes Subject to Refund-Other Taxing Entities	—	—	2,797,000
Uncollected Property Taxes-Other Taxing Entities	—	—	66,690,633
<b>Total liabilities</b>	<b>90,734,399</b>	<b>901,303</b>	<b>358,065,094</b>
NET POSITION:			
Restricted for Pensions and Other Purposes	<b>2,072,160,608</b>	<b>3,913,049</b>	

*The accompanying notes are an integral part of these financial statements.*

**CITY OF EL PASO, TEXAS**  
**Statement of Changes in Fiduciary Net Position**  
**For the Year Ended August 31, 2017**

	Pension Trust Funds	Private-Purpose Trusts
ADDITIONS:		
Contributions:		
Employer	51,173,560	—
Employee	35,474,321	—
Total contributions	<u>86,647,881</u>	<u>—</u>
Rental vehicle sales tax	—	3,497,801
Miscellaneous	—	111,198
Investment income:		
Net appreciation in fair value of investments	144,790,324	—
Interest	9,584,146	—
Dividends	17,090,234	—
Securities lending income	424,649	—
Securities lending fees	(22,691)	—
Miscellaneous income	2,206	—
Investment advisory fees	(10,926,335)	—
Net investment income	<u>160,942,533</u>	<u>—</u>
 Total additions	 <u>247,590,414</u>	 <u>3,608,999</u>
DEDUCTIONS:		
Benefits paid to plan members	135,148,012	—
Refunds	5,654,485	—
Administrative expenses	2,935,260	—
Depreciation and amortization expense	174,078	—
Expended for other purposes	—	3,557,066
Total deductions	<u>143,911,835</u>	<u>3,557,066</u>
TRANSFERS:		
Transfers in	(1,007,714)	—
Transfers out	1,007,714	—
Total transfers	<u>—</u>	<u>—</u>
 Net decrease in net position	 103,678,579	 51,933
Net position - beginning of the year	<u>1,968,482,029</u>	<u>3,861,116</u>
Net position - end of the year	<u><u>2,072,160,608</u></u>	<u><u>3,913,049</u></u>

*The accompanying notes are an integral part of these financial statements.*

The City of El Paso, Texas (City) was incorporated in 1873. The government of the City is operated by authority of its charter exercising all powers conferred upon constitutional home rule cities in the State of Texas and exercises these powers as a municipal corporation, subject to the Constitution and the laws of the State of Texas. The city charter was amended in February 2004 to adopt a Council/City Manager form of government.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The following is a summary of significant accounting policies of the City.

**A. Reporting Entity**

The accompanying financial statements include the City and its component units, collectively referred to as the financial reporting entity. In accordance with GASB Statement Number 14, as amended by GASB Statement 39, GASB Statement 61 and GASB Statement 80, the component units discussed below have been included in the City's reporting entity because of the significance of their operational or financial relationship with the City.

***Discretely Presented Component Units*****El Paso Water Utilities (EPWU)**

The Public Service Board (PSB), the governing board of EPWU, consists of the Mayor and six residents of El Paso County, Texas. With the exception of the Mayor, all other trustees are appointed by the City Council. The City authorizes the issuance of the debt for EPWU. EPWU is a discretely presented component unit in the accompanying financial statements. The financial information included in these statements is as of EPWU's latest fiscal year end, February 28, 2017.

**El Paso Housing Finance Corporation (EPHFC)**

EPHFC was incorporated September 10, 1979, under Chapter 394 of the Texas Local Government Code, for the purpose of providing a means of financing the costs of residential ownership and development that will provide decent, safe, affordable and sanitary housing for persons of low and moderate income. Its board consists of seven directors, appointed by the City Council, who serve six-year terms of office. Any director may be removed from office at any time, with or without cause, by written resolution of the governing body of the City. EPHFC is reported discretely as a component unit in the accompanying financial statements. The financial information included in these statements is as of EPHFC's latest fiscal year end, December 31, 2016.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Blended Component Units*Downtown Development Corporation (DDC)

The DDC was created and organized as a public, non-profit local government corporation incorporated pursuant to Sub-chapter D of Chapter 431, Texas Transportation Code, as amended, to assist and act on behalf of the City for the purpose of issuing debt to finance the construction of a Triple-A baseball stadium. The City Council operates as the Board of the DDC and certain City administrative staff (e.g. CFO, etc.) manage the activities for the DDC. The City levies and collects a designated tax for the purpose of paying debt service on debt issued by the DDC. The DDC is reported as a blended component unit of the City in the non-grant special revenue fund.

El Paso Metropolitan Planning Organization (MPO)

The MPO is responsible for cooperative decision-making by principal elected officials of general-purpose local governments in the El Paso Metropolitan Planning Area regarding the metropolitan transportation planning process. The MPO was established pursuant to 23 USC §134, 59 USC §5303 (Metropolitan Transportation Planning) and 23 CFR 450.300 et seq. (Metropolitan Transportation Planning and Programming). City of El Paso serves as the fiscal agent for the Transportation Policy Board of the MPO. The City also receives financial benefit as a sub-recipient of the MPO's state grant awards. The MPO is reported as a blended component unit of the City in the non-grant special revenue fund.

Thunder Canyon Public Improvement District 1 (PID)

The Thunder Canyon PID was created after a handful of property owners petitioned for its creation to keep the canyon undeveloped and in its natural state. The 26-acre arroyo was purchased by the City from the developer for about \$525,000. The PID pays the annual debt service for the land's purchase. The City Council operates as the Board of the PID and certain City administrative staff (e.g. CFO, etc.) manage the activities for the PID. The PID is reported as a blended component unit in the non-grant special revenue fund.

El Paso Property Finance Authority, Inc. (Authority)

Incorporated March 12, 1987, pursuant to the Texas Non-Profit Corporation Act, for the purpose of establishing a Permanent Public Improvements Program. Its board consists of six directors who serve two-year terms or until a successor is appointed. The City reserves the right to alter the structure, organization, programs or activities of the Authority or to terminate and dissolve the Authority. The Authority had no assets or liabilities and had no financial transactions during fiscal year 2017.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)***Fiduciary Component Units*City Employees' Pension Fund (CEPF)

Substantially all full-time employees of the City are eligible to participate in the City's Employees' Pension Fund (CEPF), except for uniformed fire fighters and police officers who are covered under separate plans. The plan is a single- employer defined benefit retirement plan established under legal authority of the City Charter and administered by a Board of Trustees (CEPF Board). The CEPF Board is comprised of the Mayor, two citizens designated by the Mayor who are not officers or employees of the City, four elected City employees, a retiree and two City district representatives. The CEPF is included in the accompanying financial statements as a Pension Trust Fund and the financial information included in these statements is as of August 31, 2017.

Firemen and Policemen's Pension Fund (FPPF)

Uniformed fire fighters and police officers participate in the Firemen and Policemen's Pension Fund (FPPF), which is divided into two divisions: the firemen division and policemen division. The plan is a single-employer defined benefit retirement plan established under legal authority of State Statutes and the City Charter and is administered by a Board of Trustees (FPPF Board). The FPPF Board is comprised of the Mayor, two citizens' designated by the Mayor, the Chief of Police (or his designee), the Fire Chief (or his designee) and three policemen and three firemen elected by the membership of their respective divisions. The FPPF is included in the accompanying agency fund financial statements under Pension Trust Funds. The financial information included in these statements is as of December 31, 2016.

Financial statements for EPWU, EPHFC, CEPF or FPPF may be requested from the respective entity's administrative offices.

EPWU - El Paso Water Utilities	El Paso Water Utilities P. O. Box 511 El Paso, Texas 79961 <a href="http://www.epwu.org/">http://www.epwu.org/</a>
EPHFC - El Paso Housing Finance Corporation	El Paso Housing Finance Corporation 701 Montana El Paso, Texas 79902
CEPF - City Employees' Pension Fund	City of El Paso Employees' Pension Fund 400 W. San Antonio Ave., Suite B El Paso, Texas 79901 <a href="http://www.eppension.org">http://www.eppension.org</a>
FPPF - Firemen and Policemen's Pension Fund	El Paso Firemen & Policemen Pension Fund 1155 Westmoreland, Suite 223 El Paso, Texas 79925 <a href="http://www.elpasofireandpolice.org">http://www.elpasofireandpolice.org</a>

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****Not-for-profit Corporations**

The directors of each corporation below are appointed by the City Council and all activity must be approved from time to time by ordinance or resolution duly adopted by the City Council. Approval is solely for the purpose of satisfying the conditions and requirements of Section 147(f) of the Internal Revenue Code of 1986, as amended. Certain of the corporations have authorized and issued bonds for projects. The bonds specifically provide they are not a debt of the City and the City is not responsible for payment of these bonds. These corporations issue conduit debt, therefore, there is no financial benefit/obligation to the City resulting from these projects and no amounts related to these bonds have been reported in these financial statements.

***El Paso Health Facilities Development Corporation***

Incorporated September 2, 1981, under Chapter 221 of the Texas Health and Safety Code, for the purpose of acquiring, constructing, providing, improving, financing and refinancing health facilities in order to assist the maintenance of public health and public welfare. Its board consists of six directors who serve six-year terms of office. Although there may be bonds outstanding, there is no liability to the City as all liability transfers to the trustee of the bond issue.

***City of El Paso Industrial Development Authority***

Incorporated October 10, 1979, under Article 5190.6 of the Texas Revised Civil Statutes, for the purpose of promoting and developing commercial, industrial, manufacturing and medical research enterprises to promote and encourage employment, public health and public welfare. Its board consists of nine directors who serve six-year terms of office. Although there may be bonds outstanding, there is no liability to the City as all liability transfers to the trustee of the bond issue.

**B. Basic Financial Statements**

The government-wide financial statements report on the City and its component units as a whole, excluding fiduciary activities. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. All activities, both governmental and business-type, are reported in the government-wide financial statements using the economic resources measurement focus and the accrual basis of accounting, which includes long-term assets and receivables as well as long-term debt and obligations. The government-wide financial statements focus on the sustainability of the City as an entity and the change in aggregate financial net position resulting from the activities of the fiscal period.

Generally, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions are made when the elimination would distort the measurement of the cost of individual functional activities. Net interfund activity and balances between governmental activities and business-type activities are shown in the government-wide financial statements.

Services performed by one function for another are credited as operating revenue to the performing department and an operating charge to the receiving department to reflect the accurate costs of programs. The rates used are intended to reflect full costs of providing the services.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Certain indirect costs have been included as part of program expenses reported for the various functional activities.

The government-wide statement of net position reports all financial and capital resources of the government excluding fiduciary funds. It presents information on assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference being reported as net position. Net position is required to be displayed in three components: 1) net investment in capital assets, 2) restricted and 3) unrestricted. Net investment in capital assets consists of capital assets net of accumulated depreciation reduced by the outstanding balance of any bonds, notes or other borrowings, excluding unspent proceeds, that are attributable to the acquisition, construction or improvements of capital assets. Restricted net position has external constraints placed on their use by either: 1) creditors (such as through debt covenants), grantors, contributors or laws or regulations of other governments or 2) by law through constitutional provisions or enabling legislation. All net position not otherwise classified as net investment in capital assets or restricted are shown as unrestricted. Generally, the City would first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available. Restrictions of net position imposed by the reporting government by administrative policy are not shown as restricted net position on the government-wide financial statements.

The government-wide statement of activities demonstrates the degree to which the direct expenses of the various functions and departments of the City are offset by program revenues. Direct expenses are those that are easily identifiable with a specific function or department. Interest on long-term debt is not allocated to the various functions. Program revenues include: 1) charges to customers or users who purchase, use or directly benefit from goods, services or privileges provided by a particular function or department such as licenses, permits, park user fees, etc. and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or department.

Taxes, investment income (loss) and other revenues not identifiable with particular functions or departments are included as general revenues. The general revenues support the net costs of the functions and departments not covered by program revenues.

Also, part of the basic financial statements are fund financial statements for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. The focus of the fund financial statements is on major funds, as defined by GASB Statement Number 34. Criteria for determination of major funds are percentage of assets, liabilities, revenues or expenditures/expenses of the fund category and of the governmental and enterprise funds combined. Non-major governmental funds are combined in a single column on the fund financial statements.

The governmental fund financial statements are prepared on a current financial resources measurement focus and modified accrual basis of accounting. This is the traditional basis of accounting for governmental funds. This presentation is deemed most appropriate to: 1) demonstrate legal and covenant compliance; 2) demonstrate the sources and uses of liquid resources; and 3) demonstrate how the City's actual revenues and expenditures conform to the annual budget. Since the governmental fund financial statements are presented on a different basis than the governmental activities column of the government-wide financial statements, a reconciliation is provided immediately following each fund statement.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

These reconciliations explain the adjustments necessary to transform the fund financial statements into the governmental activities column of the government-wide financial statements.

The proprietary (enterprise and internal service) funds and fiduciary fund financial statements are prepared on the same basis (economic resources measurement focus and accrual basis of accounting) as the government-wide financial statements. Therefore, most lines for the total enterprise funds on the proprietary fund financial statements will directly reconcile to the business-type activities column on the government-wide financial statements. Because the enterprise funds are combined into a single business-type activities column on the government-wide financial statements, certain interfund activities between these funds may be eliminated in the consolidation for the government-wide financial statements but are included in the fund columns in the proprietary fund financial statements.

**C. Fund Accounting**

The City uses funds to report its financial position and activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, deferred outflows, liabilities, deferred inflows, fund balances, revenues and expenditures. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance. Fund accounting also aids financial management by segregating transactions related to certain governmental functions or activities.

**The City uses the following fund categories:**

***Governmental Funds***

Governmental funds are those through which most of the governmental functions of the City are financed. The measurement focus is based upon determination of changes in financial position rather than upon net income determination.

The City reports the following major governmental funds:

**General Fund**

The General Fund is the City's primary operating fund. It accounts for all financial resources except those required to be accounted for in another fund. The General Fund is always a major fund in the basic financial statements.

**Community Development Block Grants Fund (CDBG)**

CDBG is a special revenue fund that accounts for the proceeds of federal grants approved by the Department of Housing and Urban Development (HUD) for community development projects that may extend over multiple fiscal years.

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**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**Debt Service Fund**

This fund accounts for the resources accumulated for and the payment of long-term debt principal, interest and related costs of the governmental funds.

**Capital Projects Fund**

This fund accounts for the proceeds of debt issuances, private donations and internal funding for the completion of capital construction projects and equipment purchases outside the scope of general operations.

**Proprietary Funds**

Proprietary funds are used to account for the City's ongoing organizations and activities, which are similar to those found in the private sector and where recovery of cost and the determination of net income is useful or necessary for sound fiscal management. The measurement focus is based upon determination of net income, changes in net position, financial position and cash flows.

**Enterprise Funds**

Enterprise funds are used to account for operations that provide services to the general public for a fee. Under GASB Statement Number 34, enterprise funds are also required for any activity whose principal revenue sources meet any of the following criteria:

- 1) any activity that has issued debt backed solely by the fees and charges of the activity,
- 2) if the cost of providing services for an activity, including capital costs such as depreciation or debt service, must legally be recovered through fees and charges or
- 3) it is the policy of the City to establish activity fees or charges to recover the cost of providing services, including capital costs.

The City reports the following major enterprise funds:

**El Paso International Airport (Airport)**

This fund accounts for the activities of the Airport including aviation operations and leasing activities on Airport properties.

**Environmental Services**

This fund accounts for the activities of the City-operated refuse collection, transfer and storage operations.

**Sun Metro Mass Transit (Sun Metro)**

This fund accounts for the activities of the City-operated bus and para-transit operations.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**International Bridges**

This fund accounts for the operations and maintenance activities of the three international bridges it controls. The City has designated this fund as a major fund.

**Tax Office Administration**

This fund represents activity related to the operations of the Tax Office as tax collector for 38 taxing entities, including the City of El Paso. The City has designated this fund as a major fund.

**Internal Service Funds**

These funds account for facilities maintenance, fleet services, and document services provided to other departments of the City and to other governments and organizations on a cost reimbursement basis. These funds also account for risk management and insurance activities, which include the self-insured health, workers' compensation and unemployment compensation programs.

**Fiduciary Funds**

Fiduciary funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, private organizations or other governmental units. The reporting focus is upon net position and changes in net position and employs accounting principles similar to proprietary funds. Fiduciary funds are not included in the government-wide financial statements since they do not represent assets of the City to support City programs.

**Pension Trust Funds**

Pension trust funds are used to report resources that are required to be held in trust for the members and beneficiaries of defined benefit pension plans, defined contribution plans, other post-employment benefit plans or other employee benefit plans. The City has two pension trust funds to account for the activities of the CEPF and FPPF.

**Private Purpose Trust Funds**

These funds are used to account for resources of various trusts, the most significant of which is the car rental tax collections used for supporting the funding of the Sun Bowl Association. All resources of these funds, including any earnings on invested resources, may be used to support trust activities. There is no requirement that any portion of these resources be preserved as capital.

**Agency Funds**

Agency funds are used to account for assets held by a governmental unit as an agent for individuals, private organizations, and other governmental units. Agency funds include property taxes collected for other taxing entities, a special assessment for the payment of bonds issued for the Public Improvement District #1 and the Camino Real Regional Mobility Authority.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****D. Measurement Focus and Basis of Accounting**

In the government-wide statements, revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Other taxes and fees are recognized as revenue in the year they are earned. Revenue from most grants and similar items are recognized in the fiscal year the qualifying expenditure is made, if applicable, and all other eligibility requirements are satisfied.

Governmental funds are accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. This means that only current assets, current liabilities and deferred inflows/outflows of resources are generally included on their balance sheet. Revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers grant revenues to be available if they are collected within one year after year-end and all other revenues to be available if they are collected within 60 days after year-end except for franchise fee revenues collected within 75 days after year-end. Expenditures are recorded when the related fund liability is incurred. However, compensated absences, debt service expenditures, claims and judgments and arbitrage liabilities are recorded only when the payment is due. General capital asset acquisitions are reported as expenditures in governmental funds. Issuance of long-term debt and any acquisitions under capital leases are reported as other financing sources.

Revenues susceptible to accrual include property taxes, sales taxes, franchise taxes, fines and forfeits and interest earned on investments. Charges for services, licenses and permits and miscellaneous revenues are recorded when received in cash since they are generally not measurable until actually received which is the same as the date the services are rendered or the license or permits are issued.

In applying the susceptible to accrual concept to intergovernmental revenues, the legal and contractual requirements of the numerous individual programs are used as guidance. There are essentially two types of these revenues. In one, monies must be expended on the specific purpose or project before any amounts will be paid to the City; therefore, revenues are recognized based upon the expenditures recorded. In the other, monies are virtually unrestricted as to purpose of expenditure and are usually revocable only for failure to comply with prescribed compliance requirements. These resources are reflected as revenues at the time of receipt or earlier if the susceptible to accrual criteria are met.

The reported fund balance for each fund is considered a measure of "current financial resources." Governmental fund operating statements present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets. Accordingly, they present a summary of sources and uses of "current financial resources" during the period.

Special reporting treatments are applied to governmental fund inventories and prepaid expenditures to indicate that they do not represent "current financial resources," since they do not represent net expendable current assets. Such amounts are reported as non-spendable fund balance.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Proprietary, pension trust funds, and private purpose trust funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned and expenses are recognized when incurred. These funds are accounted for on a flow of economic resources measurement focus whereby all assets and all liabilities associated with the operation of these funds are included on the statement of net position. Operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total position. The agency funds have no measurement focus but utilize the accrual basis of accounting for reporting its assets and liabilities.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the fund's principal ongoing operations. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating items.

**E. Budgetary Basis of Accounting**

The City operates within the confines of a balanced budget. Annual budgets are adopted on a basis consistent with generally accepted accounting principles. Unexpended annual budget appropriations lapse at the end of the fiscal year. The City Manager is responsible for presenting an annual budget to the City Council. The City Council sets public hearings for the annual budget review and adopts the budget. The adopted budget provides a detailed plan of the cost of public services that will be provided during the next fiscal year.

Of the major governmental funds presented in the financial statement, only the General Fund and the debt service fund have annually adopted budgets. The Community Development Block Grants and Capital Projects funds are budgeted on a project basis. Budgetary schedules are included in Required Supplementary Information for the General Fund. Budgetary schedules for Debt Service Fund, and the non-major governmental funds are included as Supplementary Information in these financial statements.

**F. Cash and Investments**

Cash balances of City funds are pooled and invested, except for all component units, pension trust funds, a portion of the Airport relating to passenger facility charges, and certain agency funds. Earnings from pooled investments are allocated to funds based upon their share of pooled cash. Each fund's equity in the pooled cash and investments is proportionately presented as "Cash" and "Investments." Negative cash balances have been reclassified to due to/from other funds. The City reports cash in demand deposit accounts as "Cash".

Capital projects funded through bonds with future debt service requirements transfer all investment interest earned during the year to the Debt Service Fund if the debt covenants require the transfer. When projects are completed, any remaining cash is transferred to the debt service fund as prescribed by the debt covenants.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****G. Restricted Cash and Investments**

“Restricted cash and investments” refers to assets that are held for a specific purpose and therefore not available for immediate or general business use. The restrictions are generally by contractual agreements or regulatory requirements. The City reports restricted cash and investments for the El Paso International Airport for debt service reserve requirements, for Environmental Services for the landfill closure/post-closure obligation, for International Bridges related to the Customs & Border Patrol funding for capital improvements, and for unspent bond proceeds in the Capital Project fund. Cash with Fiscal Agent is for operating and capital purposes.

**H. Inventories and Prepaid Items**

Inventories of materials and supplies consist primarily of expendable items held for consumption. They are stated at the lower of cost (based on a first-in, first-out method) or market for all governmental and proprietary funds and on the statement of net position for governmental activities and business-type activities. The consumption method is used to account for inventories. Under the consumption method, inventory acquisitions are recorded in inventory accounts and charged as expenditures or expenses when used. On the government-wide statement of activities, consumption of inventory is recorded as an expense.

Prepaid items, recorded in both government-wide and fund financial statements, are goods or services that are paid for in advance and are applicable to future accounting periods. Using the consumption method, prepaid items are recorded as expenditures or expenses as the goods or services are used. On the government-wide statement of activities, consumption of prepaid items is recorded as an expense.

**I. Capital Assets**

GASB Statement 34 requires that all capital assets, whether owned by governmental activities or business-type activities, be recorded and depreciated in the government-wide financial statements. In the governmental fund statements, capital assets are not reported as they do not fit in the current financial resources measurement focus.

Capital assets, including public domain infrastructure (e.g., roads, bridges, sidewalks and other assets that are immovable and of value only to the City) are defined as assets with an initial, individual cost of more than \$5,000 and an estimated useful life greater than one year. Capital assets are recorded at cost, if purchased or constructed, or estimated historical cost. Donated capital assets are recorded at acquisition value at the date of donation.

Major outlays for capital assets and improvements are capitalized as the projects are constructed. Interest incurred during the construction phase of projects is reflected in the capitalized value of the asset constructed for the enterprise funds. For the fiscal year 2017, \$154,820, \$716,696, and \$1,593,015 was capitalized in the Environmental Services fund, El Paso International Airport fund, and Mass Transit fund, respectively. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Major improvements are capitalized and depreciated over the estimated remaining useful lives of the related capital assets.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

Capital assets of the primary government are depreciated or amortized using the straight-line method and the following estimated useful lives:

Land improvements	15 to 20 years
Buildings and improvements	5 to 50 years
Vehicles and major equipment	3 to 12 years
Data processing	3 to 5 years
Infrastructure	12 to 100 years
Other capital assets	5 to 15 years

When capital assets are retired from service or otherwise disposed of, any gain or loss on disposal of assets is recognized. Capital assets transferred between funds are transferred at their net book value or net realizable value, if lower, as of the date of the transfer.

**J. Insurance**

Activity for certain self-insurance programs is recorded in the City’s Internal Service Self-Insurance Fund. Assets and obligations related to employee health benefits, workers’ compensation and unemployment compensation are included in the Self-Insurance Fund. Employee health and workers’ compensation benefit liabilities are accrued in the Internal Service Funds based upon actuarially determined estimates of the aggregate liability for unpaid benefits. The City records all health and workers’ compensation claims liabilities, including an estimate for claims incurred but not reported. In addition, the City has a stop loss policy for health claims.

The City is self-insured for general liability, excluding the Mass Transit Department’s fleet of vehicles and liability insurance for the Airport. Expenditures for these liabilities are accounted for in the General Fund, which will pay any liabilities incurred. Additionally, the City maintains insurance policies acquired from independent insurance carriers for property insurance, errors and omissions insurance, and auto liability insurance coverage for some of the City’s fleet of vehicles.

The City is subject to the State of Texas Employment Commission Act. Under this act, the City’s method for providing unemployment compensation is to reimburse the State of Texas for claims paid by the state.

**K. Unearned Revenue**

In the governmental and proprietary funds, unearned revenue represents amounts reported in accordance with the City’s revenue recognition criteria. In the General Fund unearned revenue consists of \$3,933,126 in fees collected from developers for future construction projects assigned to the City. Unearned reimbursements of \$2,617,337 reported in Special Revenue Funds is collected but unspent at the fiscal year end. Unearned revenue of \$1,996,684 related to a long-term right of way agreement is reported in the El Paso International Airport Fund.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****L. Deferred Outflows/Inflows of Resources**

In addition to assets, the statement of net position presents deferred outflows of resources. This financial statement element represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then.

The City has the following items that qualify for reporting in this category.

- Deferred charge on refundings - A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Deferred Chapter 380 obligations - A deferred charge related to the Camino Real Chapter 380 agreement is reported in the amount equal to future payments of HOT tax.
- Pension contributions subsequent to measurement date - These contributions are deferred and recognized in the following fiscal year.
- Difference in projected and actual earnings on pension plan investments - This difference is deferred and amortized over a closed five year period.
- Changes in assumptions for pensions - These changes are deferred and recognized over the estimated average remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the measurement period.
- Difference in actual and expected pension experience is deferred and recognized over the estimated average remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined as of the measurement period.

In addition to liabilities, the statement of net position and/or balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

The City of El Paso has the following types of items that qualify for reporting in this category.

- Deferred gain on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. The amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.
- Difference in actual and expected pension experience is deferred and recognized over the estimated average remaining service lives of all employees that are provided with pension through the pension plan (active and inactive employees) determined as of the measurement period.
- In the governmental funds, unavailable resources are revenues that are earned and measurable but not yet available, and are reported as deferred inflows of resources. The governmental funds report unavailable resources: property taxes and low income housing loans.
- Changes in assumptions for pensions - These changes are deferred and recognized over the estimated average remaining service lives of all employees that are provided with pensions through the pension plan (active and inactive employees) determined as of the measurement period.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)****M. Interfund Receivables and Payables**

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. Resulting receivables and payables are classified as “Due from Other Funds” or “Due to Other Funds.”

**N. Internal Balances**

“Internal balances” are the net residual amounts due between governmental and business-type activities in the government-wide statement of net position. The amounts shown as internal balances are the Due to Other Funds and Due from Other Funds balances between governmental activities and business-type activities of the primary government. Any interfund receivables and payables that are within governmental activities or within business-type activities are eliminated on the statement of net position.

**O. Federal and State Grants**

Grants and entitlements received for purposes normally financed through the general government are accounted for within the Special Revenue Funds. Revenues are recognized when the expenditures of federal and state grant funds are made and all eligibility requirements have been met. Amounts owed to the City at August 31, 2017, for grants and entitlements are reflected as “Due from Other Government Agencies.” The City expects to collect these balances during the subsequent fiscal year.

Grants received by Proprietary Funds are reported in the applicable Proprietary Fund.

**P. Compensated Absences**

City employees, excluding uniformed Police Department and Fire Department employees, earn vacation leave, which may either be taken or accumulated (up to a maximum of 400 hours) until paid upon termination or retirement. For uniformed Police Department and Fire Department employees’ only, special provisions apply based on the most current Articles of Agreement between the City and the local associations of Fire and Police unions.

Leave benefits are accrued as a liability as the benefits are earned by employees, but only to the extent that it is probable that the City will compensate the employees through paid time off or cash payments, conditioned on the employee’s termination or retirement. For governmental funds, a liability for these amounts is reported only if they have matured as a result of termination or retirement. For the government-wide financial statements and enterprise fund financial statements, all of the outstanding compensated absences are recorded as a liability.

**Q. Pensions**

For purposes of measuring the net pension liability, deferred outflows and inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the El Paso City Employees’ Pension Fund (CEPF) and El Paso Firemen and Policemen’s Pension Fund (FPPF) and additions to/deductions from CEPF and FPPF Fiduciary Net Position have been determined on the same basis as they are reported by CEPF and FPPF. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. See Note 13 for additional information on the pension plans.

**R. Long-Term Obligations, Bond Premiums, Discounts, and Issue Costs**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position or balance sheet. In these statements, bond premiums and discounts are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issue costs are expensed in accordance with GASB Statement 65.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issue costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issue costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

**S. Classification of Fund Equity**

In the government-wide financial statements, equity is shown as net position and classified into three components:

*Net investment in capital assets* – Capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding proceeds of any bonds, mortgage notes, or other borrowings that are attributable to the acquisition, construction, or improvement of those assets.

*Restricted net position* – Net position with constraints placed on its use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments; (2) law through constitutional provisions or enabling legislation.

*Unrestricted net position* – All other net position that does not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, it is the City’s practice to use restricted resources first and then unrestricted resources, as they are needed.

The City reports governmental fund balances by the five following classifications:

*Non-spendable* – Amounts that cannot be spent, such as inventory or prepaid amounts, because they are either not in spendable form or legally required to be maintained intact.

*Restricted* – Amounts with restrictions that are externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or imposed by law through constitutional provisions or enabling legislation.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

*Committed* – Amounts that can only be used for specific purposes and imposed by formal action of the government's highest level of decision-making authority. In the case of the City, it is the City Council and the formal action would be a resolution.

*Assigned* – Amounts constrained by City management's intent to be used for specific purposes but are not formally restricted by external resources or committed by the City Council. In the annual budget resolution, the City Manager is authorized to assign fund balance.

*Unassigned* – Amount of the remaining fund balance not in any of the other classifications. The General Fund is the only fund that reports a positive unassigned fund balance amount.

The City designates restricted amounts to be spent first if both restricted and unrestricted fund balance is available unless there are legal constraints that prohibit this, such as in grant agreements requiring the City to match with local fund the grant amounts spent. Additionally, the City would first use committed, followed by assigned, and last of all unassigned balances when expenditures are incurred for purposes for which balances in any of these fund balance classifications could be used.

**T. Minimum Fund Balance Policy**

It is the desire of the City to maintain an adequate General Fund balance to maintain liquidity in anticipation of economic downturns or natural disasters. The City Council has adopted a financial policy to maintain a general fund minimum fund balance between thirty to forty-five days of General Fund expenditures.

**U. Statement of Cash Flows**

For purposes of the statement of cash flows, the City considers cash to be currency on hand, cash held by trustee and demand deposits with banks. The City considers all highly liquid investments with an original maturity of approximately ninety days or less to be investments rather than cash equivalents.

**V. Claims and Judgments**

Claims and judgments are accrued as expenditures in governmental funds for the amount expected to be liquidated with expendable available financial resources to the extent they mature each period. The entire liability for claims and judgments is reported in the government-wide financial statements and in the enterprise fund financial statements when it is probable that a liability has been incurred.

**W. Solid Waste Landfill Closure and Post-closure Cost**

Solid waste landfill closure and post-closure costs are accounted for in accordance with guidelines recommended by GASB Statement 18, *Accounting for Municipal Solid Waste Landfill Closure and Post-closure Costs*. The liability, based upon landfill capacity used to date, is recorded in the Environmental Services enterprise fund. An explanation of the liability and its calculation is presented in Note 8.

**NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**X. Fiscal-year Inconsistencies**

The City’s component unit, EPWU, operates on a fiscal year ending on the last day of February. Therefore, the following amounts reported by the primary government are inconsistent with amounts reported by EPWU.

Primary Government - Due from Component Unit		
Governmental Funds:		
General Fund	\$	3,286,912
Proprietary Funds:		
Environmental Services		3,749,311
Due From Component Unit at August 31, 2017	\$	<u>7,036,223</u>
Component Unit - EPWU - Due to Primary		
Government - at February 28, 2017	\$	<u>6,140,784</u>

One of the retirement plans within the Pension Trust Funds, FPPF, operates on a fiscal year ending on December 31. Therefore, the amounts reported by the primary government are inconsistent with amounts reported by FPPF. As a fiduciary fund, the amounts reported by the FPPF are excluded from the government-wide financial statements. The following amounts are reported in these statements.

	<b>Firemen Division</b>	<b>Policemen Division</b>
Primary Government		
Employer Contributions to FPPF:		
General Fund	\$ 10,788,838	\$ 14,241,316
Non-major Governmental Funds	321,599	550,142
El Paso International Airport	410,320	379,314
Employer Contributions to FPPF - year ended August 31, 2017	<u>\$ 11,520,757</u>	<u>\$ 15,170,772</u>
Fiduciary Fund - FPPF		
Employer Contributions to FPPF - year ended December 31, 2016	<u>\$ 11,295,300</u>	<u>\$ 14,486,842</u>

**Y. Use of Estimates**

The preparation of financial statements in conformity with generally accepted accounting principles requires the City’s management to make estimates and assumptions that effect reported amounts of assets, deferred outflows of resources, liabilities and deferred inflows of resources at the date of the financial statements and the reported changes in net position during the reporting period. Actual results may differ from those estimates.

**NOTE 2. CASH AND INVESTMENTS**

A summary of cash and investments is presented below.

	Primary Government	Private-Purpose Trusts	Agency Funds	Total City Treasury
Cash	\$ 16,755,122	\$ 1,367,646	\$ 291,041,770	\$ 309,164,538
Restricted Cash	3,578,575	—	—	3,578,575
Total Cash	20,333,697	1,367,646	291,041,770	312,743,113
Investments	352,704,750	2,906,490	—	355,611,240
Restricted Investments	41,976,901	—	—	41,976,901
Total Investments	394,681,651	2,906,490	—	397,588,141
	<u>\$ 415,015,348</u>	<u>\$ 4,274,136</u>	<u>\$ 291,041,770</u>	<u>\$ 710,331,254</u>

**Pooled Cash and Investments**

The City maintains a cash and investment pool (Pool) that is available for use by the Primary Government and Private-Purpose Trusts. Each fund’s portion of the Pool is proportionately reported in these statements as “Cash ” and “Investments.” Participation in the Pool is restricted and does not include cash on hand (petty cash and change funds) and other funds that are restricted because of statutory or contractual considerations. A fund may overdraw its account in the Pool, with the overdraft reported as a liability (Due to Other Funds) on the Balance Sheet/Statement of Net Position. Earnings from the Pool are allocated to the funds based upon each fund’s daily balance in the Pool in accordance with the City’s Investment Policy.

	Cash	Investments	City Treasury	Non-Pooled	Pooled
<b>Governmental Funds:</b>					
General	\$ 7,586,119	\$ 25,021,866	\$ 32,607,985	\$ 94,940	\$ 32,513,045
Community Development Block Grants	121,189	943,254	1,064,443	200	1,064,243
Debt Service	782,250	4,788,742	5,570,992	—	5,570,992
Capital Projects	2,290,506	243,234,935	245,525,441	—	245,525,441
Non-major Governmental Funds	459,465	34,647,773	35,107,238	423	35,106,815
Internal Service Funds	4,377,842	18,103,576	22,481,418	—	22,481,418
<b>Enterprise Funds:</b>					
El Paso International Airport	623,211	25,936,018	26,559,229	1,500	26,557,729
Environmental Services	3,224,769	36,918,744	40,143,513	1,780	40,141,733
International Bridges	757,900	4,407,980	5,165,880	63,500	5,102,380
Tax Office Enterprise Fund	110,446	678,763	789,209	5,000	784,209
<b>Fiduciary Funds:</b>					
Private-Purpose Trusts	1,367,646	2,906,490	4,274,136	—	4,274,136
Agency Funds	291,041,770	—	291,041,770	—	291,041,770
	<u>\$ 312,743,113</u>	<u>\$ 397,588,141</u>	<u>\$ 710,331,254</u>	<u>\$ 167,343</u>	<u>\$ 710,163,911</u>

**NOTE 2. CASH AND INVESTMENTS (continued)****Investments**

Cash and Investments of the City Treasury at August 31, 2017 were:

	Pooled Cash and Investments	Non-Pooled Cash and Investments	Total
Cash in bank (1)	\$ 312,575,770	\$ —	\$ 312,575,770
Cash on hand	—	167,343	167,343
Certificates of Deposit	6,372,244	—	6,372,244
Municipal Securities	6,265,324	—	6,265,324
US Agencies	12,980,814	—	12,980,814
US Treasuries	48,954,160	—	48,954,160
Local Government Investment Pools	311,547,706	—	311,547,706
Money Market	11,467,893	—	11,467,893
Cash and Investments	<u>\$ 710,163,911</u>	<u>\$ 167,343</u>	<u>\$ 710,331,254</u>

(1) \$146,411,113 relates to Camino Real Regional Mobility Authority's contract with Texas Department of Transportation. Depository contract mandates that the bank must pledge collateral equal to 102% of the market value of the City's deposits, using those types of collateral allowed by law.

The City follows GASB Statement 72 (Fair Value Measurement and Application), and Statement 79 (Certain External Investment Pools and Pool Participants). These statements require that governmental entities report investments at fair value and that all investment income, including changes in the fair value of investments, be reported as revenue in the statement of activities. The City reports the change in fair value as part of investment earnings. In addition, Statement 79 requires the disclosure of the presence of any limitations or restrictions on withdrawals.

The City has adopted an investment policy to minimize the inherent risks associated with deposits and investments. The primary objective of the City's Investment Policy is to invest funds to provide for the maximum safety of principal. After consideration of the City's safety and liquidity requirements, this policy seeks the highest possible investment return. The policy defines:

- \* The requirements for authorized financial institutions, depositories and broker/dealers.
- \* Investments authorized and prohibited.
- \* The maximum maturity for any single investment as three years.
- \* The maximum dollar-weighted average maturity for investment as two years.

The City's Investment Policy requires that financial institutions, broker/dealers, intermediaries and advisers must meet certain conditions and provide certain information prior to entering into investment activities with the City.

The City participates in LOGIC, TexSTAR, TEXPOOL and TexasDaily, which are government investment pools, as well as the Wells Fargo Government Investment Fund. The State Comptroller of Public Accounts maintains oversight responsibility for TEXPOOL. This responsibility includes the ability to influence operations, designation of management, and accountability for fiscal matters. LOGIC, TexasDaily and TexSTAR are public funds investment pools organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code, and are privately managed. LOGIC, TexasDaily, TexSTAR and the money market funds are carried at net asset value, while TEXPOOL is carried at amortized cost.

**NOTE 2. CASH AND INVESTMENTS (continued)**

**Custodial Credit Risk (Deposits)** - Collateralization is required for deposits in demand deposit accounts, certificates of deposit, and repurchase agreements. The collateralization level is 102% of principal and accrued interest. Collateral is held in the City's name by an independent third party with whom the City has a current custodial agreement and collateral instruments are limited to those instruments authorized by the City's Investment Policy.

**Custodial Credit Risk (Investments)** - Securities are held by the City's agent in the City's name.

**Credit Risk** - The investment policy authorizes the following securities:

- obligations of the United States or its agencies and instrumentalities
- direct obligations of the State of Texas or its agencies and instrumentalities
- collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by the agency or instrumentality of the United States
- other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of this state or the United States or their respective agencies and instrumentalities
- obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent
- certificates of deposit and share certificates
- repurchase agreements
- commercial paper
- mutual funds that invest in securities described above
- investment pools that invest in securities described above

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by (where applicable) the Public Funds Investment Act, the City's Investment Policy, or debt agreements, and the actual rating as of year-end for each investment type.

Investment type	Carrying Amount	Minimum Legal Rating	Rating As of Year-end
Money Market	11,467,893	N/A	Aaa-mf/AAAm
LOGIC	50,763,168	AAA/AAA-m	AAAm
TexSTAR	34,352,428	AAA/AAA-m	AAAm
TEXPOOL	121,147,708	AAA/AAA-m	AAAm
Texas Daily	105,284,402	AAA/AAA-m	AAAm
US Treasuries	48,954,160	N/A	Aaa
Municipal Securities	6,265,324	A	Aa2 to Aaa/AA to AAA
US Agencies	12,980,814	N/A	Aaa/AA+
Certificates of Deposit	6,372,244	N/A	N/A
Total Investments	<u>397,588,141</u>		

**NOTE 2. CASH AND INVESTMENTS (continued)**

**Concentration of Credit Risk** - While the investment policy does not limit the percentage of authorized investment in the portfolio, investment diversification is required.

The following is the fair value of investments that represent 5% or more of investments:

LOGIC	\$	50,763,168
TexSTAR	\$	34,352,428
TEXPOOL	\$	121,147,708
TexasDaily	\$	105,284,402

**Interest Rate Risk** – The City will minimize interest rate risk, which is the risk that the market value of securities will fall due to changes in market interest rates, by structuring the investment portfolio so that securities mature in a manner consistent with projected cash requirements, thereby avoiding the need to sell securities on the open market prior to maturity.

At August 31, 2017, investments of the City are as follows:

Investment type	Fair Value	Maturity in Years	
		Less than 1	1 - 5
Local Government Investment Pools	\$ 311,547,706	\$ 311,547,706	\$ —
Certificates of Deposit	6,372,244	2,206,203	4,166,041
Municipal Securities	6,265,324	1,001,580	5,263,744
US Agencies	12,980,814	—	12,980,814
US Treasuries	48,954,160	34,994,863	13,959,297
Money Market	11,467,893	11,467,893	—
Total Investments	<u>\$ 397,588,141</u>	<u>\$ 361,218,245</u>	<u>\$ 36,369,896</u>

**Fair Value of Assets**

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Unadjusted inputs using quoted prices in active markets for identical investments.
- Level 2** Other significant observable inputs other than Level 1 prices, including but are not limited to, quoted prices for similar investments, inputs other than quoted prices that are observable for investments (such as interest rates, prepayment speeds, credit risk, etc.) or other market corroborated inputs.
- Level 3** Significant inputs based on the best information available in the circumstances, to the extent observable inputs are not available.

**NOTE 2. CASH AND INVESTMENTS (continued)****Recurring Measurements**

The following table presents the fair value measurements of assets recognized in the accompanying Balance Sheet/Statements of Net Position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2017:

Investments by fair value level	Fair Value	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Certificates of Deposit	\$ 6,372,244	\$ —	\$ 6,372,244	\$ —
Municipal Securities	6,265,324	—	6,265,324	—
US Agencies	12,980,814	—	12,980,814	—
US Treasuries	48,954,160	—	48,954,160	—
Total Investments by fair value level	<u>\$ 74,572,542</u>	<u>\$ —</u>	<u>\$ 74,572,542</u>	<u>\$ —</u>
<b>Investments measured at the net asset value (a)</b>				
LOGIC	\$ 50,763,168			
TexasDaily	105,284,402			
TexSTAR	34,352,428			
Money Market	11,467,893			
Total investments measured at the NAV	<u>201,867,891</u>			
<b>Investments measured at amortized cost</b>				
TEXPOOL	121,147,708			
Investments measured at amortized cost	<u>121,147,708</u>			
Total Investments	<u>\$ 397,588,141</u>			

(a) Certain investments that are measured using the net asset value per share or its equivalent have not been classified in the fair value hierarchy. The fair value amounts included above approximated net asset value for all related external investment pool balances.

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying Balance Sheet/Statements of Net Position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended August 31, 2017.

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

**NOTE 2. CASH AND INVESTMENTS (continued)**

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table:

	Fair Value at 08/31/2017	Unfunded Commitments	Redemption Frequency (If Currently Eligible)	Redemption Notice Period
LOGIC	\$ 50,763,168	—	Daily	Same Day
TexasDaily	105,284,402	—	Daily	Same Day
TexSTAR	34,352,428	—	Daily	Same Day
Money Market	11,467,893	—	Daily	Same Day
Total Investments measured at the NAV	<u>\$ 201,867,891</u>			

**Investment in State Investment Pools**

During the year, the City invested in multiple public fund investment pools, including TexSTAR, TEXPOOL, LOGIC, and Texas Daily. LOGIC, TexasDaily, TexSTAR and the money market funds are carried at net asset value, while TEXPOOL is carried at amortized cost.

Each pool's governing body is comprised of individuals who are employees, officers, or elected officials of participants in the funds or who do not have a business relationship with the fund and are qualified to advise. Investment objective and strategies of the pools are to seek preservation of principal, liquidity and current income through investment in a diversified portfolio of short-term marketable securities. Pools offer same day access to investment funds.

**Deposits, Cash Equivalents, Investments and Security Lending - Component Unit - CEPF**

The CEPF's cash equivalents and investments are managed by various investment managers who have discretionary authority over the assets managed by them, within the investment guidelines established by the Board, under contracts with the CEPF. The cash equivalents and investments are held by the CEPF's custodian in the CEPF's name. The cash equivalents and investments are uninsured and generally consist of short-term securities, U.S. and foreign government securities, domestic and foreign corporate debt and equity securities, real estate trusts and financial derivatives. Certain investment managers have invested in certain bank collective investment funds, which invest primarily in U.S. corporate stocks and government bonds. The bank collective funds may also invest in foreign exchange contracts, stock index futures and temporary collective investment funds and may enter into collateralized securities lending transactions. Certain investment managers also invest in private equity limited partnerships.

Through adherence to the CEPF's Investment Rules and Regulations, management attempts to limit or mitigate certain risks. Certain of these requirements are listed below.

**Large Cap Index Equity Managers** - Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are S&P 500 Index commingled funds or Exchange Traded Funds (ETFs).

**NOTE 2. CASH AND INVESTMENTS (continued)**

**Large Cap Dynamic Managers** - Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The portfolio will actively allocate assets across the equity, fixed income and cash markets of the U.S. The assets of the portfolio may be invested in securities, derivatives and a combination of other collective funds. Long and short positions in financial futures, options on financial futures, index options, exchange-traded options and over-the-counter options, may be used.

**Small/Mid Cap Equity Managers** - Under current policies, the portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations greater than \$500 million and under \$15 billion; the market capitalization of certain securities may be less than or greater than this range at times. The portfolio may invest in publicly traded stocks of U.S. corporations, American depositary receipts (ADRs), publicly traded stocks of foreign corporations listed on U.S. stock exchanges, ETFs and short-term investments, money market instruments or equivalent. The maximum position size in any one company will be 5% of the portfolio value at the time of purchase and shall not exceed a maximum appreciated position size of 8% of the portfolio value. Leverage, short sales and buying and selling on margin are not permitted.

**All Cap Equity Managers** - Under current policies, the Portfolio will invest primarily in equity and equity-related securities of issuers that are located in the United States with market capitalizations that span the broad equity market in a concentrated manner, generally with 20-80 holdings. The Portfolio may invest in publicly traded stocks of U.S. corporations, ADRs, publicly traded stocks of foreign corporations, ETFs and short-term investments, money market instruments or equivalent. Leverage, short sales and buying and selling on margin are not permitted.

**International Equity-Developed Country Index Managers** - Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are MSCI EAFE Index commingled funds or ETFs.

**International Equity-All Country Managers** - Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The Portfolio will invest primarily in equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 35% in any one country. The maximum emerging markets weight is the MSCI ACWI ex-US IMI Index weight plus 15%.

**International Equity-Emerging Markets Managers** - Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The Portfolio will invest in equity and equity-related securities of at least 80% of its assets in issuers that are located in, or that do significant business in emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 20% in any one country.

**NOTE 2. CASH AND INVESTMENTS (continued)**

**International Equity-All Country Small Cap Managers** - Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The Portfolio will primarily invest in equity and equity-related securities of issuers that are located in, or that do significant business in, countries other than the United States, including emerging market countries. The Portfolio will invest in securities denominated in the currencies of a variety of countries, including emerging market countries. The maximum position size will be 6% in any one company. The maximum position size will be 35% in any one country. The maximum emerging market weight is the MSCI ACWI ex-US Small Cap Index weight plus 15%.

**Fixed Income Core Index Managers** - Investment is passively managed and is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. Permissible investments are Barclays Capital Aggregate Index commingled funds or ETFs.

**Fixed Income Core Plus Managers** - Under current policies, except for U.S. Treasury, its agencies, agency MBS, and approved derivative products, the fixed income account shall not contain more than 5% of any issuer. The account will not invest more than 15% in cash and cash equivalents and will not invest in equity securities, with the exception of preferred and convertible preferred securities, in which no more than 10% will be invested. The account may invest up to 15% in illiquid securities. The account may invest up to 35% in non-investment grade bonds; defined as bonds that are rated non-investment grade by two of the three major ratings agencies. The dollar weighted credit quality of the account will generally be AA or less, with a minimum dollar weighted-average quality of BBB-. The effective duration of the account should range between +25%/-40% of the benchmark's duration. The account will not employ leverage.

**Fixed Income Opportunistic Managers** - Under normal market conditions, the fund may invest up to 50% in bonds that are rated below investment grade (below BBB-/Baa3) by the various credit rating agencies, or securities that are not rated. In addition, the fund may leverage its capital. In normal market conditions, the manager may borrow up to 35% of the fund for investment purposes. If the investment manager believes market conditions are unfavorable to participants, the manager may invest up to 100% of the fund in U.S. or non-U.S. currency denominated short-term investments, including cash or cash equivalents.

**Real Estate Managers** - Real estate investments will be diversified to the extent possible by geographic location and property type. For real estate investment trusts (REITs), managers cannot invest in undeveloped, non-income producing property, cannot invest in funds where leverage is intended to exceed 30% of the fair value of the fund and cannot invest in non-U.S. real estate. For private real estate investments, managers should diversify the portfolio by property type and by various geographic regions of the U.S. Leverage is limited to no more than 30% of the fund. The quarterly standard deviation of returns for REITs and private real estate should be no greater than 150% of their respective benchmark indices.

**Private Equity Managers** - As private equity fund-of-funds vehicles are commingled, closed-end, finite-life limited liability entities, the investment guidelines will be determined by the fund-of-funds legal documentation. The pooled/fund-of-funds vehicle should not represent more than 20% of the total fair value of the pooled/fund-of-funds. It is also preferred that this holds true for any other investor in the pooled/fund-of-funds. The manager of the fund-of-funds vehicle shall be a Bank or a registered advisor under the

**NOTE 2. CASH AND INVESTMENTS (continued)**

Investment Advisors Act of 1940. If the fund-of-funds provides the option of receiving distributions in cash or securities, the Trust will opt to receive cash.

**Master Limited Partnerships** - Investment objective is to achieve long-term growth of capital and outperform the S&P MLP Index. Management of the portfolio will seek to achieve the investment objective through investments primarily in master limited partnerships (MLPs) and energy-related C-corporations. Security and sector selection, portfolio structure and timing of purchases and sales are delegated to the manager of the portfolio, subject to these guidelines: the portfolio will hold approximately 20 - 30 securities, no single security will exceed the greater of 10% of the portfolio's fair value or 120% of the security's weight within the benchmark, cash and cash equivalents will be no more than 10% of the portfolio's assets. Authorized investments include MLPs, securities of energy-related C-corporations and limited liability energy companies that trade on United States stock exchanges, as well as initial public offerings of these investments.

**Absolute Return** - Investment is made using commingled funds. As such, the investment guidelines are governed by the fund's prospectus. The assets may be invested in common stock, ADRs, global depositary receipts (GDRs), preferred stock, ETFs, participation notes, fixed income securities, futures, options, real estate (tradable securities), commodities (tradable securities), and cash and cash equivalents. Currency exposures may be obtained through currency spot, forward, and swap contracts.

The following was the Board's adopted asset allocation policy as of August 31, 2017:

<b>Asset Class</b>	<b>Target Allocation</b>
Domestic equity	24%
International equity	16%
Fixed income	19%
Real estate	10%
Absolute return	15%
Private equity	10%
Master limited partnerships	5%
Cash	1%
	100%

The preceding target allocation was amended in 2017. This was done to reflect a reduction in the previous allocation to international equity and fixed income and to increase the allocation to absolute return and private equity. The previous target allocation was 20% international equity, 25% fixed income, 23% domestic equity, 10% absolute return, 10% Real estate, 7% private equity and 5% master limited partnerships.

**Deposits**

Custodial credit risk is the risk that in the event of a bank failure, a government's deposits may not be returned to it. The CEPF's investment policy does not specifically address custodial credit risk for deposits. As of August 31, 2017, the CEPF holds no deposits.

**NOTE 2. CASH AND INVESTMENTS (continued)****Investments**

Interest rate risk is the risk that the fair value of securities will fall due to changes in market interest rates. The CEPF's policy is to minimize interest rate risk by structuring the investment portfolio so that the duration securities are held and the coupon rates of such are appropriately diversified.

As of August 31, 2017 the CEPF had the following investments subject to interest rate risk:

Investment type	Fair value	Weighted Average Maturity (in Years)
Cash equivalents (money market funds)	9,853,245	—
Government fixed income	27,104,666	23
Corporate bonds and notes	42,183,835	9
Bank collective investment funds	37,533,947	8
Commingled funds	37,208,259	3
	153,883,952	
Total fair value		
		9
Portfolio weighted average maturity		

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. Nationally-recognized statistical rating organizations assign ratings to measure credit risk. These rating agencies assess a firm's or government's willingness and ability to repay its debt obligations based on many factors.

The CEPF employs one core bond manager that primarily invests in U.S. fixed income and non-U.S. fixed income securities. The CEPF also invests in two commingled funds, one passive core fixed income index fund and one opportunistic fixed income fund. The investment management agreement between the CEPF and its core bond manager contains specific guidelines that identify permitted fixed income investments.

Permitted securities and derivatives for the CEPF's opportunistic income fund include fixed and floating-rate debt securities and debt obligations of governments and government-related or corporate issuers worldwide; foreign currencies or securities linked to assets or currencies of any nation; and derivatives on any of the previously mentioned securities. 50% of the total net assets in the opportunistic fixed income fund may be invested in bonds that are rated below investment grade (below BBB-) or securities that are not rated.

The CEPF's investment policy indicates that the fixed income core plus manager may invest up to 35% of net assets in non-investment grade bonds, at time of purchase. The fixed income core plus portfolio obligations will generally have a dollar weighted average credit quality of generally AA or less, with a minimum dollar weighted average credit quality of BBB-.

The following table identifies the credit quality of the CEPF's fixed income strategies based on portfolio holdings as of August 31, 2017.

**NOTE 2. CASH AND INVESTMENTS (continued)**

S&P Quality Rating	Total Fair Value	Asset-Backed Securities	Commercial Mortgage-Backed Securities	Corporates (a)	Government & Agency Obligations (b)
U.S. Treasuries	\$ 23,417,126	\$ —	\$ —	\$ —	\$ 23,417,126
GNMA Securities	5,130,296	—	—	—	5,130,296
AAA	1,330,537	102,693	33,121	404,953	789,771
AA+	24,147,528	124,680	138,150	183,959	23,700,739
AA	6,909,096	—	—	195,795	6,713,301
AA-	1,422,912	—	—	1,297,965	124,947
A+	1,921,021	—	—	1,686,105	234,916
A	3,108,535	117,440	—	2,969,173	21,922
A-	7,809,807	—	—	4,114,679	3,695,128
BBB+	12,171,589	—	103,055	11,407,027	661,507
BBB	10,555,594	167,096	—	7,835,514	2,552,984
BBB-	17,593,260	—	—	12,919,565	4,673,696
BB+	2,107,252	—	82,604	2,024,648	—
BB	6,338,556	—	85,021	1,053,768	5,199,766
BB-	2,384,544	—	—	1,483,069	901,475
B+	1,109,502	—	54,545	897,430	157,526
B	265,849	—	86,984	178,865	—
B-	4,175,578	—	—	—	4,175,578
NR	12,132,125	269,488	495,334	2,178,880	9,188,422
Totals	144,030,707	781,397	1,078,815	50,831,394	91,339,100

(a) Corporate Bonds include convertible preferred stocks and convertible preferred bonds

(b) Includes international and municipal holdings

At August 31, 2017, the CEPF held various bond instruments in the aggregate fair value of \$144,030,707. Fixed income core plus portfolios held bond instruments with ratings of BBB or better by Standard & Poor's. Approximately 5% of the portfolio was of non-investment grade bonds as of August 31, 2017.

Concentration of credit risk is the risk of loss attributed to the magnitude of the CEPF's investment in a single issuer. The CEPF's investment policy does not allow for the investment portfolio to hold more than 10% in any one company. The following table presents the fair value of investments that represents 5% or more of the CEPF's net position at August 31, 2017.

These investments were in bank collective investment and commingled funds, which consist of diversified portfolios of investments as described above, and none of these investments consist of any one company holding 5% or more of the total investment.

	Shares/ Par Value	Fair Value
August 31, 2017		
EB MCM Daily Valued International Specialized Investment Fund Mellon Capital Management Corporation	135,488	\$ 60,090,017
EB MCM Daily Valued Stock Index Fund Mellon Capital Management Corporation	18,995	\$ 66,081,007
EB MCM Daily Valued Dynamic U.S. Equity Fund Mellon Capital Management Corporation	187,489	\$ 50,171,937
Allianz Structured Alpha 1000 Plus LLC Allianz Structured Alpha 1000 Plus LLC	57,584,830	\$ 57,584,830

**NOTE 2. CASH AND INVESTMENTS (continued)**

Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of an investment or a deposit. The CEPF's investment policy allows 13% - 19% of equity securities to be invested in foreign markets. The CEPF's exposure to foreign currency risk on August 31, 2017 was as follows:

Local Currency Name	Equity	Fixed Income	Real Estate	Total
Argentine Peso	\$ —	\$ 1,935,706	\$ —	\$ 1,935,706
Australian Dollar	4,266,391	—	—	4,266,391
Brazilian Real	1,554,956	5,199,766	—	6,754,722
British Pound	12,711,136	—	—	12,711,136
Canadian Dollar	2,137,561	—	—	2,137,561
Columbian Peso	—	1,730,797	—	1,730,797
Danish Krone	1,216,206	—	—	1,216,206
Euro Currency Unit	26,641,151	—	—	26,641,151
Ghanaian Cedi	—	2,097,208	—	2,097,208
Hong Kong Dollar	10,784,815	—	—	10,784,815
Indian Rupee	2,688,428	3,587,919	—	6,276,347
Indonesian Rupiah	24,192,027	3,821,392	—	28,013,419
Japanese Yen	26,157,746	—	—	26,157,746
Mexican Peso	1,035,441	8,015,799	—	9,051,240
Phillipine Peso	478,253	628,442	—	1,106,695
South African Rand	1,797,254	806,855	—	2,604,109
South Korean Won	5,112,748	—	—	5,112,748
Swedish Krona	2,864,427	—	—	2,864,427
Swiss Franc	5,800,267	—	—	5,800,267
Taiwanese Dollar	4,181,711	—	—	4,181,711
Thai Baht	883,652	1,752,770	—	2,636,422
Other	4,120,609	636,745	—	4,757,354
<b>Total</b>	<b>\$138,624,779</b>	<b>\$ 30,213,399</b>	<b>\$ —</b>	<b>\$ 168,838,178</b>

**Security Lending Transactions**

State statutes and board of trustees' policies permit the CEPF to lend its securities to broker/dealers and other entities with a simultaneous agreement to return the collateral for the same securities in the future. The CEPF currently participates in a security lending short duration lending pool. All securities loans can be terminated on demand by either the CEPF or the borrower, although the average term of the loans is one week. The relationship between the maturities of the investment pool and the system's loans is affected by the maturities of the securities loans made by other entities that can use the agent's pool, which the CEPF cannot determine.

Custodial credit risk for securities lending transactions is the risk that, in the event of the failure of the counterparty, the system will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. For the year ended August 31, 2017, the CEPF had no credit risk exposure to borrowers because the amounts the CEPF owes the borrowers exceed the amounts the borrowers owe the CEPF. At August 31, 2017, the fair value of securities loaned was \$18,206,098 and was comprised of corporate stocks.

**NOTE 2. CASH AND INVESTMENTS (continued)**

**Rate of Return**

For the year ended August 31, 2017 the annual money-weighted rate of return on pension plan investments, net of pension plan investment expenses, was 10.29%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Disclosures About Fair Value of Assets**

Fair value is 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. Fair value measurements must maximize the use of observable inputs and minimize the use of unobservable inputs. There is a hierarchy of three levels of inputs that may be used to measure fair value:

- Level 1** Quoted prices in active markets for identical assets or liabilities
- Level 2** Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities
- Level 3** Unobservable inputs supported by little or no market activity and are significant to the fair value of the assets or liabilities

***Recurring Measurements***

The following table presents the fair value measurements of assets recognized in the accompanying statements of fiduciary net position measured at fair value on a recurring basis and the level within the fair value hierarchy in which the fair value measurements fall at August 31, 2017:

**NOTE 2. CASH AND INVESTMENTS (continued)**

	Fair Value Measurements Using			
	8/31/2017	Quoted Prices In Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
<b>Investments by fair value level</b>				
Debt securities				
U.S. government securities	\$ 27,104,666	\$ —	\$27,104,666	\$ —
Corporate bonds and notes	42,183,835	—	42,183,835	—
Total debt securities	69,288,501	—	69,288,501	—
Corporate stocks				
All cap equity	28,678,712	28,678,712		
Small/Mid cap equity	55,204,592	55,204,592		
Total corporate stocks	83,883,304	83,883,304	—	—
Master limited partnerships	37,030,451	37,030,451	—	—
Total investments by fair value level	190,202,256	120,913,755	69,288,501	—
<b>Investments measured at the net asset value (NAV) (a)</b>				
Absolute return investments	109,573,856			
Bank collective investment funds				
Large cap index	66,081,007			
Large cap dynamic	50,171,964			
International equity developed	60,090,017			
Total bank collective investment funds	176,342,988			
Commingled funds - fixed income				
Fixed income opportunistic	37,208,259			
Fixed Income core index	37,533,947			
Total commingled funds - fixed income	74,742,206			
Commingled funds - corporate stocks				
International equity - all country	31,683,453			
International equity - all country small cap	28,027,381			
International equity - emerging markets	29,558,272			
Total commingled funds - corporate stocks	89,269,106			
Real estate				
Private real estate	67,975,022			
Total real estate	67,975,022			
Private equity investment	57,103,830			
Total investments measured at the NAV	575,007,008			
Total investments measured at fair value	\$ 765,209,264			

**NOTE 2. CASH AND INVESTMENTS (continued)**

(a) Certain investments that are measured using the net asset value per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts included above are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of fiduciary net position.

The following is a description of the valuation methodologies and inputs used for assets measured at fair value on a recurring basis and recognized in the accompanying statements of fiduciary net position, as well as the general classification of such assets pursuant to the valuation hierarchy. There have been no significant changes in the valuation techniques during the year ended August 31, 2017.

**Investments**

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. If quoted market prices are not available, then fair values are estimated by using quoted prices of securities with similar characteristics or independent asset pricing services and pricing models, the inputs of which are market-based or independently sourced market parameters, including, but not limited to, yield curves, interest rates, volatilities, prepayments, defaults, cumulative loss projections and cash flows. Such securities are classified in Level 2 of the valuation hierarchy.

The valuation method for investments measured at the net asset value (NAV) per share (or its equivalent) is presented on the following table

Investments Measured at the NAV	Fair Value at 08/31/2017	Unfunded Commitments	Redemption Frequency (if Currently Eligible)	Redemption Notice Period
Absolute return investments	\$ 109,573,856		Daily	Daily to 30 days
Large cap index	66,081,007		Daily	1 day
Large cap dynamic	50,171,964		Daily	Daily
International equity - developed	60,090,017		Daily	2 Days
Fixed income opportunistic	37,208,259		Daily	Daily
Fixed Income core index	37,533,947		Daily	2 Days
International equity - all country	31,683,453		Daily	3 Days
International equity - all country small cap	28,027,381		Daily	Daily
International equity - emerging markets (commingled)	29,558,272		Daily	30 Days
Private real estate	67,975,022		Daily	90 Days
Real estate investment trust	—		Daily	Daily
Private equity investments	57,103,830	\$ 57,563,923	Daily	5 Days
Total investments measured at the NAV	<u>\$ 575,007,008</u>			

**Cash and Cash Equivalents, Investments, and Securities Lending - Component Unit - FPPF****Cash and Cash Equivalents**

Cash and cash equivalents consists of cash and short-term investments held by the Custodian. Custodial risk for cash and cash equivalents is the risk that in the event of bank failure, the FPPF's deposits may not be returned. The FPPF does not have a deposit policy for custodial credit risk; however, management believes that the FPPF's credit risk exposure for amounts not covered by federal depository insurance is mitigated by the financial strength of the banking institution in which the deposits are held.

**NOTE 2. CASH AND INVESTMENTS (continued)****Investments**

The Board of Trustees has adopted an investment policy and has the authority to establish or amend the policy, with the objective to invest the FPPF's assets in a manner consistent with generally accepted standards of fiduciary responsibility. Safety of principal is emphasized and the FPPF's objective is to be diversified. The FPPF's investment policy was updated during September 2016 with adjustments to the allowable ranges for certain investment classes.

The FPPF's investments are managed by various investment managers who have discretionary authority over the assets managed by them under contract with the FPPF and within the investment guidelines established by the Board of Trustees. The investments of the FPPF are held by the FPPF's custodian and are accessible by the investment managers. The investments generally consist of short-term securities, U.S. and foreign government securities, and domestic and foreign corporate debt and equity securities.

The Board of Trustees has adopted the following asset allocations as part of the FPPF's investment policy:

Asset Classification	Allowable Range	Target Percentage
Large Cap Domestic Equity	15.0% - 25.0%	19.25%
Small Cap Domestic Equity	5.0% - 15.0%	8.25%
International Equity	20.0% - 30.0%	22.50%
Emerging Markets Equity	4.0% - 9.0%	5.00%
Private Equity	0.0% - 10.0%	10.00%
Real Estate	0.0% - 15.0%	10.00%
Fixed Income	25.0% - 35.0%	25.00%
Cash Equivalents	0.0% - 5.0%	0.00%

Management attempts to limit or mitigate certain risks through adherence to the FPPF's investment policy. The investment policy includes the following requirements:

**Domestic Large Cap Equity Portfolio** - The annual standard deviation of returns for the FPPF's domestic large cap equity portfolio, if actively managed, is not expected to exceed 1.25 times the annual standard deviation of the S&P 500 Index. If passively managed, it is not expected to exceed 1.1 times the annual standard deviation of the S&P 500 Index.

**Domestic Small Cap Equity Portfolio** - The annual standard deviation of returns for the FPPF's domestic small cap equity portfolio, if actively managed, is not expected to exceed 1.50 times the annual standard deviation of the Russell 2000 Index.

**International Equity Portfolio** - The annual standard deviation of returns for the FPPF's international equity portfolio, if actively managed, is not expected to exceed 1.5 times the annual standard deviation of the returns for the International Equity Benchmark Index.

**Emerging Markets Equity Portfolio** - The annual standard deviation of returns for the FPPF's emerging markets equity portfolio, if actively managed, is not expected to exceed the 1.5 times the annual standard deviation of the returns for the Emerging Markets Equity Benchmark Index.

**Domestic Fixed Income Portfolio** - The annual standard deviation of returns for the FPPF's domestic fixed income portfolio, if actively managed, is not expected to exceed 1.3 times the annual standard deviation

**NOTE 2. CASH AND INVESTMENTS (continued)**

of the returns for the Lehman Brothers Aggregate Bond Index. If passively managed, the portfolio is not expected to exceed 1.2 times the annual standard deviation of the returns for the Lehman Brothers Aggregate Bond Index.

**Real Estate Portfolio** - The annual standard deviation of returns for the FPPF's real estate portfolio, if actively managed, is not expected to exceed 1.5 times the annual standard deviation of the returns for the NCREIF Index.

**Private Equity Portfolio** - The annual standard deviation for the FPPF's private equity portfolio is not to exceed 1.5 times the annual standard deviation of the S&P 500 returns.

**Domestic Cash Equivalents Investments** - The risk objective shall be to stay within an acceptable risk level, as measured by standard deviations, which is equal to that of the 91-day Treasury Bill rate.

**Concentration of credit risk** - The asset allocations in the FPPF's investment policy contain guideline percentages of the FPPF's investment portfolio to be invested by asset classification, at fair value. Actual asset allocations will be dictated by current and anticipated market conditions, the actions of the Board of Trustees and required cash flows to and from the FPPF. As of December 31, 2016, the FPPF has no single investment holdings in excess of 5% of the Fund's fiduciary net position.

**Custodial credit risk** - Custodial credit is the risk that, in the event of the failure of a custodial counterparty, the FPPF will not be able to recover the value of its investment or collateral securities that are in the possession the custodian. Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the FPPF, and are held by either the counterparty or the counterparty's trust department or agent but not in the FPPF's name. At December 31, 2016, the FPPF's security investments that were not subject to custodial credit risk were the investments not registered on an exchange. The FPPF's investments are held in the FPPF's name.

**Credit risk** - Credit risk is the risk that the issuer of securities or another counterparty to an investment may be unable to fulfill its payments on a security under the original term. The FPPF's investment policy prohibits investments in private placement debt securities and prohibits concentrations of fixed income investments of more than 10% with any one issuer other than the U.S. Government. As of December 31, 2016, the FPPF fixed income portfolio had the following ratings:

	<u>December 31, 2016</u>
U.S. Treasury	\$ 41,379,591
U.S. Agency	21,493,148
AAA	105,384,811
AA	60,137,167
A	56,017,661
BBB	27,971,781
BB	14,731,362
B	950,410
Below B	2,138,424
Committed cash	6,577,572
	<u>\$ 336,781,927</u>

**NOTE 2. CASH AND INVESTMENTS (continued)**

**Interest rate risk** - Interest rate risk is the risk that changes in interest rates over time will adversely affect the fair value of an investment. The price of a debt security typically moves in the opposite direction of the change in interest rates. In accordance with the investment policy, the Board of Trustees provides each of the FPPF's investment managers with a set of investment guidelines. These guidelines specify the following:

- The return objective for the Domestic Core Fixed Income Portfolio, if actively managed, is to exceed by 0.75% per year the return of the Lehman Brothers Aggregate Bond Index.
- The return objective for the Domestic Core Fixed Income Portfolio, if passively managed, is to approximate the return of the Lehman Brothers Aggregate Bond Index.
- The risk objective of the Domestic Fixed Income Portfolio shall be defined in terms of standard deviation of returns. The annual standard deviation of returns for the FPPF's domestic fixed income portfolio, if actively managed, is not expected to exceed 1.3 times the annual standard deviation of the returns for the Lehman Brothers Aggregate Bond Index.
- The risk objective of the Domestic Fixed Income Portfolio shall be defined in terms of standard deviation of returns. The annual standard deviation of returns for the FPPF's domestic fixed income portfolio, if passively managed, is not expected to exceed 1.2 times the annual standard deviation of the returns for the Lehman Brothers Aggregate Bond Index.

As of December 31, 2016, the FPPF fixed income portfolio had the following investment maturities:

	December 31, 2016
Less than 1 year	\$ (54,660,993)
1 - 3 years	49,226,030
3 - 5 years	102,257,892
5 - 7 years	137,671,592
7 - 10 years	21,215,446
10 - 20 years	46,167,483
20 - 30 years	34,380,810
Over 30 years	523,667
	<u>\$ 336,781,927</u>

The FPPF's exposure to foreign currency risk as of December 31, 2016 was as follows:

Investment	Currency	2016
Cash and cash equivalents	European Union Euro	\$ 353,408
Limited partnerships	European Union Euro	12,916,808
		<u>\$ 13,270,216</u>

**Fair Value Measurements**

The framework for measuring fair value provides a fair value hierarchy in accordance with GASB No. 72 that prioritizes the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described as follows:

**NOTE 2. CASH AND INVESTMENTS (continued)**

**Level 1** Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the FPPF has the ability to access.

**Level 2** Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**Level 3** Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following table discloses the FPPF's assets fair value measurements by level as of December 31, 2016:

	Fair Value at	Quoted Prices in Active Markets for Identical Assets	Significant Other Observable Inputs	Significant Unobservable Inputs
	December 31, 2016	(Level 1)	(Level 2)	(Level 3)
Debt Securities				
Bond Funds	\$ 99,179,309	\$ —	\$ 99,179,309	\$ —
Short-term investments	68,468,986	68,468,986	—	—
	<u>167,648,295</u>	<u>68,468,986</u>	<u>99,179,309</u>	<u>—</u>
Domestic equities				
Information Technology	73,699,510	73,699,510	—	—
Financial services	58,759,810	58,759,810	—	—
Consumer spending	55,043,330	55,043,330	—	—
Manufacturing	54,663,472	54,663,472	—	—
Commercial services	53,432,677	53,432,677	—	—
Healthcare	41,102,689	41,102,689	—	—
Oil and gas	16,443,206	16,443,206	—	—
Real estate	13,066,478	13,066,478	—	—
Other	239,034	239,034	—	—
	<u>366,450,206</u>	<u>366,450,206</u>	<u>—</u>	<u>—</u>
Real Estate				
Real estate equities	61,247,881	61,247,881	—	—
Real estate limited partnerships	56,678,660	—	—	56,678,660
	<u>117,926,541</u>	<u>61,247,881</u>	<u>—</u>	<u>56,678,660</u>
International equities	58,701,963	58,701,963	—	—
Private equity funds	3,814,727	—	—	3,814,727
	<u>714,541,732</u>	<u>554,869,036</u>	<u>99,179,309</u>	<u>60,493,387</u>
Investments measured at NAV				
International equity funds	316,698,450			
Commingled fixed income fund	169,133,632			
Private equity funds	72,275,988			
Real estate limited partnerships	8,908,759			
	<u>567,016,829</u>			
Total investments measured at fair value	<u>\$ 1,281,558,561</u>			

**NOTE 2. CASH AND INVESTMENTS (continued)**

The valuation method for investments measured at NAV practical equivalent is presented as follows:

Investments measured at NAV	Fair Value at December 31, 2016	Redemption Frequency	Required Redemption Notice
International equity funds	\$ 316,698,450	Daily	1 day
Commingled fixed income fund	169,133,632	Daily	1 day
Private equity funds	72,275,988	Not redeemable	Not redeemable
Real estate limited partnerships	8,908,759	Quarterly	45 days
	\$ 567,016,829		

For Level 3 investments, the investment managers within each investment class determine the fair value of the underlying investments of the collective fund or limited partnership then allocate fair value to the FPPF based on the percentage of the FPPF's ownership percentage. In some instances, due to timing of reports from each manager, the fair value of the FPPF's investments is adjusted by the incoming and outgoing cash flows for each fund. Investments in private equity are not eligible for redemption. Upon termination of partnership agreement, the FPPF will receive its original investments plus or minus any unrealized gains or losses at the time of liquidation.

**International equity funds** - International equity funds include three investments with fund managers who focus on international equities. These funds focus on active on separate areas of the international market, including emerging markets equity, international developed value equity, and international developed growth equity, respectively; they follow the specified index as described in their respective agreements. The three funds report fair value at NAV as a practical equivalent. All three investments allow for daily redemptions with a one-day written notice. One investment has a maximum of 10 days before the redemption proceeds can be received.

**Commingled fixed income fund** - Commingled fixed income fund consists of a single investment that focuses on fixed income securities. The fund manager has the ability to invest in a variety of industry spaces, such as government and corporate bonds, and across a multitude of countries, both developed and emerging market, as outlined in the investment guidelines. The investment agreement allows daily redemptions with a one-day written notice. There is no restriction period related to redemption payments.

**Private equity funds** - Private equity funds consist of investments in limited partnerships. The partnerships qualify as investment companies under the GASB 72 guidance and are valued at NAV. The investment managers within each investment class determine the NAV of the underlying investments of the limited partnership then allocate the NAV to the FPPF based on the percentage of the FPPF's ownership percentage. Investments in these private equity funds are not eligible for redemption. Upon termination of partnership agreement, the FPPF will receive its original investments plus or minus any unrealized gains or losses at the time of liquidation.

**Private real estate fund** - The private real estate fund consists of a real estate fund that generally invests in residential, office, retail, and industrial real estate. NAV is used in the measurement of the fair value of this investment. There are quarterly redemptions that require a 45-day written notice, depending on the fund. There are no lockup periods on these investments.

**NOTE 2. CASH AND INVESTMENTS (continued)**

**Money-weighted rate of return** - For the years ended December 31, 2016, the annual money-weighted rate of return on the FPPF's investments, net of related investment expenses, was 7.20%. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

**Unfunded commitments** - As of December 31, 2016, the FPPF has unfunded capital commitments to private equities and real estate limited partnerships totaling \$99.0 million.

**Securities Lending**

The FPPF is authorized to enter into securities lending transactions under Texas State Statutes Section 2256.0015. The FPPF has a securities lending agreement with the Custodian under which FPPF-owned investments are lent to one or more approved borrowers for a fee. The Custodian, as lending agent, is responsible for collecting required collateral in the form of cash, securities issued or guaranteed by the U.S. Government or its agencies, or irrevocable letters of credit issued by banks independent of the borrowers. The lending agent is authorized to enter into securities lending transactions of U.S. and non-U.S. securities in accordance with the terms of a securities lending authorization agreement.

The lending agent has indemnified the FPPF harmless from any losses, damages, costs or expenses the FPPF may incur if the lending agent is unable to recover borrowed securities or distributions made during the term of the loans with respect to those securities as a result of the lending agent's failure to make a reasonable determinations of the creditworthiness of a borrower, demand adequate and appropriate collateral on a timely basis or to perform its duties under the agreement with the FPPF. The agreement states that collateral must have a market value equal to no less than 100% of the market value of the borrowed securities.

Each business day, the lending agent and the FPPF determine the market value of the collateral and the borrowed securities. The FPPF's security lending policy requires investment grade securities. Cash collateral received from the borrower is subsequently reinvested in a securities lending collateral investment pool. As of December 31, 2016, the FPPF's securities lending obligation exceeded the fair value of the underlying securities.

The following table summarizes the fair value measurements of lent securities, cash collateral received, and the fair value of the reinvested cash collateral as of December 31, 2016:

2016		
Fair Value of Underlying Securities	Collateral Received	Collateral investment Value
\$ 80,070,729	\$ 82,219,120	\$ 82,623,373

As of December 31, 2016, the FPPF also holds securities collateral that cannot be pledged or sold absent a borrower's default totaling \$5,690,844. The securities collateral consists of U.S. Treasury Bills, U.S. Treasury Notes, and U.S. Treasury Bonds. There were no losses from securities lending transactions during the year ended December 31, 2016 resulting from a default of a borrower or the lending agent.

**NOTE 3. PROPERTY TAXES**

The City's property tax is levied each October 1 on the assessed value listed as of January 1 for all real and personal property located in the City. A receivable for property taxes is recognized and recorded at the levy date. The adjusted assessed value for the roll as of January 1, 2016, upon which the 2017 levy was based, was \$33,438,185,535.

Taxes are due by January 31 following the October 1 levy date. During the fiscal year, 98.4% of the current tax levy (October 2016) was collected. The statutory lien date is January 1.

The methods of property assessment and tax collection are determined by Texas statute. The statutes provide for a property tax code, county-wide appraisal districts and certain exemptions from taxation, such as intangible personal property, household goods and family-owned automobiles.

The appraisal of property within the City is the responsibility of the El Paso Central Appraisal District. The El Paso Central Appraisal District is required under the Property Tax Code to assess all property within the appraisal district on the basis of 100% of its appraised value and is prohibited from applying any assessment ratios. The value of property within the appraisal district must be reviewed every three years; however, the City may require more frequent reviews of appraised values at its own expense. The City may challenge appraised values established by the appraisal district through various appeals and, if necessary, legal action.

The City is authorized to set tax rates on property within the City limits. However, if the adopted tax rate for operations exceeds the effective operating rate as calculated pursuant to the property tax code for the previous year by more than 8%, qualified voters of the City may petition for an election to determine whether to limit the tax rate increase to no more than 8%.

Through a contractual arrangement, the City of El Paso bills and collects property taxes for several other governmental entities as well as the City. The City is permitted by Article 11, Section 5 of the State of Texas Constitution to levy taxes up to \$2.50 per \$100 of assessed valuation for general governmental services, including the payment of principal and interest on general obligation long-term debt. Under the City Charter, a limit on taxes levied for general governmental services, exclusive of payments of principal and interest on general obligation long-term debt, has been established at \$1.85 per \$100 assessed valuation. The tax rate to finance general governmental purposes, other than the payment of principal and interest on general obligation long-term debt, for the year ended August 31, 2017, was \$0.486 per \$100 assessed valuation. The City has a tax margin for general governmental purposes of \$1.364 per \$100 assessed valuation and could levy \$835,954,638 in additional taxes from the assessed valuation of \$33,438,185,535 before the legislative limit is reached.

The current total tax rate is \$0.760 per \$100 assessed valuation, of which \$0.486 is used for general governmental purposes and \$0.274 is used for debt service on long-term obligations.

Property taxes that are measurable and available are recognized as revenue in the year of levy. Property taxes that are measurable, but not available, are recorded net of estimated uncollectible amounts, as deferred inflows of resources. Such deferred inflows of resources are recognized as revenue in the fiscal year in which they become available.

**NOTE 3. PROPERTY TAXES (continued)**

The balance of delinquent property taxes receivable and property tax assessments included in deferred inflows at August 31, 2017, is as follows:

	<u>General Fund</u>	<u>Debt Service Fund</u>
Property Taxes Receivable	\$ 10,212,492	\$ 5,166,247
Less Allowance for Uncollectibles	<u>(4,310,605)</u>	<u>(2,164,515)</u>
Net Property Taxes Receivable	<u>5,901,887</u>	<u>3,001,732</u>
Deferred Ad Valorem Taxes	\$ 5,207,229	\$ 2,583,478
<b>Net Property Tax Recognized-60 Days</b>	<b><u>\$ 694,658</u></b>	<b><u>\$ 418,254</u></b>

**NOTE 4. RECEIVABLES**

Receivables as of year-end for the City's individual major funds and the non-major funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

Governmental Activities							
	General Fund	Community Development Block Grants Fund	Debt Service	Capital Projects	Non-major Governmental Funds	Internal Service Funds	Total
Property Taxes	\$ 10,212,492	\$ —	\$ 5,166,247	\$ —	\$ —	\$ —	\$ 15,378,739
Sales Taxes	14,310,958	—	—	568,172	1,480,714	—	16,359,844
Trade	4,670,969	—	1,008,237	1,723,246	1,150,072	9,353	8,561,877
Interest	1,254	169,622	978	2,392	135,558	568	310,372
Due from Other Government Agencies	203,299	1,766,422	—	1,969,235	5,478,094	191,534	9,608,584
Notes receivable - economic development	1,900,000	—	—	—	—	—	1,900,000
Notes receivable - low income housing loans	—	54,120,185	—	—	1,964,737	—	56,084,921
Other	9,107,731	—	—	—	2,811,435	—	11,919,167
Allowance for doubtful accounts	(6,560,641)	—	(2,164,515)	—	—	—	(8,725,156)
<b>Receivables, net of allowances</b>	<b>\$ 33,846,062</b>	<b>\$ 56,056,229</b>	<b>\$ 4,010,947</b>	<b>\$ 4,263,045</b>	<b>\$ 13,020,610</b>	<b>\$ 201,455</b>	<b>\$ 111,398,348</b>

Business-type Activities						
	El Paso International Airport	Environmental Services	Mass Transit	International Bridges	Tax Office Agency	Total
Sales Taxes	\$ —	\$ —	\$ 6,742,237	\$ —	\$ 600	\$ 6,742,837
Trade	5,788,812	3,308,212	2,790,133	—	—	11,887,156
Interest	1,030	—	—	143	—	1,173
Due from Other Government Agencies	3,684,310	153,864	17,105,981	—	—	20,944,155
Allowance for doubtful accounts	(2,804,130)	(324,939)	—	—	—	(3,129,069)
<b>Receivables, net of allowances</b>	<b>\$ 6,670,022</b>	<b>\$ 3,137,137</b>	<b>\$ 26,638,351</b>	<b>\$ 143</b>	<b>\$ 600</b>	<b>\$ 36,446,253</b>

**NOTE 5. CAPITAL ASSETS**

Capital asset activity for the year ended August 31, 2017 for the government-wide financial statements was as follows:

	Balance August 31, 2016	Transfers	Increases	Decreases	Balance August 31, 2017
<b>Governmental Activities: <sup>1</sup></b>					
Land	\$ 175,636,324	\$ —	\$ 6,753,760 <sup>(2)</sup>	\$ —	\$ 182,390,084
Buildings not in use	1,633,000	—	—	—	1,633,000
Construction in progress	195,213,619	(56,299,210)	52,556,475	—	191,470,884
Total capital assets not being depreciated	<u>372,482,943</u>	<u>(56,299,210)</u>	<u>59,310,235</u>	<u>—</u>	<u>375,493,968</u>
Capital assets being depreciated					
Buildings	420,915,917	7,401,095	—	—	428,317,012
Improvements other than buildings	32,714,761	7,360,499	—	—	40,075,260
Vehicles and major equipment	155,992,859	1,952,403	8,619,062	(1,255,176)	165,309,148
Data processing equipment and software	50,671,290	696,329	866,679	—	52,234,298
Other capital assets	8,002,831	125,572	112,557	—	8,240,960
Infrastructure	940,653,201	40,775,595	—	—	981,428,796
Total capital assets, being depreciated	<u>1,608,950,859</u>	<u>58,311,493</u>	<u>9,598,298</u>	<u>(1,255,176)</u>	<u>1,675,605,474</u>
Less accumulated depreciation for:					
Buildings	181,869,998	—	13,441,158	—	195,311,156
Improvements other than buildings	20,352,271	—	867,746	—	21,220,017
Vehicles and major equipment	112,645,935	—	10,727,776	(1,242,773)	122,130,938
Data processing equipment and software	44,980,184	—	2,885,377	—	47,865,561
Other capital assets	4,407,682	—	833,070	—	5,240,752
Infrastructure	568,795,340	—	15,070,844	—	583,866,184
Total accumulated depreciation	<u>933,051,410</u>	<u>—</u>	<u>43,825,971</u>	<u>(1,242,773)</u>	<u>975,634,608</u>
Total capital assets, being depreciated, net	<u>675,899,449</u>	<u>58,311,493</u>	<u>(34,227,673)</u>	<u>(12,403)</u>	<u>699,970,866</u>
Governmental activities capital assets, net	<u>\$ 1,048,382,392</u>	<u>\$ 2,012,283</u>	<u>\$ 25,082,562</u>	<u>\$ (12,403)</u>	<u>\$ 1,075,464,834</u>

Depreciation expense was charged to functions/programs of the governmental activities of the primary government as follows:

General government	\$ 4,485,452
Public Safety	7,139,226
Public Works	19,375,080
Public Health	1,914,355
Parks	3,115,246
Library	1,191,563
Culture and Recreation	4,106,093
Community and Economic Development	2,390,668
Total Depreciation Expense-Governmental Activities	<u>43,717,683</u>
Internal Service Funds	108,288
Depreciation Expense	<u>\$ 43,825,971</u>

<sup>1</sup> The capital assets of Internal Service Funds are included in governmental activities. In fiscal year 2017, Internal Service Funds net capital additions and deletions were \$53,869 resulting in a total cost of \$2,262,816. Depreciation expense of \$108,288 resulted in an ending accumulated depreciation balance of \$1,916,935, resulting in a net book value of \$345,881.

**NOTE 5. CAPITAL ASSETS (continued)**

<sup>2</sup> Acquisition of land during fiscal year 2017 includes the property located at 101 El Paso Street, that has been conveyed to the City by the developers of the Camino Real Hotel as part of a Chapter 380 agreement. The economic incentive package provides that the developer has the right to renovate the hotel as the Convention Center Hotel, and in five years when the economic incentives related to this capital project expire, the ownership of the land will revert to the developer. Future improvements and structures located on the land will remain property of the developer.

The City also acquired land located at 102 West Mills Avenue as part of a Chapter 380 agreement. Under the agreement, the developer has the right to construct the Hotel Sancho Panza. The agreement also provides a put option for the developer to purchase the land within one year from the hotel the opening.

	Balance August 31, 2016	Transfers	Increases	Decreases	Balance August 31, 2017
<b>Business-type activities:</b>					
<b>El Paso International Airport</b>					
Capital assets not being depreciated:					
Land	\$ 1,381,099	\$ —	\$ —	\$ —	\$ 1,381,099
Artwork	979,637	—	—	—	979,637
Construction in progress	12,440,841	(10,457,957)	18,146,124	—	20,129,008
Total capital assets not being depreciated	14,801,577	(10,457,957)	18,146,124	—	22,489,744
Capital assets being depreciated:					
Buildings	179,040,334	6,056,357	—	(1,327,168)	183,769,523
Improvements other than buildings	316,418,901	3,485,440	—	—	319,904,341
Vehicles and major equipment	19,117,216	916,160	855,846	(47,221)	20,842,001
Total capital assets being depreciated	514,576,451	10,457,957	855,846	(1,374,389)	524,515,865
Less accumulated depreciation for:					
Buildings	80,695,732	—	6,074,506	(387,092)	86,383,146
Improvements other than buildings	171,521,456	—	11,787,780	—	183,309,236
Vehicles and major equipment	15,531,912	—	1,588,415	(47,221)	17,073,106
Total accumulated depreciation	267,749,100	—	19,450,701	(434,313)	286,765,488
Total capital assets, being depreciated, net	246,827,351	10,457,957	(18,594,855)	(940,076)	237,750,377
El Paso International Airport capital assets, net	\$ 261,628,928	\$ —	\$ (448,731)	\$ (940,076)	\$ 260,240,121
<b>Environmental Services</b>					
Capital assets not being depreciated:					
Land	\$ 6,887,813	\$ —	\$ —	\$ —	\$ 6,887,813
Vehicles not in service	192,190	—	—	—	192,190
Construction in progress	504,122	(1,238,322)	7,265,778	—	6,531,578
Total capital assets not being depreciated	7,584,125	(1,238,322)	7,265,778	—	13,611,581
Capital assets being depreciated:					
Buildings	6,555,447	73,128	—	—	6,628,575
Improvements other than buildings	31,489,850	558,796	—	—	32,048,646
Vehicles and major equipment	85,741,487	(2,164,161)	8,601,918	(2,777,723)	89,401,521
Other assets	105,128	—	771,616	—	876,744
Total capital assets being depreciated	123,891,912	(1,532,237)	9,373,534	(2,777,723)	128,955,486
Less accumulated depreciation for:					
Buildings	1,093,351	—	137,093	—	1,230,444
Improvements other than buildings	25,927,740	(48,171)	245,744	—	26,125,313
Vehicles, major equipment and other assets	61,121,672	(710,105)	7,299,134	(2,777,723)	64,932,978

**NOTE 5. CAPITAL ASSETS (continued)**

	Balance August 31, 2016	Transfers	Increases	Decreases	Balance August 31, 2017
Total accumulated depreciation	88,142,763	(758,276)	7,681,971	(2,777,723)	92,288,735
Total capital assets, being depreciated, net	35,749,149	(773,961)	1,691,563	—	36,666,751
Environmental services capital assets, net	\$ 43,333,274	\$ (2,012,283)	\$ 8,957,341	\$ —	\$ 50,278,332
<b>Mass Transit</b>					
Capital assets not being depreciated:					
Land	\$ 11,871,902	\$ 103,505	\$ —	\$ —	\$ 11,975,407
Construction in progress	48,625,751	(40,016,229)	15,158,387	—	23,767,909
Total capital assets not being depreciated	60,497,653	(39,912,724)	15,158,387	—	35,743,316
Capital assets being depreciated:					
Buildings	62,462,684	26,076,684	—	—	88,539,368
Improvements other than buildings	50,121,314	7,835,601	—	—	57,956,915
Vehicles and major equipment	112,586,026	6,000,439	2,048,564	(2,900,672)	117,734,357
Total capital assets being depreciated	225,170,024	39,912,724	2,048,564	(2,900,672)	264,230,640
Less accumulated depreciation for:					
Buildings	23,520,723	—	2,808,278	—	26,329,001
Improvements other than buildings	28,569,937	—	2,902,452	—	31,472,389
Vehicles and major equipment	67,599,705	—	8,446,167	(2,900,672)	73,145,200
Total accumulated depreciation	119,690,365	—	14,156,897	(2,900,672)	130,946,590
Total capital assets, being depreciated, net	105,479,659	39,912,724	(12,108,333)	—	133,284,050
Mass Transit capital assets, net	\$ 165,977,312	\$ —	\$ 3,050,054	\$ —	\$ 169,027,366
<b>International Bridges</b>					
Capital assets not being depreciated:					
Land	\$ 2,469,531	\$ —	\$ —	\$ —	\$ 2,469,531
Construction in progress	91,357	—	8,493	—	99,850
Total capital assets not being depreciated	2,560,888	—	8,493	—	2,569,381
Capital assets being depreciated:					
Improvements other than buildings	24,586,964	—	—	—	24,586,964
Vehicles and major equipment	6,678,409	—	201,189	—	6,879,598
Total capital assets being depreciated	31,265,373	—	201,189	—	31,466,562
Less accumulated depreciation for:					
Improvements other than buildings	10,393,950	—	469,953	—	10,863,903
Vehicles and major equipment	5,115,046	—	726,143	—	5,841,189
Total accumulated depreciation	15,508,996	—	1,196,096	—	16,705,092
Total capital assets, being depreciated, net	15,756,377	—	(994,907)	—	14,761,470
International Bridges capital assets, net	\$ 18,317,265	\$ —	\$ (986,414)	\$ —	\$ 17,330,851
<b>Tax Office</b>					
Capital Assets being depreciated:					
Equipment	\$ —	\$ —	\$ 71,565	\$ —	\$ 71,565
Improvements other than buildings	32,500	—	—	—	32,500
Total capital assets being depreciated	32,500	—	71,565	—	104,065
Less accumulated depreciation for:					
Equipment	—	—	14,313	—	14,313
Improvements other than buildings	3,377	—	5,065	—	8,442
Total accumulated depreciation	3,377	—	19,378	—	22,755
Tax Office capital assets, net	\$ 29,123	\$ —	\$ 52,187	\$ —	\$ 81,310

**NOTE 5. CAPITAL ASSETS (continued)**

	Balance August 31, 2016	Transfers	Increases	Decreases	Balance August 31, 2017
<b>All business-type activities:</b>					
<b>Capital assets not being depreciated:</b>					
Land	\$ 22,610,345	\$ 103,505	\$ —	\$ —	\$ 22,713,850
Artwork	979,637	—	—	—	979,637
Vehicles not in service	192,190	—	—	—	192,190
Construction in progress	61,662,071	(51,712,508)	40,578,783	—	50,528,345
Total capital assets not being depreciated	<u>85,444,243</u>	<u>(51,609,003)</u>	<u>40,578,783</u>	<u>—</u>	<u>74,414,023</u>
<b>Capital assets being depreciated:</b>					
Buildings	248,058,466	32,206,169	—	(1,327,167)	278,937,468
Improvements other than buildings	422,649,527	11,879,837	—	—	434,529,364
Vehicles and major equipment	224,123,139	4,752,438	11,779,079	(5,725,615)	234,929,041
Other assets	105,128	—	771,617	—	876,745
Total capital assets being depreciated	<u>894,936,260</u>	<u>48,838,444</u>	<u>12,550,696</u>	<u>(7,052,782)</u>	<u>949,272,618</u>
<b>Less accumulated depreciation for:</b>					
Buildings	105,309,806	—	9,019,880	(387,092)	113,942,594
Improvements other than buildings	236,416,461	(48,171)	15,410,992	—	251,779,282
Vehicles and major equipment	149,368,336	(710,105)	18,074,171	(5,725,617)	161,006,785
Total accumulated depreciation	<u>491,094,603</u>	<u>(758,276)</u>	<u>42,505,043</u>	<u>(6,112,709)</u>	<u>526,728,661</u>
Total capital assets, being depreciated, net	<u>403,841,657</u>	<u>49,596,720</u>	<u>(29,954,347)</u>	<u>(940,073)</u>	<u>422,543,957</u>
All business-type activities capital assets, net	<u>\$ 489,285,900</u>	<u>\$ (2,012,283)</u>	<u>\$ 10,624,436</u>	<u>\$ (940,073)</u>	<u>\$ 496,957,980</u>

Depreciation expense was charged to business-type activities as follows:

International airport operations	\$ 19,450,701
Solid waste operations	7,681,971
Mass transit operations	14,156,897
International bridges operations	1,196,096
Tax office operations	19,378
Total	<u>\$ 42,505,043</u>

**Construction Commitments**

As of August 31, 2017:

	Remaining Commitment	Fund Equity and Other Sources Available
Governmental funds	\$ 91,657,933	\$ 282,340,002
Proprietary funds	49,492,431	18,301,228
Total	<u>\$ 141,150,364</u>	<u>\$ 300,641,230</u>

**NOTE 6. INTERFUND RECEIVABLES, PAYABLES AND TRANSFERS**

**A. Interfund Receivables and Payables**

Inter-fund receivable and payable balances at August 31, 2017, were as follows:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Capital Projects	El Paso International Airport	808,651 (1)
	Environmental Services	1,291,863 (1)
	Mass Transit	1,047,479 (1)
	International Bridges	253,352 (1)
	Nongrants	3,000,000 (3)
	Mass Transit	27,522,553 (4)
Nongrants	Other Federal Grants	2,490,612 (4)
	State Grants	924,841 (4)
	Public Health	994,727 (4)
	Mass Transit	7,000,000 (4)
El Paso International Airport	Mass Transit	5,000,000 (4)
Environmental Services	Mass Transit	3,000,000 (4)
Mass Transit	Capital Projects	2,107,710 (2)
Public Health Waiver Program	Nongrants	1,252,782 (4)
<b>Total</b>		<b><u>56,694,570</u></b>

- (1) IT projects allocation - VOIP - hardware
- (2) Unspent proceeds from issuance of debt
- (3) 380 Agreement funding
- (4) Loans to/from other funds

**CITY OF EL PASO, TEXAS**

**NOTES TO FINANCIAL STATEMENTS**

**Year Ended August 31, 2017**

**NOTE 6. INTERFUND RECEIVABLES AND PAYABLES (continued)**

**B. Transfers**

Transfers are made as required by the annual budget resolution or subsequent City Council action. Interfund transfers made during the year were as follows:

Transfer out:	Transfer in:						Total
	Governmental Activities			Non-major Governmental Funds	Business-type Activities		
	General Fund	Debt Service	Capital Projects		Environmental Services	Internal Service Funds	
<b>Governmental Activities:</b>							
General Fund	\$ —	\$ —	\$ 1,260,130 (4)	\$ 7,578,412 (4)	\$ —	\$ 465,086 (4)	\$ 9,303,627
CDBG	—	—	—	2,000,763 (4)	—	—	2,000,763
Debt Service	125,930 (4)	—	—	—	—	—	125,930
Capital Projects	335,210 (4)	5,097,978 (4)	—	64 (4)	—	—	5,433,251
Non-major Governmental Funds	209,543 (4)	—	70,862 (4)	—	4,984,650 (3)	—	5,265,055
<b>Total Governmental Activities</b>	<b>670,683</b>	<b>5,097,978</b>	<b>1,330,992</b>	<b>9,579,239</b>	<b>4,984,650</b>	<b>465,086</b>	<b>22,128,626</b>
<b>Business-type Activities:</b>							
Environmental Services	2,413,448 (2)	—	—	2,847,987 (4)	—	—	5,261,435
International Bridges	12,069,141 (1)	—	—	—	—	—	12,069,141
<b>Total Business-type Activities</b>	<b>14,482,589</b>	<b>—</b>	<b>—</b>	<b>2,847,987</b>	<b>—</b>	<b>—</b>	<b>17,330,576</b>
<b>Total</b>	<b>\$15,153,272</b>	<b>\$ 5,097,978</b>	<b>\$ 1,330,992</b>	<b>\$ 12,427,226</b>	<b>\$ 4,984,650</b>	<b>\$ 465,086</b>	<b>\$39,459,202</b>

(1) Operating transfers to General Fund

\$ 12,069,141

(2) Cost recovery for street usage

2,413,448

(3) Environmental Fee

4,984,650

(4) Other transfers:

Annual radio system transfer from County

125,930

Transfer for Debt Service

5,097,978

Transfer of EZ program from CDBG to Nonmajor Funds

2,000,763

Animal Shelter subsidy

6,512,516

Transfer of Animal Shelter from Enterprise to Nonmajor

574,567

CVB Reimbursement for Energy Efficiency Program

253,485

Transfer for DDC Debt Service

486,319

Transfer costs for City Wellness Clinics

465,086

Transfer from Council discretionary funds

152,939

To fund Projects for the Council Districts

1,458,624

380 Agreements Transfers

2,283,164

TRZ subsidy transfer

275,893

Other Transfers

304,700

\$ 39,459,202

**NOTE 7. OPERATING LEASES**

The City, as lessee, leases buildings, office space, and equipment under various lease agreements. Generally, these lease agreements provide for cancellation in the event the City Council does not appropriate funding in subsequent fiscal years. Therefore, the City is not obligated beyond each fiscal year. Management expects the leases to continue. These leases are treated as operating leases for accounting purposes. Operating lease expenditures for the year ended August 31, 2017 is \$1,341,395 for business-type activity and \$3,152,058 for general government, for a total of \$4,493,453. Additionally, the City, as lessor, leases certain buildings and equipment under various monthly lease agreements, which are cancelable.

A substantial portion of the airport terminal building and other areas are leased to third parties through operating leases. The majority of these include certified passenger airline leases, commercial and noncommercial aviation ground leases, industrial site leases, auto rental concession leases and food and beverage concession leases. These leases are for varying periods and require the payment of minimum annual rentals. Leases with concessionaires also require payment of percentage rents based on sales in excess of stipulated amounts. Rental income in connection with these operating leases and various other monthly rental agreements for the year ended August 31, 2017, was \$16,017,760 including percentage contingent rents of \$2,811,790.

The following is a schedule of airport revenue from future minimum rentals on non-cancelable operating leases as of August 31, 2017:

<u>Year Ending</u>	
2018	\$ 11,367,564
2019	9,301,137
2020	8,942,755
2021	8,544,064
2022	7,468,957
2023 - 2027	27,280,659
2028 - 2032	17,881,674
2033 - 2037	10,739,486
2038 - 2042	6,885,317
2043 - 2047	5,911,981
2048 - 2052	5,037,261
2053 - 2057	3,939,971
2058 - 2062	1,956,206
2063 - 2066	309,707
Total	<u><u>\$ 125,566,739</u></u>

Historical costs of these leased assets and related accumulated depreciation were \$178,267,507 and \$88,979,637, respectively, as of August 31, 2017.

**NOTE 8. LONG-TERM OBLIGATIONS****A. General Obligation Debt – Capital Projects Funding**

The Capital Projects Fund is used to account for the acquisition and construction of general government capital assets. Capital projects are funded primarily by the issuance of general obligation debt, other tax supported debt and intergovernmental revenues.

General obligation debt, which includes general obligation bonds, certificates of obligation and contractual obligations, is collateralized by the full faith and credit of the City and is reported as an obligation in the Statements of Net Position, Governmental and Business-type Activities. The City intends to retire its general obligation debt, plus interest, from future ad valorem tax levies and is required by ordinance to create, from such tax revenues, a sinking fund sufficient to pay the current interest due thereon and each installment of principal as it becomes due. The tax rate to finance the payment of principal and interest on general obligation long-term debt for the year ended August 31, 2017 was \$.274 per \$100 assessed valuation.

The City Charter states that all indebtedness of the City that is supported by property tax shall not exceed ten percent of the total assessed valuation of the City's tax rolls. Ten percent of the fiscal year 2017 total assessed valuation base equals approximately \$3,721,234,565. The City's legal debt margin was \$2,494,572,202. General obligation debt sold to fund assets of proprietary funds is reported as an obligation of those proprietary funds, although they are not obligated by the applicable bond indentures to repay any portion of principal and interest on outstanding general obligation debt. However, the City intends for the proprietary funds to meet the debt service requirements.

There are a number of limitations and restrictions contained in the various general obligation bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

**B. Notes Payable**

On August 22, 2017, the City issued \$3,500,000 in Tax Notes, Series 2017. The Tax Notes, Series 2017 were issued to fund the Vehicles Replacement Program, which will replace police cars, firetrucks, vehicles for public safety and health, and other City vehicles and equipment. The Notes have a maturity date of August 31, 2024.

To fund an efficient lighting program, the City has received loans from the State Conservations Office (SECO) to reduce utility costs and maximize efficiency. The principal and interest payments due annually for the State Energy Conservation Office (SECO) loans, and the 2017 Tax Notes for vehicle replacement are presented below.

Year Ending August 31,	Governmental Activities	
	Principal	Interest
2018	\$ 2,160,838	\$ 255,374
2019	2,211,099	207,315
2020	1,617,412	163,954
2021	1,650,130	131,730
2022	1,683,306	98,854
2023-2025	3,725,947	119,019
	<u>\$ 13,048,732</u>	<u>\$ 976,246</u>

**NOTE 8. LONG-TERM OBLIGATIONS (continued)**

**C. Long-term Debt**

The following summarizes significant facts about general obligation bonds, certificates of obligation, revenue bonds, notes payable, and capital lease obligations:

	Interest Rates at Issue date	August 31, 2017	Amount
Governmental activities	3.00 - 7.25%	3.00 - 7.25%	\$ 1,230,972,067
Business-type activities	3.00 -5.30%	3.625 - 5.00%	130,226,625
			<u>\$ 1,361,198,692</u>

**D. Defeased Bonds**

In fiscal year 2016, the City issued refunding bonds to advance refund certain general obligation and certificates of obligation bonds. The proceeds of the sale of the refunding bonds were deposited with an escrow agent in the amount necessary for the final payment of the refunded obligations. The funds are held in the escrow fund, which is irrevocably pledged to the payment of the principal and interest on the refunded obligations. The obligation below is remaining to maturity.

Refunded Bonds	Escrow Maturity	Balance
<b>Certificates of Obligation</b>		
Series 2009	8/15/2019	\$ 41,086,944

**E. Bonds Authorized and Unissued**

On August 31, 2017, there were \$224,274,672 authorized and unissued bonds as part of the 2012 Quality of Life Bonds. In addition, there were \$114,244,739 authorized and unissued bonds for planned street projects.

**F. Bonded Debt Requirements (General Obligation Bonds and Certificate of Obligation Bonds)**

Year Ending August 31,	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 49,002,505	\$ 54,429,781	5,152,495	\$ 5,243,045	\$ 54,155,000	\$ 59,672,826
2019	41,056,674	52,286,801	5,448,326	5,043,892	46,505,000	57,330,693
2020	42,292,887	50,489,088	5,132,113	4,822,468	47,425,000	55,311,556
2021	46,384,019	48,595,036	5,180,981	4,610,656	51,565,000	53,205,692
2022	45,398,755	46,442,065	5,221,245	4,398,456	50,620,000	50,840,521
2023-2027	258,530,027	197,158,678	25,739,973	18,562,635	284,270,000	215,721,312
2028-2032	312,951,156	126,363,478	24,888,844	12,564,950	337,840,000	138,928,428
2033-2037	205,473,392	55,488,848	27,426,608	6,216,206	232,900,000	61,705,054
2038-2042	135,033,960	16,168,378	10,386,040	840,741	145,420,000	17,009,119
Total	<u>\$ 1,136,123,375</u>	<u>\$ 647,422,153</u>	<u>\$ 114,576,625</u>	<u>\$ 62,303,049</u>	<u>\$ 1,250,700,000</u>	<u>\$ 709,725,201</u>

**NOTE 8. LONG-TERM OBLIGATIONS (continued)****G. Debt Service Requirements: Revenue Bond Requirements**

Year Ending August 31	Governmental Activities		Business-Type Activities		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 565,000	\$ 3,761,052	\$ 710,000	\$ 736,225	\$ 1,275,000	\$ 4,497,277
2019	645,000	3,738,176	735,000	713,150	1,380,000	4,451,326
2020	665,000	3,710,273	760,000	687,425	1,425,000	4,397,698
2021	650,000	3,681,569	790,000	657,025	1,440,000	4,338,594
2022	670,000	3,647,719	820,000	625,425	1,490,000	4,273,144
2023-2027	11,020,000	16,220,108	4,670,000	2,562,850	15,690,000	18,782,958
2028-2032	11,395,000	10,755,114	5,950,000	1,285,138	17,345,000	12,040,252
2033-2037	19,200,000	8,655,995	1,215,000	63,788	20,415,000	8,719,783
2038-2042	13,380,000	2,796,145	—	—	13,380,000	2,796,145
2043-2047	2,495,000	144,088	—	—	2,495,000	144,088
Total	\$ 60,685,000	\$ 57,110,239	\$ 15,650,000	\$ 7,331,026	\$ 76,335,000	\$ 64,441,265

**H. Capital Leases**

Capital leases are presented annually below:

	Year Ending August 31,	Governmental- type Activities
2018		\$ 5,920,831
2019		5,163,572
2020		3,490,692
2021		2,920,661
2022		2,699,205
Thereafter		2,255,714
Total minimum lease payments		\$ 22,450,675
Less: amounts representing interest		(1,335,716)
Present value of minimum lease payments		\$ 21,114,959

**NOTE 8. LONG-TERM OBLIGATIONS (continued)****I. Governmental Activities****Long-Term Obligations and Amounts Due Within One Year**

	Balance August 31, 2016	Additions	Reductions	Balance August 31, 2017	Due Within One Year
<b>Bonds Payable:</b>					
General Obligation Bonds	\$ 738,454,156	\$ —	\$ 21,727,294	\$ 716,726,862	\$ 34,054,659
Certificates of Obligation	435,085,290	—	15,688,779	419,396,513	14,947,846
Special Revenue Bonds	60,995,000	150,000	460,000	60,685,000	565,000
Add: Unamortized Premium	108,053,091	—	10,528,442	97,524,649	9,331,263
Total Bonds	<u>1,342,587,537</u>	<u>150,000</u>	<u>48,404,515</u>	<u>1,294,333,024</u>	<u>58,898,768</u>
Notes Payable	11,200,282	3,500,000	1,651,550	13,048,732	2,160,838
Capital Lease Obligation	26,404,782	—	5,289,821	21,114,961	5,471,006
Chapter 380 Agreement Obligations	—	30,364,727	3,000,000	27,364,727	—
Compensated Absences	50,029,021	10,083,496	17,263	60,095,254	18,028,576
Accrued Health Claims	15,816,426	34,296,371	34,079,733	16,033,064	4,778,696
Net Pension Liability	477,952,558	39,453,347	—	517,405,905	32,095,473
Other Post Employment Benefits	72,334,341	7,688,874	3,552,165	76,471,050	—
Claims and Judgments	500,000	—	—	500,000	—
Total Other Obligations	<u>654,237,410</u>	<u>125,386,815</u>	<u>47,590,532</u>	<u>732,033,693</u>	<u>62,534,589</u>
Governmental Activities Long-term Liabilities	<u>\$ 1,996,824,947</u>	<u>\$ 125,536,815</u>	<u>\$ 95,995,047</u>	<u>\$ 2,026,366,717</u>	<u>\$ 121,433,357</u>

The General Fund is used to liquidate the liability for Compensated Absences, Net Pension Liability, and net Other Post-employment Benefits obligations for all governmental activities.

**NOTE 8. LONG-TERM OBLIGATIONS (continued)****Business-type Activities:****Long-Term Obligations and Amounts Due Within One Year**

	Balance August 31, 2016	Additions	Reductions	Balance August 31, 2017	Due Within One Year
<b>EI Paso International Airport:</b>					
Revenue Bonds	\$ 16,330,000	\$ —	\$ 680,000	\$ 15,650,000	\$ 710,000
Certificates of Obligation Tax and Revenue	40,000,000	—	1,155,000	38,845,000	1,170,000
Add: Unamortized Premium	27,964	—	1,645	26,319	1,645
Less: Unamortized Discount	(68,920)	—	(4,745)	(64,175)	(4,701)
Total Bonds Payable	56,289,044	—	1,831,900	54,457,144	1,876,944
Compensated Absences	2,766,528	—	195,556	2,570,972	2,005,358
Net Pension Liability	9,925,656	1,402,507	—	11,328,163	1,030,579
Other Post Employment Benefits	4,896,567	305,674	—	5,202,241	—
Total EI Paso International Airport	73,877,795	1,708,181	2,027,456	73,558,520	4,912,881
<b>Environmental Services:</b>					
Certificates of Obligation	4,785,000	—	110,000	4,675,000	115,000
General Obligation	14,995,844	—	1,177,707	13,818,137	1,210,341
Add: Unamortized Premium	1,493,426	—	201,073	1,292,353	185,692
Total Bonds Payable	21,274,270	—	1,488,780	19,785,490	1,511,033
Landfill Closure and Post-Closure	20,022,418	828,866	—	20,851,284	1,042,564
Delta Transfer Station Post-Closure	123,876	1,610	—	125,486	—
Compensated Absences	1,160,062	182,142	85,762	1,256,442	980,025
Net Pension Liability	14,884,993	2,103,267	—	16,988,260	1,545,868
Other Post Employment Benefits	6,664,719	382,613	146,252	6,901,079	—
Total Environmental Services	64,130,338	3,498,498	1,720,794	65,908,041	5,079,490
<b>Mass Transit:</b>					
Certificates of Obligation	53,959,710	—	1,356,222	52,603,488	1,502,154
Add: Unamortized Premium	3,111,310	—	219,213	2,892,097	208,951
Total Bonds/Notes Payable	57,071,020	—	1,575,435	55,495,585	1,711,105
Compensated Absences	2,126,019	—	268,967	1,857,052	1,448,502
Claims and Judgments	467,845	—	103,158	364,687	—
Net Pension Liability	26,880,037	3,798,180	—	30,678,217	2,791,489
Other Post Employment Benefits	10,199,529	437,181	—	10,636,710	—
Total Mass Transit	96,744,450	4,235,361	1,947,560	99,032,251	5,951,096
<b>International Bridges:</b>					
General Obligation	5,750,000	—	1,115,000	4,635,000	1,155,000
Add: Unamortized Premium	418,228	—	133,323	284,905	104,907
Total Bonds Payable	6,168,228	—	1,248,323	4,919,905	1,259,907
Compensated Absences	235,937	—	21,653	214,284	167,141
Net Pension Liability	1,844,202	260,588	—	2,104,790	190,698
Other Post Employment Benefits	1,097,754	142,836	—	1,240,589	—
Total International Bridges	9,346,121	403,424	1,269,976	8,479,568	1,617,746
<b>Tax Office:</b>					
Compensated Absences	177,989	—	43,549	134,440	104,863
Business-type Activities Long-term Liabilities	\$ 244,276,693	\$ 1,450,446	\$ 6,906,183	\$ 247,112,820	\$ 17,666,076

**NOTE 8. LONG-TERM OBLIGATIONS (continued)**

The allocation of current portion is based on the same percentages used to distribute the Net Pension Liability.

**Net Pension Liability - Due within one year allocation**

	<b>Current Contribution</b>
<b>CEPF:</b>	
Contributions by the City	\$ 25,327,071
Less: EPWU portion	5,040,087
Total City contributions	20,286,984
<b>Enterprise Funds:</b>	
International Airport	1,030,579
Environmental Services	1,545,868
Mass Transit	2,791,489
International Bridges	190,698
Total Enterprise Funds	5,558,634
Governmental Funds	14,728,350
Fire and Police Pension	17,367,123
Total Governmental - Current	\$ 32,095,473

**J. Long-Term-Debt Outstanding**

	Issue Date	Maturity Date	Amount	Interest Rates Range	August 31, 2016	Current Issuance	Reductions	August 31, 2017
<b>Certificates of Obligation</b>								
SERIES 2007	5/1/2007	8/15/1932	\$ 35,000,000	4.000 to 5.000%	\$ 1,250,000	\$ —	\$ 1,250,000	\$ —
SERIES 2009	1/15/2009	8/15/2019	\$ 57,615,000	3.000 to 5.500%	6,740,000	—	2,450,000	4,290,000
SERIES 2009A	9/15/2009	8/15/2019	\$ 27,210,000	4.000 to 5.000%	6,560,000	—	2,080,000	4,480,000
SERIES 2009B Taxable BAB	9/15/2009	8/31/2034	\$ 45,740,000	4.781 to 6.163%	45,740,000	—	—	45,740,000
SERIES 2009C Taxable BAB	9/15/2009	8/31/1934	\$ 3,230,000	6.163 to 6.163%	3,230,000	—	—	3,230,000
SERIES 2010B Taxable BAB	11/1/2010	8/31/2036	\$ 74,340,000	3.220 to 6.7000%	71,810,000	—	2,585,000	69,225,000
SERIES 2011	9/1/2011	8/15/2032	\$ 32,775,000	3.500 to 5.000%	31,440,000	—	1,390,000	30,050,000
SERIES 2012	11/20/2012	8/15/2038	\$ 58,730,000	3 to 4%	55,145,000	—	3,694,999	51,450,001
SERIES 2013	10/17/2013	8/15/2039	\$ 65,395,000	1.000 to 5.000%	65,395,000	—	2,115,000	63,280,000
SERIES 2014 - (AIRPORT)	4/30/2014	8/15/2038	\$ 40,000,000	1.375 to 5.000%	40,000,000	—	1,155,000	38,845,000
SERIES 2014A	8/26/2014	8/15/2040	\$ 64,605,000	4.000 to 5.000%	64,605,000	—	1,590,000	63,015,000
SERIES 2015 - Combination Tax & Revenue	8/17/2015	8/31/2041	\$ 57,710,000	4.000 to 5.000%	57,710,000	—	—	57,710,000
SERIES 2016	6/30/2016	8/31/2042	\$ 84,205,000	4.000 to 5.000%	84,205,000	—	—	84,205,000
<b>Total Certificates of Obligation Bonds</b>					<b>\$ 533,830,000</b>	<b>\$ —</b>	<b>\$ 18,309,999</b>	<b>\$ 515,520,001</b>

**NOTE 8. LONG-TERM OBLIGATIONS (continued)**

	Issue Date	Maturity Date	Amount	Interest Rates Range	August 31, 2016	Current Issuance	Reductions	August 31, 2017
<b>General Obligations</b>								
SERIES 2007 REF BONDS	2/15/2007	8/15/2032	\$ 95,190,000	4.000 to 5.000%	805,000	—	805,000	—
SERIES 2007A	5/1/2007	8/15/2032	\$ 40,000,000	4.000 to 5.000%	1,390,000	—	1,390,000	—
SERIES 2007 PENSION BONDS	6/15/2007	8/15/2035	\$ 101,240,000	5.512 to 6.018%	86,730,000	—	2,575,000	84,155,000
SERIES 2008	2/15/2008	8/15/2033	\$ 56,455,000	3.500 to 5.000%	1,810,000	—	1,810,000	—
SERIES 2011 REFUNDING BONDS	9/1/2011	8/15/2021	\$ 5,860,000	2.000 to 3.000%	3,740,000	—	705,000	3,035,000
SERIES 2012 REFUNDING BONDS	11/20/2012	8/15/2028	\$ 20,710,000	2.000 to 4.000%	18,340,000	—	1,240,000	17,100,000
SERIES 2013 REFUNDING BONDS	9/30/2013	8/15/2028	\$ 24,285,000	1.250 to 5.000%	17,020,000	—	1,855,000	15,165,000
SERIES 2014 PENSION BONDS	1/16/2014	8/15/2034	\$ 110,610,000	0.622 to 5.177%	102,425,000	—	4,150,000	98,275,000
SERIES 2014 REFUNDING & IMP BONDS	5/20/2014	8/15/2039	\$ 88,515,000	3.375 to 5.000%	66,165,000	—	7,895,001	58,269,999
SERIES 2014A REFUNDING BONDS	8/26/2014	8/15/2031	\$ 49,360,000	2.000 to 5.000%	47,795,000	—	1,595,000	46,200,000
SERIES 2015 - REFUNDING & IMPROVEMENT	8/17/2015	8/31/2041	\$ 116,415,000	3.905 to 5.000%	116,415,000	—	—	116,415,000
SERIES 2016 - REFUNDING	6/15/2016	8/15/2034	\$ 121,260,000	3.500 to 5.000%	121,260,000	—	—	121,260,000
SERIES 2016	6/30/2016	8/31/2042	\$ 175,305,000	4.000 to 5.000%	175,305,000	—	—	175,305,000
<b>Total General Obligation Bonds</b>					<b>759,200,000</b>	<b>—</b>	<b>24,020,001</b>	<b>735,179,999</b>
<b>Total Tax Supported Debt</b>					<b>\$ 1,293,030,000</b>	<b>\$ —</b>	<b>\$ 42,330,000</b>	<b>\$ 1,250,700,000</b>
<b>Notes Payable</b>								
State Energy Conservation Office-09-00219-4-039-0	8/31/2010	8/31/2019	\$ 5,000,000	3.000%	1,823,114	—	589,635	1,233,479
State Energy Conservation Office-CLS0008	11/30/2012	8/31/2022	\$ 2,824,000	2.000%	1,754,576	—	280,958	1,473,618
State Energy Conservation Office - CL244	10/25/2013	8/31/2025	\$ 7,622,592	2.000%	7622592	—	780,957	6,841,635
Tax Notes, Series 2017	8/22/2017	8/31/2024	\$ 3,500,000	1.940%	—	3,500,000	—	3,500,000
<b>Total Notes Payable</b>					<b>\$ 11,200,282</b>	<b>\$ 3,500,000</b>	<b>\$ 1,651,550</b>	<b>\$ 13,048,732</b>
<b>Capital Lease Obligations</b>								
Banc of America Public-Capital Corp.	10/31/2011	6/1/2022	\$ 13,586,998.6	2.560%	7,084,325	—	1,735,783	5,348,542
Compass Mortgage Corp.-Loan 1	12/1/2012	9/1/2019	\$ 5,025,000	2.460%	2,007,002	—	878,343	1,128,659
Compass Mortgage Corp.-Loan 2 (#26)	9/1/2013	3/1/2020	\$ 5,020,000	2.050%	2,859,299	—	746,645	2,112,654
Motorola (IT)	11/1/2012	9/1/2022	\$ 20,063,362	2.26%	14,454,156	—	1,929,050	12,525,106
<b>Total Loans</b>					<b>\$ 26,404,782</b>	<b>\$ —</b>	<b>\$ 5,289,821</b>	<b>\$ 21,114,961</b>
<b>Revenue Bonds</b>								
RB 2011 - El Paso International Airport	6/1/2011	8/15/2033	\$ 16,330,000	3.250 to 5.000%	\$ 16,330,000	\$ —	\$ 680,000	\$ 15,650,000
<b>Special Revenue Bond (Thunder Canyon PID #1)</b>								
PID Revenue Bond	4/15/2007	8/15/2020	\$ 400,000	4.79%	150,000	—	35,000	115,000
<b>Special Revenue Bonds (Downtown Ballpark Venue Project)</b>								
Special Revenue Bonds, Series 2013A Partially Refunded	8/29/2013	8/15/2038	\$ 45,125,000	6.780 to 7.250%	27,670,000	—	—	27,670,000
Special Revenue Bonds, Taxable Series 2013B	8/29/2013	8/15/2043	\$ 15,660,000	7.25%	15,660,000	—	—	15,660,000
Special Revenue Bonds, Series 2016	6/29/2016	8/15/2043	\$ 17,665,000	2.000 to 5.000%	17,665,000	—	425,000	17,240,000
<b>Total Ballpark Revenue Bonds</b>					<b>60,995,000</b>	<b>—</b>	<b>425,000</b>	<b>60,570,000</b>
<b>Total Special Revenue Bonds</b>					<b>\$ 61,145,000</b>	<b>\$ —</b>	<b>\$ 460,000</b>	<b>\$ 60,685,000</b>

**NOTE 8. LONG-TERM OBLIGATIONS (continued)****K. Camino Real Hotel**

During the fiscal year the City entered into a Chapter 380 agreement with a developer for the renovation of the Camino Real Hotel in downtown El Paso. Under such agreement, the City will lease to the developer the property located at 101 South El Paso Street, El Paso, TX. Through the Chapter 380 incentives and City grants, the City will pay the developer a total not to exceed \$30,364,727. To fund the project, the City will issue Certificates of Obligation in the near future. The City plans to participate in the State's Convention Center Hotel Program ("SCCHP"), which will provide approximately \$24,364,727 in State Hotel Occupancy Tax (HOT) funds to the City for repayment of the debt. The City will also provide a maximum of \$6,000,000 in Redevelopment Grants. On the closing date, the first grant award totaling \$3,000,000 was paid to the developer. The remainder is due in future years. The City has recorded this as a deferred outflow and obligation.

**L. Solid Waste Landfill Closure and Post-closure Care Cost**

The City owns and operates two landfills located in the East (Clint) and Northeast (McCombs) areas of the City of El Paso. Closure and post-closure care of the landfills are subject to the requirements of Subtitle D of the Resource Conservation and Recovery Act (P.L. 94/580) and Sections 330.250-256 of Title 30 of the *Texas Administrative Code* administered by the Texas Commission on Environmental Quality (TCEQ), formerly the Texas Natural Resource Conservation Commission (TNRCC). These regulations require the City to place a final cover on each landfill when it ceases to accept waste and to perform certain maintenance and monitoring functions for 30 years after the closure of each landfill.

During fiscal year 2017, the City hired independent consultants to prepare a revised estimate of the total closure and post-closure costs for the landfills. The estimated total closure and post-closure costs is approximately \$77 million at August 31, 2017. The recognized portion of the total liability, approximately \$21 million, is computed based on the percentage of landfill capacity used, approximately 30.94%, as of August 31, 2017. The estimated total current cost of closure and post-closure care remaining to be recognized is \$4.8 million.

Clint Landfill (TCEQ Permit 1482) – The City closed this facility in fiscal year 2010. Closure and post-closure costs are estimated at \$11.9 million. Approximately \$8.6 million has been expended, resulting in the recorded liability of \$3.3 million.

Clint Landfill (TCEQ Permit 2284) – This landfill is currently accepting solid waste and capacity used is 33.68% at August 31, 2017. Closure and post-closure costs are estimated at \$21 million. The estimated closure and post-closure cost liability of \$7 million is included in the recorded liability.

McCombs Landfill (TCEQ Permit 729A) – This landfill is currently accepting solid waste and capacity used is 23.60% at August 31, 2017. Closure and post-closure costs are estimated at \$44 million. The estimated closure and post-closure cost liability of \$10.4 million is included in the recorded liability.

Actual costs may be higher due to inflation, changes in technology or changes in regulations. The Department of Environmental Services, an enterprise fund and part of the City will meet closure and post-closure care financial requirements.

Sections 330.280-286 of Title 30 of the Texas Administrative Code requires landfill owners to demonstrate financial assurance that they will have sufficient financial resources to satisfy closure and

**NOTE 8. LONG-TERM OBLIGATIONS (continued)**

post-closure care expenses at such time as these become payable. The regulations provide various means by which a municipality may demonstrate financial assurance. For the year ended August 31, 2017, the City met all of the financial tests required by the TCEQ and will demonstrate financial assurance to the TCEQ by way of the City’s most recent bond rating and/or financial ratios computed using 2017 audited financial statements.

The City owns and operates a transfer process facility for solid waste near Delta Street in El Paso (Delta Transfer Station – TCEQ Permit 728). Beginning in March 2000, Section 330.282 of Title 30, the *Texas Administrative Code*, administered by the TCEQ, required “a detailed written cost estimate, in current dollars, showing the cost of hiring a third party to close the process facility by cleaning up the litter and debris from the site and the equipment, hauling the litter and debris to an approved landfill and to render the facility closed by dismantling vital operational parts and locking up the facility.” At August 31, 2017, the estimated total cost of closure of the Delta Transfer Station is \$125,486 and is recognized as a liability in these financial statements.

**NOTE 9. FUND EQUITY**

Fund balance components of Governmental Funds are as follows:

	General Fund	CDBG	Debt Service	Capital Projects	Non-major Governmental Funds
<b>Fund balances:</b>					
<b>Non-spendable</b>					
Inventory and Prepaids	\$ 3,798,045	\$ —	\$ —	\$ —	\$ 170,824
<b>Restricted</b>					
Cash reserve	18,370,749	—	—	—	—
Debt Service	—	—	6,985,660	—	—
Municipal Court	—	—	—	—	3,886,051
Capital Projects	—	—	—	282,340,002	558,593
PEG	—	—	—	—	5,122,356
Civic Center	—	—	—	—	3,237,756
Public Works	—	—	—	—	162,140
Library	—	—	—	—	881,333
Police	—	—	—	—	3,635,130
Economic Development	—	—	—	—	6,722,120
PID #1	—	—	—	—	28,421
Public Health	—	—	—	—	10,567,072
<b>Committed</b>					
Parks	—	—	—	—	4,016,779
Economic Development	—	—	—	—	3,334,559
Mayor and Council	—	—	—	—	262,606
Museums	—	—	—	—	236,537
Animal Services	—	—	—	—	2,332,045
Fire	—	—	—	—	78,967
Police	—	—	—	—	1,892,302
Environmental Fee	—	—	—	—	2,332,772
<b>Unassigned</b>	22,651,640	(368,368)	—	—	(1,575,301)
<b>Total fund balances</b>	<u>\$ 44,820,434</u>	<u>\$ (368,368)</u>	<u>\$ 6,985,660</u>	<u>\$ 282,340,002</u>	<u>\$ 47,883,062</u>

**NOTE 9. FUND EQUITY (continued)****El Paso International Airport**

The Airport has various assets that are restricted for specific use in accordance with an agreement with the United States Government entered into in 1950 whereby 1,907 acres of land were donated to the Airport. Any revenues derived from the sale, lease or other use of this land must be utilized for the development, improvement, operation and maintenance of the Airport subject to the approval of the Federal Aviation Administration. Earnings from invested funds may be used for the purposes previously described. Under this agreement, advances to other Airport funds for development and improvement of Airport facilities are permitted, subject to approval from the Federal Aviation Administration.

**Business-type Activities**

The balances of the restricted net position accounts in the enterprise funds are as follows:

Restricted by Federal Aviation Administration:	
Restricted for customer facility charge:	
El Paso International Airport	\$ 15,150,337
Restricted for passenger facilities:	
El Paso International Airport	3,150,891
Restricted for debt service	1,633,000
Total Restricted Net Position	<u>\$ 19,934,228</u>

**NOTE 10. RISK MANAGEMENT**

The City is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

Claim liabilities are estimated considering the effects of inflation, recent claim settlement trends (including frequency and amounts of payouts) and other economic and social factors (including the effects of specific, incremental claim adjustment expense, salvage and subrogation).

**A. Internal Service Funds**

Provisions under various types of risk are presented below.

Internal Service Funds account for certain self-insured activities. These include Workers' Compensation, Group Health and Unemployment Compensation. The premiums are recognized as revenues in the Internal Service Funds and as expenditures or expenses in the governmental and proprietary fund types, as appropriate. Accruals for unpaid claims and claims incurred but not reported are reflected in the accompanying proprietary funds balance sheet as Claims and Judgments.

This provision is based upon City experience, including recoveries, since the inception of the insurance programs and represents the loss and an allocated loss expense. The total estimated claims payable at August 31, 2017, is \$16,033,064. There is no accrual required for unemployment compensation claims. The total claims liability reported in the Internal Service Funds at August 31, 2017, is based on

**NOTE 10. RISK MANAGEMENT (continued)**

the requirements of GASB Statement 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. No settlements in excess of insurance coverage were made in any of the prior three fiscal years.

Changes in the Funds' claims liability amount in fiscal 2017 and 2016 were:

	<b>Workers' Compensation</b>	<b>Group Health</b>	<b>Unemployment Compensation</b>	<b>Total</b>
Claims Liability at August 31, 2015	\$ 12,637,547	\$ 3,499,399	\$ —	\$ 16,136,946
Incurred Claims	2,298,096	31,774,953	186,809	34,259,858
Payment on Claims	(2,660,913)	(31,732,656)	(186,809)	(34,580,378)
Claims Liability at August 31, 2016	12,274,730	3,541,696	—	15,816,426
Incurred Claims	2,220,836	31,791,702	283,833	34,296,371
Payment on Claims	(2,108,277)	(31,687,623)	(283,833)	(34,079,733)
Claims Liability at August 31, 2017	<u>\$ 12,387,289</u>	<u>\$ 3,645,775</u>	<u>\$ —</u>	<u>\$ 16,033,064</u>

**B. General Liability Insurance**

The City is self-insured for general, police officers and certain automobile liability, with the exception of the Mass Transit Department's fleet of vehicles, liability for the Airport, certain automobile liability and certain other catastrophic liability for which the City is insured. Expenditures for self-insured liabilities are accounted for in the General Fund, which will pay any liabilities incurred.

The City has joined together with other governments in the Texas Municipal League Intergovernmental Risk Pool (TML). The City pays an annual premium to TML for auto vehicle insurance coverage. The agreement with TML provides that TML will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 to \$1,000,000 for each insurance event. The City anticipates no contingent losses.

TML has published its own financial report that can be obtained from the Texas Municipal League Intergovernmental Risk Pool, Austin, Texas.

The City continues to carry commercial fidelity bonds for elected officials and for management.

**C. Property and Casualty Insurance**

Property, casualty, boiler and machinery insurance is provided by a commercial carrier.

**D. Workers' Compensation Insurance**

The City self-insures against workers' compensation claims.

**NOTE 10. RISK MANAGEMENT (continued)**

**E. Group Health and Life Insurance**

The City maintains a group health insurance plan for active and retired employees and their eligible dependents through a self-insured plan of benefits. Aetna Inc. administers the plan. Reinsurance coverage limits the annual liability. Contributions to the fund are provided by both the City and participating Employees. A commercial carrier provides the group life insurance plan. Costs are recorded in the fund from which the employees' compensation is paid.

**F. Unemployment Compensation Insurance**

The City self-insures for unemployment compensation claims through an agreement with the Texas Workforce Commission (TWC). Under the agreement, TWC administers all claims and is reimbursed by the City for claims incurred plus administrative charges.

**NOTE 11. COMMITMENTS AND CONTINGENCIES**

**A. Litigation and Claims**

Claims and lawsuits against the City that are deemed as probable are estimated at an exposure range between \$500,000 and \$3,300,000. The City has accrued approximately \$865 thousand as of August 31, 2017 related to probable classified lawsuits.

**B. Grants**

The City has received Federal and State financial assistance in the form of grants and entitlements that are subject to review and audit by the granting agencies. Such audits could result in requests for reimbursement by the granting agency for expenditures disallowed under terms and conditions specified in the grant agreements. In the opinion of City management, such disallowed costs, if any, will not be significant.

**C. Other Bond Issues**

On April 15, 2007, the City issued \$400,000 in Public Improvement District #1 special assessment revenue bonds. This bond is not a general obligation of the City and does not give rise to a charge against the general credit or taxing powers of the City. At August 31, 2017, the outstanding liability of these bonds is \$115,000.

**NOTE 12. POST-EMPLOYMENT HEALTH CARE BENEFITS**

*Plan Description:* The City sponsors and administers an informal single-employer defined benefit healthcare plan. Texas statute provides that retirees from a municipality with a population of 25,000 or more and that receive retirement benefits from a municipal retirement plan are entitled to purchase continued health benefits coverage for the retiree and the retiree's dependents unless the retiree is eligible for group health benefits coverage through another employer. The State of Texas has the authority to

**NOTE 12. POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)**

establish and amend the requirements of this statute. The City does not issue standalone financial statements of the healthcare plan but all required information is presented in this report.

*Funding Policy:* The contribution requirements of plan members are established by City ordinance and may be amended as needed. Retiree coverage is the same as the coverage provided to active City employees. Retirees pay premiums ranging from \$101.38 per month to \$2,200.86 per month depending on the coverage elected. The City’s adopted budget policy maintains that retirees must pay 45% of the cost of premiums and the City will fund the remaining 55%. Retirees are responsible for the full cost of coverage for their dependents who participate in the plan. The cost of retiree health care benefits is recognized on a pay-as-you-go financing method and is recorded as an expense in the Internal Service Self-Insurance Fund as liabilities are incurred. There were 834 retirees covered under this plan at August 31, 2017. Dependent coverage was provided for 179 of the retirees. Total benefits paid by the City for retirees during the fiscal year were \$9,939,924. Retirees contributed \$4,681,165 or 47% of the total current year cost.

**Annual OPEB Cost and Net OPEB Obligation:** The City’s annual other post-employment benefit (OPEB) expense is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years.

The following table shows the components of the City’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the City’s net OPEB obligation:

Annual required contribution	\$ 11,405,479
Interest on net OPEB obligation	4,023,412
Adjustment to annual required contribution	(5,488,967)
Annual OPEB cost	<u>9,939,924</u>
Total annual employer contribution (pay-as-you-go)	<u>4,681,165</u>
Increase in net OPEB obligation	5,258,759
Net OPEB Obligation - August 31, 2016	95,192,911
Net OPEB Obligation - August 31, 2017	<u><u>\$ 100,451,670</u></u>

The components of the annual required contribution (ARC) calculation reflecting a 30-year amortization period is as follows:

Normal cost	\$ 4,668,248
Amortization cost	6,737,231
Annual required contribution (ARC)	<u><u>\$ 11,405,479</u></u>

**NOTE 12. POST-EMPLOYMENT HEALTH CARE BENEFITS (continued)**

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of August 31 is as follows:

Fiscal Year Ended August 31	Contributed OPEB Cost	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Percentage of Annual OPEB Cost	Net OPEB Obligation
2017	\$ 4,681,165	\$ 9,939,924	47.1%	9.9%	\$ 100,451,670
2016	4,156,177	9,939,924	41.8%	10.4%	95,192,911
2015	4,324,748	13,722,836	31.5%	15.3%	89,409,164

*Funded Status and Funding Progress:* The plan is self-funded, on a pay-as-you-go basis. The actuarial accrued liability for benefits was \$109,742,010, as of September 1, 2015, the most recent actuarial valuation date. The unfunded actuarial accrued liability (UAAL) remained \$109,742,010. The covered payroll was \$156,336,028 and the ratio of the UAAL to the covered payroll was 68%.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, will present multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

*Actuarial Methods and Assumptions:* Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the September 1, 2015, actuarial valuation, the projected unit credit cost method was used. The actuarial assumptions included a 4.5% investment rate of return based on the City's rate of return on investments for 2015, and an annual healthcare cost trend rate of 5.9% for 2015 and then reduced by decrements of one-half percent annually to an ultimate rate of 3.9% after sixty years. Both rates included a 2.3% inflation assumption. The UAAL is being amortized as a level dollar of projected payroll on an open basis. The remaining amortization period at August 31, 2016, was thirty years.

**NOTE 13. PENSION PLANS**

The employees of City of El Paso and EPWU participate in one of two single-employer defined benefit pension plans: the City Employees' Pension Fund (CEPF) and the Firemen and Policemen's Pension Funds (FPPF), which consists of separate divisions for firemen (FPPF-Firemen Division) and policemen (FPPF-

**NOTE 13. PENSION PLANS (continued)**

Policemen Division). Separate boards of trustees administer these pension plans as described in Note 1 (CEPF Board and FPPF Board, respectively).

The CEPF was established in accordance with authority granted by Chapter 2.64 of the El Paso City Code and is a component unit (fiduciary fund type) of the City. The FPPF was established in accordance with authority granted by Article 6243b of *Vernon's Annotated Texas Statutes* and is a component unit (fiduciary fund type) of the City. Each pension plan issues stand-alone financial statements that may be obtained from the respective funds' administrative offices.

The total for the City's pension liabilities, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense is as follows:

	CEPF	FPPF		Total
		Firemen	Policemen	
Net pension Liability	\$ 222,668,655	\$ 172,030,405	\$ 228,117,336	622,816,396
Deferred outflows of resources				
Contributions	25,327,071	7,488,480	9,878,642	42,694,193
Change in Experience	1,789,449	4,861,579	—	6,651,028
Investment Earnings	33,507,665	33,955,492	48,200,549	115,663,706
Change in Assumptions	31,692,945	5,832,408	—	37,525,353
Deferred inflows of resources				
Change in Experience	19,171,396	—	5,169,233	24,340,629
Change in Assumptions	—	—	17,628,091	17,628,091
Pension Expense	\$ 32,595,276	\$ 31,243,160	\$ 35,958,585	\$ 99,797,021

The CEPF amounts include an allocated portion for the City (80.1%) and EPWU (19.9%).

**A. Membership**

Membership of each plan as of the measurement date consisted of the following:

	August 31, 2017	December 31, 2016	
	CEPF	FPPF-Firemen Division	FPPF-Policemen Division
Retirees and beneficiaries receiving benefits	2,863	900	1,036
Terminated plan members entitled to but not yet receiving benefits	141	4	15
Active plan members	4,217	776	1,028
Total	7,221	1,680	2,079

**NOTE 13. PENSION PLANS (continued)****B. City Employees' Pension Fund****1. Plan Description**

Substantially all full-time employees of the City are eligible to participate in the retirement plan, except for uniformed firefighters and police officers who are covered under separate plans. Non-employer contributions are limited to participating employees of the CEPF.

The designated purpose of the CEPF is to provide retirement, death, and disability benefits to participants or their beneficiaries. The CEPF is administered by the CEPF Board, which is comprised of two citizens designated by the Mayor who are not officers or employees of the City, four elected City employees, a retiree, and two district representatives. The CEPF Board contracts with an independent pension custodian, investment managers, a pension consultant and an actuary to assist in managing the CEPF.

The City is the only contributing employer. The CEPF pays direct administrative costs. The City provides indirect administrative support such as office space, utilities, and payroll processing at no charge to the CEPF. The CEPF reimburses the City for various direct costs of processing pension checks, such as postage and supplies.

The CEPF is not required to maintain any legally required reserves.

Participation is mandatory for classified employees (except permanent part-time employees). For non-classified employees, participation is mandatory for employees hired after July 1997. Classified employees include all persons who are permanent, full-time employees and are not otherwise excluded from the CEPF.

Members who were first participants prior to September 1, 2011, accrue benefits based on Tier I provisions as follows:

- Participants who leave the Plan before completion of five years of service receive a refund of their contributions. Participants leaving the Plan with more than five years but less than 10 years of service may receive a refund of their contributions plus interest at 5.5% compounded annually. Participants become fully vested after reaching 40 years of age and ten years of service or 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 55 years of age with ten years of service, or (ii) 60 years of age with seven years of service or (iii) 30 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.5% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, or 2.5% of the average monthly base salary received by the employee during the year immediately prior to retirement, or 2.5% of the monthly base salary pay for the month immediately prior to retirement, whichever is greater, multiplied by the number of completed years of service, plus 0.2083 of 1% of such average for each additional completed or fractional part of a month of service.

**NOTE 13. PENSION PLANS (continued)**

Members who were first participants on or after September 1, 2011, accrue benefits based on Tier II provisions as follows:

- Participants who leave the Plan before completion of seven years of service receive a refund of their contributions. Participants leaving the Plan with more than seven years but less than 10 years of service may receive a refund of their contributions plus interest at 3% compounded annually. Participants become fully vested after reaching 45 years of age and seven years of service. Normal retirement is the earlier of: (i) 60 years of age with seven years of service, or (ii) 35 years of service, regardless of age. Participants who have met the minimum vesting requirements may retire, but defer receiving pension payments until they reach normal retirement age. Alternatively, such vested participants may elect an early retirement, which will provide an actuarially reduced pension benefit payment upon termination. Persons retiring and eligible to receive benefits receive monthly pension payments in the amount of 2.25% of average monthly gross earnings received by the employee during the three years immediately prior to retirement, multiplied by the number of completed years of service, plus .1875 of 1% of such average for each additional completed or fractional part of a month of service, limited to 90% of the three-year average final pay.

**2. Basis of Accounting**

The accounting policies of the CEPF have been established to conform to GAAP for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The CEPF is accounted for on an economic resources measurement focus using the accrual basis of accounting.

The preparation of financial statements in conformity with GAAP requires the CEPF's management to make estimates and assumptions that affect reported amounts of assets and liabilities at the date of the financial statements and the reported changes in net position during the reporting period. Actual results may differ from those estimates.

**3. Method Used to Value Investments**

Investments are stated at fair value in the accompanying statement of fiduciary net position. The fair value of marketable investments, including U.S. government securities, corporate bonds and stocks, is determined by the latest bid price or by the closing exchange price at statements of fiduciary net position dates. The fair value of investments in bank collective investment funds, commingled funds, real estate investment funds and private equity limited partnerships are determined by the investment managers based on the fair values of the underlying securities in the funds. In general, the fair value of the underlying securities held in the real estate investment funds are based upon property appraisal reports prepared by independent real estate appraisers (members of the Appraisal Institute or an equivalent organization) within a reasonable amount of time following acquisition of the real estate and no less frequently than annually thereafter. In general, the fair value of the underlying securities held in the private equity limited partnerships are based on ASC 820 - *Fair Value Measurements and Disclosures*, and limited partnership financial statements are audited by independent certified public accountants. Bank collective investment funds are governed by Section 9.18 of Regulation 9 issued by the Office of Comptroller of the Currency and by other applicable regulations as defined by the Mellon Bank, N.A. Employee Benefit Collective Investment Fund Plan.

**NOTE 13. PENSION PLANS (continued)**

Purchases and sales of securities are recorded on a trade-date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex-dividend date.

Net appreciation (depreciation) in fair value of investments reflected in the accompanying statements of changes in fiduciary net position represents gains or losses realized during the year plus or minus the change in the net unrealized gains or losses on investments. The change in net unrealized gains or losses on investments represents the change in the difference between the cost and fair value of investments at the beginning versus the end of the fiscal year.

**4. Concentration of Investments**

The following table presents the fair value of investments that represent 5% or more of the CEPF's net position available for benefits at August 31, 2017. These investments were in bank collective investment and commingled funds, which consist of diversified portfolios of investments as described above, and none of these investments consist of any one company holding 5% or more of the total investment.

<b>August 31, 2017</b>	<b>Shares/ Par Value</b>	<b>Fair Value</b>
EB MCM Daily Valued International Specialized Investment Fund		
Mellon Capital Management Corporation	135,488	\$ 60,090,017
EB MCM Daily Valued Stock Index Fund		
Mellon Capital Management Corporation	18,995	\$ 66,081,007
EB MCM Daily Valued Dynamic U.S. Equity Fund		
Mellon Capital Management Corporation	187,489	\$ 50,171,937
Allianz Structed Alpha 1000 Plus LLC		
Allianz Structed Alpha 1000 Plus LLC	57,584,830	\$ 57,584,830

**5. Contributions Required and Contributions Made**

Contribution rates for the CEPF are based upon local statutes and are not actuarially determined. However, each time a new actuarial valuation is performed, contribution requirements are compared to the actuarially determined amount necessary to fund service costs and amortize the unfunded actuarial accrued liability (using entry-age-normal cost method) over thirty years. As of the most recent actuarial valuation, the contribution rate was 23.00% of annual covered payroll.

Contributions for the year ended August 31, 2017, were made as follows:

	<b>Amount</b>	<b>Stated Percentage of Covered</b>
Employer Contributions	\$ 25,327,071	10.81%
Employee Contributions	15,154,341	12.19%
	<u>\$ 40,481,412</u>	<u>23%</u>

**NOTE 13. PENSION PLANS (continued)****6. Securities Lending Transactions**

The CEPF enters into securities lending transactions with broker/dealers for which fees are paid to the Fund and are recognized as revenue during the periods in which they were loaned. The Board may legally and contractually authorize the use of the Fund's securities for lending transactions. The securities involved in the lending transactions continue to be recorded at fair value in the accompanying financial statements. Parameters are established by the Fund's investment guidelines for securities lending transactions. These guidelines require that all securities lending occur with specified broker/dealers and that securities lending transactions be collateralized using U.S. issuer securities at 102% and non-U.S. issuer securities at 105% of the fair value of the securities loaned. U.S. issuer securities used as collateral are marked to market on a daily basis to evaluate whether the collateralization requirements of the fair value of investments is always maintained. The Fund may not pledge or sell the collateral securities except on default of the borrower and therefore are not recorded as assets in the accompanying financial statements. Because of this, the Fund administration believes there is some minimal credit risk associated with securities lending transactions. There is no loss indemnification provided to the Fund by the investment managers or broker/dealers.

**7. Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

For the August 31, 2016 rolled forward to August 31, 2017, actuarial valuation, the entry age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period. The actuarial assumptions included a 7.5% investment rate of return (net of administrative expenses), projected salary increases of 3.50%, which includes an inflation rate of 3.50% and no costs of living increases. The remaining amortization period at August 31, 2016, was 20 years using a level percent, open basis, amortization period. The mortality assumption was based on the RP-2014 employee tables with Blue Collar adjustment projected to 2030 using Scale BB. Mortality rates for disabled participants are based on the RP-2014 tables for Disabled Lives backed off to 2006. Retirement, disability, and termination rates were adjusted to reflect experience.

**NOTE 13. PENSION PLANS (continued)****7. Actuarial Methods and Assumptions (continued)**

The long-term expected rate of return on pension fund investments was determined using a building-block method in which best-estimate ranges of future real rates of return (expected returns, net of pension plan investment expense 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. Best estimates of arithmetic real rates of return for each major asset class included in the CEPF's target asset allocation as of August 31, 2017 are summarized in the following table:

<u>Asset Class</u>	<u>Long-term Expected Real Rate of Return</u>
Fixed income	1.69%
Domestic equity	9.41%
International equity	7.84%
Real estate	6.46%
Alternatives	7.39%

**8. Discount Rate**

The discount rate used to measure the total pension liability was 7.50 percent. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

The City's net pension liability as of August 31, 2017 was measured as of August 31, 2016, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of August 31, 2016 rolled forward to August 31, 2017.

Changes in the total pension liability, plan fiduciary net position and the net pension liability through the respective fiscal years ended, are as follows for the City Employees' Pension Plan in total and as apportioned to the City and EPWU, as determined by the City at August 31, 2017:

**NOTE 13. PENSION PLANS (continued)**

## Changes in Net Pension Liability - City of El Paso

	Increase (Decrease)		
	Total Pension Liability (a)	Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of 09/01/16	\$ 895,443,777	\$ 700,388,169	\$ 195,055,608
Changes for the year:			
Service Cost	23,021,764		23,021,764
Interest on total pension liability	66,845,529	—	66,845,529
Difference between expected and actual return	(22,728,241)	—	(22,728,241)
Changes in assumptions	37,572,898		37,572,898
Benefit Payments	(54,383,629)	(54,383,629)	—
Employer contributions	—	23,370,111	(23,370,111)
Plan Member contributions	—	14,886,249	(14,886,249)
Net investment income	—	40,260,073	(40,260,073)
Administrative expense	—	(1,417,530)	1,417,530
Net Changes	50,328,321	22,715,274	27,613,047
Balances as of 8/31/17	\$ 945,772,098	\$ 723,103,443	\$ 222,668,655

## Changes in Net Pension Liability - City

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of 09/01/16	\$ 717,250,466	\$ 561,010,923	\$ 156,239,543
Changes for the year:			
Service Cost	18,440,433	—	18,440,433
Interest on total pension liability	53,543,269	—	53,543,269
Difference between expected and actual return	(18,205,321)	—	(18,205,321)
Changes in assumptions	30,095,891		30,095,891
Benefit Payments	(43,561,287)	(43,561,287)	—
Employer contributions	—	18,719,459	(18,719,459)
Plan Member contributions	—	11,923,885	(11,923,885)
Net investment income	—	32,248,318	(32,248,318)
Administrative expense	—	(1,135,442)	1,135,442
Net Changes	40,312,985	18,194,933	22,118,052
Balances as of 8/31/17	\$ 757,563,451	\$ 579,205,856	\$ 178,357,595

**NOTE 13. PENSION PLANS (continued)**

Changes in Net Pension Liability - EPWU			
	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balances as of 09/01/16	\$ 178,193,312	\$ 139,377,246	\$ 38,816,066
Changes for the year:			
Service Cost	4,581,331	—	4,581,331
Interest on total pension liability	13,302,260	—	13,302,260
Difference between expected and actual return	(4,522,920)	—	(4,522,920)
Changes in assumptions	7,477,007		7,477,007
Benefit Payments	(10,822,342)	(10,822,342)	—
Employer contributions	—	4,650,652	(4,650,652)
Plan Member contributions	—	2,962,364	(2,962,364)
Net investment income	—	8,011,755	(8,011,755)
Administrative expense	—	(282,087)	282,087
Net Changes	10,015,336	4,520,342	5,494,994
Balances as of 8/31/17	<u>\$ 188,208,648</u>	<u>\$ 143,897,588</u>	<u>\$ 44,311,060</u>

**Sensitivity to Interest Rate Changes:** The following presents the resulting net pension liability calculated using the discount rate of 7.50 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

	1% Decrease (6.5%)	Current Discount Rate (7.5%)	1% Increase (8.5%)
City's net pension liability	\$ 334,907,282	\$ 222,668,655	\$ 128,639,579

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions**

For the year ended August 31, 2017, the City recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$26,108,816 for the City and \$6,486,460 for EPWU, and reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources for the City Employees' Pension Plan in total and as apportioned to the City and EPWU, as determined by the City at August 31, 2017:

**NOTE 13. PENSION PLANS (continued)**

City Employees' Pension Plan	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 1,789,449	\$ 19,171,396
Difference between expected and actual investment earnings on plan investments	33,507,665	—
Change in Assumptions for Pensions	31,692,945	—
Contributions subsequent to the measurement date	25,327,071	—
Total City Employees' Pension Plan	<u>\$ 92,317,130</u>	<u>\$ 19,171,396</u>

City	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 1,433,349	\$ 15,356,288
Difference between expected and actual investment earnings on plan investments	26,839,640	—
Change in Assumptions for Pensions	25,386,049	—
Contributions subsequent to the measurement date	18,857,276	—
Total City	<u>\$ 72,516,313</u>	<u>\$ 15,356,288</u>

EPWU	Deferred Outflows of Resources	Deferred Inflows of Resources
Difference in expected and actual experience	\$ 356,100	\$ 3,815,108
Difference between expected and actual investment earnings on plan investments	6,668,025	—
Change in Assumptions for Pensions	6,306,896	—
Contributions subsequent to the measurement date	6,469,795	—
Total EPWU	<u>\$ 19,800,817</u>	<u>\$ 3,815,108</u>

An amount of \$25.3 million reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2017.

Other amounts reported as deferred outflows and inflows of resources to the plan will be recognized in pension expense as follows:

Ending August 31	
2018	\$ 8,079,779
2019	7,934,690
2020	19,107,929
2021	4,647,708
2022	2,323,108
Thereafter	906,009
Total	<u>\$ 42,999,223</u>

**C. Firemen and Policemen's Pension Fund**

**1. Plan Description**

The designated purpose of the FPPF is to provide retirement, death and disability benefits to participants or their beneficiaries.

**NOTE 13. PENSION PLANS (continued)****1. Plan Description (continued)**

The FPPF is a defined benefit pension plan covering uniformed firefighters and police officers employed by the City of El Paso. Non-employer contributions are limited to participating employees. The City of El Paso is the only participating employer. The City's contributions to the FPPF are limited to 18.50% of compensation as provided by the City Charter. The projection of benefits for financial reporting purposes does not explicitly incorporate the potential effects of the legal funding limitations.

The FPPF – Firemen Division is a defined benefit, contributory retirement plan covering uniformed employees of the Fire Department. Participants are required to contribute 15.28% of their compensation to the FPPF.

The FPPF – Policemen Division is a defined benefit, contributory retirement plan covering uniformed employees of the Police Department. Participants are required to contribute 13.89% of their compensation to the FPPF.

Under both divisions, membership is mandatory and effective upon commencement of the probationary period. Participant contributions are not refunded if a participant terminates with less than five years of service and all benefits under the FPPF are terminated. Participant contributions (without interest) are refunded upon request if a participant terminates with five or more years of service but less than twenty years of service. All benefits under the FPPF are terminated if contributions are refunded.

Upon completion of ten or more years of service, a participant may terminate his service for reasons other than disability or death and receive a pension commencing at age fifty or immediately upon date of termination of service if at least fifty years of age at the time of termination. The pension benefit is equal to 2.75% times final compensation, times the number of years of service, not to exceed twenty-eight years. Normal retirement occurs when employees reach age forty-five and have twenty years of service. Retirement benefits are computed based upon 2.75% of the participant's final compensation times the number of years of service, not to exceed 77% of a participant's final compensation. A reduced pension benefit is permitted with twenty years of service and before age forty-five. The pension benefit is equal to 2.75% times final compensation times the number of years of service, not to exceed twenty-eight, multiplied by the appropriate actuarial reduction factor.

Final compensation is based upon the participant's highest wages in any calendar month within the 12 months preceding retirement excluding overtime pay. Except for disability pensions, a participant's final rank must have been held for at least six months in order to use the monthly pay at the higher rank. A surviving spouse receives 100% of the retiree's pension subject to certain provisions. A participant may receive disability benefits resulting from a total and permanent disability from an injury in the line of duty or any injury not due to the member's own fault. The disability benefit is equal to 2.75% of final compensation times the number of years of service, not to exceed twenty-eight years, with a minimum benefit of 50% of final compensation. Cost-of-living adjustments are granted to individuals retiring after March 23, 1980, subject to applicable waiting periods, except for deferred retirees. Participants who are fifty years old and have twenty and one-half years of service may elect the Back Deferred Retirement Option Program (Back DROP). The

**NOTE 13. PENSION PLANS (continued)****1. Plan Description (continued)**

Back DROP benefit is a lump sum payment and a reduced monthly benefit. The Back DROP period must be at least six months and not more than thirty-six months.

The FPPF is maintained under the provisions of Article 6243b of Vernon's Annotated Texas Statutes. All current FPPF provisions are set forth in the City of El Paso Firemen and Policemen's Pension Fund Plan Document as Restated Effective July 1, 2007. Benefit provisions, contribution obligations and funding policy of the Fund are established and amended in accordance with authority granted by Article 6243b of Vernon's Annotated Texas Statutes. The costs of administering the Fund are paid out of the Fund's assets. The complete Plan Document containing benefit and vesting provision in their entirety is available at the Pension office.

**2. Basis of accounting**

The accounting policies of the Fund have been established to conform to generally accepted accounting principles for state and local governments as promulgated by authoritative pronouncements issued by the Governmental Accounting Standards Board. The Fund is accounted for on an economic resources measurement focus using the accrual basis of accounting.

**3. Valuation of investments**

Investments are stated at fair value in the accompanying statements of fiduciary net position. The fair value of marketable investments is determined by the latest bid price, closing exchange price at year end, institutional bid evaluation or net asset value (NAV) as considered appropriate for each investment type by the Custodian. The estimated fair value of alternative investments is based on the most recent valuations provided by the external investment managers. Because alternative investments are not readily marketable, their estimated value is subject to uncertainty and, therefore, may differ from the value that would have been used had a ready market for such investments existed. Third - party investment managers administer substantially all marketable securities of the Fund. Gains and losses resulting from securities transactions are recorded in investment income.

Purchases and sales of securities are recorded on a trade - date basis. Interest income is recorded on the accrual basis. Dividends are recorded on the ex - dividend date.

Net change in fair value of investments reflected in the accompanying statements of changes in fiduciary net position available for benefits represents the net realized and unrealized gains or losses on investments, which equals the difference between the cost and the market value of investments at the beginning versus the end of the year, plus or minus gains or losses realized during the year.

**NOTE 13. PENSION PLANS (continued)**

**4. Contributions Required and Contributions Made**

Funding policies providing for periodic employer contributions are determined by City Charter, and employee contributions as established by the Board of Trustees and a vote of active participants in accordance with Article 6243b (Act) of Vernon's Annotated Texas Statutes.

Actuarial valuations are prepared biennially for the Fund.

In the event, based upon the results of the actuarial valuations, a qualified actuary determines that the total contribution rate is insufficient to amortize an unfunded actuarial accrued liability, the City's governing body may increase its contribution rate.

Based upon the results of the actuarial evaluations, if present contribution requirements are insufficient to accumulate sufficient assets to amortize the unfunded actuarial accrued liability, the FPPF's Board of Trustees, after approval by secret ballot of the rank and file policemen or firemen, could increase participant contributions or decrease participant benefits to maintain the actuarial integrity of the system. The City's contribution is determined by a formula set forth in the City Charter.

Employer contributions for the year ended August 31, 2017 were \$11,295,350 and \$14,486,842 for the Firemen and Policemen Divisions, respectively.

**5. Securities Lending Transactions**

The Fund is authorized to enter into securities lending transactions under Texas State Statutes Section 2256.0015. The Fund has a securities lending agreement with its custodian under which Fund owned investments are lent to one or more borrowers for a fee. The lending agent is responsible for collecting required collateral in the form of U.S. dollar cash, securities issued or guaranteed by the United States Government or its agencies or instrumentalities, or irrevocable letters of credit issued by banks independent of the borrowers.

The lending agent is authorized to enter into securities lending transactions of U.S. and non-U.S. securities in accordance with the terms of a securities lending authorization agreement. The lending agent is authorized to lend the Fund's securities to one or more borrowers, as appropriate, but limited to only central approved borrowers.

The lending agent has indemnified the Fund harmless from any losses, damages, costs or expenses the Fund may incur if the lending agent is unable to recover borrowed securities or distributions made during the term of the loans with respect to those securities as a result of the lending agent's failure to make a reasonable determinations of the creditworthiness of a borrower, demand adequate and appropriate collateral on a timely basis or to perform its duties under the agreement with the Fund. The agreement states that collateral must have a market value equal to no less than 100% of the market value of the borrowed securities.

Each business day, the lending agent and the Fund determine the market value of the collateral and the borrowed securities. If on any business day the market value of all the collateral is less than the required value, the lending agent will demand from the borrower, additional collateral so

**NOTE 13. PENSION PLANS (continued)**

**5. Securities Lending Transactions(continued)**

that the market value of the additional collateral, when added to the market value of the collateral previously delivered to the lending agent equal the required value. If on any business day the market value of all the collateral is greater than the required value, the lending agent will, upon request from the borrower, redeliver the borrower such amount of collateral selected by the borrower so that the market value of all collateral equals the required value. The Fund’s security lending policy requires investment grade securities. Cash collateral received from the borrower is subsequently reinvested in a securities lending collateral investment pool. As of December 31, 2016, the Fund’s securities lending obligation exceeded the fair value of the underlying securities resulting in no credit risk for the Fund.

The following tables summarize the fair value measurements of lent securities, cash collateral received, and the fair value of the reinvested cash collateral as of December 31, 2016:

Fair Value of Underlying Securities	2016	
	Collateral Received	Collateral Investment Value
\$ 80,070,729	\$ 82,219,120	\$ 82,623,373

**6. Actuarial Methods and Assumptions**

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Actuarially determined amounts are subject to revision as actual results are compared with past expectations and new estimates are made about the future.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

The actuarial assumptions used in the January 1, 2016 actuarial values were based on the results of an experience study for the six-year period ending December 31, 2015. For the January 1, 2016 actuarial valuations used in the determination of the total pension liability at December 31, 2015, the measurement date, the entry age normal cost method was used. The actuarial value of pension benefit assets was determined using techniques that spread the effects of short-term volatility in the market value of investments over a five-year period.

The actuarial assumptions included a 7.75% investment rate of return (net of administrative expenses), projected salary increases of 3% , which includes an inflation rate of 3%. A 3% cost of living adjustment is provided at age 60 or on the fifth anniversary of the pension

**NOTE 13. PENSION PLANS (continued)****6. Actuarial Methods and Assumptions (continued)**

commencement. Mortality rates were based on the RP-2014 employee tables with Blue Collar adjustment projected to be 2030 using scale BB. Mortality rates for the disabled participants are based on the RP-2014 Tables for Disable Lives.

The long-term expected rate of return on pension plan investments was based primarily on historical returns on plan assets, adjusted for changes in target portfolio allocations and recent changes in long-term interest rates based on publicly available information.

	Long-term Expected Real Rate of Return	Target Allocation
Equities		
Large cap domestic	6.07%	19.25%
Small cap domestic	6.11%	8.25%
International developed	6.41%	22.50%
Emerging markets	7.69%	5.00%
Real estate	4.00%	10.00%
Private equity	6.50%	10.00%
Fixed Income		
Domestic core	1.88%	20.00%
Bank loans	2.50%	5.00%

**7. Discount Rate**

The discount rate used to measure the total pension liability was 7.75 percent. Based on plan funding expectations, no actuarial projection of cash flows was made as the plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of the projected benefit payments to determine the total pension liability.

**NOTE 13. PENSION PLANS (continued)**

Changes in the total pension liability, plan fiduciary net position and the net pension liability for the year ended August 31, 2017 were as follows:

<b>Firemen Division</b>			
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Amounts as of August 31, 2016	\$ 667,792,887	\$ 505,209,625	\$ 162,583,262
Changes for the year:			
Service cost	12,311,426	—	12,311,426
Interest (on the total pension liability)	51,423,417	—	51,423,417
Difference between expected and actual experience	—	—	—
Contributions by the City	—	11,295,350	(11,295,350)
Contributions by the firefighters	—	9,183,060	(9,183,060)
Net investment income	—	34,732,553	(34,732,553)
Benefit payments	(33,152,701)	(33,152,701)	—
Administrative expenses	—	(923,263)	923,263
Assumption changes	—	—	—
Other	—	—	—
Net Changes	<b>30,582,142</b>	<b>21,134,999</b>	<b>9,447,143</b>
Amounts as of August 31, 2017	<b>\$ 698,375,029</b>	<b>\$ 526,344,624</b>	<b>\$ 172,030,405</b>

<b>Policemen Division</b>			
	<b>Total Pension Liability (a)</b>	<b>Plan Fiduciary Net Position (b)</b>	<b>Net Pension Liability (a) - (b)</b>
Amounts as of August 31, 2016	\$ 952,670,741	\$ 740,006,100	\$ 212,664,641
Changes for the year:			
Service cost	17,694,637	—	17,694,637
Interest (on the total pension liability)	73,399,505	—	73,399,505
Difference between expected and actual experience	—	—	—
Contributions by the City	—	14,486,842	(14,486,842)
Contributions by the police	—	11,081,648	(11,081,648)
Net investment income	—	50,933,392	(50,933,392)
Benefit payments	(46,549,983)	(46,549,983)	—
Administrative expenses	—	(860,435)	860,435
Assumption changes	—	—	—
Other	—	—	—
Net changes	<b>44,544,159</b>	<b>29,091,464</b>	<b>15,452,695</b>
Amounts as of August 31, 2017	<b>\$ 997,214,900</b>	<b>\$ 769,097,564</b>	<b>\$ 228,117,336</b>

**Sensitivity to Interest Rate Changes:** The following presents the resulting net pension liability calculated using the discount rate of 7.75 percent, as well as what the net pension liability would be if it were calculated using a discount rate that is 1 percentage point lower or 1 percentage point higher than the current rate:

**NOTE 13. PENSION PLANS (continued)**

Firemen Division		
1% Decrease (6.75%)	Current Single Rate Assumption (7.75%)	1% Increase (8.75%)
\$ 270,920,309	\$ 172,030,405	\$ 91,926,789

Policemen Division		
1% Decrease (6.75%)	Current Single Rate Assumption (7.75%)	1% Increase (8.75%)
\$ 371,317,396	\$ 228,117,336	\$ 112,240,965

**Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the Plan**

For the year ended August 31, 2017, the City recognized pension expense, as measured in accordance with GASB Statement No. 68, of \$31,243,160 for firemen's and \$35,958,585 for policemen's, and reported deferred outflows of resources and deferred inflows of resources related to the plan from the following sources:

Firemen Division		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 7,488,480	\$ —
Net difference between projected and actual earnings on pension plan investments	33,955,492	—
Change in Assumptions	5,832,408	—
Differences between expected and actual experience	4,861,579	—
	<u>\$ 52,137,959</u>	<u>\$ —</u>

Policemen Division		
	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	\$ 9,878,642	\$ —
Net difference between projected and actual earnings on pension plan investments	48,200,549	—
Changes in assumptions	—	17,628,091
Differences between expected and actual experience	—	5,169,233
	<u>\$ 58,079,191</u>	<u>\$ 22,797,324</u>

\$17,367,122 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction in the net pension liability for the year ending August 31, 2017.

**NOTE 13. PENSION PLANS (continued)**

Other amounts reported as deferred outflows or deferred inflows of resources related to the plan will be recognized in pension expense as follows:

Year Ending August 31	Policemen Division	Firemen Division
2018	\$ 11,589,754	\$ 14,394,955
2019	11,589,756	14,394,953
2020	6,280,100	10,739,590
2021	(4,056,385)	2,896,478
2022	—	2,117,621
Thereafter	—	105,882
	<u>\$ 25,403,225</u>	<u>\$ 44,649,479</u>

**NOTE 14. TAX ABATEMENTS**

The City of El Paso provides 380, 351 and 312 incentive agreement opportunities for projects for new or expanding businesses. Consideration for financial incentives is given if any business or commercial development project substantially enhances economic health of the City, if results create a net increase or retention of quality jobs, adds to the tax base, improves or enhances economic welfare of residents or businesses of the city, or demonstrates the potential to generate revenues to the City which outweigh costs associated with incentives. Projects must demonstrate public purpose, economic benefit, increase private capital investment in the community, or encourage development in targeted city locations, businesses or clusters that enhance the City’s economy.

Businesses must provide solid evidence of financial stability and capacity to complete the project, must be in compliance with all local, state and federal laws and must be current on all city taxes and any other obligation to the City of El Paso.

**A. City of El Paso Incentives Policy, Guidelines and Criteria**

**1. Qualification Criteria**

Projects are required to meet qualifying standards in at least one of four (4) categories detailed in the 2015 City of El Paso Incentives Policy - Guidelines and Criteria in order to be eligible for incentives:

- Category 1: Related to Quality Jobs to be eligible for a 40% grant.
- Category 2: Related to Business Type - Target Industry Cluster to be eligible for a grant up to 50%.
- Category 3: Related to Capital Intensive Projects. Guidelines in the policy for specified percentage of jobs above the Median County Wage and specified ranges of Capital Investment, companies may be eligible for grants ranging between 50% to 70%
- Category 4: Related to Retail Development / Destination Retail / Retail Distribution Center to be eligible for up to a 100% rebate on the city’s portion of property taxes (incremental to base year value) and or up to 100% rebate on the city’s portion of sales taxes.

**NOTE 14. TAX ABATEMENTS (continued)**

**2. Bonus Incentives**

Additionally, up to a 50% rebate may also be available to those companies that meet at least one of the qualifying policy-specific criteria detailed in the 2015 City of El Paso Incentives Policy - Guidelines and Criteria related to company location, corporate headquarter operations and minimum personnel employed, research and development, employment of veterans, collaboration or business partnerships with higher education institutions or technical institutions, and wages.

**3. Economic Development Incentives**

Upon completion of an economic impact analysis, the Economic & International Development Department will consider and recommend projects for incentives. The incentive of choice is the Chapter 380 Agreement. However, the City reserves the right to use any other source (City, State, Federal, Foundation, etc.) in the award of incentives. Generally, tax abatements/rebates and Chapter 380 agreements will not be used simultaneously unless the revenue stream from which the Chapter 380 agreement is paid and derived from sources other than property tax. Agreements may be conditioned on the completion of specific improvements to real property and/or job numbers and salary levels being met and shall contain recapture clauses in the event that such conditions are not met. In most cases, incentives will be limited to 50% of the calculated direct, indirect, and induced benefit (excluding any bonus incentives earned) unless extraordinary benefit can be shown. All incentive packages will be limited to 100% of the real property taxes actually collected in any given year unless approved by specific council action. Final percentages of all grants are at the sole discretion of the City Council.

**4. Ineligible and Restricted Areas or Uses:**

Projects that have been issued a building permit, including any conditional permits or projects that do not meet the Wage Requirements, except as specified in City's Incentive Policy Qualification Criteria are not eligible for incentives.

**B. Incentive Programs Available**

Incentives are available for projects that demonstrate the potential to generate revenues which outweigh costs associated with incentives through Infill Development (380 and 312) Incentive Agreements, El Paso "Strategic" Agreements, El Paso Multi-Family Agreements, and Transit Oriented Development Incentive Agreements, which was adopted by City Council, replacing the El Paso Sustainable City Centers Incentives (SCCI) Policy, on May 30, 2017. While several SCCI Agreements remain active, no future funding will be available through SCCI Agreements. Incentives are considered on a case-by-case basis and approved at the discretion of the City Council.

**1. Infill Development Incentive (380 and 312) Agreements**

Effective May 30<sup>th</sup>, 2017, The City Council repealed and replaced the original Infill Development Policy. The purpose of the City's Infill Development Incentive Policy is to provide financial incentives to develop vacant and underutilized properties within the City limits, in accordance with Title 20 of the City Code. The City Council adopted a revised Infill Development Incentive Policy to promote infill development through Construction Materials Sales Tax Rebates, Property Tax Rebates, Lien Waivers, and Building Construction Fee Rebates for eligible projects meeting specific criteria.

**NOTE 14. TAX ABATEMENTS (continued)**

Chapter 312 components are usually attached to a Chapter 380 agreement. The Applicant/Property Owner of the taxable property must file an Application for Infill Development Incentives with the City of El Paso, Economic & International Development Department.

**Eligibility Criteria**

To be eligible for incentives under this policy, the property must meet the definition for infill development per Section 20.02.471 of the City Code, the property must be located within the jurisdiction limits of the City and the property must meet the location criteria, as per Subsection 20.10.280(B) of the City Code and must adhere to the criteria listed under the Program Policy. Any project proposing development activity defined in Subsection 20.10.280(K) of the City Code shall not be eligible for incentives contained herein.

**Program Policy**

Project consideration includes the potential impact of the reinvestment project on the immediate and surrounding area. The proposed infill development project must meet the mandatory design and no less than three (3) of the selective design requirements specified in Subsection 20.10.280 of the City Code. In addition projects will also be evaluated on criteria specified in the City of El Paso Infill Incentive Policy "Impact Fund" related to minimum investment and construction/rehabilitation of Brownfield or Greyfield development.

The project must show the potential to generate revenues to the City that outweigh costs associated with incentives through the retention or increase in jobs, adding to tax base, additional rental housing units, or proof of improvement of the economic welfare for residents or businesses. The applicant/property owner must prove they neither caused nor contributed to the present blighted condition, must prove financial stability to complete the project, must be in compliance with all local, state and federal laws, and must be current on taxes and obligations to the City. The project must not include the demolition of properties with an historic overlay. Brownfield and Greyfield projects are subject to a minimum \$200,000 investment.

**Supplemental Benefits****Lien Waivers**

Available in conjunction with receipt of a direct finance incentive contract, the Applicant/Property Owner receives release of liens which are attached to properties as the result of condemnation, demolition, sanitation, or other city-imposed non-property tax liens, excluding Community Development or other federally-funded liens. Release of liens would only be allowed in consideration for the Applicant's investment in construction/rehabilitation of eligible facilities and waived only upon the sale of the property to a new owner, and confirmation that the Applicant/Property Owner did not contribute to the liens being attached to the property.

**Exclusions**

Proposed development for any existing project, not meeting zoning standards, any greenfield development, additions to existing structures on lots restricted to single family residential use, that does not increase the density, or structures that encroach into required setbacks built without permits shall not be eligible for incentives.

**NOTE 14. TAX ABATEMENTS (continued)**

- **Infill 380 Agreements:**

The City of El Paso is authorized to provide sales tax rebate benefits in accordance with Chapter 380 of the Texas Local Government Code, allowing the City to make loans or grants of public funds for the purposes of promoting local economic development and stimulating business and commercial activity within the City of El Paso.

The Sales Tax Rebate Program (for Construction Materials) is an economic development tool designed to provide incentives for the new construction or renovation of Commercial, Industrial, Retail and Multi-Family facilities that are considered infill development. A 100% rebate of the City's (1%) portion of sales tax used on materials and labor that has been remitted to the City's general fund, for construction is available for investments on eligible properties that are equal or greater than the CAD value of the property.

A Chapter 380 rebate contract will be executed if the City concludes that such development will advance the City's revitalization strategy for future growth and results in the creation of additional jobs in the City, the value of such benefits to the City outweighing the amount of the rebate the City will provide under the agreement.

The Applicant/Property Owner's eligibility for any payment is contingent upon satisfying the requirements of the agreement and demonstrating they have not incurred any delinquent taxes by providing certified city tax certificates for each parcel of property owned in the City of El Paso. A rebate package must be submitted no more than once a year during the term of the contract along with documentation of qualified expenditures incurred in the construction of the development and the applicant has paid or caused to be paid all the City's local sales and use taxes associated with the qualified expenditures.

- **Infill 312 Agreements**

The City of El Paso is authorized to provide property tax rebates in accordance with the State of Texas Property Redevelopment and Tax Abatement Act, Chapter 312 of the Texas Tax Code. This Infill Development Incentive Policy was adopted as a supplemental policy to provide financial incentives to develop vacant and underutilized properties within the City limits, in accordance with the standards established within Title 20 of the City Code, through property tax rebates for eligible projects meeting certain criteria.

The purpose and intent of this program is to serve as an economic development tool to assist and encourage certain types of real and personal property investments. Applicants must meet all of the general and qualifying criteria in the City's Incentive Policy, and provide "added value" to a property in which the minimum property value is established by the provision in that policy. The tax abatement will be a percentage based upon the increased value of the Real Property over the value in the base year. When eligible entities have submitted evidence that all requirements have been met, the City will notify the Central Appraisal District and the tax abatement will be applied.

Applicant/ Property Owners are required to comply with procedural guidelines. The submittal of a detailed site development plan is required in accordance with Title 20 of the City Code to be reviewed by the City's Planning Division. Consideration will be given by the City Manager or designee. When authorized by City Council, the City may enter into a Chapter 380 and/or Chapter 312 agreement. A pre-submission conference will be required for projects receiving incentives

**NOTE 14. TAX ABATEMENTS (continued)**

through the Planning and Inspections Department to review proposed development and provide proper instruction for permitting of the project.

If a project is not completed as specified, or if the terms of the agreement are not met, the City has the right to cancel or amend the incentive agreement, recapture any rebated or exempted taxes, and assess penalty payments for the amounts previously secured by City liens against the property.

With the exception of one, all Infill agreements have received a Chapter 312 tax abatement component attached to their Chapter 380 Agreement.

**2. El Paso Strategic Agreements**

A portion of the City’s 380 agreement portfolio is dedicated specifically to the strategic advancement of developments which will induce the investment of private resources in productive business enterprises designed to provide employment and training to residents and economically disadvantaged individuals. This portion of the portfolio contains incentives that will contribute to the achievement of City plans for development and revitalization of specific areas and target industries. “Strategic” agreements serve to improve the visual impression of the community, stabilize and expand El Paso’s tax base, and create innovative recreational, educational and cultural opportunities. Applicants must meet all of the general and qualifying criteria in the City’s Incentive Policy Guidelines and Criteria. Approved incentives may include a rebate of a percentage of personal and real property taxes and/or a rebate of a percentage of City’s 1% sales and use tax revenues.

With a few exceptions, the majority of Strategic Agreements are for the purpose of job retention, expansion, and additional job creation. Exception Agreements approved have included Multi-Family Unit Project (New Smart Code Development), Development on Blighted Lot, Target Industry, and Training and Health Care Development.

**Additional Incentives**

There are a select number of commercial businesses that have been selected to receive additional incentives:

**Chapter 351 Hotel Occupancy Tax (H.O.T.) Rebates:**

Chapter 351 of the Texas Tax Code states that revenue from the municipal hotel occupancy tax may be used to promote tourism and the convention and hotel industry within defined parameters. Use is limited to the acquisition of sites for the construction, improvement, enlarging, equipping, repairing, operation, and maintenance of convention centers facilities or visitor information centers, or both; Furnishings of facilities personnel, and material for the registration of convention delegates or registrants and advertising and conducting solicitations and promotional programs to attract tourists and convention delegates or registrants to the municipality or its vicinity.

**Impact Fund Chapter 380 Agreements:**

The City of El Paso Economic Development Incentive Policy Impact Fund (“Impact Fund”) was adopted for the purpose of creating, attracting and retaining high wage jobs in El Paso, focusing on targeted industry clusters that make a measurable difference in achieving economic growth and development, wage growth, and expanding the tax base within the City of El Paso. Promoting commercial investment in the renovation, restoration, and rehabilitation of properties and new

**NOTE 14. TAX ABATEMENTS (continued)**

development and construction utilizing the design guidelines described within Plan El Paso, the City of El Paso’s Comprehensive Plan within the downtown 2015 Plan area (adopted by City Council on October 31, 2006 and incorporated into the Comprehensive Plan pursuant to the provisions of Section 213.002 of the Texas Local Government Code).

**Objectives**

Impact Fund

The objectives of the Impact Fund are to dedicate 75% of the annual fund to assist the Medical Center of the Americas (MCA) Foundation and other key stakeholders to create one or more life sciences campuses.

The remaining portion of the fund (25%) is reserved for allocation to support entrepreneurship and innovation economic development strategies to create and assist technology-based and/or high growth, scalable businesses; or serve as a “deal closing fund” to assist those companies that will make significant investments in capital and human resources, where some incentives are important to a location or expansion decision, or promote commercial investment in the renovation, restoration, and rehabilitation and new development and new construction in Downtown El Paso, or create a workforce in El Paso that will meet the needs of target industries.

Approved in 2010, Impact Fund resources are derived from an incremental increase (0.75%) in the El Paso Electric Company franchise fee paid to the City of El Paso and projects are considered on a case-by-case basis with approval by City Council. Projects which do not leverage proceeds from this fund with other non-city resources will not be given consideration.

Sustainable City Centers Objectives (Repealed May 30, 2017):

The Sustainable City Centers (SCCI) Fund was repealed on May 30, 2017 and replaced with the Transit Oriented Development Incentive Policy. SCCI was a separate funding source intended to supplement downtown construction projects eligible for property tax rebates and other grants and subsidies approved by the City Development Department. SCCI Funds made available for projects under this policy were limited to those funds stemming from the City’s Community Adjustment and Investment Program Fund and utilized before Impact Funds are utilized for such projects. Several SCCI Agreements remain active. However, no future funding will be available through SCCI Agreements.

**Medical Center of the Americas**

The City of El Paso considers the economic growth and development of the Medical Center of the Americas (MCA) campuses as the top priority for funding. The City has designated a significant portion of the Annual Impact Fund allocation for use in one or more of the following manners so long as the activity to be funded has a nexus to an economic development purpose:

- Creation of a “research and technology commercialization institute” will be housed in the MCA Foundation research facility.
- Acquisition by the City of real property, in and around the MCA area, ensures land availability as the health sciences/research center expands.
- Attract life sciences companies to the MCA area and/or expansion within the MCA area.

**NOTE 14. TAX ABATEMENTS (continued)**

- Projects which propose to fund or engage in collaborative research with local institutions of higher education; specifically those collaborations that will assist UTEP to increase biomedical research capacity to accelerate its progress toward achieving Tier One status and Texas Tech Paul Foster School of Medicine to realize its goal of becoming an independent health sciences university.

**Quality Jobs and Investment Grants**

Other projects may be considered on a case by case basis depending on funding availability upon a completion of an economic impact analysis.

**Qualifying Employment Projects**

Grant agreements may be conditioned on the completion of specific improvements to real property and/or job numbers and salaries levels being met and may contain recapture clauses in the event that such conditions are not met. Generally, grants are available for up to five years. However, projects which exhibit extraordinary benefit may be eligible for grants up to 10 years. All grants are subject to fund availability. All qualifying projects will be evaluated on criteria specified in the City of El Paso Economic Development Incentive Policy “Impact Fund”, executed on August 27<sup>th</sup> 2013. Grants will be awarded at the sole discretion of City Council and the yearly grant amount will be calculated by a simple formula, multiplying the yearly payroll and investment by 0.0025.

**Downtown Construction Projects**

A grant, subsidy, or property tax rebate of up to 100% of the City’s incremental ad valorem property taxes over the base year for a period of up to ten (10) years may be granted to a property owner if the proposed renovation or new construction project meets requirements specified in the City of El Paso Economic Development Incentive Policy “Impact Fund”, executed on August 27, 2013.

**Workforce Creation**

A grant or subsidy may be provided for a period up to five (5) years to an organization that engages in a workforce creation project that provides training, leading to a Bachelor’s Degree, Associates Degree, and/or Licensed Certification in one of the Targeted Industries and/or in the field of education with a focus on science, math, or bilingual education if the applicant meets the standards specified in the City of El Paso Economic Development Incentive Policy “Impact Fund”, executed on August 27, 2013.

**Entrepreneurship and Innovation Development**

At their discretion, City Council may set aside a specific annual allocation from the Impact Fund or choose to fund other activities in support of development of Target Industry Clusters for uses which include, but are not limited to, business incubation or acceleration in target industries, proof of concept activities, technology testing and evaluation centers. The Applicant is required to provide their organizational structure, business and /or operational plan showing transition to commercialization and self-sufficient operation creating qualifying jobs in the local market, technological and business background of executives and other key personnel, performance metrics relating to jobs, wages and capital investment, scientific and market validity of technology. Priority will be given to projects in the areas of clean technology (including alternative energy) and life sciences.

**NOTE 14. TAX ABATEMENTS (continued)**

**3. Multi-Family 380 Agreements:**

Purpose

This policy is to establish a short-term city-wide multi-family housing needs incentive policy and accompanying Chapter 380 grant program that promotes and stimulates business activity, resulting in immediate construction of large-scale multi-family housing developments, alleviating the critical housing needs of the City related to Fort Bliss expansion. In order to be eligible for incentives, businesses or individuals must be current on all city taxes or any other obligation to the City. Incentives are not transferable without the expressed written consent of the City of El Paso.

Eligibility

An applicant who constructs one or more new multi-family housing development projects each consisting of at least 150 housing units, which are located within the City limits, shall be eligible for annual reimbursement grants in an amount not to exceed the total value of the City's portion of the incremental ad valorem property tax revenue assessed against the subject property above the set base year per development for a 5 year period during the term of the Chapter 380 agreement. If project is qualified as infill development as defined by Section 21.70.010, El Paso City Code, then the minimum construction requirement will be reduced to 10 multi-family housing units.

Further, Applicant's reimbursement eligibility is subject to additional requirements specified in the Multi-Family Housing Needs Incentive Policy and Chapter 380 Grant Program, pursuant to Chapter 380, Texas Local Government Code which include minimum construction requirements, site development plans, no property tax delinquency, permits, separate agreements required and documentation required.

**4. Transit Oriented Development Incentive Policy 380 Agreements**

The purpose of this policy is to encourage the growth and development of sustainable city centers and to spur economic development in the selected locations to improve the quality of life for El Paso residents while reducing the City's carbon footprint.

The success of the Rapid Transit System (RTS) and the Streetcar Project will rely on the quality of urban spaces that surround the transit stations, corridors and stops and the nature of development within the defined incentive areas. It is the policy of the City to provide incentives within designated Transit-Oriented Development (TOD) Incentive Areas to improve mobility and travel choices, support downtown revitalization, and stimulate investment in established neighborhoods. TOD is a design and development strategy that links higher-density, walkable neighborhoods to transit stations and corridors. It strengthens the urban fabric that surrounds public transportation with a mix of daily uses, including housing, retail and office that is safe, interesting and convenient for pedestrians.

**Eligibility**

The project must be located within TOD incentive areas. Applicants requesting incentives for new construction and rehabilitation projects shall comply with the mandatory design requirements and no less than three (3) of the selective design requirements identified in Subsection 20.10.280(C) of the City Code. The construction and/or rehabilitation project must be for mixed use. The project must be in compliance with all local, state and federal laws.

**NOTE 14. TAX ABATEMENTS (continued)****Exclusions**

Properties with industrial uses will not qualify for incentives. If the project does not meet all of the eligibility criteria in this policy, the project may be eligible for incentives through the Infill Development Incentive Policy if all eligibility criteria and program policies are met.

**Program Policy**

Project consideration includes the potential impact of project on the immediate and surrounding area. To be considered for incentives under this policy, the proposed infill development project must comply with the mandatory design requirements and no less than three (3) of the selective design requirements as identified in Subsection 20.10.280 (C) of the City Code. In addition, proposed projects must adhere to policy-specific criteria detailed in the City of El Paso Transit Oriented Development Incentive Policy, executed on May 30, 2017. Economic development incentives will be considered on a project-by-project basis at the discretion of the City Manager or his designee, and City Council.

Incentive approval for applicants applying for ad valorem property tax rebate incentives for properties located within Tax Incremental Reinvestment Zone (TIRZ) boundaries and Transportation Reinvestment Zone (TRZ) boundaries will only be eligible for real ad valorem property tax rebates incentives upon the approval of the respective TIRZ and TRZ board of directors' and the City Council.

Upon review of the application, if the base zoning density and dimensional standards are not met, the applicant may request reductions in accordance with Section 20.10.280 of the City Code. Such requests must be filed with the Planning Division prior to consideration as part of the TOD Incentive Policy.

Applicant/ Property Owners are required to comply with procedural guidelines. The application shall require the submittal of a detailed site development plan in accordance with Title 20 of the City Code to be reviewed by the City's Planning Division. Consideration will be given by the City Manager or designee. When authorized by City Council, the City may enter in to a Chapter 380 and/or Chapter 312 agreement. A pre-submission conference will be required for projects receiving incentives through the Planning and Inspections Department to review proposed development and provide proper instruction for permitting of the project.

If a project is not completed as specified, or if the terms of the agreement are not met, the City has the right to cancel or amend the incentive agreement, recapture any rebated or exempted taxes, and assess penalty payments for the amounts previously secured by City liens against the property.

**Direct Financial Incentives**

- **Building and Planning Permit Fee Rebate.** For Properties located in the Downtown 2015 Plan Area, up to 100% of certain planning, land development and building construction fees will be waived based on the fee schedule established in City Ordinance 017725. For properties located outside the Downtown 2015 Plan Area, up to \$10,000 of certain planning, land development and building construction fees will be rebated based on the fee schedule established in City Ordinance 018581.
- **Construction Materials Sales Tax Rebate.** The Applicant/Property Owner may be eligible for a 100% rebate of the City's portion of sales tax used on materials and labor purchased and associated with the incentivized project.

**NOTE 14. TAX ABATEMENTS (continued)**

- **Property Tax Rebate.** An approved project may have the City’s portion of the project’s ad valorem property taxes rebated. All qualifying projects receive a 100% rebate on the City’s incremental property tax for years 1-4, 90% rebate on the City’s incremental property tax for years 5-7, 75% rebate on the City’s incremental property tax for years 8-10, 50% rebate on the City’s incremental property tax for years 11-13, and a 25% rebate on the city’s incremental property tax for years 14-15.
- **Retail Sales and Use Tax Rebate.** An approved project may have the City’s portion of the project’s sales and use taxes rebated. Qualifying projects receive a 100% rebate for year 1, a 75% rebate for year 2, a 50% rebate for year 3 and a 25% rebate for years 4-5.

**Supplemental Benefits**

- **Lien Waivers.** Available in conjunction with receipt of a direct finance incentive contract, the Applicant/Property Owner receives a release of liens which are attached to properties as the result of condemnation, demolition, sanitation, or other city-imposed non-property tax liens, excluding Community Development or other federally-funded liens. Release of liens would only be allowed in consideration for the Applicant’s investment in construction/rehabilitation of eligible facilities and waived only upon the sale of the property to a new owner, and confirmation that the Applicant/Property Owner did not contribute to the liens being attached to the property.

<u>Tax Abatement Programs</u>	<u>Amount of Taxes Abated FY2017</u>
<b>380 Agreements</b>	
Property Tax Rebates	\$ 158,798
Redevelopment Grant	3,000,000
Mixed Beverage City Tax Incentive	3,039
City Sales & Use Tax Incentive	14,595
City Hotel Occupancy Tax Rebate	221,230
Parking Incentive	100,000
Event Room Block Rate Incentive	84,000
<b>Impact Funds 380 Agreements</b>	2,850,921
<b>Multi-Family 380 Agreements</b>	
Property Taxes Rebate	987,401
<b>Sustainable City Center Incentives</b>	
Construction Sales & Use Tax Rebate	100,205
Property Tax Rebate	53,064
<b>Infill Development Incentive Agreements</b>	
Construction Sales & Use Tax Rebate	11,884
	\$ 7,585,137

**NOTE 15. EXCESS OF EXPENDITURES OVER APPROPRIATIONS**

A summary by fund where expenditures exceed appropriations at the legal level of budgetary control follows. The schedule includes only funds with annually adopted budgets. Capital project and grants are budgeted on a project basis, which may cross fiscal years. Expenditures exceeding appropriations are generally funded through revenue sources in excess of the budget.

Self Insurance	\$	1,394,182
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**NOTE 16. IMPLEMENTATION OF FUTURE GASB STANDARDS**

The Governmental Accounting Standards Board (“GASB”) has issued the following new statements to be implemented in future years.

***Statement 75: Accounting and Financial Reporting for Postemployment Benefits Other than Pensions***

GASB Statement 75: *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions*, was issued June 2015. This Statement replaces the requirements of GASB Statement 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. GASB 75 requires governments to report a liability on the face of the financial statements, in accordance with the following:

- Employers that are responsible only for OPEB liabilities for their own employees and that provide OPEB through a defined benefit plan administered through a trust that meets specified criteria will report a net OPEB liability (the difference between the total OPEB liability and the assets accumulated in trust to make the benefit payments).
- Employers that participate in a cost-sharing OPEB plan that is administered through a trust that meets specified criteria will report a liability equal to the employer’s proportionate share for the collective OPEB liability for all employers participating in the plan.
- Employers that do not provide OPEB through a trust that meets specified criteria will report the total OPEB liability for their own employees.

GASB 75 requires more extensive note disclosures and required supplementary information (RSI) about the OPEB liabilities. This standard becomes effective for the City in fiscal year 2018.

***Statement 85: Omnibus 2017***

This statement addresses issues identified during the implementation and application of certain GASB standards. Some of the topics included in this statement pertain to blending component units, goodwill, fair value measurement and application, and post-employment benefits (OPEB). The City of El Paso will implement this standard in fiscal year 2018.

***Statement 86: Certain Debt Extinguishment Issues***

The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing 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. This Statement also improves accounting and financial reporting for

**NOTE 16. IMPLEMENTATION OF FUTURE GASB STANDARDS (continued)**

prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance. The application of this statement becomes effective for the City in fiscal year 2018.

**NOTE 17. SUBSEQUENT EVENTS**

Subsequent events have been evaluated through February 28, 2018, which is the date the financial statements were available to be issued. There were no subsequent events identified by management, which would require disclosure in the financial statements.

**APPENDIX C**

REPORT OF THE AIRPORT CONSULTANT

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September 4, 2018

Ms. Monica Lombraña  
Managing Director of Aviation and International Bridges  
El Paso International Airport  
6701 Convair Road  
El Paso, TX

**Subject: Report of the Airport Consultant – City of El Paso Department of Aviation  
General Airport Revenue Bonds, Series 2018**

Dear Ms. Lombraña:

Unison Consulting, Inc. (Unison) is pleased to submit the attached Report of the Airport Consultant (Report) regarding the issuance by the City of El Paso (the City) of its General Airport Revenue Bonds Series 2018 (Series 2018 Bonds). The City is issuing the Series 2018 Bonds in the principal amount of approximately \$41.97 million to fund the cost of certain capital improvements at the El Paso International Airport (the Airport, or ELP). The Series 2018 Bonds are payable solely from and secured by a pledge of Net Revenues of the Airport and from moneys on deposit from time to time in certain funds and accounts (Pledged Funds) created under the Bond Ordinance. The City has also granted a first lien on Net Revenues and such Pledged Funds, including the PFC Debt Service Escrow Fund, which is to be used for the payment of debt service on the Series 2018 Bonds attributable to the PFC-approved project costs. In addition to funding a portion of the costs of certain capital improvements at the Airport, the proceeds of the Series 2018 Bonds will be used to fund a portion of the interest accruing on the Series 2018 Bonds; to fund deposits into the Debt Service Reserve Fund and the Debt Service Coverage Fund; and to pay certain costs of issuance for the Series 2018 Bonds.

The Series 2018 Bonds represent a key source of funding for the Airport's Capital Improvement Program (CIP), which includes planned capital improvement project expenditures for the period of the City's Fiscal Year ending August 31, 2018 (FY2018) through FY 2022. The CIP consists of projects designed to maintain and enhance the facilities at the Airport, and to facilitate the implementation of operational improvements at the Airport.

#### **The Department of Aviation and the Airport**

The City of El Paso Department of Aviation (the Department) is a department of the City and is responsible for the operation of the Airport. ELP operates as a commercial service airport, with approximately 1.47 million passenger enplanements during FY2017.

The Airport is operated as a self-sufficient enterprise fund of the City, administered by the Director of Aviation who reports to the City Manager or the City Manager's designee. The City Council has the power to establish schedules fixing all fees and charges.

The Airport serves a region that includes El Paso County, additional counties in West Texas, and portions of Southern New Mexico and Northern Mexico. The Airport is the main commercial service airport in the County and the El Paso metropolitan area. The Federal Aviation Administration (FAA) classifies ELP as a small-hub airport, a category that includes airports enplaning at least 0.05 percent but less than 0.25 percent of annual domestic enplanements. According to the FAA data for calendar year 2016, ELP was ranked 76<sup>th</sup> in the nation in terms of total passengers served. Encompassing nearly 7,100 acres, the Airport is located six miles east of downtown El Paso.

### **Purpose of the Bond Financing**

The Department's CIP is designed to maintain and enhance the facilities at the Airport, maintain critical infrastructure functions at the Airport, meet current regulatory requirements, enhance safety, and to facilitate the implementation of operational improvements at the Airport. The total estimated cost of the CIP is approximately \$109.1 million. The estimated costs of critical airfield projects such as the reconstruction of the primary runway and various taxiways constitute 44.7 percent of the total CIP costs, or \$48.8 million. The two largest projects in the CIP, the reconstruction of Runway 4-22 (the primary runway) and the installation of a new Checked Baggage Inspection System (CBIS), constitute almost one-half of the total CIP cost (47.7 percent, or \$52.0 million). The reconstruction of Runway 4-22 is a critical project that is necessary to maintain operational efficiency and safety of the airfield, and to adhere to current design standards. Installation of the new CBIS is necessary to increase future demand capacity of baggage and to meet the latest Transportation Security Administration (TSA) standards.

The proceeds of the Series 2018 Bonds will be used to fund a portion of the costs of seven (7) projects in the CIP, which together have total estimated costs of approximately \$64.5 million (64.0 percent of the total CIP cost of \$109.1 million). Approximately \$42.2 million in bond proceeds will be applied to these projects, with the remainder of the funding (\$22.3 million) to be provided by other funding sources,

### **Rate Covenant**

Pursuant to the Bond Resolutions, the City shall establish and impose a schedule of rates, rentals, fees, and charges sufficient so that in each fiscal year, Airport Net Revenues, together with Other Available Funds, will be at least equal to one hundred twenty-five percent (125%) of the current year Debt Service. Net Revenues are defined as all Airport Revenues less M&O Expenses (excluding depreciation). Other Available Funds, as defined in the Bond Resolutions, include amounts on deposit in the Coverage Fund and the Capital Improvement Fund. However, Other Available Funds

to be included in the rate covenant calculation shall not exceed 25 percent of the current year Debt Service.

### **Report Organization**

The following summary of the components of the attached Report provides an overview of the comprehensive analysis performed:

- Section 1 provides an introduction, including descriptions of the Department of Aviation, the Airport, the CIP, and the planned funding sources for the CIP.
- Section 2 describes the Airport's air service area and discusses the local economic base.
- Section 3 analyzes the historical aviation activity at the Airport and presents forecasts of future aviation activity.
- Section 4 presents the financial analysis, including projections of Airport Revenues, Maintenance and Operation Expenses, Debt Service, and the Airport's ability to meet the Rate Covenant Requirement.

### **Assumptions**

The analysis and forecasts contained in the attached Report are based upon certain data, estimates, and assumptions that were provided by the City, and certain data and projections from other independent sources as referenced herein. The attached Report should be read in its entirety for an understanding of the forecasts and the underlying assumptions. In our opinion, the data, estimates, and assumptions used in the Report are reliable, and provide a reasonable basis for our forecast given the information available and circumstances as of the date of this Report. However, any forecast is subject to uncertainties. Inevitably, some assumptions will not be realized, and unanticipated events and circumstances may occur. Therefore, the actual results achieved may vary from the forecasts, and the variations could be material.

Following are the major assumptions utilized in preparing the attached Report:

1. The City will be able to complete the projects listed in the Airport's CIP, including the projects to be funded with the proceeds of the Series 2018 Bonds, within the budgeted costs and according to the estimated schedule.
2. The forecasts of aviation activity were developed using a hybrid forecasting framework and multivariate time series regression analysis. The hybrid forecasting framework incorporates both air service supply and demand considerations, with the resulting forecasts largely capacity-driven in the near-term (FY2018) and demand-driven in the long run (beyond FY2018). The near-term forecast reflect actual recent performance and trends in scheduled airline service at ELP. For the long-term forecasts, multivariate time series

regression analysis links trends in enplanements to trends in key market demand drivers. A number of explanatory variables were evaluated, and we found that the following three market demand drivers proved the best in explaining growth trends in enplanements at the Airport: (1) U.S. real per capita GDP as an indicator of income; (2) manufacturing share of nonfarm employment in the El Paso MSA; and (3) the Airport average real passenger yield as an indicator of the price of air travel.

3. The City will apply a portion of its annual PFC collections to pay a portion of the annual debt service on the Series 2018 Bonds, based on the PFC eligibility of the projects funded with bond proceeds.

### **Findings and Conclusions**

Based upon the assumptions and analysis presented in the attached Report, we conclude the following:

- The City will be able to comply with the Rate Covenant. Debt Service coverage calculated according to the Rate Covenant is projected to equal at least 2.49 times debt during the forecast period.
- PFC collections are projected to be sufficient during each year of the forecast period to cover the portion of annual debt service eligible to be funded with PFCs, and to cover the projected annual PFC Pay-As-You-Go costs.
- The Airport's projected signatory airline cost per enplanement (CPE) appears reasonable when compared to other small hub airports, based on CPE data compiled for FY2016 (most recent data available) for comparative airports. The Airport's CPE is projected to increase from \$5.81 in FY2018 to \$5.96 in FY2023.

Based on the above, we conclude that it is financially feasible for the City to proceed with the issuance of the Series 2018 Bonds.

Sincerely,

UNISON CONSULTING, INC.

A handwritten signature in black ink that reads 'Unison Consulting, Inc.' in a cursive script.

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EL PASO INTERNATIONAL AIRPORT

THE CITY OF EL PASO DEPARTMENT OF AVIATION  
GENERAL AIRPORT REVENUE BONDS  
SERIES 2018

**REPORT OF THE AIRPORT CONSULTANT**

September 4, 2018

Prepared by:



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## SECTION 1 | INTRODUCTION

The City of El Paso, Texas (the City) is issuing the General Airport Revenue Bonds, Series 2018 in the principal amount of \$41.97 million (Series 2018 Bonds), to fund the cost of certain capital improvements at the El Paso International Airport (the Airport, or ELP). The Series 2018 Bonds are payable solely from and secured by a pledge of Net Revenues of the Airport and from moneys on deposit from time to time in certain funds and accounts (Pledged Funds) created under the Bond Ordinance. The City has also granted a first lien on Net Revenues and such Pledged Funds, including the PFC Debt Service Escrow Fund, which is to be used for the payment of debt service on the Series 2018 Bonds attributable to the PFC-approved project costs. In addition to funding a portion of the costs of certain capital improvements at the Airport, the proceeds of the Series 2018 Bonds will be used to fund a portion of the interest accruing on the Series 2018 Bonds; fund deposits into the Debt Service Reserve Fund and the Debt Service Coverage Fund; and pay certain costs of issuance of the Series 2018 Bonds.

The Series 2018 Bonds represent a key source of funding for the Airport's Capital Improvement Program (CIP), which includes planned capital improvement project expenditures for the period of the City's Fiscal Year ending August 31, 2018 (FY2018) through FY 2022. The CIP consists of projects designed to maintain and enhance the facilities at the Airport, and to facilitate the implementation of operational improvements at the Airport.

This Report is organized into the following sections:

- Section 1 describes the Department of Aviation (the Department), the Airport, the CIP, and the funding plan for the CIP.
- Section 2 defines the Airport's air service area and discusses the local economic base.
- Section 3 analyzes the historical aviation activity at the Airport and presents forecasts of future aviation activity.
- Section 4 reviews the framework for the financial operation of the Airport, including key provision of bond indentures that govern the Airport's revenue bonds. This section also reviews the recent historical financial performance of the Airport and examines the ability of the Airport to generate sufficient Net Revenues in each Fiscal Year of the forecast period to meet the obligations of the bond indentures.

### The City of El Paso Department of Aviation

The City of El Paso Department of Aviation (the Department) is a department of the City and is responsible for the operation of the Airport. ELP operates as a commercial service airport, with approximately 1.47 million passenger enplanements during FY2017.

The Airport is operated as a self-sufficient enterprise fund of the City, administered by the Director of Aviation who reports to the City Manager or the City Manager's designee. The City Council has the power to establish schedules fixing all fees and charges.

Monica Lombraña, Managing Director of Aviation and International Bridges for the City, oversees all aspects of the management, development, operations, and maintenance of the Airport and the International Bridges. Ms. Lombraña oversees the Department's business and financial operations, human resources and administration, airfield and building maintenance, capital improvement programs and long-range planning. Ms. Lombraña has an experienced staff to aid her in carrying out her responsibilities at the Airport, including her three Deputy Directors of Aviation.

### El Paso International Airport

The Airport serves a region that includes El Paso County, additional counties in West Texas, and portions of Southern New Mexico and Northern Mexico. The Airport is the main commercial service airport in the County and the El Paso metropolitan area. The Federal Aviation Administration (FAA) classifies ELP as a small-hub airport, a category that includes airports enplaning at least 0.05 percent but less than 0.25 percent of annual domestic enplanements. According to the FAA data for calendar year 2016, ELP was ranked 76<sup>th</sup> in the nation in terms of total passengers served. Encompassing nearly 7,100 acres, the Airport is located six miles east of downtown El Paso.

There are two air carrier runways and one general aviation runway at the Airport. Runway 4/22 is a 12,010-foot runway, Runway 8R/26L is a 9,025-foot runway, and Runway 8L/26R is a 5,493-foot runway for general aviation activity.

The Airport has one passenger terminal with two levels and two concourses, Concourse A and Concourse B. The passenger terminal contains 15 narrow body gates. A number of concession options are available in the passenger terminal, including concession locations for food and beverage, gift and news, and other passenger services.

The Airport's public parking facilities include short-term parking spaces in a lot adjacent to the passenger terminal building and long-term parking spaces located in a remote lot, which has free shuttle service to the passenger terminal. The Airport also has a free cell phone waiting lot, located adjacent to the long-term parking lot exit plaza. A valet parking service is provided on the curb to the commercial lane near the main terminal entrance for airline ticketing. Rental car operations are accommodated in the Consolidated Rental Car Facility (ConRAC), located immediately west of the Airport passenger terminal.

The general aviation community at the Airport is served by a Fixed Base Operator (FBO), Atlantic Aviation, which offers maintenance, fuel sales, tie down and hangar storage, flight instruction, and charter services. The Airport recently signed a new lease with another FBO, which plans to construct a new FBO facility at the Airport.

Air cargo demand is accommodated at the Airport with two 144,000-square foot air cargo buildings (for a total of 288,000 square feet) and more than 34 acres of aircraft parking. ELP boasts the largest and most modern air cargo complex on the U.S.-Mexico border.

The Airport has significant non-aeronautical land development, including Butterfield Trail, Southern Industrial, and Global Reach Science and Technology industrial parks. The Airport's

industrial parks support approximately 200 commercial businesses and industrial operations. The Airport leases land parcels, which contain buildings developed by private entities.

The City is the grantee and operator of Foreign Trade Zone (FTZ) Number 68, which is administered through the Airport. The FTZ consists of five regional sites consisting of over 3,400 acres located throughout the City and El Paso County.

### Capital Improvement Program Estimated Costs and Funding Sources

The Department's CIP is designed to maintain and enhance the facilities at the Airport, maintain critical infrastructure functions at the Airport, meet current regulatory requirements, enhance safety, and to facilitate the implementation of operational improvements at the Airport. The total estimated cost of the CIP is approximately \$109.1 million, as presented on Table 1. The estimated costs of critical airfield projects such as the reconstruction of the primary runway and various taxiways constitute 44.7 percent of the total CIP costs, or \$48.8 million. The two largest projects in the CIP, the reconstruction of Runway 4-22 (the primary runway) and the installation of a new Checked Baggage Inspection System (CBIS), constitute almost one-half of the total CIP cost (47.7 percent, or \$52.0 million). The reconstruction of Runway 4-22 is a critical project that is necessary to maintain operational efficiency and safety of the airfield, and to adhere to current design standards. Installation of the new CBIS is necessary to increase future demand capacity of baggage and to meet the latest Transportation Security Administration (TSA) standards.

### Series 2018 Bond Projects

The proceeds of the Series 2018 Bonds will be used to fund a portion of the costs of seven (7) projects in the CIP, which together have total estimated costs of approximately \$64.5 million (64.0 percent of the total CIP cost of \$109.1 million). Approximately \$42.2 million in bond proceeds will be applied to these projects, with the remainder of the funding (\$22.3 million) to be provided by other funding sources. Brief descriptions of the Series 2018 Bond Projects are provided below.

- *Runway 4-22 Reconstruction and Taxiway Tie-Ins.* This project will include the full-depth reconstruction of a portion of Runway 4-22 and a portion of Taxiway Connectors "A", "D", "F", "G", "H", "M", "N" and "R". The installation of associated lighting and signage will also be part of the project. Runway 4-22 is the primary air carrier runway at ELP and is the only precision runway at the Airport. The reconstruction will adhere to all current Federal Aviation Administration (FAA) design standards for runways and taxiways.
- *Checked Baggage Inspection System.* A new Checked Baggage Inspection System (CBIS) will enhance the security and baggage screening capabilities at the Airport. It will centralize the checked bag screening process and make it more efficient by speeding up the time it takes to inspect checked baggage before it is loaded onto airplanes. The Airport's current CBIS has a "decentralized" location in a stand-alone configuration where bags need to be physically transferred to the system. In addition, the current CBIS employs outdated Explosive Detections Systems (EDS) and screening methods, and it does not meet the current TSA guidelines. The new CBIS will provide updated EDS and screening methods,

Table 1 | FY2018 – FY2022 Capital Improvement Program Costs and Funding Sources

Project Titles	Total Costs	Funding Sources						
		Series 2018 Bonds			AIP Grants	Pay-As-You-Go PFCs <sup>3</sup>	Department Funds	Other <sup>4</sup>
		Approved PFC- Eligible Costs <sup>1</sup>	Other Costs	Total Series 2018 Bonds				
<b>Series 2018 Bond Projects</b>								
Runway 4-22 Reconstruction & Taxiways	\$31,532,737	\$17,732,737	\$0	\$17,732,737	\$13,500,000	\$0	\$300,000	\$0
Checked Baggage Inspection System	20,470,151	12,639,979	0	12,639,979	0	1,858,273	3,000,000	2,971,899
Terminal Landscaping Improvements	10,000,000	0	5,966,409	5,966,409	0	0	4,033,591	0
Terminal General Improvements	3,000,000	0	1,500,000	1,500,000	0	0	1,500,000	0
ARFF Remodel	2,409,255	1,303,336	840,480	2,143,816	0	0	265,439	0
Passenger Notification System	2,202,553	2,008,112	0	2,008,112	0	0	194,441	0
PFC Administration Costs	210,386	210,386	0	210,386	0	0	0	0
<b>Subtotal -- Series 2018 Bond Projects</b>	<b>\$69,825,082</b>	<b>\$33,894,550</b>	<b>\$8,306,889</b>	<b>\$42,201,439</b>	<b>\$13,500,000</b>	<b>\$1,858,273</b>	<b>\$9,293,471</b>	<b>\$2,971,899</b>
<b>Other Projects</b>								
Relocation of Twy M	6,213,626	0	0	0	5,648,751	564,875	0	0
Runway Turn-Offs (TWY S,T,G,K,J,F)	5,270,100	0	0	0	4,743,090	527,010	0	0
Convair Road and Old Rental Car Leaseholds	4,500,000	0	0	0	0	0	0	4,500,000
Rental Car Agency Administration Building	4,500,000	0	0	0	0	0	0	4,500,000
Realignment & Extension of TWY V & FBO Ramp	4,436,900	0	0	0	2,733,210	0	1,703,690	0
Terminal Ramp Light Upgrade	2,000,000	0	0	0	1,800,000	0	200,000	0
IT Capital Enterprise Fund Recovery	1,065,176	0	0	0	0	0	1,065,176	0
HVAC Annual Upgrades FY 16-21	1,000,000	0	0	0	0	0	1,000,000	0
Cargo Ramp Light Upgrade	1,500,000	0	0	0	1,350,000	0	150,000	0
Taxiway U from Customs Ramp to Twy L	1,300,000	0	0	0	1,170,000	130,000	0	0
NASA Improvements	900,000	0	0	0	0	0	900,000	0
Master Plan Update	851,800	0	0	0	0	851,800	0	0
Escalators - Main Up(2)	800,000	0	0	0	0	800,000	0	0
Parking Lot Improvements	750,000	0	0	0	0	0	750,000	0
Concourse B Lighting and Playground	639,777	0	0	0	0	0	639,777	0
Maintenance Building Improvements	250,000	0	0	0	0	0	250,000	0
Miscellaneous Projects under \$750,000	3,315,000	0	0	0	576,000	60,000	2,679,000	0
<b>Totals</b>	<b>\$109,117,461</b>	<b>\$33,894,550</b>	<b>\$8,306,889</b>	<b>\$42,201,439</b>	<b>\$31,521,051</b>	<b>\$4,791,958</b>	<b>\$18,631,114</b>	<b>\$11,971,899</b>

<sup>1</sup> These are project costs that have been approved by the FAA for PFC funding. The Department plans to use PFCs to pay approximately 79% of the annual debt service for the Series 2018 bonds, based on the ratio of PFC eligible project costs.

<sup>2</sup> PFCs not applied to debt service will be applied to project costs on a Pay-As-You-Go basis.

<sup>3</sup> "Other" funds represent (a) TSA funds for the CBIS and (b) CFCs to be applied to two projects related to rental car facilities and operations.

and it will meet all current TSA guidelines. The new system will be centralized in an enclosed structure containing nearly 32,000 square feet to protect screening machines and personnel from the elements. The new system will handle 100 percent of the projected 2023 baggage screening demand of 720 bags per hour compared to the current capacity of 560 bags per hour.

- *Terminal Landscaping Improvements.* The landscaping surrounding the main terminal and parking facilities will undergo extensive improvements. These improvements will provide aesthetic and ecological enhancements. In addition, the project will provide lower long-term maintenance costs while improving the visual appeal to inbound and outbound travelers at the Airport.
- *Terminal General Improvements.* Select areas in the main terminal and Concourses A and B will be rehabilitated and renovated. The improvements will aim to provide a longer useful life to the Airport's facilities along with operational improvements that will benefit the Airport, airlines, tenants, and passengers by enhancing operational efficiency, regulatory compliance, passenger processing, and aesthetic appearance.
- *Airport Rescue and Fire Fighting (ARFF) Building Renovations.* The Airport's Aircraft Rescue Fire Fighting (ARFF) station will be renovated in order to provide the 10 full-time personnel adequate living quarters during their extended shifts. The renovated ARFF facilities will also seek to preserve the safety of ELP by ensuring its continued operational functionality.
- *Passenger Notification Systems (FIDS, BIDS, & GIDS).* This project will include the design, acquisition and installation of a Flight Information Display System (FIDS), Baggage Information Display System (BIDS), and Gate Information Display System (GIDS) to replace existing systems at the Airport. These systems will be designated as common use for all airlines operating at ELP and will list all scheduled flights with a projected improvement in accuracy and reliability.
- *PFC Administration Costs.* This project will provide funding for professional fees for consulting services to develop, implement and coordinate the Airport's PFC program. This includes professional fees to assist the Airport in preparing a new PFC application, and fees for an independent auditor to prepare the PFC audit reports.

## Other Major CIP Projects

The other CIP projects with estimated costs over \$2 million are described below.

- *Relocation of Taxiway M.* Taxiway M will be relocated to address design and distressed pavement issues which were assessed as non-compliant after review and inspection by the FAA.

- *Runway Turn-Offs for Taxiways S, T, G, K, J and F.* This project will provide for a new design for Taxiways S, T, G, K, J and F to enhance the safety of aircraft operations. In addition, the project will provide new pavement, concrete and taxiway markers replacing existing distressed taxiway conditions which were assessed as non-compliant after review and inspection by the FAA.
- *Convair Road and Old Rental Car Leaseholds.* Landscape improvements and aesthetic enhancements will be made along the access road leading to the ConRAC. These improvements are necessary to enhance the visual appeal for passengers entering and exiting the ConRAC.
- *Rental Car Agency Administration Building.* Rental Car Agency Administration Building. A rental car agency administration building will be developed contiguous to the ConRAC, to provide additional management space for the rental car companies operating at the Airport.
- *Realignment & Extension of Taxiway V & Expansion of FBO Ramp.* This project will consist of the construction of a new ramp for an FBO facility and will provide a redesign and extension of the existing Taxiway V for a safer and more direct access to the FBO ramp.
- *Terminal Ramp Light Upgrade.* All existing incandescent lights on the terminal ramp will be replaced with brighter and more energy efficient LED lighting.

### Funding Sources

The estimated funding sources for the CIP projects are the following:

- **Series 2018 Bonds.** Approximately \$36.2 million in proceeds from the Series 2018 Bonds will be applied to the costs of the Series 2018 Bond Projects. As discussed above, the Series 2018 Bonds are payable solely from and secured by a pledge of general Airport revenues. However, because approximately 79 percent of the project costs being funded with the proceeds of the Series 2018 Bonds (including certain costs incurred prior to the start of the current CIP) are approved Passenger Facility Charge (PFC)-eligible costs, the Department plans to apply PFCs to fund 79 percent of the annual debt service for the Series 2018 Bonds. The financial analysis presented in Section 4 includes the projected financial effects of the estimated debt service for the Series 2018 Bonds, and the application of PFCs to the associated annual debt service requirements.
- **FAA Airport Improvement Program (AIP) grants.** AIP grants, which include AIP entitlement funds and AIP discretionary funds, are anticipated to fund approximately \$31.5 million in eligible CIP costs. AIP entitlement funds are apportioned by formula each year to individual airports or types of airports. AIP discretionary funds are awarded by the FAA based on eligible projects' priority as determined by the FAA through the application of its National Priority System (NPS). The NPS uses a combination of quantitative and qualitative factors to evaluate projects with highest priority given to projects to enhance airport safety and security.

- **Pay-As-You-Go PFCs.** The Airport currently collects PFCs at a level of \$4.50 per enplaned passenger, with a total authorized PFC collection amount of approximately \$147.9 million and an estimated charge expiration date of December 1, 2024. In addition to the PFCs planned to be applied to the annual debt service requirements of the Series 2018 Bonds (see above), the funding plan includes the application of approximately \$4.8 million in PFCs to approved eligible PFC project costs, on a Pay-As-You-Go basis.
- **Department funds.** Department funds are those moneys generated from Airport operations and available after all of the Department's financial obligations are satisfied. The Department plans to apply approximately \$19.2 million in Department funds to the CIP.
- **Rental Car Customer Facility Charges (CFCs).** A City ordinance (the CFC Ordinance) amended the City Code to allow a CFC to be imposed by the City and collected by rental car companies operating at the Airport. The rental car companies operating at the Airport must collect a CFC of \$3.50 per rental car transaction day, and they must remit the CFC collections to the City on a monthly basis. The City applies the CFC collections to the payment of annual debt service requirements for bonds issued by the City in 2014 (the Series 2014 Bonds) to fund the development of the ConRAC. A portion of CFC collections not applied to debt service on the Series 2014 Bonds will be used to fund the cost of two projects totaling approximately \$9.0 million
- **Department of Homeland Security (DHS) grants** provided by the Transportation Security Administration (TSA) are disbursed to help protect the public and nation's critical transportation infrastructure against acts of terrorism and other large-scale events. The Department's CIP incorporates approximately \$3.0 million in TSA grants to help fund the Airport's new in-line baggage screening system. When including certain costs of the project that were incurred prior to the start of the current CIP, the TSA grants total approximately \$12.1 million.

## SECTION 2 | ECONOMIC BASE

Demographic and economic trends influence the demand for air travel at El Paso International Airport. Both local and national trends determine local demand for air travel, as well as visitor travel into the area. The strength of the local economy determines local demand and contribute to the attractiveness of the local area as a business and leisure destination. National trends affect local economic trends and determine air travel demand nationwide.

The Airport serves primarily El Paso and Hudspeth counties in western Texas (Figure 1). These two counties comprise the El Paso, TX, Metropolitan Statistical Area<sup>1</sup> (El Paso MSA). The Airport also attracts passengers from adjacent counties Doña Ana and Otero in New Mexico, and from Ciudad Juarez across the border. All told, the four counties of El Paso, Hudspeth, Doña Ana, and Otero, and Ciudad Juarez provide a market of 2.7 million people.

Fort Bliss, the largest U.S. Army Forces Command installation, straddles New Mexico and Texas to the north of El Paso and east of Las Cruces. Its headquarters are located in El Paso. The U.S. Army Garrison White Sands Missile Range (WSMR) and Holloman Air Force Base are also in the area. These military installations provide many civilian jobs for local residents. The military personnel and their families contribute to consumer demand and support various enterprises in the area.

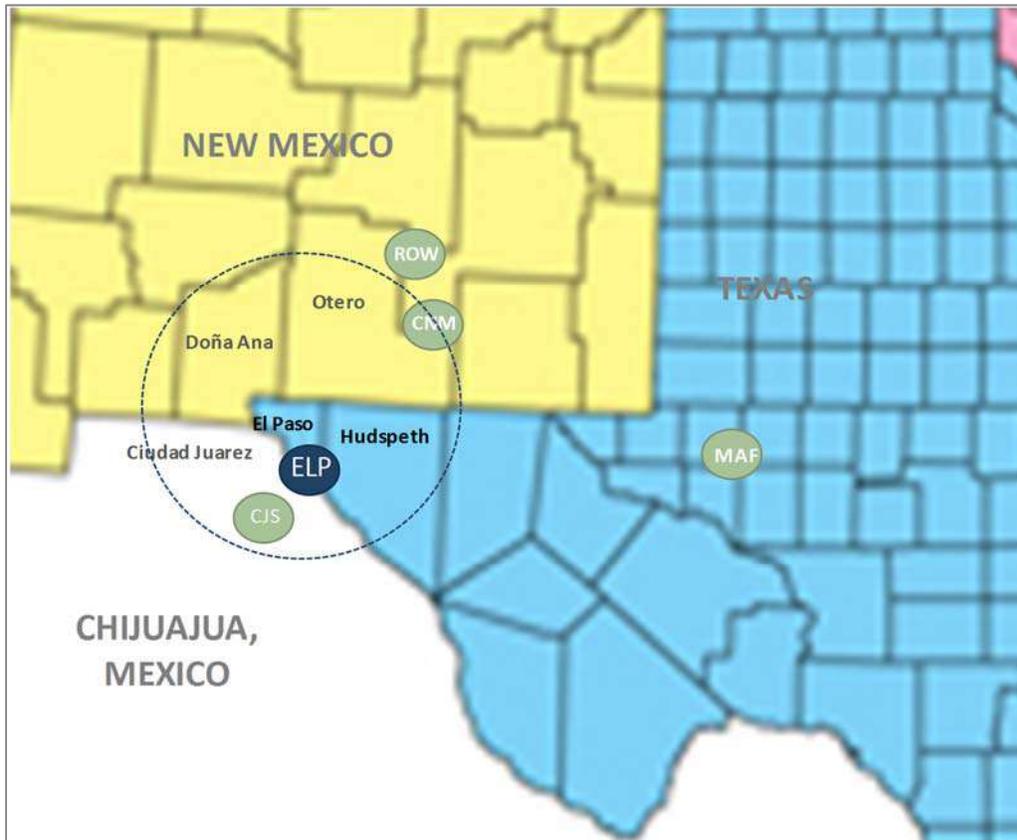
El Paso borders Ciudad Juarez in the state of Chihuahua, Mexico, to the southwest. The border crossing has become a major port since the North American Free Trade Agreement (NAFTA) came into force on January 1, 1994. It links the economies of El Paso and Ciudad Juarez. Businesses in El Paso draw customers and the Airport draws passengers from Ciudad Juarez and other Mexican municipalities near the border.

Ciudad Juarez also has a commercial service airport, Abraham Gonzalez International Airport (CJS), which is only 16 miles from ELP. CJS, however, has flights only to other destinations in Mexico. On the U.S. side, the commercial service airports closest to ELP are: (1) Cavern City Air Terminal (CNM) in Carlsbad, New Mexico (155 miles from ELP), (2) Roswell International Air Center (ROW) in Roswell, New Mexico (208 miles from ELP), and (3) Midland International Airport (MAF) in Midland, Texas (292 miles from ELP). These other airports are smaller than ELP and do not present significant competition to ELP.

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<sup>1</sup> Metropolitan Statistical Areas are county-based geographical divisions with a high degree of social and economic integration. MSA delineations are developed by the U.S. Office of Management and Budget (OMB) for federal data collection and analysis purposes.

Figure 1 | ELP Air Service Area



ELP attracts passengers from the four counties of El Paso, Hudspeth, Doña Ana, and Otero, and Ciudad Juarez—a market of 2.7 million people. El Paso and Hudspeth counties comprise the El Paso MSA, ELP’s primary service area.

Source: Unison Consulting, Inc.

Figure 2 outlines the boundaries of the area within a one-hour drive from ELP. On the U.S. side, the area extends to the city of Las Cruces in Dona Aña County, New Mexico, to the northwest and to the unincorporated community of Fort Hancock in Hudspeth County, Texas, to the southwest. Theoretically, the one-hour drive area extends across the border to Ciudad Juarez and other municipalities in Mexico, but passengers from across the border face wait times ranging from 20 minutes to 2 hours at the bridge crossing.



began in November 2005, is the congressionally authorized process the U.S. Department of Defense has used to reorganize its base structure to support the U.S. armed forces more efficiently and effectively.<sup>2</sup> BRAC closed a number of bases and moved their military personnel to the remaining bases, among them Fort Bliss. The expansion of Fort Bliss alone brought over \$5 billion in investment—and about 50,000 people (the soldiers, spouses and children)—in El Paso over 2006-2013. After Fort Bliss expansion came other economic stimulus from new construction: the downtown AAA baseball stadium, a school of nursing, a Fort Bliss campus of El Paso Community College, and the William Beaumont Army Medical Center.<sup>3 4</sup>

The resurgence of manufacturing—not local manufacturing, but the maquiladoras across the border in Ciudad Juarez, Mexico—has also contributed to El Paso’s strong economic performance. El Paso is home to various companies that manage and support the cross-border trade associated with Ciudad Juarez’ maquiladora industry.<sup>5 6</sup>

These two factors distinguish El Paso from other U.S. metropolitan areas: (1) large military presence and (2) its close economic linkages with Ciudad Juarez across the border in Mexico.

### Large Military Presence

Important military installations in the Airport’s service area include Fort Bliss, White Sands Missile Range, and Holloman Air Force Base. These military installations provide many civilian jobs for local residents. Their military personnel and their families contribute significantly to consumer demand for goods and services in the area, including demand for commercial air service at ELP.<sup>7</sup>

### Fort Bliss

Occupying approximately 1.1 million acres on the north side of El Paso in Texas and New Mexico, Fort Bliss is home to the 1<sup>st</sup> Armored Division. It is the largest U.S. Army Forces Command installation. Fort Bliss is comprised of other commands: the U.S. Army Medical Command (MEDCOM), Joint Task Force North (JTF-N), the U.S. Army Training and Doctrine Command (TRADOC), and the U.S. Army Reserve (USAR).

Fort Bliss doubled in size when the U.S. Department of Defense carried out the BRAC recommendations, closing bases in other parts of the country and re-stationing into Fort Bliss several brigade combat teams, the 1st Armored Division headquarters, and numerous supporting units. The Army invested a significant amount in construction for new facilities—including schools

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<sup>2</sup> Office of the Under Secretary of Defense for Acquisition, Technology and Logistics, *Base Realignment and Closure (BRAC) Home Page*, in <https://www.acq.osd.mil/brac/>.

<sup>3</sup> Robert W. Gilmer, Director, *Institute for Regional Forecasting, University of Houston, El Paso Economic Growth in Perspective*, Presentation prepared for the El Paso Electric Company.

<sup>4</sup> Jesus Cañas, Roberto Coronado and Robert W. Gilmer, “Is the Recession Over in El Paso?” *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 1, May 2010.

<sup>5</sup> *Ibid.*

<sup>6</sup> Marycruz De León and Jesus Mendoza-Hernandez, “El Paso Booms, Headwinds Increase,” *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 1, 2017.

<sup>7</sup> The University of Texas at El Paso Institute for Policy and Economic Development, *The Economic Impact of Fort Bliss and William Beaumont Army Medical Center in El Paso County, Texas*, February 2013.

and hospitals—to accommodate incoming soldiers and their families. The base supports a total population of nearly 164,000, including active duty military personnel, reservists, civilians, retirees, and family members.<sup>8</sup>

#### White Sands Missile Range

The U.S. Army Garrison White Sands Missile Range (WSMR) is located in the Tularosa Basin of south-central New Mexico, with headquarters located 27 miles east of Las Cruces, New Mexico and 45 miles north of El Paso, Texas. WSMR provides the Army, Navy, Air Force, and Department of Defense with support services for experimentation, test, research, assessment, development, and training. WSMR is a Tri-Service Installation of the Army, Air Force, and Navy. It has a population of approximately 5,800, including active-duty personnel, family members and civilians.<sup>9</sup>

#### Holloman Air Force Base

Holloman Air Force Base is in Otero County, New Mexico, located about 9 miles west of Alamogordo, New Mexico, 90 miles north of El Paso, Texas, and 60 miles east of Las Cruces, New Mexico. The base houses the U.S. Air Force 49th Wing and has a population of approximately 15,600, including active duty military personnel, reservists, civilians, retirees, and family members.<sup>10</sup>

#### Economic Linkages with Ciudad Juarez

El Paso has close economic linkages with Ciudad Juarez, a city of 1.4 million people across the border in Mexico. In the 1960s and 1970s, textile and apparel manufacturing dominated El Paso's economy. The end of import protections led to the decline in El Paso's manufacturing industry, culminating in extensive losses with the implementation of NAFTA. Across the border in Ciudad Juarez, manufacturing plants known as maquiladoras grew with cheap labor and close access to the United States. The implementation of NAFTA and the Mexican peso devaluation in 1994 accelerated the growth of maquiladoras, doubling employment in these plants. The Juarez maquiladoras employ many El Paso residents and, more importantly, they create demand for transportation services, finance, legal and administrative support in El Paso to move goods across the border. Maquiladora workers and their families also generate sales revenues for retail stores, food services and hotels in El Paso. El Paso's service-producing sector grew to manage cross-border trade, support manufacturing in Juarez, and meet consumer demand not only from El Paso residents but also from Juarez residents.<sup>11</sup>

Researchers at the Federal Reserve Bank of Dallas (Dallas Fed) El Paso Branch have long documented the close correlation between El Paso economic trends and Juarez maquiladora employment trends. Figure 3 shows charts from Dallas Fed El Paso Branch *Crossroads* publication tracking trends in the El Paso economy and Juarez maquiladora employment.

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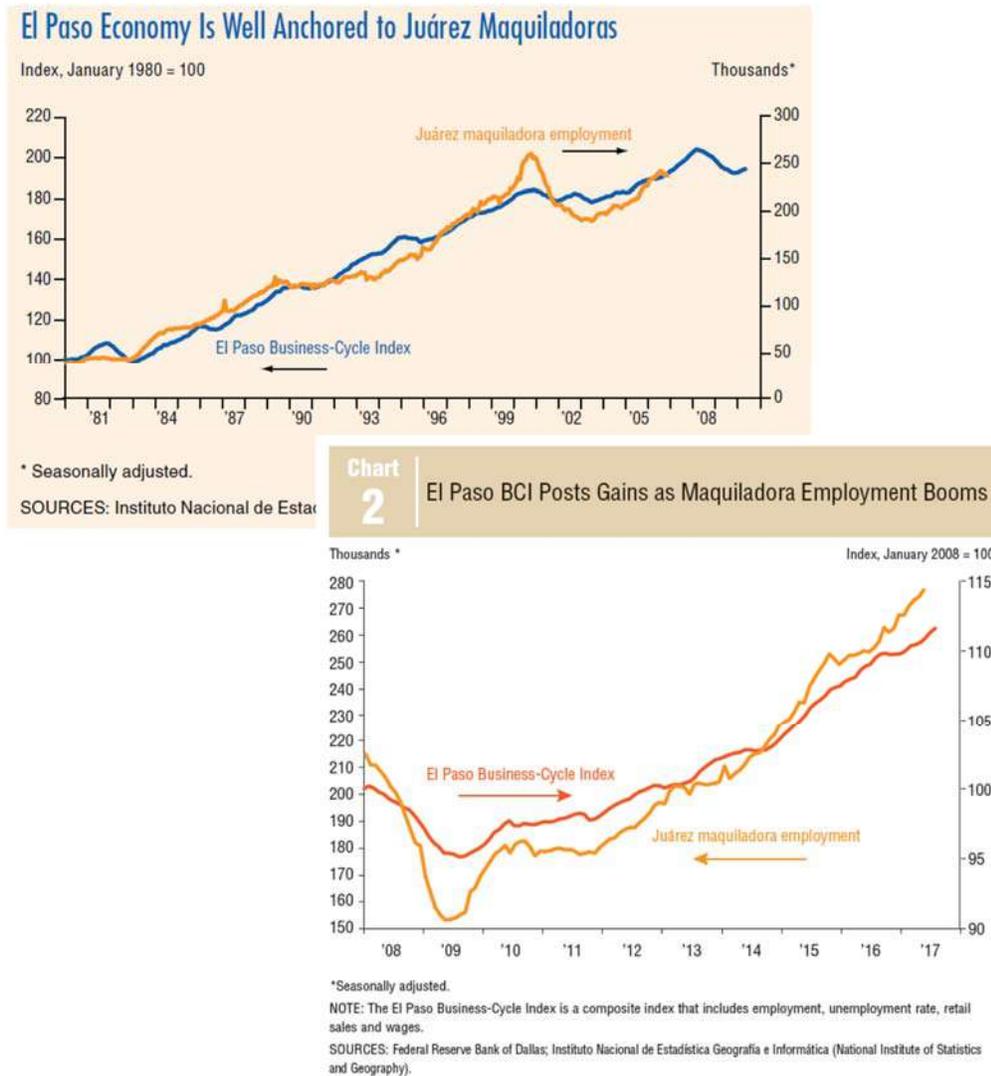
<sup>8</sup> U.S. Department of Defense Military Installations in <http://www.militaryinstallations.dod.mil>.

<sup>9</sup> *Ibid.*

<sup>10</sup> *Ibid.*

<sup>11</sup> Jesus Cañas, Ebetuel Pallares and Luis Bernardo Torres Ruiz, "Border Cities: Economic Competitors or Complements?" *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 2, 2005.

Figure 3 | Close Correlation Between the El Paso Economy and the Juárez Maquiladora Industry



Sources: Federal Reserve Bank of Dallas El Paso Branch, *Crossroads, Economic Trends in the Desert Southwest*, Issue 1, May 2010, and Issue 1, 2017.

The El Paso economy slowed when Juárez maquiladora employment plunged in the early 2000s as factories closed and moved to countries in Latin America and Asia in search of cheaper labor, and again in 2009 when the Great Recession dragged the economies of Ciudad Juárez and Mexico as a whole. The Mexican drug war, which began in 2006, also contributed to the recession in Juárez. Violence escalated in Mexico, dampened Mexico’s tourism, and decreased border crossings between Juárez and El Paso. The decrease in cross-border traffic dampened retail sales in El Paso. In recent

years, the El Paso economy has posted gains with the strong resurgence of Ciudad Juarez maquiladora activity.<sup>12</sup>

## Population

The City of El Paso is the 19<sup>th</sup> largest city in the United States, and the El Paso MSA is the 6<sup>th</sup> largest MSA in Texas with a share of approximately 3 percent of the state's population (Table 2).

Figure 4 compares the population growth rates in the El Paso MSA with those in Texas and the United States from 2006 through 2012. El Paso's population growth rate (1.8 percent per year) was double the national rate (0.9 percent per year), largely due to the growth of Fort Bliss. El Paso's population growth kept pace with Texas' rapid population growth of 1.9 percent per year at the time. After 2012, El Paso's population growth slowed to an average of 0.1 percent per year through 2017, lagging behind the national population growth rate of 0.6 percent per year and far behind Texas' population growth rate of 1.6 percent per year over the same period.

The population growth in the El Paso MSA slowed because (1) troop additions to Fort Bliss abated, and (2) net migration turned negative. Migration trends between Mexico and El Paso reversed direction, with more people leaving El Paso for Mexico than coming in. This trend proved temporary; El Paso net migration returned to positive beginning in 2014.<sup>13</sup> Overall, from 2007 through 2017, the El Paso MSA's population growth rate (1.1 percent per year) fell below Texas' population growth rate (1.8 percent per year), but still exceeded the national population growth rate (0.8 percent per year).

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<sup>12</sup> Federal Reserve Bank of Dallas El Paso Branch, *Crossroads, Economic Trends in the Desert Southwest*, various issues.

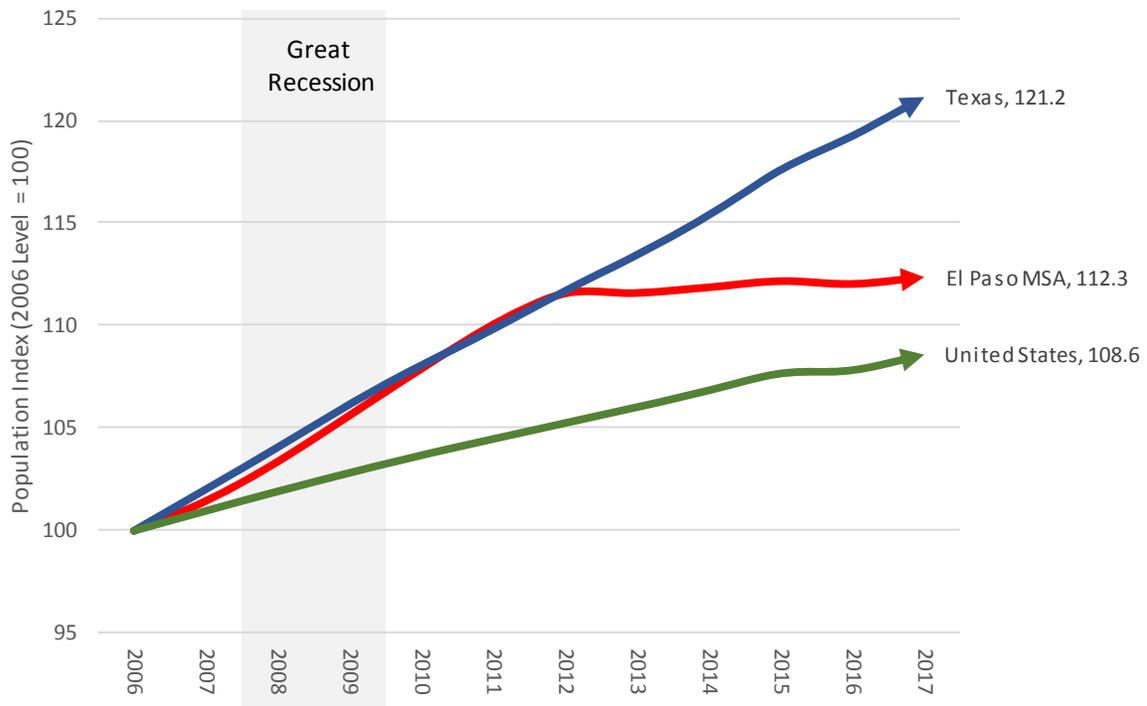
<sup>13</sup> The University of Texas at El Paso Department of Economics & Finance, *El Paso, Texas, Economic Outlook to 2018*, January 2018.

Table 2 | Texas State and MSA Populations

MSA	Population as of July 1, 2017	Share of State Population	Rank
State of Texas Total	28,304,596	100%	-
Dallas-Fort Worth-Arlington, TX MSA	7,399,662	26%	1
Houston-The Woodlands-Sugar Land, TX MSA	6,892,427	24%	2
San Antonio-New Braunfels, TX MSA	2,473,974	9%	3
Austin-Round Rock, TX MSA	2,115,827	7%	4
McAllen-Edinburg-Mission, TX MSA	860,661	3%	5
El Paso, TX MSA	844,818	3%	6
Corpus Christi, TX MSA	454,008	2%	7
Killeen-Temple, TX MSA	443,773	2%	8
Brownsville-Harlingen, TX MSA	423,725	1%	9
Beaumont-Port Arthur, TX MSA	412,437	1%	10
Lubbock, TX MSA	316,983	1%	11
Laredo, TX MSA	274,794	1%	12
Waco, TX MSA	268,696	1%	13
Amarillo, TX MSA	264,925	1%	14
College Station-Bryan, TX MSA	258,044	1%	15
Other MSAs	1,595,095	6%	-

Source: U.S. Census Bureau mid-year population estimates.

Figure 4 | Population Growth



	Compound Annual Growth Rate		
	El Paso MSA	Texas	United States
2006 - 2012	1.8%	1.9%	0.9%
2012 - 2017	0.1%	1.6%	0.6%
2006 - 2017	1.1%	1.8%	0.8%

Source: U.S. Census Bureau mid-year population estimates.

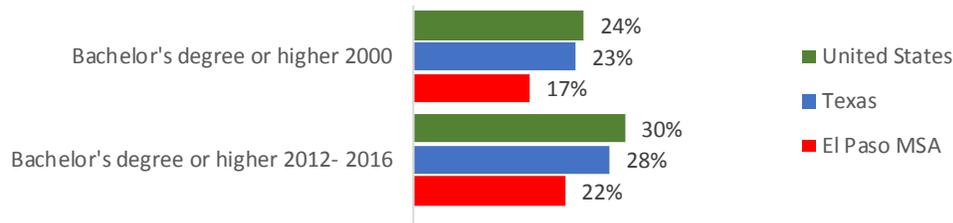
### Population Education Attainment

An educated population is important for long-term economic growth for many reasons. Places with a more educated workforce add jobs and population faster because they are more attractive to businesses seeking highly skilled workers. They are also more resilient to economic recessions and transformations because their educated workforce can adapt better to changes in skills required by businesses. Workers with higher education levels typically earn higher wages and receive larger wage increases than less educated workers. The El Paso MSA economy continues to diversify toward higher-level services that require more education.

The El Paso MSA has a well-educated population, although it lags behind Texas and the nation in education attainment benchmarks (Figure 5). Within the population 25 years and older, the proportion achieving a bachelor’s degree or higher is smaller in El Paso than in the entire state or

the nation, although in El Paso this proportion increased by 5 percentage points since the 2010 Census.

Figure 5 | Population 25 Years and Older – Attainment of a Bachelor’s Degree or Higher



Source: U.S. Census Bureau, Decennial Census and 2012-2016 American Community Survey Estimates.

## Labor Market

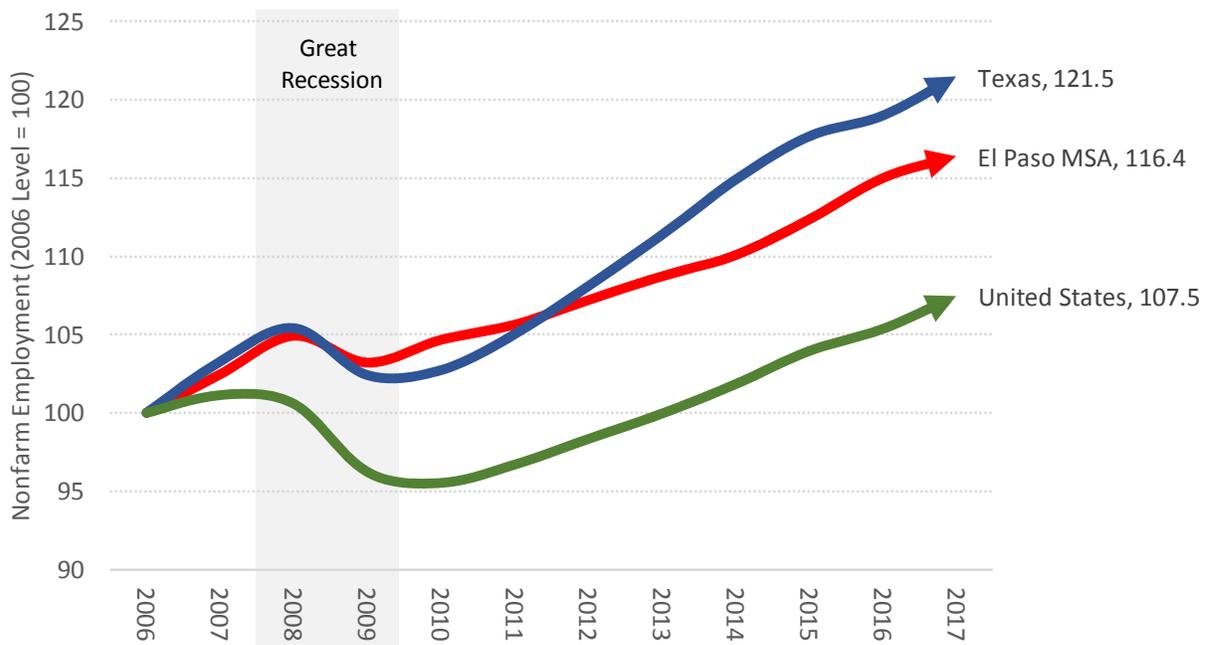
As Texas’ sixth largest MSA by population, El Paso is a large employment center with a diversified distribution of industries. In 2017, El Paso provided approximately 312,000 full-time and part-time nonfarm jobs.<sup>14</sup> Trends in the labor market reflect business conditions and overall economic well-being—factors that influence the demand for air travel. Job growth reflects the pace of economic growth in an area, which is important for raising living standards, boosting consumer confidence and increasing consumer spending.

### Nonfarm Employment Trends

From 2006 through 2017, the El Paso MSA achieved growth in nonfarm jobs exceeding national growth because of continued job gains through 2008, the first year of the Great Recession, relatively fewer job losses in 2009, and faster recovery (Figure 6). Through the recession, nonfarm employment in El Paso decreased only 1.7 percent, compared with 2.9 percent in the entire state and 5.3 percent in the nation. After the recession, nonfarm employment rebounded quickly in El Paso, reaching a new record high level by 2011, while total U.S. nonfarm employment returned to its pre-recession peak only in 2014. For the entire period from 2006 to 2017, nonfarm jobs increased 16 percent in El Paso, double the nationwide increase (8 percent). El Paso’s overall job growth was proportionally less than Texas’ overall job growth of 22 percent, but the El Paso MSA performed better than the state in the early years of recovery and in recent years.

<sup>14</sup> The Bureau of Labor Statistics measures nonfarm jobs as the number of full-time and part-time positions on company payrolls, including civilian government agencies. This definition excludes self-employed, unpaid, and household workers.

Figure 6 | Nonfarm Employment Trends



Source: U.S. Bureau of Labor Statistics.

The El Paso MSA and Texas outperformed the nation in job growth for different reasons. Texas enjoyed a strong resurgence in its oil industry over the 12-year period despite the recent contraction in the oil industry caused by the sharp decrease in oil prices. Texas also did not experience a severe downturn in its housing sector as did most other states, because its housing prices did not rise as sharply before the recession as they did in other parts of the country. El Paso owes its above-average performance to: (1) the large federal government presence, (2) its cross-border economic ties, and (3) a fast-growing health services industry.

The large presence of the U.S. military and other federal government agencies in El Paso cushioned the local economy from the effects of the Great Recession. El Paso’s Fort Bliss benefitted the most from the BRAC, doubling in size from 2008 to 2013. The expansion of Fort Bliss brought large infusions of defense monies for the construction of new base facilities to accommodate the increased base population, created more civilian jobs, and expanded the local consumer demand base.<sup>15 16</sup> In addition to the military presence, the federal government also has a large presence in El Paso—through the Citizenship and Immigration Services (CIS), the Drug Enforcement Agency

<sup>15</sup> The University of Texas at El Paso Institute for Policy and Economic Development, *The Economic Impact of Fort Bliss and William Beaumont Army Medical Center in El Paso County, Texas*, February 2013.

<sup>16</sup> Jesus Cañas, Roberto Coronado and Robert W. Gilmer, “Is the Recession Over in El Paso?” *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 1, May 2010.

(DEA), and the Customs and Border Protection (CBP)—to manage the movement of people and goods across the U.S.-Mexico border.<sup>17</sup>

In recent years, employment growth in El Paso, particularly in its service sectors, has been boosted by growth in maquiladora activity in Ciudad Juarez brought about by a resurgence in U.S. industrial production. U.S. industrial production generates work orders for maquiladoras in Ciudad Juarez. Maquiladora employment set a new high record in 2017, increasing 56 percent since 2010. According to Dallas Fed research, an increase in maquiladora activity in Ciudad Juarez leads to an increase in nonfarm jobs in El Paso, mostly in the trade, transportation and utilities sector.<sup>18</sup>

The health services industry has grown in importance in El Paso's economy. It now accounts for 1 in 6 jobs, from 1 in 8 jobs in the MSA over 10 years ago. The number of health services establishments in the El Paso MSA increased 40 percent in the last 10 years.<sup>19</sup>

### Civilian Labor Force Trends

The civilian labor force trends reflect the significant growth brought to the El Paso MSA by Fort Bliss' expansion. From 2006 to 2017, El Paso's labor force increased 21 percent, more than triple the increase nationwide (6 percent) (Figure 7). The number of employed members of the labor force in El Paso increased 24 percent, four times the increase nationwide (Figure 8). El Paso also outperformed Texas, which itself experienced above-average growth in total and employed labor force.

With the number employed increasing more than the total labor force in El Paso, the unemployment rate decreased from 6.7 percent in 2006 to 4.6 percent in 2017, although it did rise to as high as 9.5 percent in 2011 (Figure 9).

The unemployment rates in the El Paso MSA have followed trends in Texas and the United States—rising during the Great Recession and falling during the economic expansion (Figure 10). El Paso's unemployment rates have been more closely aligned with national unemployment rates. They have been higher than Texas state unemployment rates. In the past year, unemployment rates decreased to near-full employment levels nationwide: 4.6 percent in El Paso, 4.3 percent in Texas, and 4.9 percent in the entire country.

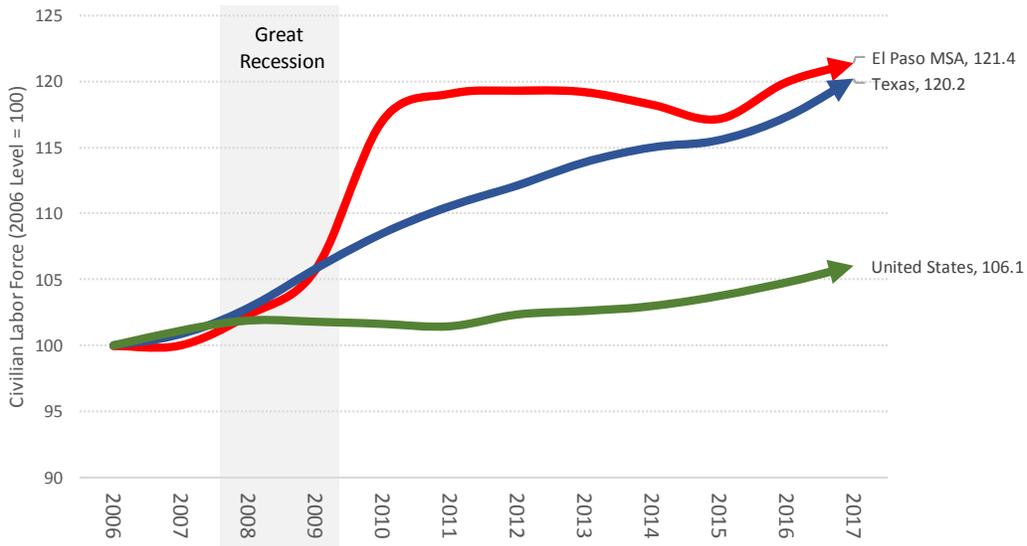
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<sup>17</sup> *El Paso Economy* in <http://www.city-data.com>.

<sup>18</sup> Marycruz De León and Jesus Mendoza-Hernandez, "El Paso Booms, Headwinds Increase," *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 1, 2017.

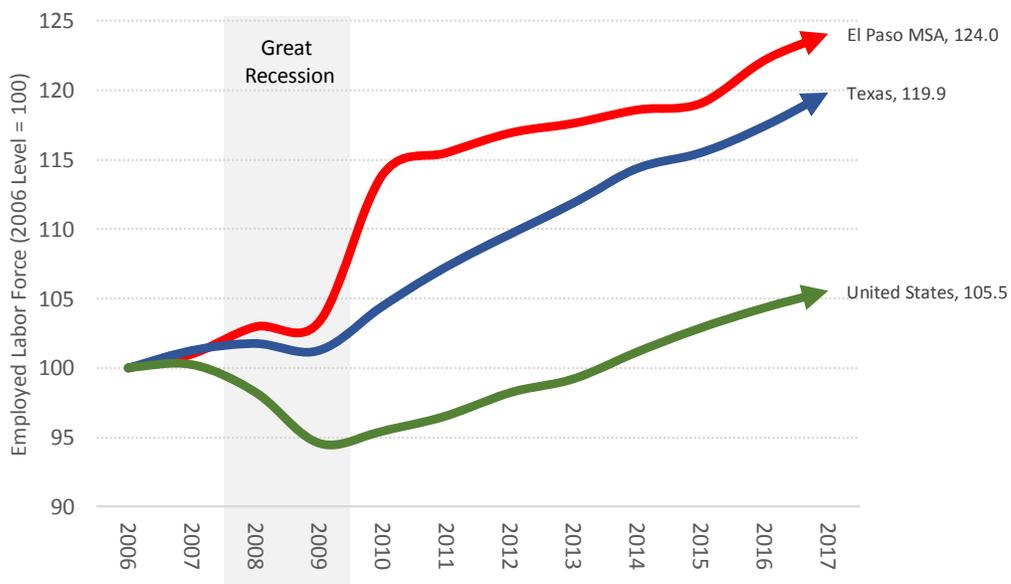
<sup>19</sup> *Ibid.*

Figure 7 | Civilian Labor Force Trends



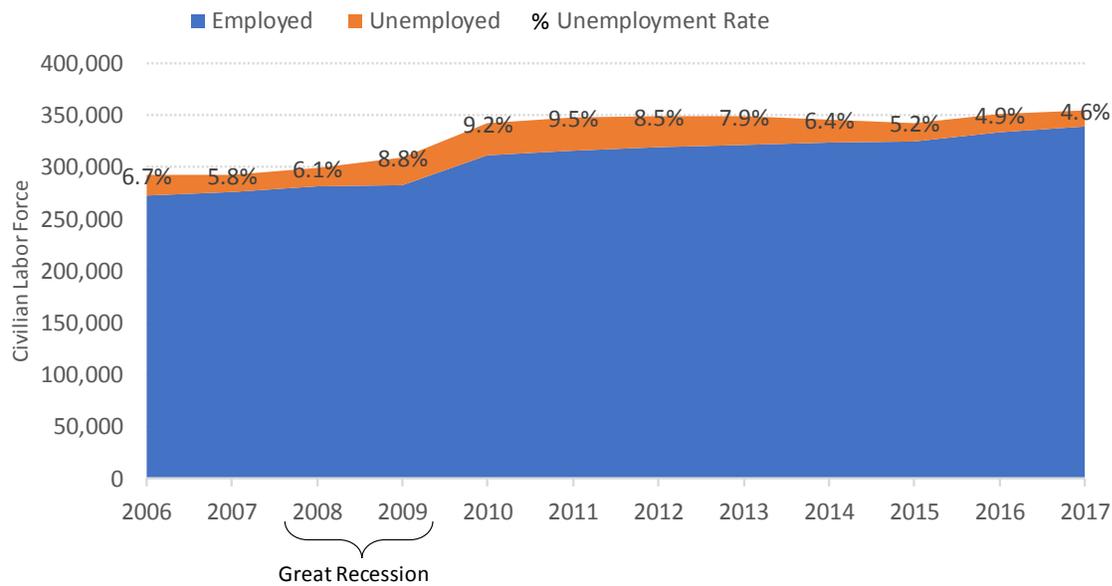
Source: U.S. Bureau of Labor Statistics.

Figure 8 | Employed Labor Force Trends



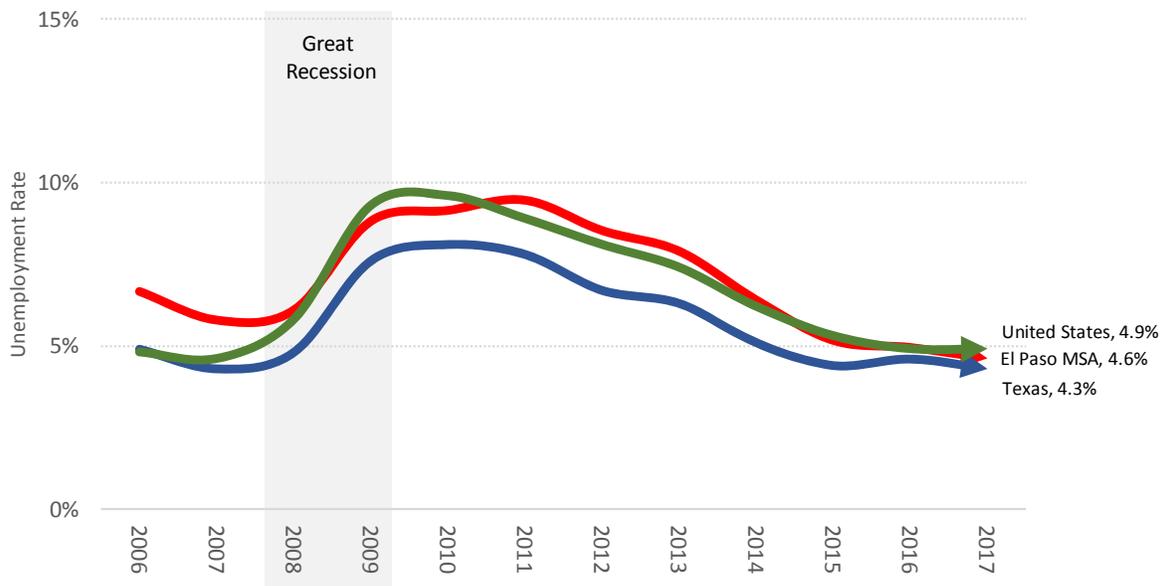
Source: U.S. Bureau of Labor Statistics.

Figure 9 | El Paso Civilian Labor Force



Source: U.S. Bureau of Labor Statistics.

Figure 10 | Unemployment Trends



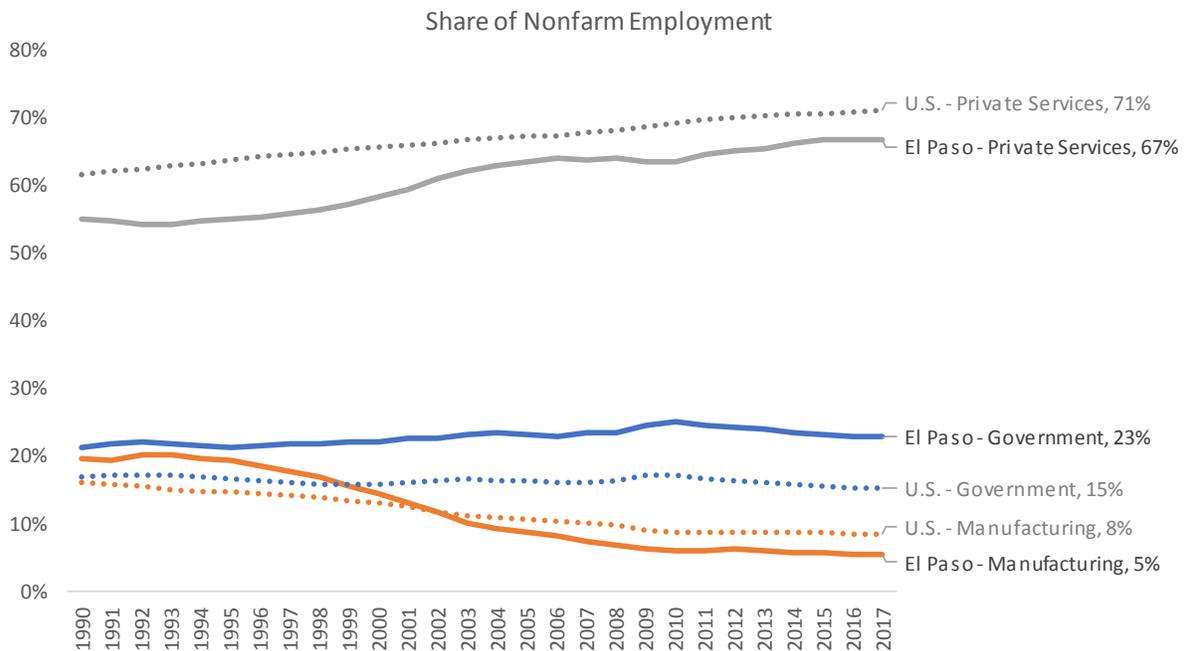
Source: U.S. Bureau of Labor Statistics.

### Employment by Industry

Figure 11 shows how the El Paso MSA economy has transformed and how it compares with the U.S. economy. Two trends describe the long-term transformation of the El Paso MSA economy: (1)

significant decrease in manufacturing activity and (2) growth of the private services sector. These trends are more pronounced in El Paso than in the United States as a whole. Through the decades, one constant defining attribute in the El Paso MSA economy has been the large government presence. Compared to national figures, the government sector has always accounted for significantly larger share of employment in El Paso.

Figure 11 | El Paso's Long-Term Economic Transformation



Source: U.S. Bureau of Labor Statistics.

The decrease in manufacturing activity, replaced by various services supporting cross-border trade, helped diversify El Paso’s economy (Figure 12). Today El Paso’s largest industry supersectors<sup>20</sup> and their shares of 2017 nonfarm employment are:

- Government, 23 percent
- Trade, transportation and utilities, 21 percent
- Education and health services, 14 percent

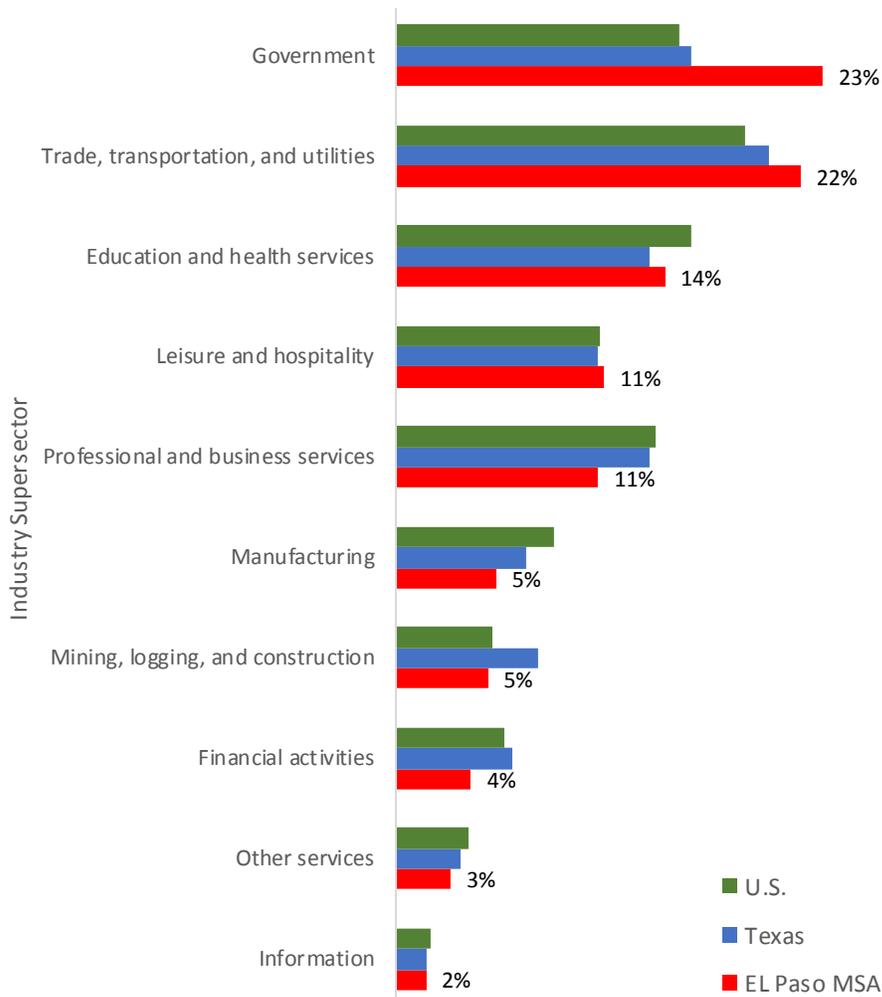
Economic diversification has reduced the El Paso MSA economy’s vulnerability to industry specific downturns such as the downturn in the durable goods manufacturing during the Great Recession,

<sup>20</sup> The U.S. Bureau of Labor Statistics uses the term “supersector” to refer to a high-level aggregation of related industries.

although the relatively large government presence tempered the impacts of the Great Recession on El Paso. In the private sector, the distribution of jobs in El Paso compares to the United States with the exception of a noticeably higher proportion of jobs in trade, transportation and utilities, a smaller proportion of jobs in professional and business services, a smaller proportion of jobs in financial activities, and now a smaller proportion of manufacturing jobs.

Although El Paso now has a small manufacturing sector, employment trends in its services sector are still tied to trends in manufacturing. El Paso’s services sector supports maquiladora activity in Ciudad Juarez, which derives work from the U.S. industrial manufacturing industry.<sup>21</sup>

Figure 12 | El Paso MSA 2017 Industry Distribution of Nonfarm Jobs



Source: U.S Bureau of Labor Statistics, Current Employment Statistics Survey.

<sup>21</sup> Marycruz De León and Jesus Mendoza-Hernandez, “El Paso Booms, Headwinds Increase,” *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 1, 2017.

El Paso’s economic transformation continues. Figure 13 shows El Paso’s fastest growing sectors from 2006 to 2017:

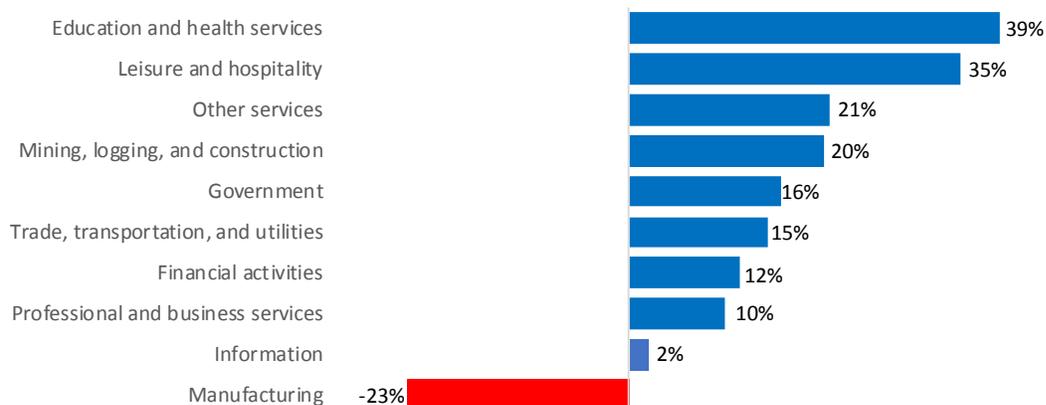
- Education and health services, which grew 39 percent.
- Leisure and hospitality, which grew 35 percent.

In particular, the health services industry is becoming “a new pillar for El Paso’s economy.”<sup>22</sup> The growth in health services is partially linked to the expansion of health care coverage under the Affordable Care Act. Private and public healthcare enterprises rank among the largest employers in El Paso:

- University Medical Center
- Texas Tech University Health Science Center
- Tenet Health
- Del Sol Medical Center
- Las Palmas Medical Center

The health services industry is expected to continue expanding with (1) the initiatives of the Medical Center of Americas to create a biomedical cluster, (2) the growth of Texas Tech Health Sciences Center, and (3) the \$648 million expansion of Fort Bliss’ William Beaumont Army Medical Center.<sup>23</sup>

Figure 13 | El Paso MSA Change in Employment by Industry, 2006-2017



Source: U.S. Bureau of Labor Statistics, Current Employment Statistics Survey.

<sup>22</sup> *Ibid.*

<sup>23</sup> *Ibid.*

The leisure and hospitality industry has picked up since the recession. It has been benefitting from marketing initiatives to showcase El Paso’s attractiveness as a tourist destination and a good place to live and to study.<sup>24</sup>

Table 3 lists El Paso’s largest employers, with Fort Bliss dwarfing all the others by total employees.

Table 3 | El Paso MSA's Largest Employers in 2017

Employer	Industry Sector	No. of Employees
<b>PRIVATE SECTOR</b>		
Tenet Hospitals Limited	Health Care - Private	5,100
El Paso Healthcare System, LTD.	Health Care - Private	2,300
Automatic Data Processing, Inc.	Contact Center – Private	1,774
<b>PUBLIC SECTOR</b>		
Fort Bliss (Military & Civilian employees)	Government	47,316
El Paso Independent School District	Education	8,380
Ysleta Independent School District	Education	7,602
Socorro Independent School District	Education	5,039
City of El Paso	Government	5,484
T&T Staff Management L.P.	Employment Services	5,348
University of Texas at El Paso (UTEP)	Education	2,276
El Paso County	Government	2,892
El Paso Community College	Education	3,089
University Medical Center (UMC)	Health Care – Public	2,858
Dish Network	Technical Support Center	1,750
Alorica	Inbound Customer Service	2,500
Texas Tech University Health Sciences Center, Paul L. Foster School of Medicine & Gayle Grieve Hunt School of Nursing	Higher Education and Health Care	1,545
GC Services	Inbound Customer Service	1,500
Bureau of Customs- Border Patrol Division	Government	2,408
Clint Independent School District	Education	1,450
El Paso Electric Co.	Electric Utilities	1,096
Canutillo Independent School District	Education	1,024
Schneider Electric	Energy Management and Automation Solutions	700
Federal Mogul Powertrain, LLC	Global supplier of technology and innovation in vehicle and industrial products	614
Verizon Wireless	Customer Service and Technical Support Call Center	660
Jordan Foster Construction	Construction	583

Source: City of El Paso.

<sup>24</sup> El Paso County Economic Development Department.

There are over 100 Fortune 500 Companies with a presence in El Paso and neighboring Ciudad Juarez. These include Cardinal Health, Raytheon, Prudential Financial, HP, and Johnson and Johnson. More than 60 companies have a significant presence in manufacturing, distribution, technical support, customer services, and financial services. The rest are primarily engaged in retail and hospitality.<sup>25</sup>

## Tourism

Tourism in the El Paso MSA has grown in the past decade. Growth has continued in recent years: the number of visitors increased from 3.1 million visitors in 2014 to 3.5 million in 2016.<sup>26</sup> El Paso is home to many vibrant events capitalizing on the warm and dry weather in the region:

- *The Southwestern International PRCA Rodeo.* The 17th oldest rodeo in the nation and the El Paso MSA's longest running sporting event.
- *Fiesta de las Flores.* One of the oldest Hispanic Festivals in Texas held over Labor Day weekend emphasizing Hispanic heritage and culture.
- *The El Paso Balloonfest.* An annual event on Memorial Day Weekend with hot air balloons filling the skies.
- *El Paso Downtown Street Festival.* One of the oldest musical festival in the El Paso MSA bringing local, regional and nationally known acts.
- *The Neon Desert Music Festival.* A two-day event bringing over 30 acts from genres including indie rock, Latin and electronic dance music.
- *Music Under the Stars.* An outdoor concert featuring local and international performers with varying musical genres.
- *The Sun City Music Festival.* One of the largest electronic dance music festival in Texas.
- *The Texas Showdown Festival.* An annual event celebrating musicians and tattoo artists.
- *The Viva! El Paso.* An outdoor musical festival performed in the McKelligon Canyon Amphitheatre.
- *The El Paso Symphony.* The oldest performing arts organization in El Paso and the longest continuously running symphony orchestra in Texas.
- *Plaza Classic Film Festival.* An annual multi-day festival of classic films held in early August.
- *Sun Bowl.* An annual college football game held in the Sun Bowl.

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<sup>25</sup> The City of El Paso, Texas, Economic and International Development Department, *City of El Paso Economic Development*.

<sup>26</sup> The Office of the Governor Economic Development and Tourism Division, *Texas Destinations*.

- *Thanksgiving Day Parade.* A parade including floats, firetrucks, and other parade entries.
- *Hueco Tanks State Park and Historic Site.* A popular destination for rock climbing enthusiasts.
- *The El Paso Chihuahuas.* A minor league baseball team representing El Paso in the Pacific Coast League, and a Triple-A affiliate for the San Diego Padres.
- *Soccer team.* A United Soccer League franchise plans to begin playing in El Paso in 2019.

Other tourist attractions are listed in Table 4.

Table 4 | El Paso Tourist Attractions

#### IN EL PASO

The Centennial Museum and Chihuahuan Desert Garden  
The El Paso Museum of Archaeology  
The El Paso Museum of Art  
El Paso Holocaust Museum and Study Center  
International Museum of Art El Paso  
El Paso Museum of History  
Fort Bliss Museums and Study Center  
Insights El Paso Science Museum  
The Magoffin Homestead  
The National Border Patrol Museum  
Railroad and Transportation Museum  
War Eagles Air Museum  
The Gene Roddenberry Planetarium  
Cathedral of Saint Patrick  
Chamizal National Memorial  
El Paso Zoo

#### NEAR EL PASO

Guadalupe Mountains National Park  
Hueco Tanks State Historic Site  
McKittrick Canyon  
Lincoln National Forest  
Mt. Cristo Rey  
Organ Mountains-Desert Peaks National Monument  
Socorro Mission  
White Sands National Monument  
San Elizario Chapel  
Carlsbad Caverns National Park

## Economic Output

Economic trends at both regional and national levels drive Airport passenger traffic, especially at an airport like ELP that serves predominantly O&D traffic.<sup>27</sup> An economic expansion increases employment and income, boosts consumer confidence and increases the demand for air travel. In contrast, an economic recession dampens business activity, causes job losses, reduces income, diminishes consumer confidence and weakens the demand for air travel.

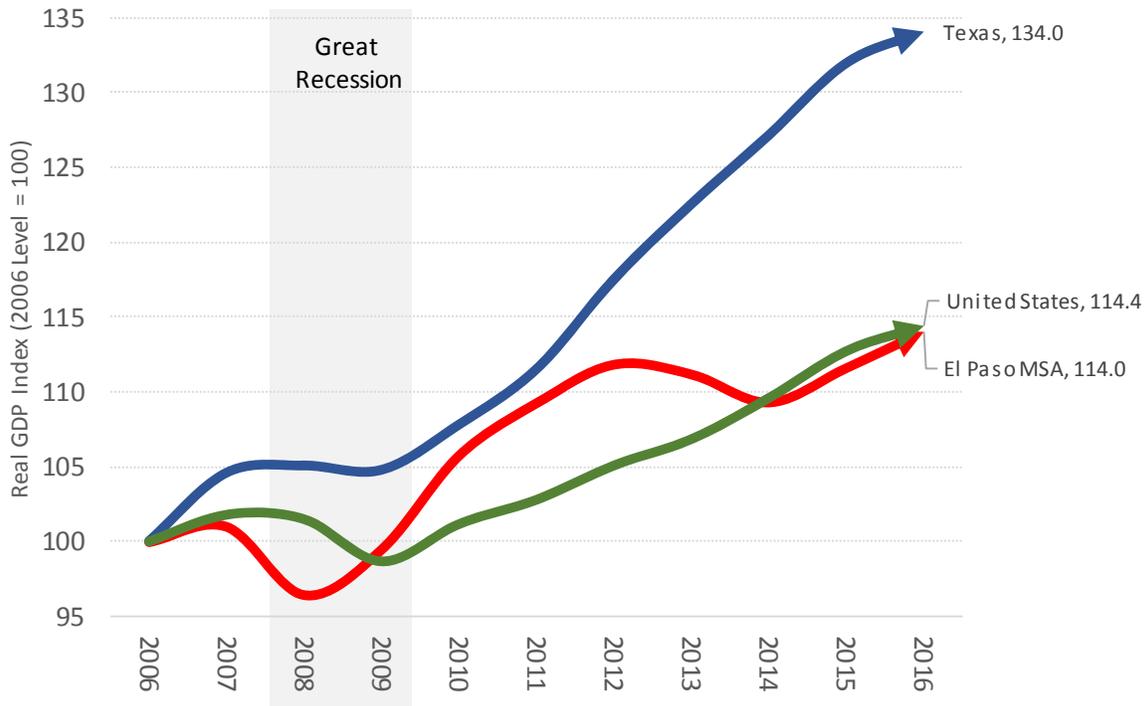
Figure 14 compares the overall economic trends in the El Paso MSA with those in the entire state of Texas and in the entire country by tracking relative growth in gross domestic product (GDP) from 2006. GDP measures the value of all goods and services produced within a geographic area. Growth in inflation-adjusted (real) GDP indicates overall economic growth and steady growth in GDP over a number of years indicates an economic expansion.

From 2006 to 2016, the El Paso MSA's real GDP increased 14 percent. El Paso's growth was on par with growth in the United States (14 percent) but lagged behind growth in the entire state. El Paso's real GDP growth, however, followed a different track. After a downturn in 2008, El Paso's real GDP growth accelerated through 2012, with the expansion of Fort Bliss and the federal investment stimulus. After 2012, El Paso's real GDP decreased through 2014 before turning around to track national growth trends in the last two years. El Paso's real GDP growth trends mirror those of its population.

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<sup>27</sup> O&D traffic consists of passengers who begin and end their air travel at ELP, as contrasted to connecting passengers.

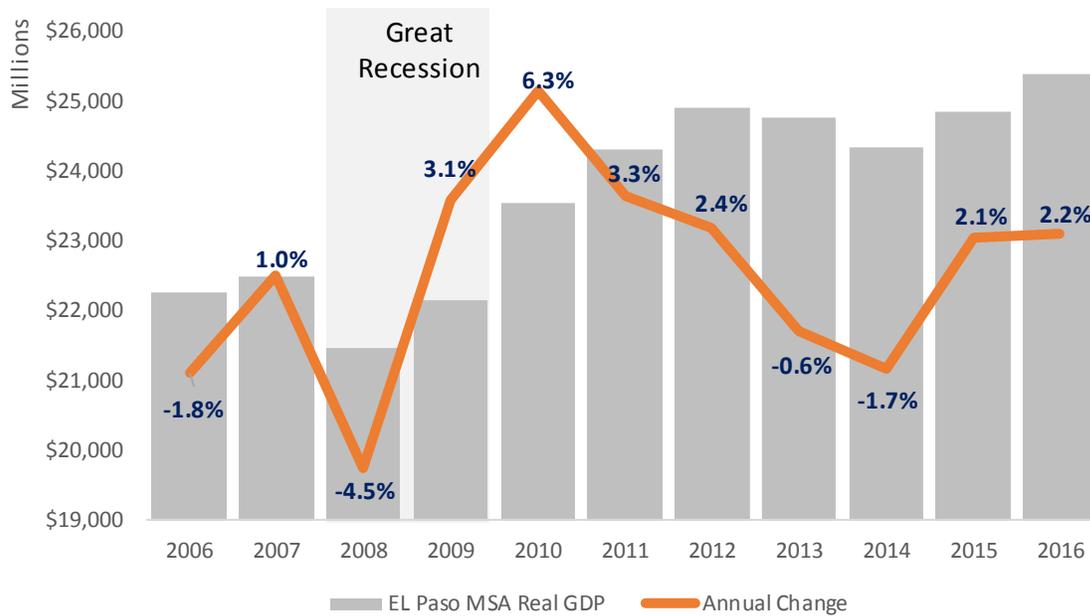
Figure 14 | Growth in Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis.

Figure 15 shows the trends in El Paso’s real GDP from 2006 to 2016.

Figure 15| El Paso MSA Real Gross Domestic Product



Source: U.S. Bureau of Economic Analysis.

## Personal Income

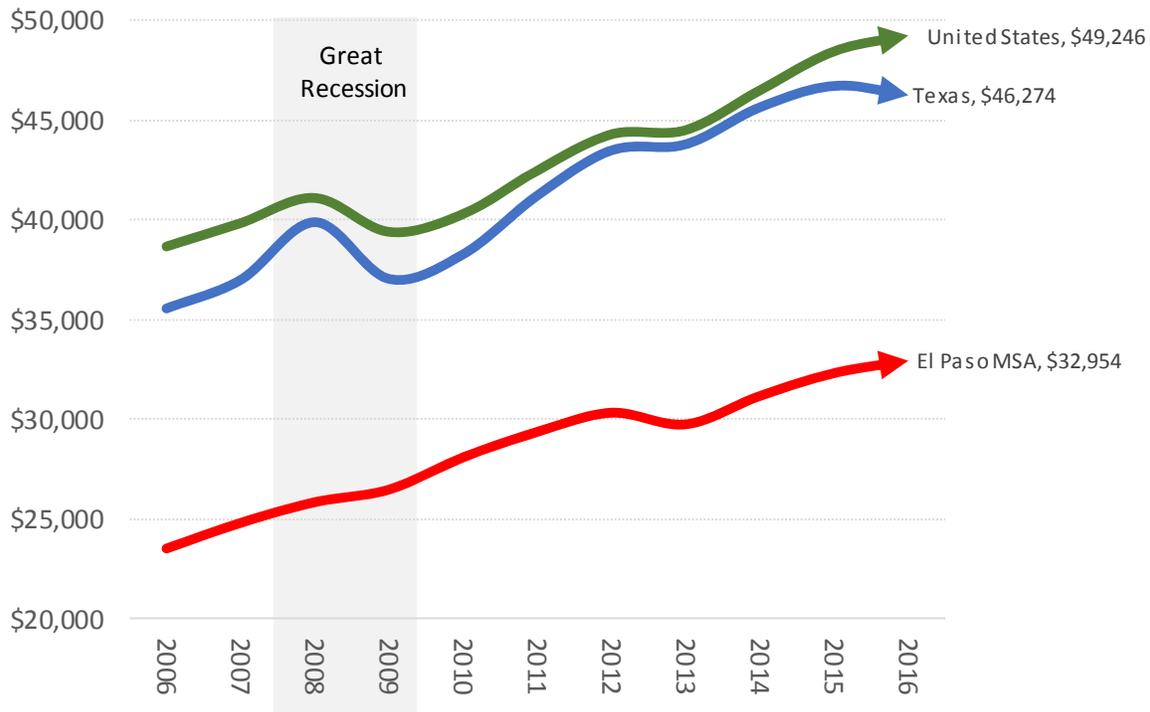
Personal income, a component of GDP, is another key economic indicator measuring consumers’ ability to spend and build wealth. Growth in personal income boosts demand for air travel.

The El Paso MSA has historically had below-average per capita personal income relative to Texas and the nation, partly because El Paso has a higher employment concentration in lower-paying service industries (for example, retail trade, temporary help, and call centers) and government sectors (including military).<sup>28</sup> From 2006 to 2016, however, per capita personal income in the El Paso MSA increased faster (40 percent) than in Texas (30 percent) and in the United States (27 percent), as shown in Figure 14. El Paso has begun to narrow the gap in per capita personal income between itself and the nation. Cross-border trade has begun to drive growth in higher-paying professional services in information, administration and management.<sup>29</sup>

<sup>28</sup> The University of Texas at El Paso Department of Economics & Finance, *El Paso, Texas, Economic Outlook to 2018*, January 2018.

<sup>29</sup> Robert W. Gilmer and Roberto Coronado, “El Paso and Texas Border Cities Close the Gap in Per Capita Income,” *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 2, July 2012.

Figure 16 | Per Capita Personal Income



Source: U.S. Bureau of Economic Analysis.

### Outlook for the El Paso MSA

Economic indicators show continued economic expansion in the El Paso MSA economy. In 2017 the unemployment rate in the El Paso MSA decreased to 4.6 percent, the lowest in over 40 years. A resurgence in maquiladora employment in Ciudad Juarez spurred growth in El Paso’s services sector. A number of economic development initiatives are either underway or in planning:

- Pacific Union Financial’s expansion
- UPS’ expansion of an existing hub operation
- Construction of Weststar Tower, a Class “A” office building
- SDI Technologies’ expansion into a new distribution facility
- Facility improvements and medical equipment upgrades at Tenet Hospitals
- South Shore USA’s construction of a new distribution facility
- San Francisco-based customer service technology company FiveStars’ expansion into the El Paso area

- The City of El Paso's new transit-oriented development policy<sup>30</sup>

According to the latest regional forecast by the University of Texas at El Paso Department of Economics & Finance, El Paso is poised to continue enjoying positive demographic and economic trends:

- Population growth will continue in the short-to-medium term. Residents are forecast to reach 874,000 and households are forecast to reach 285,000 by the end of 2018.
- Net migration is predicted to rise because of low unemployment in the El Paso MSA and less labor demand in oil producing regions of the State.
- Increased workforce participation rates and positive net migration will accelerate growth in the civilian labor force causing the unemployment rate to rise slightly in the short-term.
- The growth in per capita personal income is forecast to slow by the end of 2018.
- Strong employment growth in the short-term will lead to an increase in real income following declines after the Great Recession.<sup>31</sup>
- The border crossing continues to be a major port, linking the economies of El Paso and Ciudad Juarez. Businesses in El Paso continue to draw customers and the Airport continues to draw passengers from Ciudad Juarez and other Mexican municipalities near the border.

A number of factors, however, could present challenges to El Paso's economic outlook:

- A weaker Mexican economy and a strong U.S. dollar could dampen El Paso retail sales to Mexican nationals crossing the border to go shopping.
- The uncertainty in the future tax and trade policy may curtail cross-border trade and hamper the growth in maquiladora activity.

The fast pace of growth in El Paso's health services sector will continue to bode well for personal income growth and overall economic growth in the MSA. El Paso will also benefit from an uptick in defense spending.<sup>32</sup>

### Outlook for the National Economy

The national economy is a major driver to the MSA's economy and to passenger traffic at ELP. Continued growth in the U.S. economy would bring continued growth in the MSA's economy. In the same way, risks facing the national economy would also hamper growth in MSA's economy.

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<sup>30</sup> The City of El Paso, Texas, Economic and International Development Department, *City of El Paso Economic Development*.

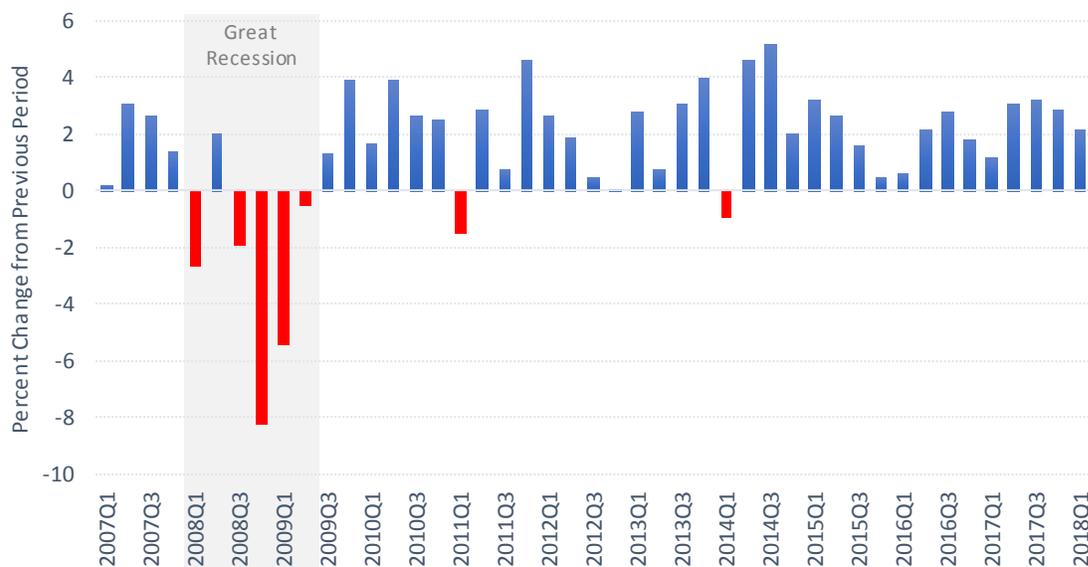
<sup>31</sup> The University of Texas at El Paso Department of Economics & Finance, *El Paso, Texas, Economic Outlook to 2018*, January 2018.

<sup>32</sup> Marycruz De León and Jesus Mendoza-Hernandez, "El Paso Booms, Headwinds Increase," *Crossroads, Economic Trends in the Desert Southwest*, Federal Reserve Bank of Dallas El Paso Branch, Issue 1, 2017.

The U.S. economy is on solid footing after years of slow and uneven recovery from the 2008-2009 recession (the Great Recession). The current U.S. economic expansion—now on its ninth year—is expected to last longer, having the potential to outlast the 1990s’ record 10-year economic expansion.

Figure 17 shows quarterly changes in U.S. economic output, measured by the U.S. real GDP, from the first quarter of 2007 to the first quarter of 2018. Quarterly real GDP growth has averaged 2.2 percent since the beginning of the current economic expansion in the third quarter of 2009. Through the first quarter of 2018, the U.S. economy has grown steadily for 16 consecutive quarters.

Figure 17 | U.S. Real GDP Trends



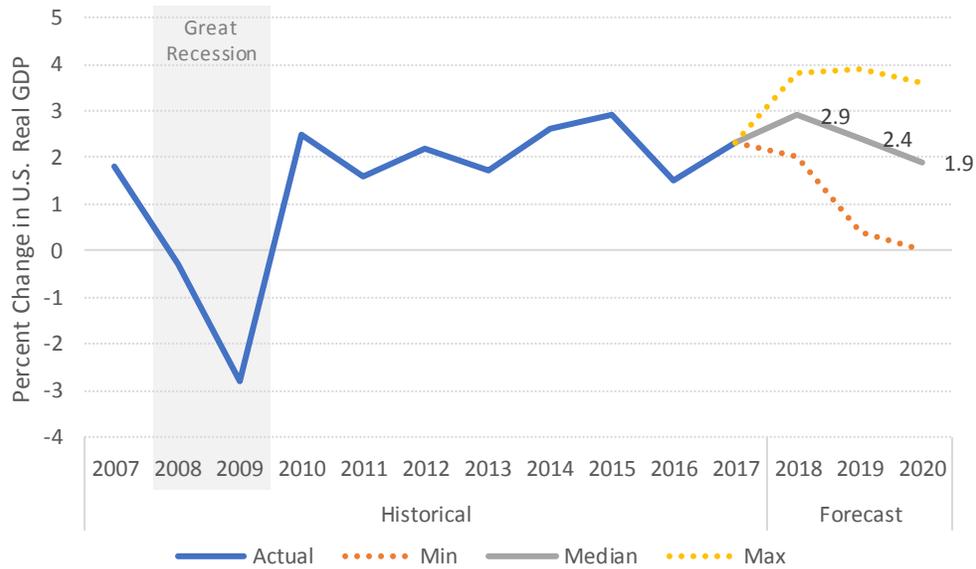
Source: U.S. Bureau of Economic Analysis.

The U.S. economy is enjoying low unemployment, modest inflation, relatively low levels of consumer debt, strong corporate balance sheets, improving corporate profits, a booming stock market, and a global economic expansion. In 2018 the U.S. economy grew 2.2 percent in the first quarter. It is expected to grow faster during the remainder of the year. The Wall Street Journal June 2018 economic forecasting survey turned out median predictions for U.S. real GDP growth of 3.6 percent for the second quarter, 3 percent for the third quarter and 2.9 percent for the fourth quarter—2.9 percent for the whole year 2018, decelerating to 2.4 percent in 2019 and 1.9 percent in 2020. Figure 18 shows the full range of U.S. real GDP growth forecasts.

In the same survey, estimates for the probability of the U.S. economy going into a recession over the next 12 months range from zero to 33 percent, with a median of 16 percent. The sources of economic risks and uncertainty include significant economic policy changes, the high level of U.S. government and private debt, tightening monetary policy, the adverse effects of volatile oil prices

on the U.S. energy and manufacturing sectors, and the continuing political tensions at home and abroad.

Figure 18| U.S. Real GDP Growth Forecasts



Sources: U.S. Bureau of Economic Analysis for historical data and the Wall Street Journal June 2018 Economic Forecasting Survey.

## Summary

ELP is the largest airport in the El Paso MSA, the 6<sup>th</sup> largest MSA in Texas. Demographic and economic trends determine the El Paso's attractiveness as a business and leisure destination, and the ability of its residents to travel. Since 2010, economic indicators for the El Paso MSA have shown signs of strong economic expansion, strong employment growth, and a steady rise of per capita personal income. El Paso's economy continues to diversify, this time toward higher paying jobs in the health services and professional business services sectors. A resurgence in maquiladora employment in Ciudad Juarez spurred growth in El Paso's services sector. According to the latest regional forecast by the University of Texas at El Paso Department of Economics & Finance, El Paso will continue to enjoy positive demographic and economic trends.

The U.S. economy, a major driver to the El Paso MSA economy, is on solid footing after years of slow and uneven recovery from the 2008-2009 recession (the Great Recession). The current U.S. economic expansion—now on its ninth year—is expected to last longer, having the potential to outlast the 1990s' record 10-year economic expansion. The probability of the U.S. economy going into a recession over the next 12 months is low. Sources of economic risks and uncertainty include significant economic policy changes, the high level of U.S. government and private debt, tightening monetary policy, the adverse effects of volatile oil prices on the U.S. energy and manufacturing sectors, and the continuing political tensions at home and abroad.

## SECTION 3 | AVIATION ACTIVITY

This section presents forecasts of commercial aviation activity, which serve as an important input to the financial feasibility analysis of the Series 2018 bonds. The discussion in this section is organized into three topics:

- Historical trends in aviation activity – We examine how the Airport’s commercial aviation activity has performed over time, what market factors and industry developments explain observed trends, and how the trends at the Airport compare with national trends and trends at other comparable airports.
- Forecast development – We describe in detail the methodology and assumptions underlying the forecasts, and we present a range of annual forecasts for FY2018-2028.
- Forecast uncertainty and risk factors – We discuss broader factors affecting the aviation industry and the Airport that can bring risk and uncertainty into the forecasts.

### Historical Trends in Commercial Aviation Activity at the Airport

ELP is classified as a small hub commercial service airport by the Federal Aviation Administration (FAA). A small hub is defined as a community enplaning at least .05 percent but less than .25 percent of total U.S. enplanements. In FY2017, the Airport enplaned approximately 1.46 million passengers, representing 0.17 percent of total U.S. enplanements. According to calendar year (CY) 2016 airport traffic data compiled by the Airports Council International-North America (ACI-NA), ELP is the 76<sup>th</sup> largest airport in the United States by total passenger traffic, the 113<sup>th</sup> busiest by total commercial aircraft operations, and the 46<sup>th</sup> largest airport for air cargo by cargo tonnage.

As of March 2018, six U.S. passenger carriers and three all-cargo carriers provide scheduled air service at ELP (Table 5). The passenger carriers fly nonstop from ELP to 14 airports in 12 major cities in the United States (Figure 19).

Table 5 | Commercial Passenger Airlines Providing Scheduled Service at ELP as of March 2018

Passenger Carriers	All-Cargo Carriers
Allegiant Air	DHL
American Airlines <sup>1</sup>	FedEx
Delta Air Lines	UPS
Frontier Airlines	
Southwest Airlines	
United Airlines <sup>2</sup>	

<sup>1</sup> Some of American Airlines’ flights are operated by regional affiliates: Compass Airlines, Mesa Airlines, and SkyWest Airlines.

<sup>2</sup> Some of United Airlines’ flights are operated by regional affiliates: ExpressJet Airline, SkyWest Airlines, Mesa Airlines, and Republic Airline.

Sources: City of El Paso Department of Aviation, *El Paso International Airport Monthly Activity Report*, March 2018, and OAG Schedules Analyzer.

Figure 19 | ELP's Nonstop Passenger Service Destinations as of March 2018



Note: ELP has nonstop service to two airports (Dallas-Fort Worth International Airport and Dallas Love Field) in Dallas and two airports (George Bush Intercontinental Airport and William P. Hobby Airport) in Houston.

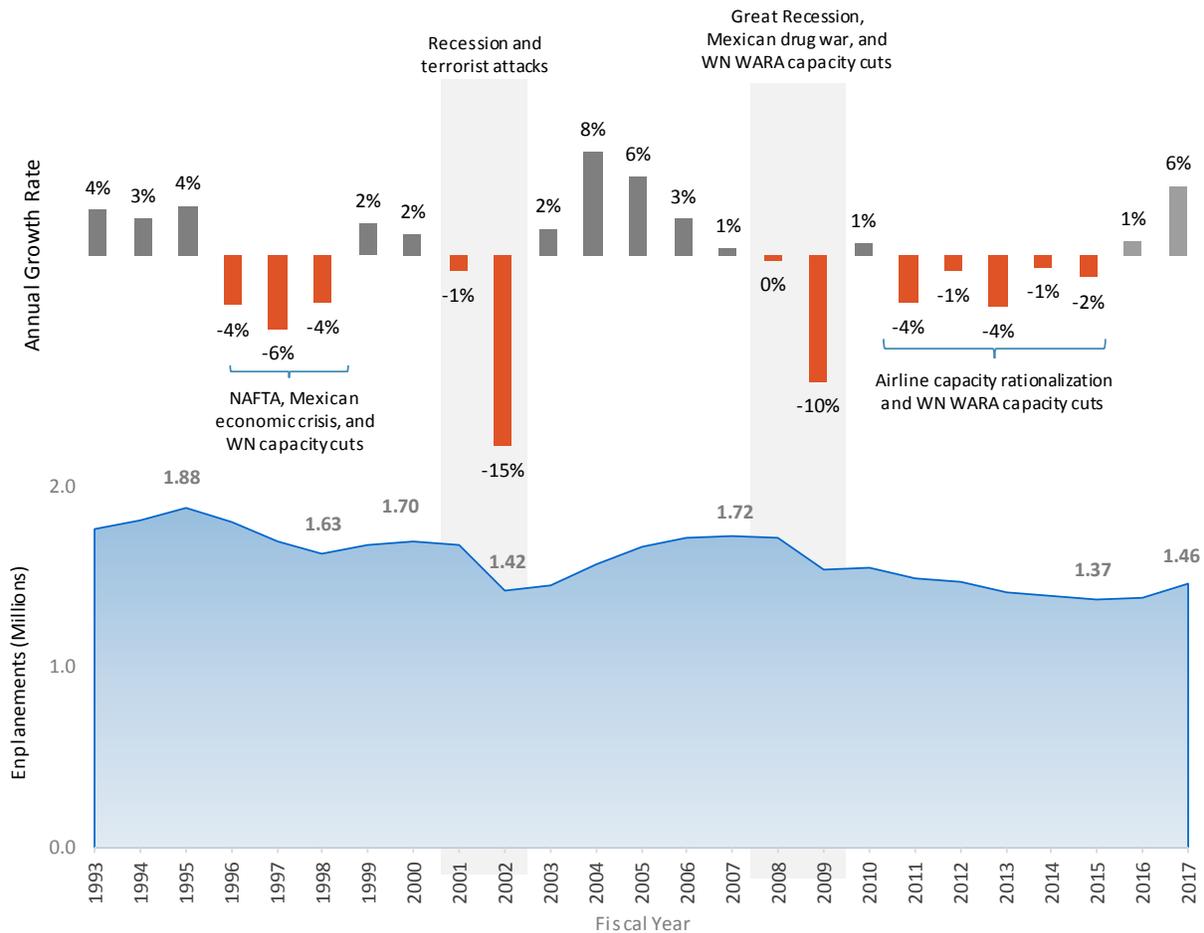
Source: City of El Paso Department of Aviation, *El Paso International Airport Monthly Activity Report*, March 2018.

### Long-Term Enplanement Trends

ELP enjoyed a strong 6 percent growth in enplanements in FY2017, following a 1 percent growth in FY2016 that ended five consecutive years of decreases in enplanements. FY2018 promises even stronger growth—thru March enplanements increased 3.3 percent over the same period in FY2017. These positive trends can be attributed to the continuing economic expansion, improving conditions across the border, and increases in airline capacity.

The recent uptrend in ELP's passenger traffic ends a long-term trend of decline that began in the mid-1990s as shown in Figure 20. The Airport's enplanements reached their highest level at 1.88 million in FY1995 and their lowest level at 1.37 million in FY2015. Passenger traffic recovery was set back many times by various events affecting the Airport's service area, the U.S. aviation industry, and Southwest Airlines' service at ELP.

Figure 20 | ELP Annual Enplanement Trends, FY1993-2017



Source: City of El Paso Department of Aviation for ELP historical enplanement data.

### Events Affecting the Airport’s Service Area

The signing of NAFTA in early 1994 accelerated the growth of maquiladoras across the border in Ciudad Juarez. The El Paso MSA continued to lose manufacturing jobs, although it gained service jobs supporting NAFTA trade.

Less than 12 months later in December 1994, the Mexican government devalued the Mexican peso. This action sparked a financial crisis that cut the peso’s value in half, caused inflation to soar, and triggered a severe economic recession in Mexico.<sup>33</sup> The Airport draws passenger traffic from Mexican residents across the border. Consequently, the economic recession in Mexico caused decreases in enplanements at ELP.

In 2001 maquiladoras in Ciudad Juarez began to shut down, as manufacturing followed cheap labor in other Latin American countries and Asian countries. Employment in Ciudad Juarez declined

<sup>33</sup> Joseph A. Whitt, Jr., “The Mexican Peso Crisis,” *Economic Review*, Federal Reserve Bank of Atlanta, January/February 1996.

sharply from 2001 to 2004, slowing the flow of cross border traffic—a significant source of customers for El Paso’s retail trade sector<sup>34</sup> and passengers for ELP. In 2008 and 2009, Ciudad Juarez again faced sharp decreases in employment, dragged into recession by the U.S. economic recession.

The Mexican government’s long-running drug war, which began in 2006, increased violent drug-related crimes in Ciudad Juarez and also reduced cross-border traffic.

#### Events Affecting the U.S. Aviation Industry

Since 2001 the U.S. aviation industry faced many adverse events that prompted structural changes in the air travel market and airline industry.

In 2001 a recession ended the long-running U.S. economic expansion from the early 1990s. The recession was brief, lasting from March to November 2001, but during the recession, the U.S. aviation industry faced terrorist attacks on September 11, 2001 and their aftermath. The terrorist attacks caused an already weak air travel demand to fall sharply. The U.S. airline industry suffered financial losses. After the terrorist attacks, airports tightened security screening, resulting in longer wait times and changes in air travel behavior.

Meanwhile, jet fuel cost per gallon quadrupled from 2000 to 2008, remaining at record high levels through 2014. Amid record fuel prices, the U.S. economy entered the Great Recession from December 2007 to June 2009. The Great Recession weakened demand for domestic and international passenger and cargo air services. The Great Recession holds the record for the longest and deepest recession since the Great Depression. The recovery from this recession was also the slowest of all recoveries from previous recessions since the Great Depression.

Facing weak air travel demand and high fuel prices, airlines responded with cuts in domestic seat capacity, increases in load factors, retirement of old aircraft, addition of seats to existing aircraft, changes in route networks, pricing changes, and various other cost-cutting measures. The cuts in domestic seat capacity—approximately 20 percent between 2005 and 2014—fell disproportionately on smaller airports like ELP.

Mounting financial difficulties led to airline bankruptcies, mergers, business restructuring, and network consolidations. Today the U.S. airline industry is left with four major airlines controlling 80 percent of the U.S. domestic passenger traffic.

Many of these events have had adverse effects on ELP. After the Great Recession ended, ELP continued to face cuts in airlines’ schedules due to capacity rationalization. Weak demand and airline capacity cuts combined to keep ELP’s passenger traffic on a downward trend through 2015.

In 2010 the U.S. airline industry as a whole began to see net profits. In late 2014, jet fuel prices began falling along with world oil prices, returning to mid-2000s’ levels. The sharp decrease in fuel

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<sup>34</sup> Steve Nivin, *The Spending Patterns and Economic Impacts of Mexican Nationals in A Twenty-County Region of South and Central Texas*, SABÉR Research Institute, April 12, 2013.

costs greatly improved airlines' financial results. U.S. airlines began renewing their fleets and increasing their flight schedules, while maintaining capacity discipline. ELP has started to benefit from the recent increases in flight schedules.

#### Events Affecting Southwest Airlines' Service at ELP

In addition to industry trends in airline capacity, the Wright Amendment of 1979 and the subsequent repeal of its provisions by various legislations and ultimately by the Wright Amendment Reform Act (WARA).

The Wright Amendment of 1979 restricted nonstop service from Dallas Love Field (DAL) using aircraft with more than 56 seats, to destinations within Texas and the four neighboring states of Louisiana, Arkansas, Oklahoma, and New Mexico (referred to as Love Field service area). In addition, the Wright Amendment did not allow the sale of one-stop and through-service between DAL and destinations outside Texas. DAL is one of Southwest's top 10 airports by number of flight departures. It is also Southwest's base airport in its corporate home base of Dallas.

When the Wright Amendment restrictions were in place at DAL, Southwest Airlines used ELP as a transfer point for some of its passengers traveling to and from DAL. Southwest accounts for the largest share of enplanements at ELP, a share that decreased from 52 percent in FY2013 to 48 percent in FY2017.

The Wright Amendment restrictions on DAL's air service were gradually lifted by other legislations signed in 1997, 2005 and 2007, with each legislation reducing the necessity of ELP as a transfer point for Southwest Airlines' passengers. The Love Field service area was expanded by the 1997 Shelby Amendment to include Alabama, Kansas and Mississippi, and by the FY2006 Department of Transportation Act signed in 2005 to include Missouri. In the fall of 2006, the Wright Amendment Reform Act was signed, lifting the restriction on one-stop and through service from DAL effective October 17, 2007 and lifting the restriction on nonstop service to domestic destinations effective October 19, 2014.

The Wright Amendment Reform Act has changed the way Southwest Airlines serves passengers traveling between DAL and destinations outside the Love Field service area. Prior to October 17, 2007, Southwest could only serve these passengers by selling two separate tickets—for example, one ticket from DAL to a transfer point like ELP and another ticket from the transfer point to the final destination. Passengers traveling in this manner would all have been counted as origin & destination (O&D) passengers at ELP. On October 17, 2007, Southwest began serving these passengers with one-stop flight itineraries, either staying on the same aircraft or transferring to another aircraft. Those staying on the same aircraft are considered through traffic and are not included in the Airport's passenger counts. Those transferring to another aircraft represent connecting traffic and are included in the Airport's passenger counts. On October 19, 2014, Southwest Airlines began offering nonstop service between DAL and domestic destinations outside what used to be the Love Field service area, further reducing transfers at ELP.

From 2013 to 2015, Southwest’s scheduled seats from ELP decreased 23 percent, while its scheduled seats systemwide increased 16 percent. Southwest’s capacity cuts at ELP ended in 2015. Its scheduled seats at ELP increased 2.8 percent in 2016 and another 2.4 percent in 2017.

### Airport and U.S. System Enplanements

Table 6 and Figure 21 compare enplanement growth trends at ELP and in the entire U.S. system from FY2001 to FY2017:

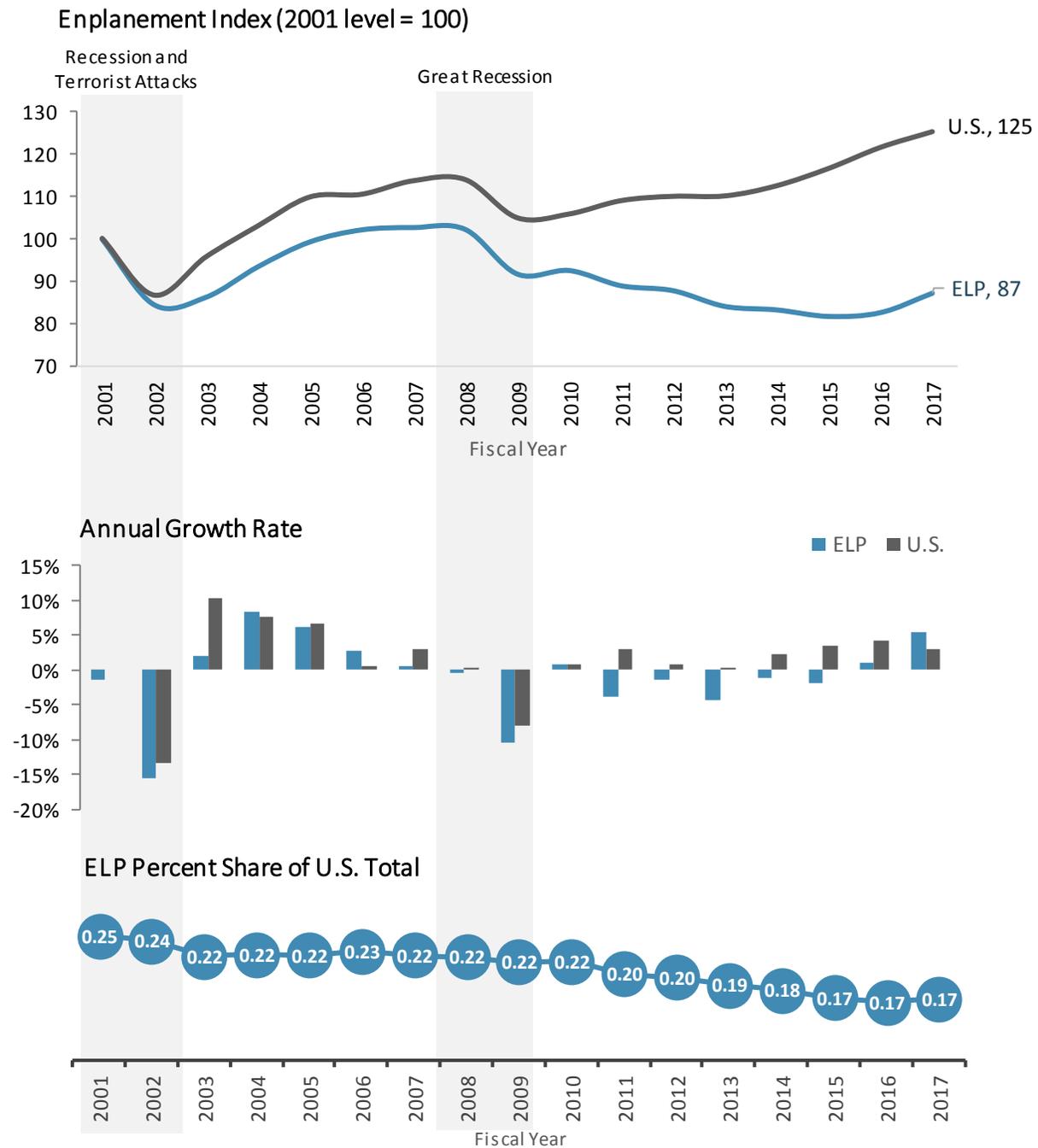
- Total enplanements at the Airport decreased 13 percent (an average decrease of 0.8 percent per year), while U.S. system enplanements increased 25 percent (an average increase of 1.4 percent per year). ELP’s annual enplanement level fell more deeply following the September 2001 terrorist attacks, recovered more slowly before the next fall during the Great Recession of 2008-2009, and continued to decline through FY2015.
- ELP’s enplanement level has since turned up, on average rising 3.3 percent per year in the past two years. ELP’s average annual growth rate in the past two years followed closely behind the average annual growth of 3.7 percent per year in U.S. system enplanements in the same years.
- ELP’s annual share of U.S. system enplanements decreased from 0.25 percent in FY2001 to 0.17 percent in the past three fiscal years.

Table 6 | ELP and U.S. System Enplanements, FY2001-2017

Fiscal Year	Enplanements (1,000s)		ELP Share
	ELP	U.S.	
2001	1,675	676,681	0.25%
2002	1,416	586,034	0.24%
2003	1,446	647,071	0.22%
2004	1,566	696,491	0.22%
2005	1,664	742,581	0.22%
2006	1,712	746,936	0.23%
2007	1,721	768,695	0.22%
2008	1,713	770,245	0.22%
2009	1,537	709,355	0.22%
2010	1,551	715,484	0.22%
2011	1,491	736,781	0.20%
2012	1,472	743,738	0.20%
2013	1,410	744,207	0.19%
2014	1,396	760,571	0.18%
2015	1,370	788,161	0.17%
2016	1,385	821,829	0.17%
2017	1,462	846,844	0.17%
<b>Compound Annual Growth Rate</b>			
2001-2017	-0.8%	1.4%	
2015-2017	3.3%	3.7%	

Sources: City of El Paso Department of Aviation for ELP enplanements and U.S. Department of Transportation T-100 Market for U.S. system enplanements.

Figure 21 | ELP and U.S. System Enplanement Growth Trends from FY2001



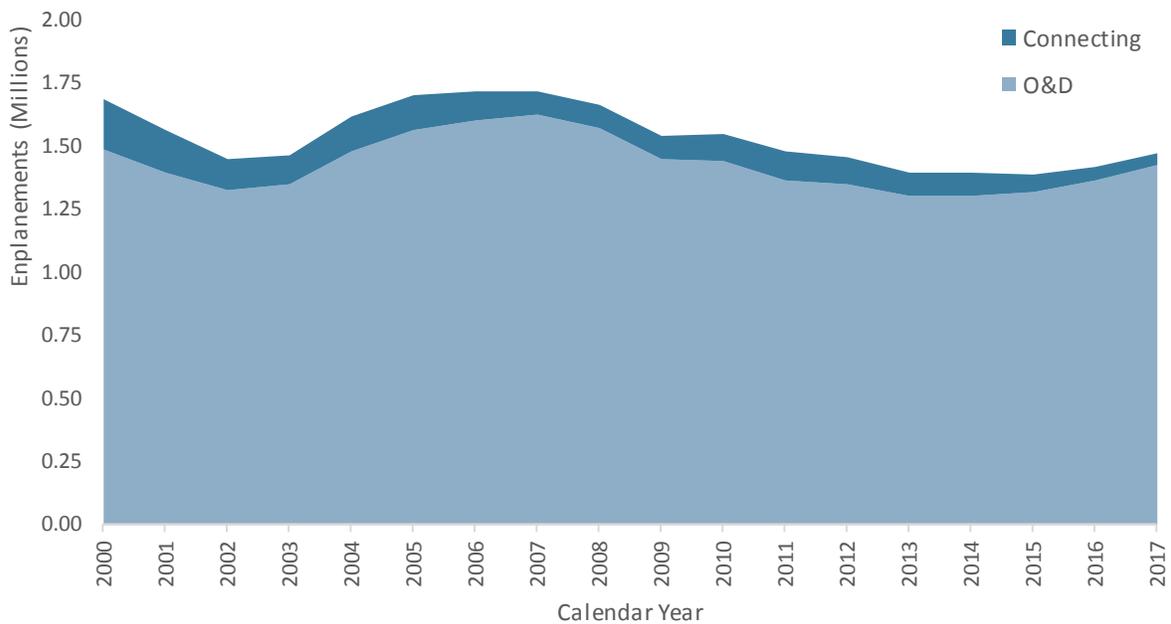
Sources: City of El Paso Department of Aviation for ELP enplanements and U.S. Department of Transportation T-100 Market for U.S. system enplanements.

### Origin and Destination (O&D) and Connecting Traffic

ELP passengers consist largely of O&D traffic—passengers who begin and end their air travel at the Airport. The share of O&D traffic increased from approximately 88 percent in 2000 to approximately 97 percent in 2017 (Figure 22). Having predominantly O&D traffic reduces an airport’s vulnerability to changes in airline route networks. Unlike connecting traffic that is brought by an airline and can go away with routing changes, O&D traffic is generated by an airport’s service area. O&D traffic volumes are sensitive to local and national economic conditions and, in the case of ELP, economic conditions across the border. But as long as O&D traffic remains strong, airlines will come to serve an airport.

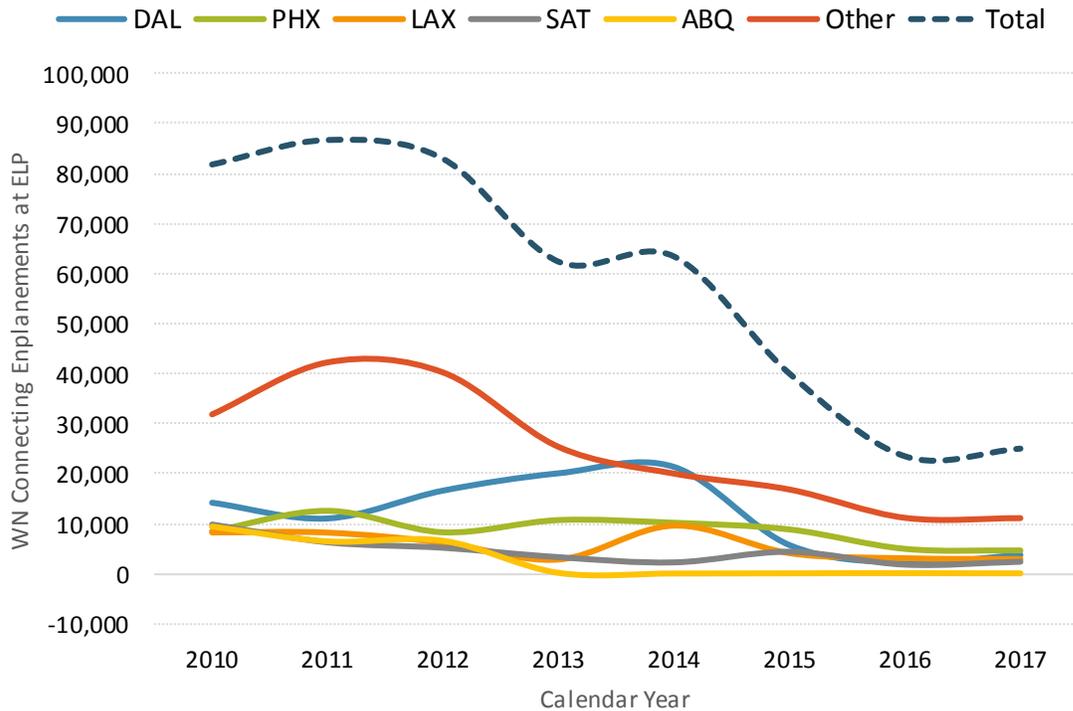
Connecting traffic makes up the remainder of passengers, which decreased from approximately 12 percent in 2000 to approximately 3 percent in 2017. Southwest Airlines accounts for all of ELP’s connecting traffic. The lifting of Wright Amendment restrictions on through-ticketing and nonstop service to and from DAL reduced the need for Southwest to route passengers to and from DAL through ELP. Changes in Southwest’s route strategy explain the decrease in connecting traffic at ELP (Figure 23).

Figure 22 | ELP O&D and Connecting Traffic



Sources: City of El Paso Department of Aviation for total enplanements and Unison estimates of O&D-connecting split based on data from the U.S. Department of Transportation DB1B.

Figure 23 | Southwest Airlines Connecting Traffic Through ELP by Origin

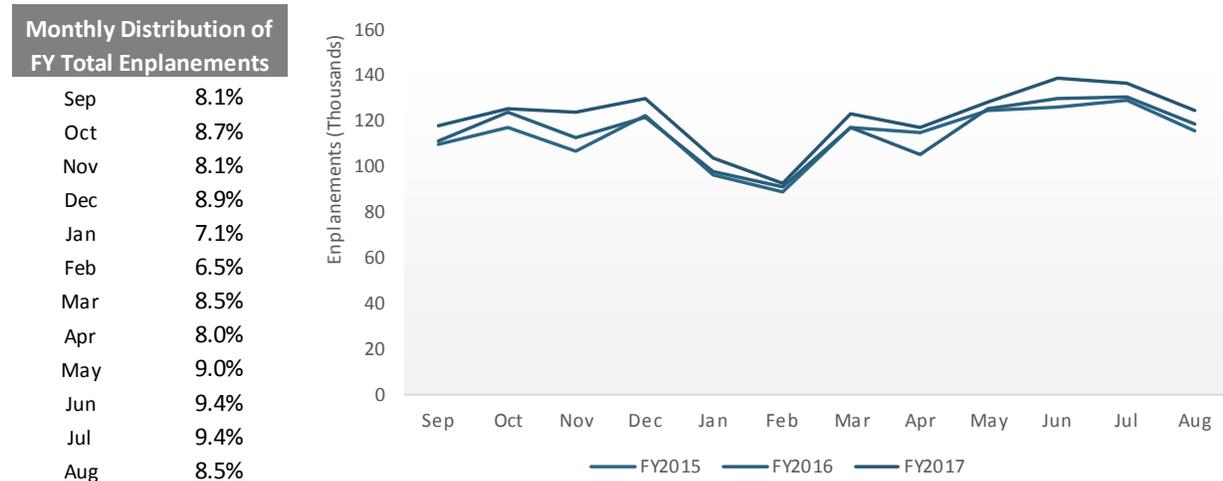


Source: U.S. Department of Transportation DB1B.

### Seasonality in Enplanements

As shown in Figure 24, during the fiscal year, monthly enplanements at ELP typically reach their highest levels in June and July. They fall to their lowest levels in January and February. This seasonal traffic pattern is consistent with the patterns observed at most other U.S. airports.

Figure 24 | ELP Monthly Enplanements



Source: City of El Paso Department of Aviation.

### Airline Market Shares

The recent wave of airline consolidation left the industry with four major airlines controlling the large majority of U.S. passenger traffic. The same four major airlines account for nearly all of ELP passenger traffic, with Southwest Airlines holding the largest share at 49 percent, as of 2017. American Airlines follows with 33 percent, then United with 10 percent and Delta with 7 percent. The distribution of ELP passengers among these four airlines has changed little over the last five years at least. Southwest’s share decreased 3 percentage points—no longer controlling a majority share. Allegiant, which began ultra-low cost service at ELP in May 2016, captured a 3 percent share in 2017, its first full year of service at ELP. In addition, in 2018 Frontier began providing four flights per week to Denver and three flights per week to Chicago.

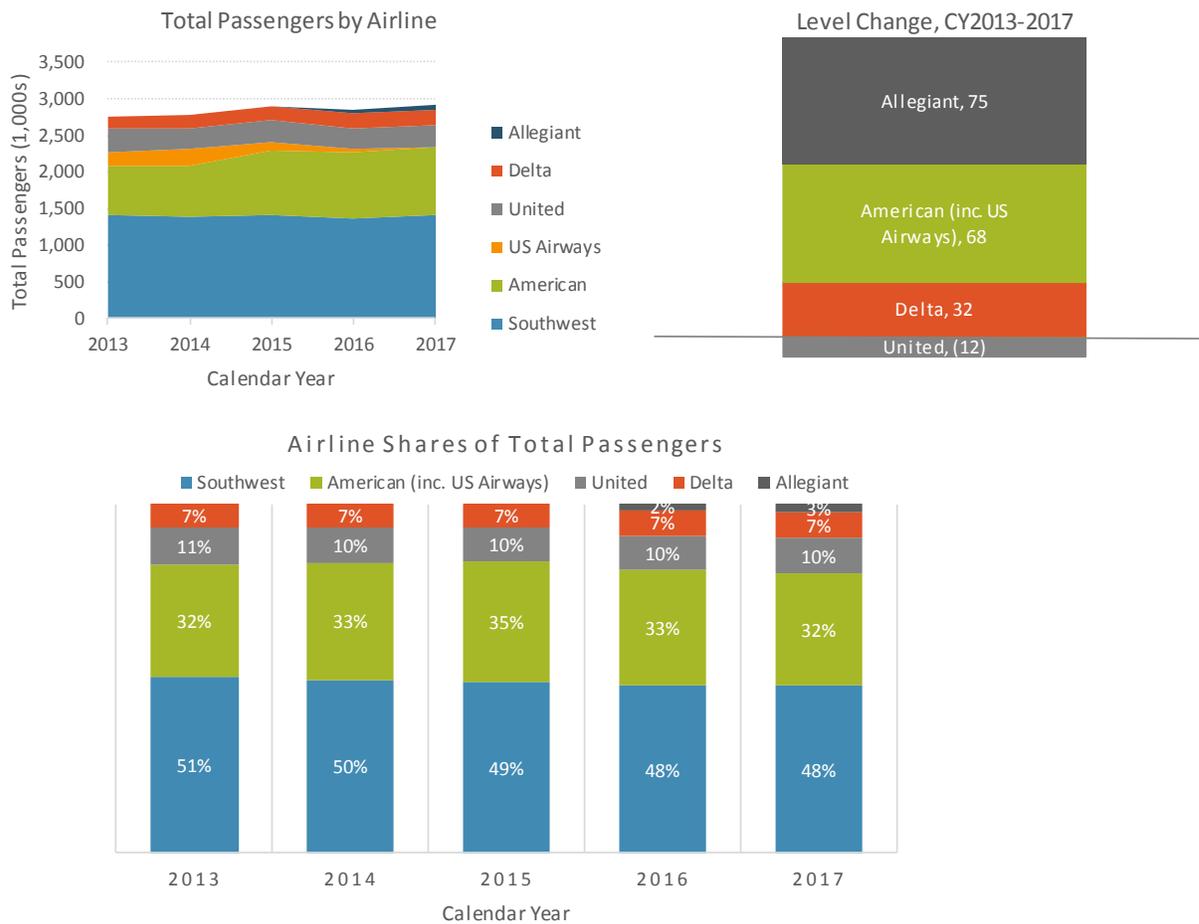
Table 7 shows total passengers by airline, and Figure 25 contains charts to show the trends by airline more clearly. From CY2013 to CY2017, ELP gained 165,000 passengers—many of them from Allegiant and American.

Table 7 | ELP Passengers by Airline

Airline	CY Total Passengers (1,000s)					% Change CY16-CY17	Change, CY13-CY17	
	2013	2014	2015	2016	2017		Number	%
Allegiant				51	75	49%	75	
American <sup>1</sup>	876	927	1,008	944	944	0%	68	8%
Delta	182	191	195	211	214	2%	32	18%
Southwest	1,400	1,380	1,411	1,367	1,400	2%	0	0%
United	307	280	280	286	296	3%	(12)	-4%
<b>Total</b>	<b>2,765</b>	<b>2,778</b>	<b>2,894</b>	<b>2,858</b>	<b>2,929</b>	<b>2%</b>	<b>165</b>	<b>6%</b>

<sup>1</sup> Including US Airways through 2016. Frontier is not included in this table because its flights began in 2018.  
 Source: City of El Paso Department of Aviation.

Figure 25 | ELP Passenger Traffic Trends by Airline



Source: City of El Paso Department of Aviation.

### Top Domestic O&D Markets

Table 8 shows the Airport's top 20 domestic O&D markets in 2017, ranked by share of O&D enplanements at ELP. They include 18 of the 30 largest U.S. metropolitan areas by 2016 population. The top 20 markets received 46 of the 47 daily nonstop flight departures from ELP and accounted for 72 percent of O&D enplanements at the Airport. The top 5 domestic markets were Dallas, Los Angeles, Las Vegas, Houston, and Austin.

Table 8 | ELP's Top 25 Domestic O&D Markets in CY2017

2017 Ranking <sup>1</sup>	Metropolitan Area (2016 Population Ranking)	Airports	O&D Market Share	Daily Nonstop Departures <sup>2</sup>	Airlines with Nonstop Service from ELP	Air Miles from ELP
1	Dallas, TX (4)	DFW, DAL	9.3%	12	American, Southwest	487
2	Los Angeles, CA (2)	LAX, ONT, SNA, BUR, LGB	8.9%	4	American, Southwest	618
3	Las Vegas, NV (29)	LAS	5.9%	2	Allegiant, Southwest	505
4	Houston, TX (5)	HOU, IAH	5.7%	8	United, Southwest	587
5	Austin, TX (31)	AUS	5.0%	3	Southwest	458
6	San Antonio, TX (24)	SAT	4.9%	2	Southwest	430
7	Phoenix, AZ (12)	PHX	4.5%	8	American, Southwest	300
8	Washington, DC (6)	DCA, BWI, IAD	3.6%			
9	Chicago, IL (3)	ORD, MDW	3.1%	2	American	1,072
10	San Francisco, CA (11)	OAK, SFO, SJC	2.9%			
11	San Diego, CA (17)	SAN	2.8%	<1	Allegiant	550
12	New York, NY (1)	LGA, EWR, JFK, HPN, ISP,	2.7%			
13	Atlanta, GA (9)	ATL	2.2%	2	Delta	1,112
14	Seattle, WA (15)	SEA	1.8%			
15	Orlando, FL (23)	MCO	1.8%	<1	Allegiant	1,312
16	Denver, CO (19)	DEN	1.6%	3	United	490
17	Detroit, MI (14)	DTW	1.4%			
18	Miami, FL (8)	FLL, MIA	1.3%			
19	Boston, MA (10)	BOS, PVD, MHT	1.3%			
20	Nashville, TN (36)	BNA	1.1%			
	<b>Top 20 Destinations</b>		<b>71.8%</b>	<b>46</b>		
	<b>Other Destinations</b>		<b>28.2%</b>	<b>1</b>		
	<b>Total</b>		<b>100.0%</b>	<b>47</b>		

<sup>1</sup> Ranking is based on share of domestic O&D passengers in CY2017.

<sup>2</sup> The number of daily nonstop departures equals annual departures divided by 365.

Sources: U.S. Census Bureau population estimates, U.S. Department of Transportation 10%-sample airline ticket survey, and OAG Schedules Analyzer.

### Scheduled Passenger Airline Service

Figure 26 shows the trends in scheduled passenger airline service. According to airline flight schedules, the Airport had scheduled nonstop passenger service to 15 other U.S. airports in 13 cities in 2017. In the last five years, the number of nonstop airport destinations served from ELP was highest at 18 in 2016 and lowest at 12 in 2015.

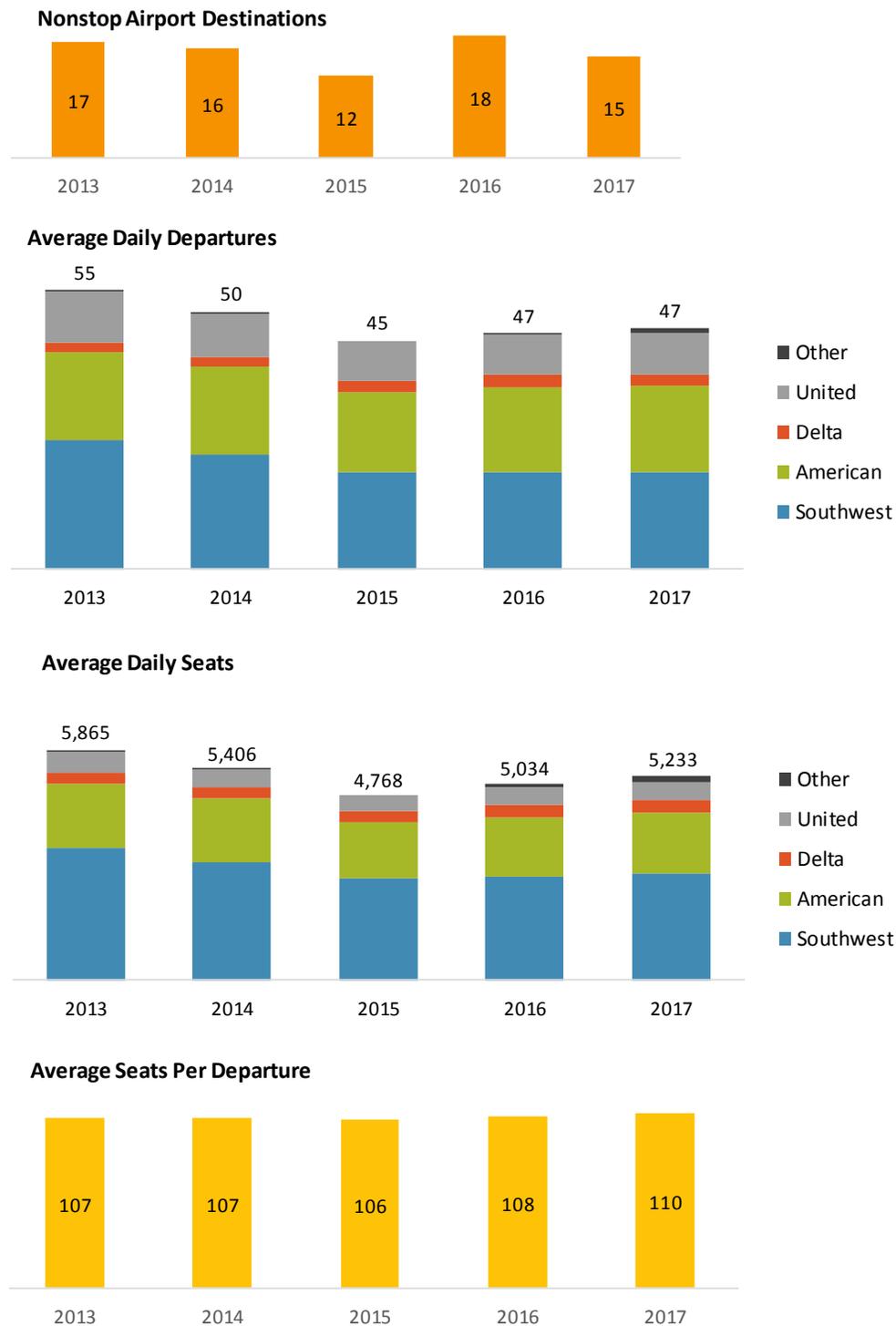
In 2017 flight departures from ELP averaged 47 per day, 2 flights more than their lowest number in 2015 but 7 flights less than their highest number in 2013. Southwest Airlines accounted for the largest share (40 percent) of flights. In CY2017, an average of 5,233 seats departed ELP per day. These represented a 10 percent increase in seats from 2015, but an 11 percent decrease from 2013. Southwest also accounted for the largest share of 52 percent in 2017, which decreased from 58 percent in 2013.

Reflecting the industry's switch toward using aircraft with more seats (aircraft upgauging), the average number of seats per flight departure increased from 107 in 2013 to 110 in 2017. American and United are the only two airlines using regional affiliates for some of their flights, and United has been using regional affiliates more than American to operated its flights at ELP. The trend in United's average seats per departure, increasing from 50 in 2014 to 59 in 2017, also reflects a shift toward larger aircraft.

As shown on Figure 27, all the major airlines except Delta had fewer scheduled seats at ELP in 2017 than in 2013. United decreased its scheduled seats at ELP in 2014, while Southwest and American decreased their scheduled seats in 2014 and 2015. Southwest had the largest proportional decrease from 2013 to 2015, as it ceased certain flights in response to the elimination of restrictions under the terms of the Wright Amendment Reform Act. The data show a turn-around in seat capacity trends after 2015, with all major airlines showing a steady increase in scheduled seats at ELP beginning in 2016.

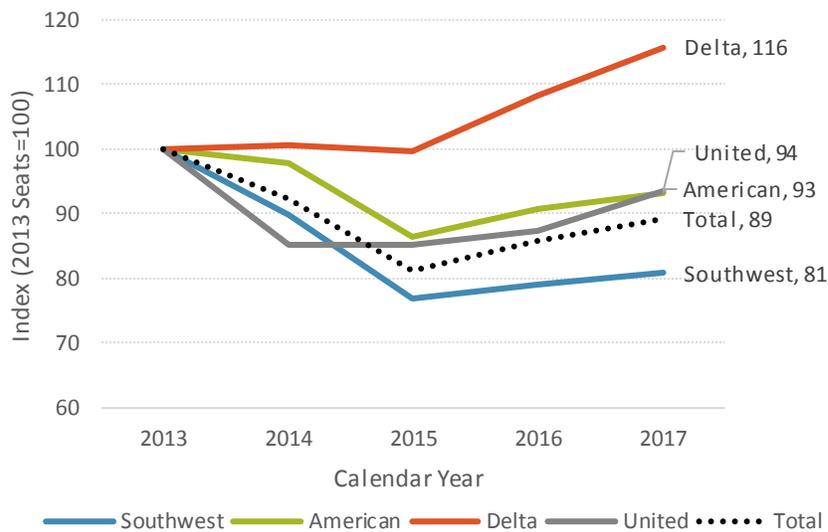
Figure 28 compares the trends in Southwest Airlines' scheduled seats departing from ELP with six other airports served by Southwest. Of the six comparison airports, Will Rogers World Airport (OKC) is another one located within the original Love Field service area. Like ELP, OKC suffered significant cuts in Southwest's scheduled seats from 2013 to 2015.

Figure 26 | Trends in Scheduled Passenger Service at ELP for CY2013-2017



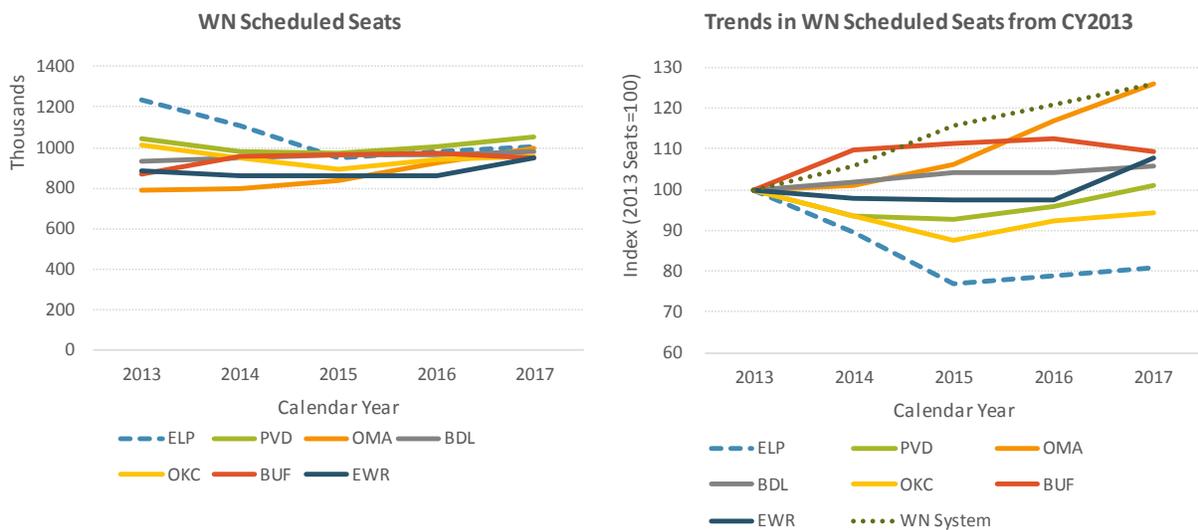
American includes US Airways through 2015, and Other includes Sun Country in 2013-2014 and Allegiant in 2016-2017. Average daily departures and seats are calculated by dividing the CY total by 365 days. Source: OAG Schedules Analyzer.

Figure 27 | Trends in Scheduled Seats from ELP by Airline from CY2013



Source: Airline flight schedules accessed using OAG Schedules Analyzer.

Figure 28 | Southwest Airlines (WN) Scheduled Seats from ELP and Selected Other Airports<sup>1</sup>



These airports are closest to ELP in total scheduled seats by Southwest Airlines in CY2017:

- PVD – T.F. Green International Airport
- OMA – Omaha Eppley Airfield
- BDL – Bradley International Airport
- OKC – Will Rogers World Airport
- BUF – Buffalo Niagara International Airport
- EWR – Newark Liberty International Airport

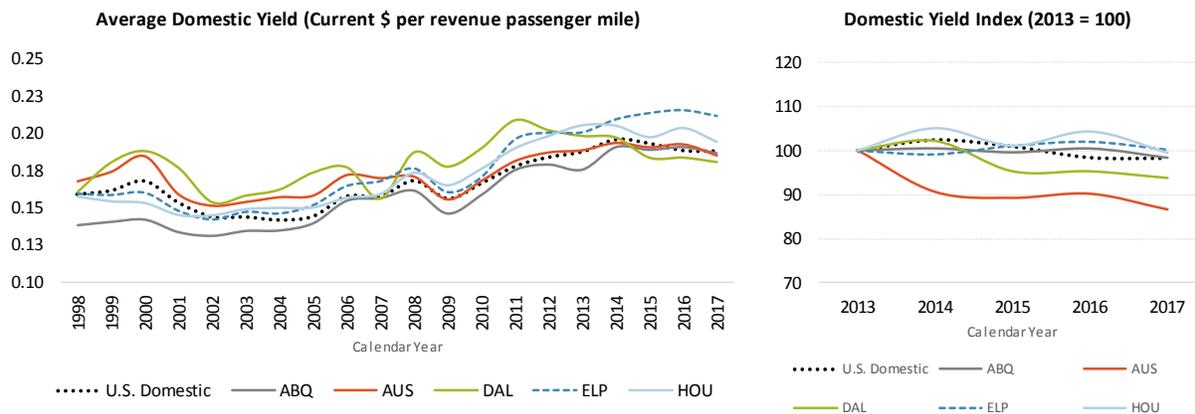
Source: Airline flight schedules accessed using OAG Schedules Analyzer.

## Passenger Yield

Lower airfares attract passengers. A common measure of airfares that controls for trip length is passenger yield—the average airline revenue per revenue passenger mile. Figure 29 show the average domestic passenger yields at ELP and four other airports served by Southwest Airlines, compared with the U.S. average for domestic flights. ELP’s average passenger yield has risen above the U.S. average domestic yield since 2002, and the difference has increased since 2011. ELP’s average passenger yield has been the highest among the five airports shown in the figure since 2014.

The average domestic yields at ELP, the four other airports, and the entire U.S. system generally follow the same trends over time. They typically decrease during economic recessions and recover when economic recovery ensues. When passenger traffic began to recover after the Great Recession, airlines restrained growth in seat capacity and were able to increase air fares for a number of years. In 2015, the average U.S. domestic yield decreased for the first time since 2009 and continued to decrease in 2016 and 2017. The growth of ultra-low cost carriers and the sharp decrease in jet fuel costs in 2015 likely contributed to the recent decreases in domestic yields. Yields at ELP decreased only in 2017.

Figure 29 | Domestic Passenger Yields<sup>1</sup> at ELP and Four Other Airports Served by Southwest



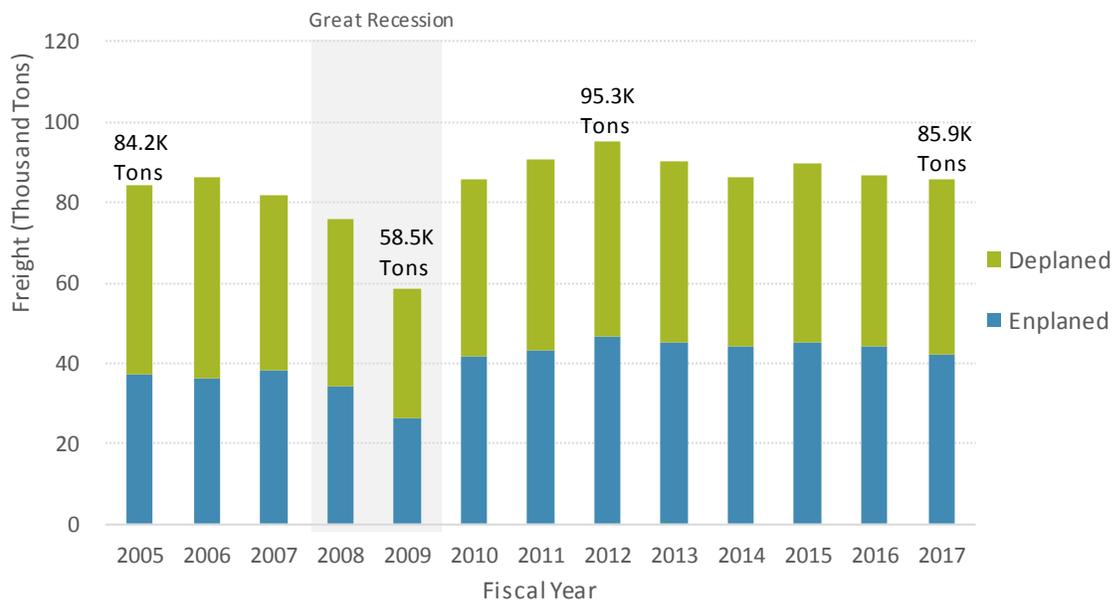
<sup>1</sup> One-way equivalent airline yields for trips beginning at ELP and the other airports.  
 Source: U.S. Department of Transportation DB1B.

### Air Cargo

El Paso’s border location has made the city a gateway for U.S.-Mexico trade. It has also made the Airport an intermodal hub that provides the largest and most modern air cargo complex on the U.S.-Mexico border. In the early 2010s, the Airport invested \$60 million to create a fully integrated transportation center with two 144,000-square foot air cargo buildings, over 34 acres of aircraft parking and 6.4 miles of roadways. This 288,000-square foot cargo complex has an occupancy rate approaching 70 percent. It has immediate expansion capabilities, allowing a clear advantage in border trade and economic development. These new facilities are at the center of a future industrial park tailored to the "just in time" nature of U.S.-Mexico trade. Located in the cargo complex is Foreign Trade Zone (FTZ) No. 68, which ranked second in Global Trade Magazine’s Top 25 Foreign Trade Zones in 2012, based on exports and dollar volume activity.

Figure 30 shows the trends in air cargo at ELP, which consists almost entirely of freight. Air cargo trends generally follow economic trends, explaining the downward trend during the Great Recession ending in FY2009 and the recovery in the following years. The recession effects were aggravated by the spill over of the Great Recession across the border in Ciudad Juarez and all of Mexico. From FY2005 to FY2017, ELP’s air cargo increased only 1.9 percent overall, 0.2 percent per year on average, to 85,900 tons in FY2017. Over this period, air cargo tonnage was lowest at 58,500 tons in FY2009 and highest at 95,300 tons in FY2012.

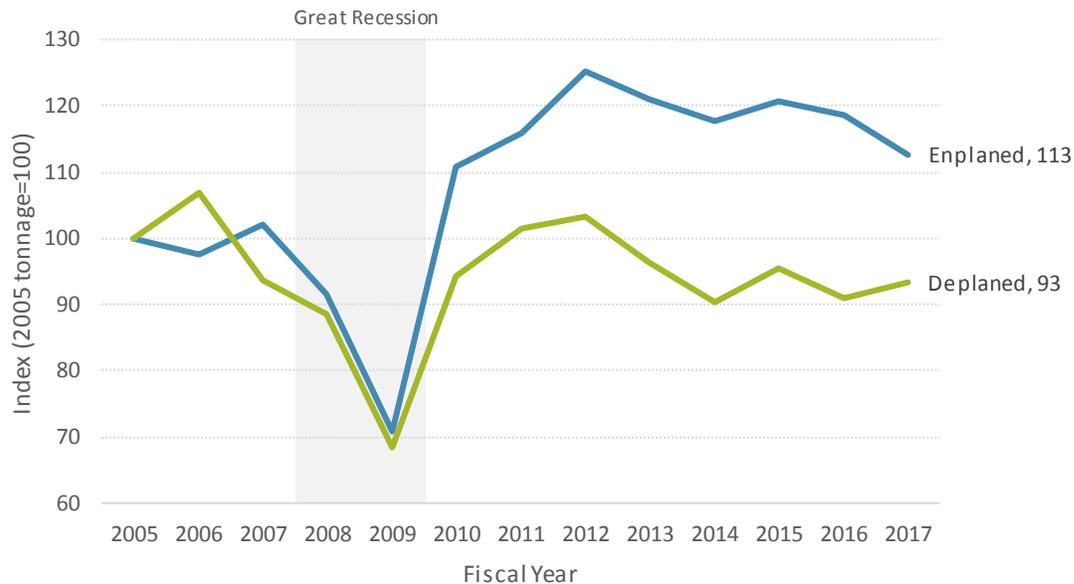
Figure 30| ELP Air Cargo Trends



Source: City of El Paso Department of Aviation.

Enplaned and deplaned cargo have generally followed similar trends, but enplaned cargo recovered more vigorously from the Great Recession (Figure 31). From FY2005 to FY2017, enplaned cargo increased 13 percent overall, while deplaned cargo decreased 7 percent.

Figure 31 | Trends in Enplaned and Deplaned Air Cargo at ELP



Source: City of El Paso Department of Aviation.

Figure 32 shows the distribution of FY2017 total air cargo by carrier. All-cargo carriers accounted for 97 percent, with FedEx accounting for the largest individual carrier share of 68 percent.

Figure 32 | ELP Air Cargo Share by Carrier in FY2017

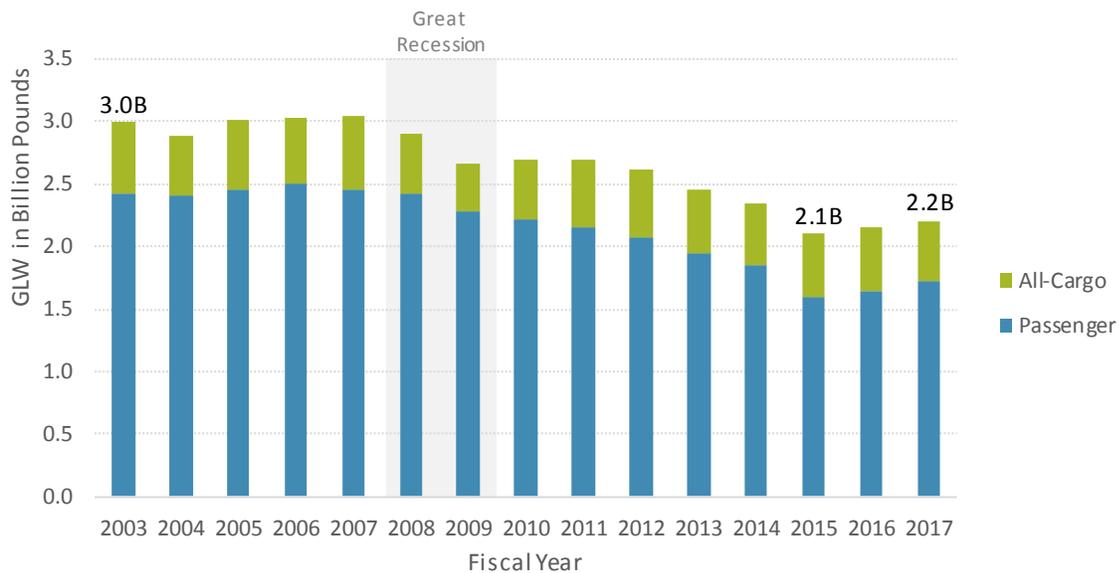


Source: City of El Paso Department of Aviation.

### Commercial Aircraft Gross Landed Weight

Airports assess landing fees—the largest airline revenue source—based on aircraft gross landed weight (GLW). Figure 33 shows a downward trend in commercial aircraft GLW at ELP. Commercial aircraft GLW decreased 26.3 percent, 2.2 percent per year on average, from 3 billion pounds in FY2003 to 2.2 billion pounds in FY2017. Passenger carriers account for the large majority share, which decreased from above 80 percent in the previous decade—85 percent in FY2009—to 78 percent in FY2017.

Figure 33 | ELP Commercial Aircraft Gross Landed Weight



Source: City of El Paso Department of Aviation.

## Forecast Commercial Aviation Activity

Forecasts are presented for three key measures of commercial aviation activity—enplanements, aircraft landings, and landed weight—for the period of FY2018 through FY2028. Forecast enplanement levels determine the number of aircraft operations and corresponding landed weight, along with assumptions regarding trends in boarding load factors.

Unison’s enplanement forecasting approach features a hybrid forecasting framework and multivariate time series regression analysis. The hybrid forecasting framework incorporates both air service supply and demand considerations, with the resulting forecasts largely capacity-driven in the near-term (FY2018) and demand-driven in the long run (beyond FY2018). The near-term forecast reflect actual performance through March 2018 and trends in scheduled airline service at ELP. Airlines publish scheduled flights and seats for up to nine months ahead based on passenger airline bookings. These published airline schedules reflect current market demand.

The following new and additional scheduled flights, which began between April 2017 and April 2018, are accounted for in the near-term forecast:

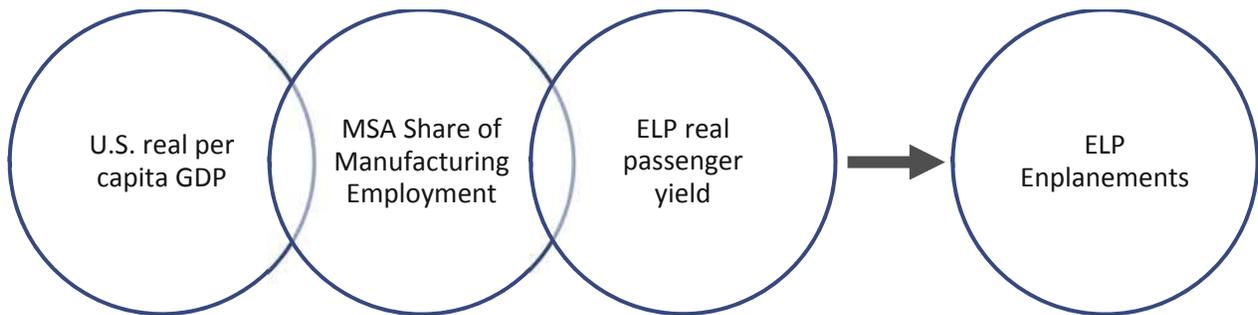
- United – one additional daily flight to Denver and two daily flights to Chicago.
- Southwest – weekly flight to San Diego and two additional weekly flights to Las Vegas.
- Frontier – four flights per week to Denver and three flights per week to Chicago.
- American – one additional daily flight to Chicago.

Southwest and Delta are also planning to provide new service to Denver and Salt Lake City, respectively, beginning October 2018.

For the long-term forecasts, multivariate time series regression analysis links trends in enplanements to trends in key market demand drivers. A number of explanatory variables were evaluated. Figure 34 shows the three market demand drivers that proved the best in explaining growth trends in enplanements at the Airport:

- U.S. real per capita GDP as an indicator of income
- Manufacturing share of nonfarm employment in the El Paso MSA
- ELP average real passenger yield as an indicator of the price of air travel

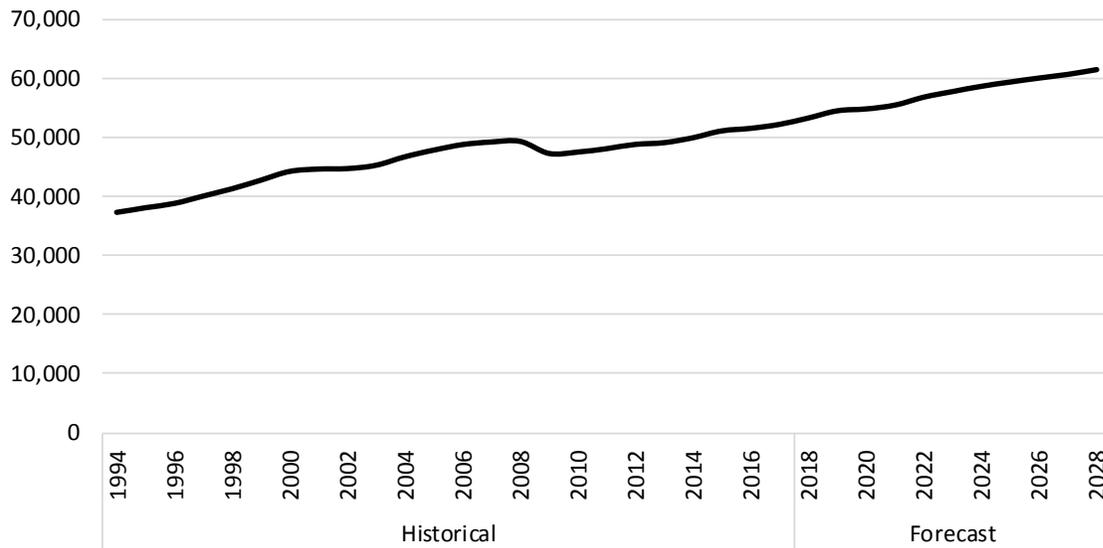
Figure 34 | Key Drivers of Enplanement Growth



Multivariate time series regression analysis quantifies the contributions of market demand drivers to growth in enplanements. The regression model is specified with ELP’s total enplanements as the dependent variable and the three market demand drivers as the key explanatory variables (independent variables):

- *National economic trends.* The regression model uses U.S. per capita GDP, adjusted for inflation, to capture national economic trends. Real U.S. per capita GDP is calculated using historical data and forecast data on real U.S. GDP and population from Moody’s Analytics, an independent economic forecasting firm. The real U.S. per capita GDP increased 2.0 percent per year, on average, from FY1994 to FY2008. It decreased 4.1 percent in FY2009, when the U.S. economy was in deep recession and then increased at an average annual rate of 1.2 percent through FY2017. Moody’s Analytics projects a 2.1 percent increase in real U.S. per capita GDP in FY2018. After FY2018, the annual growth rate in real U.S. per capita GDP will slow to 1.4 percent on average through FY2028. Moody’s Analytics’ economic forecast anticipates a slowing of economic growth in some years, but no downturns.

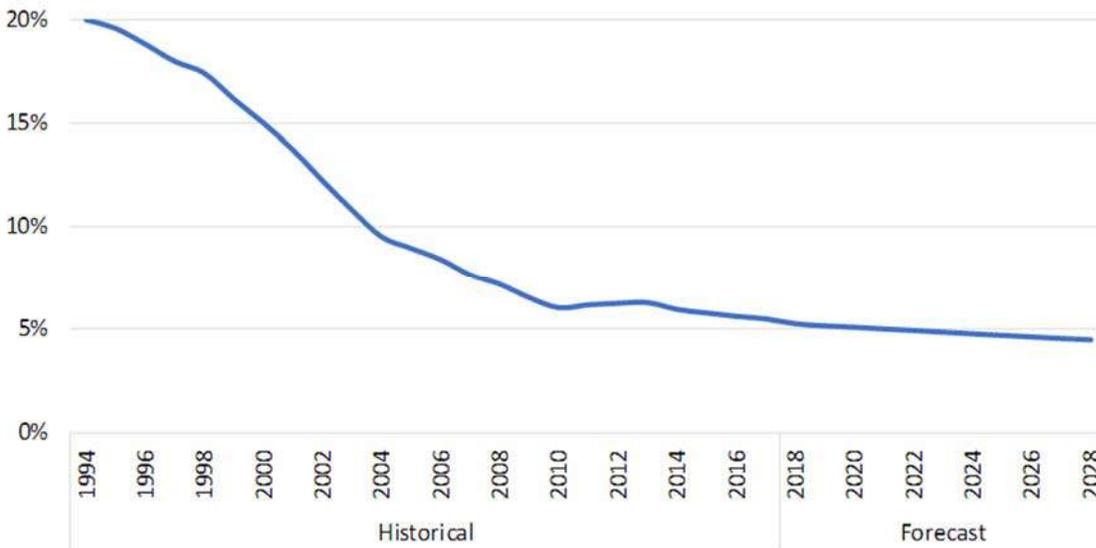
Figure 35 | U.S. Real Per Capita GDP (2009 Dollars)



Sources: U.S. Bureau of Economic Analysis (BEA) for historical data and Moody's Analytics for forecast data.

- Regional economic trends.* The regression model uses the share of manufacturing jobs out of total nonfarm employment in the El Paso MSA to capture regional economic trends. Changes in local manufacturing employment contributed to past changes in local economic conditions and previous declines in passenger traffic at the Airport. After NAFTA took effect in January 1994, El Paso lost manufacturing jobs to Chihuahua, Mexico. Lower-paying service sector jobs replaced better-paying manufacturing jobs. Moody's Analytics forecasts a continuing decline in manufacturing employment in El Paso over the forecast period (0.4 percent CAGR decline), while total non-farm employment for the MSA increases at annual average rate of 1.2 percent. Consequently, the share of manufacturing jobs in EL Paso is expected to decrease to 4.4 percent by FY2028, from a high of 20 percent in the early 1990's.

Figure 36 | El Paso MSA Manufacturing Employment Share

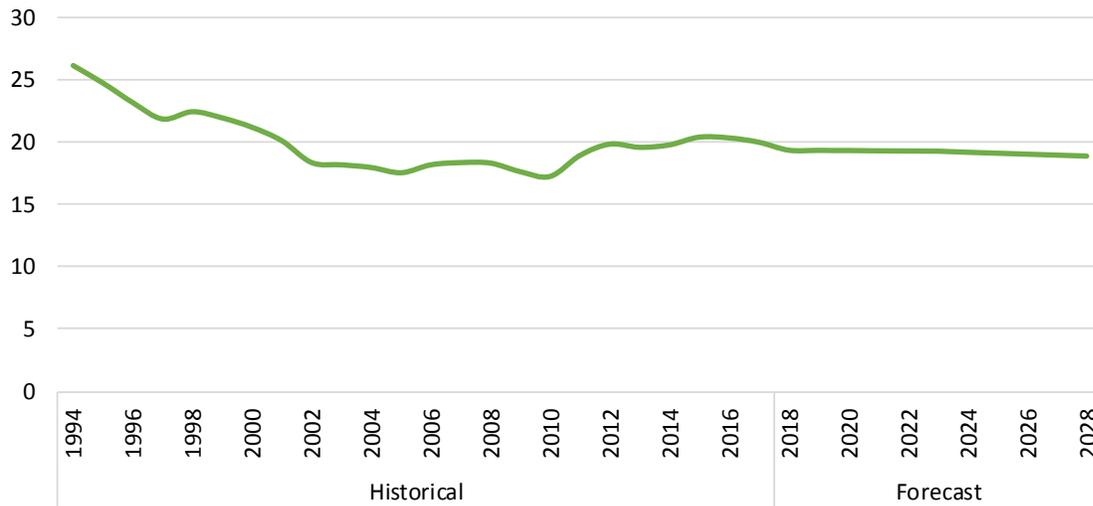


Sources: U.S. Bureau of Economic Analysis (BEA) for historical data and Moody’s Analytics for forecast data.

- Passenger yield trends.* Consumer demand is inversely related to price. Demand increases when price decreases, and decreases when price increases, holding all other factors constant. The regression model uses the average real passenger yield at ELP as the indicator for the price of air travel. Passenger yield, which is the average airline revenue per passenger mile, is a better price indicator than the average fare, because it controls for trip distance. According to data from the U.S. Department of Transportation 10-percent ticket survey, the average real passenger yield at ELP increased steadily between FYs 2003 and 2008 (0.1 percent compound annual rate of increase), after declining 4.0 percent on average annually the over the preceding decade. It then dropped by nearly 6 percent through FY2010 but rebounded sharply to 9.9 percent the following year and grew at an average annual rate of 1.0 percent through FY2017. For the ELP enplanement forecasts, the future trends in real passenger yield at the Airport are assumed to follow the FAA’s projections for real domestic mainline passenger yields of continued decreases averaging around 0.3 percent annually.<sup>35</sup>

<sup>35</sup> Federal Aviation Administration, *Aerospace Forecast for FY2018-2038*, March 2018.

Figure 37 | ELP Average Real Passenger Yield (Cents/mile, 2009 Dollars)



Sources: U.S. Bureau of Transportation Statistics (DB1B 10% ticket survey) and Federal Aviation Administration.

The regression model includes other variables to control for (1) structural changes that have unfolded in the airline industry and the U.S. air travel market since 2001, and (2) changes in airline service at ELP that caused significant fluctuations in enplanement levels, beyond those explained by economic and yield trends. The regression model also controls for serial correlation inherent in the time series data used for estimating the model.

#### Post-September 11, 2001 structural changes

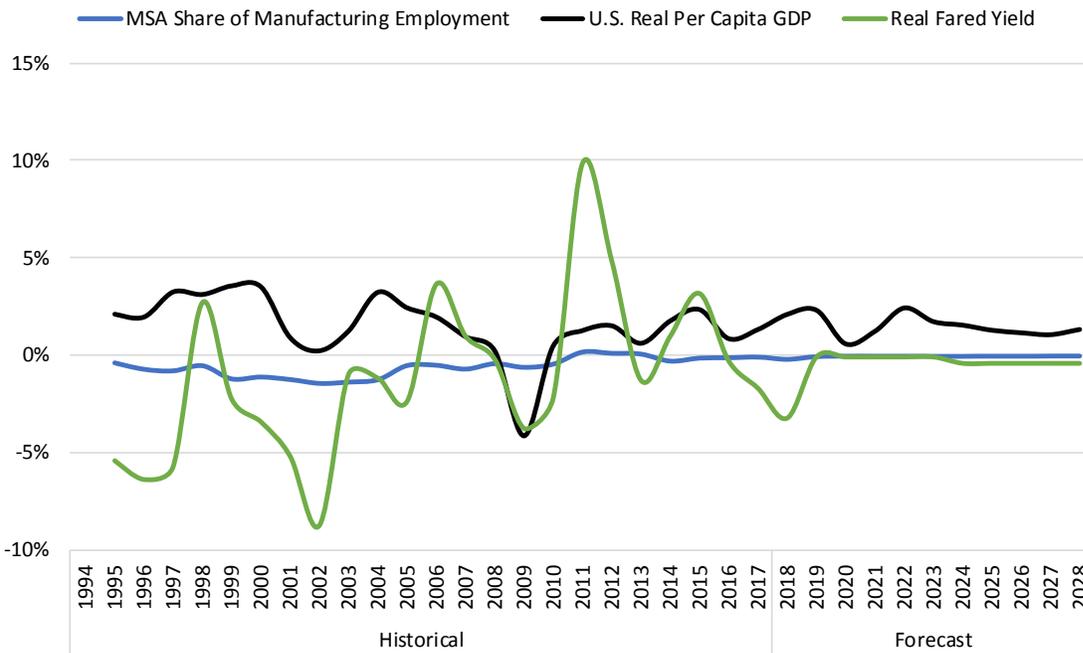
The regression model includes an indicator variable that accounts for structural changes in the travel industry since the terrorist attacks on September 11, 2001. More stringent airport security screening after the terrorist attacks dampened air travel demand, particularly short-haul trips. Traffic declines and fuel cost increases prompted changes in airlines’ operations and business practices, including capacity rationalization, network consolidation, pricing changes, and cost-cutting measures. Financial difficulties led to bankruptcies, industry exits, and mergers.

#### Lifting of Wright Amendment Restriction on Nonstop Service at DAL

The regression model also controls for changes in ELP traffic trends in FYs 2014 and 2015 due to the October 2014 lifting of the remaining Wright Amendment restriction on nonstop service at DAL. In anticipation of this regulatory change, Southwest made schedule changes early to provide resources for nonstop service from DAL to destinations it served with one-stop service through transfer points like ELP. Beginning October and November 2014, Southwest provided new nonstop service to Las Vegas, Los Angeles and Phoenix, reducing some of the connecting and through traffic that the carrier previously carried through ELP.

Calibrated with the estimated coefficients measuring the contributions of market drivers to growth in ELP’s enplanements, the regression model was used to project growth in enplanements beyond FY2018. The projected trends in the identified key market demand drivers are shown in Figure 38.

Figure 38 | Historical and Forecast Annual Change in the Key Explanatory Variables



Sources: U.S. Bureau of Transportation Statistics (DB1B 10% ticket survey) and Federal Aviation Administration for ELP real passenger yield projections; U.S. Bureau of Economic Analysis (BEA) and Moody’s Analytics for U.S. real per-capita GDP and employment trends in El Paso, TX MSA.

## Forecast Results

The model coefficient estimates measuring the contributions of market drivers to growth in ELP's enplanements, along with projections of trends in the three key market demand drivers (explanatory variables) discussed above (U.S. real per capita GDP, MSA manufacturing employment share, and average real passenger yield at ELP), produce the forecast growth in enplanements beyond the first year of the forecast period. The regression model also accounts for structural changes such as (1) the effects of the 2001 terrorist attacks and the structural changes that have unfolded since then, and (2) the effects on Southwest Airlines' service at ELP of the lifting of the remaining Wright Amendment restriction. The regression model includes corrections for serial correlation inherent in the time series data used in model estimation.

As stated previously in the discussion of the input variables of the regression model, the forecasts from Moody's Analytics do not anticipate any deep downturns in the regional economy or any national recession during the forecast period. Recognizing uncertainty in future economic trends and the future yield trends, we performed Monte Carlo simulation to develop a range of forecasts. A comprehensive approach to forecast risk analysis, Monte Carlo simulation uses probability distributions and random sampling techniques for assigning future values to the three key explanatory variables of the regression model. The simulation, involving 5,000 iterations, produced a wide range of possible scenarios for future enplanement growth and corresponding percentile rankings. Percentiles provide an indication of the likelihood of each of the forecast scenarios.<sup>36</sup>

### Interpretation of Percentiles

A percentile indicates the value at or below which a given percentage of results fall. For example, if we arrange 100 forecast results for one year from lowest to highest, 25 results (25 percent) will be at or below the 25-percentile, 75 results (75 percent) will be at or below the 75-percentile, and 50 results (50 percent) will be at or below the 50-percentile (also known as the median). A percentile gives the probability that actual outcome will be as forecast or lower.

The following examples illustrate how the percentile results can be used to indicate forecast probability:

- The 75-percentile results have a 25 percent probability that actual transaction days will exceed the forecast and a 75 percent probability that actual transaction days will be at or below the forecast.
- The 25-percentile results have a 75 percent probability that actual transaction days will exceed the forecast and a 25 percent probability that actual transaction days will be at or below the forecast.

The range of forecasts bounded by the 25-percentile and the 75-percentile is called the interquartile range—the middle 50 percent of results fall within this range.

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<sup>36</sup> The probability distributions for the input variables in the Monte Carlo simulation were determined from sampling distributions of their historical data.

The selected forecasts are presented in Table 9 (base forecast), Table 10 (high forecast) and Table 11 (low forecast).

#### Base Forecast

The base forecast growth rates for ELP enplanements after FY2018 are based on the 50-percentile (median) Monte Carlo simulation result. The median forecast corresponds with a 50 percent probability estimate that actual enplanements will be less than forecast and a 50 percent probability that they will be greater than forecast.

Under the base forecast, enplanements will increase from 1.6 million in FY2018 to 1.9 million in FY2028, growing at an average annual rate of 2 percent. Aircraft landings will increase 1 percent annually on average from 24,600 in FY2018 to 27,100 in FY2028, while total landed weight will increase 1.4 percent annually on average from 2.4 billion pounds to 2.8 billion pounds over the same period. The average number of enplanements per aircraft departure is projected to increase at a slightly faster rate than the average number of seats per aircraft departure, increasing the average boarding load factor by a total of 1 percentage point over the forecast period.

#### High Forecast

The high forecast applies (1) the FY2019 enplanement growth rate resulting from the independent projections for the key explanatory variables shown in Figure 35 (U.S real per capita GDP), Figure 36 (manufacturing employment share in the El Paso MSA), and Figure 37 (ELP real passenger yield), and (2) beginning in FY2020, the growth rates from the 75-percentile Monte Carlo simulation forecast. Beginning in FY2020, enplanements under high forecast lie parallel above the 75-percentile forecast. Enplanements are forecast to grow at an average annual rate of 2.7 percent from FY2018, reaching 2.1 million in FY2028. Aircraft landings will increase 1.6 percent annually on average, reaching 28,900 in FY2028. Total aircraft landed weight will increase 2.1 percent annually on average, reaching 3 billion pounds in FY2028.

#### Low Forecast

The low enplanement forecast is based on the 25-percentile Monte Carlo simulation result, which corresponds with a 75 percent probability estimate that actual enplanements will be equal to or greater than the 25-percentile level. Enplanements are forecast to grow at an average annual rate of 1.3 percent, reaching 1.80 million in FY2028. Aircraft landings will remain flat for several years and then increase slightly to reach 25,800 in FY2028, resulting in an average annual growth rate of 0.5 percent. Total aircraft landed weight will increase 0.9 percent annually on average, reaching 2.7 billion pounds in FY2028.

**Table 9 | Base Forecast Commercial Aviation Activity by Fiscal Year**

Air Traffic Measure	Actual 2017	Est. 2018	Forecast										CAGR 2018-2028
			2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
Total Enplanements (Millions)	1.46	1.59	1.62	1.65	1.68	1.71	1.75	1.78	1.81	1.85	1.88	1.92	1.9%
Annual Growth Rate		8.5%	2.2%	1.9%	1.9%	1.8%	1.9%	1.8%	1.9%	2.0%	1.7%	2.2%	
Total Aircraft Landings (Thous.)	24.1	24.6	25.0	25.2	25.4	25.6	25.8	26.0	26.3	26.6	26.8	27.1	1.0%
Annual Growth Rate		2.3%	1.5%	0.8%	0.8%	0.7%	0.8%	1.0%	1.1%	1.1%	0.9%	1.2%	
Total Landed Weight (Billion lbs.)	2.3	2.4	2.5	2.5	2.5	2.6	2.6	2.6	2.7	2.7	2.8	2.8	1.4%
Annual Growth Rate		5.6%	1.9%	1.3%	1.3%	1.2%	1.3%	1.4%	1.4%	1.5%	1.3%	1.6%	
Average Enplanements per Passenger Aircraft Landing	85	89	89	90	91	91	92	93	93	94	94	95	
Annual Growth Rate		5.2%	0.2%	0.8%	0.8%	0.8%	0.8%	0.6%	0.6%	0.6%	0.6%	0.6%	
Average Seats per Passenger Aircraft Landing	110	114	115	116	116	117	118	118	119	119	120	121	
Annual Growth Rate		3.9%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	
Average Boarding Load Factor	77.0%	77.9%	77.6%	77.8%	78.0%	78.2%	78.3%	78.4%	78.5%	78.6%	78.6%	78.7%	
Average Aircraft Landed Weight (Thousands lbs.)	126.4	131.5	132.2	133.0	133.9	134.7	135.5	136.2	136.8	137.5	138.1	138.8	
Annual Growth Rate		4.1%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	

CAGR: Compound average growth rate.

**Table 10 | High Forecast Commercial Aviation Activity by Fiscal Year**

Air Traffic Measure	Actual 2017	Est. 2018	Forecast										CAGR 2018-2028
			2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
Total Enplanements (Millions)	1.46	1.59	1.68	1.73	1.77	1.81	1.85	1.90	1.94	1.99	2.03	2.08	2.7%
Annual Growth Rate		8.5%	5.7%	2.9%	2.5%	2.4%	2.5%	2.5%	2.2%	2.4%	2.0%	2.5%	
Total Aircraft Landings (Thous.)	24.1	24.6	25.6	26.1	26.4	26.7	27.0	27.4	27.8	28.2	28.5	28.9	1.6%
Annual Growth Rate		2.3%	4.2%	1.6%	1.2%	1.2%	1.3%	1.5%	1.3%	1.4%	1.1%	1.5%	
Total Landed Weight (Billion lbs.)	2.3	2.4	2.5	2.6	2.6	2.7	2.7	2.8	2.8	2.9	2.9	3.0	2.1%
Annual Growth Rate		5.6%	4.6%	2.1%	1.7%	1.7%	1.8%	1.9%	1.7%	1.8%	1.5%	1.9%	
Average Enplanements per Passenger Aircraft Landing	85	89	89	90	91	91	92	93	93	94	94	95	
Annual Growth Rate		5.2%	0.2%	0.8%	0.8%	0.8%	0.8%	0.6%	0.6%	0.6%	0.6%	0.6%	
Average Seats per Passenger Aircraft Landing	110	114	115	116	116	117	118	118	119	119	120	121	
Annual Growth Rate		3.9%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	
Average Boarding Load Factor	77.0%	77.9%	77.6%	77.8%	78.0%	78.2%	78.3%	78.4%	78.5%	78.6%	78.6%	78.7%	
Average Aircraft Landed Weight (Thousands lbs.)	126.4	131.5	132.2	133.1	133.9	134.7	135.5	136.2	136.8	137.5	138.1	138.8	
Annual Growth Rate		4.1%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	

CAGR: Compound average growth rate.

**Table 11 | Low Forecast Commercial Aviation Activity by Fiscal Year**

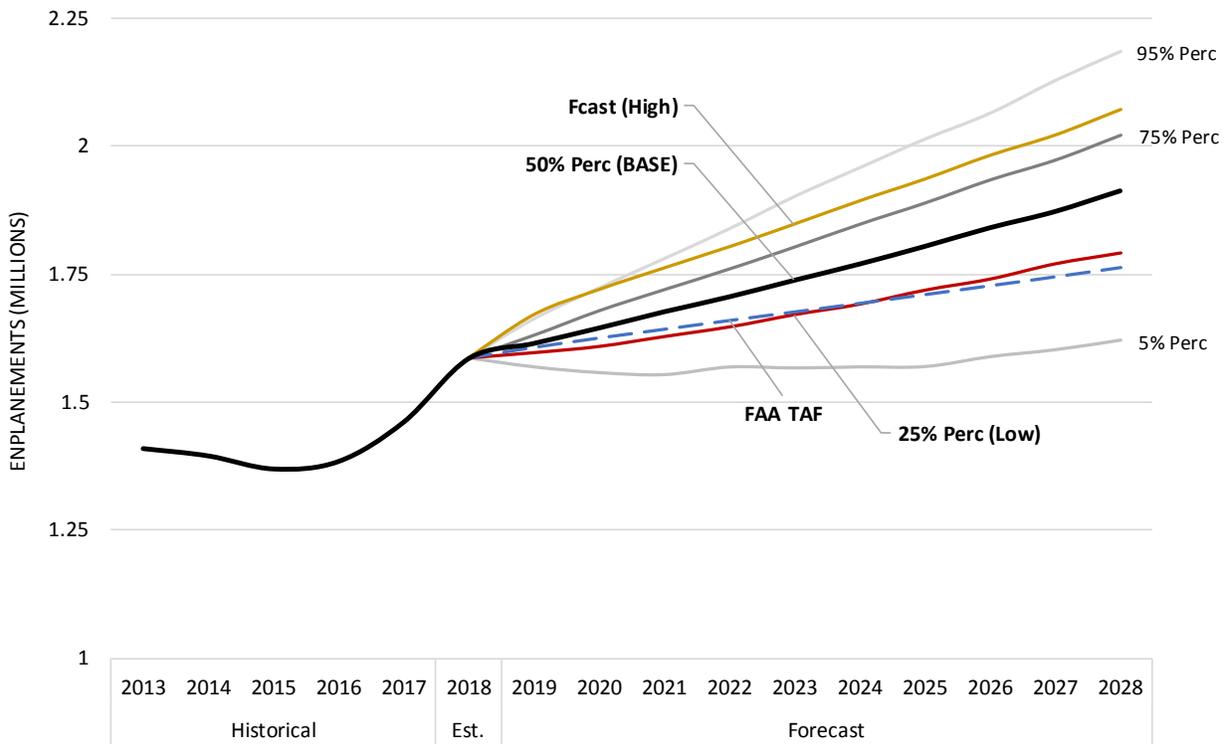
Air Traffic Measure	Actual 2017	Est. 2018	Forecast										CAGR 2018-2028
			2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	
Total Enplanements (Millions)	1.46	1.59	1.60	1.61	1.63	1.65	1.68	1.70	1.73	1.75	1.78	1.80	1.3%
Annual Growth Rate		8.5%	1.0%	0.8%	1.2%	1.2%	1.5%	1.2%	1.6%	1.3%	1.7%	1.2%	
Total Aircraft Landings (Thous.)	24.1	24.6	24.8	24.7	24.8	24.9	25.0	25.1	25.3	25.4	25.7	25.8	0.5%
Annual Growth Rate		2.3%	0.6%	-0.1%	0.3%	0.2%	0.5%	0.5%	0.8%	0.5%	0.9%	0.5%	
Total Landed Weight (Billion lbs.)	2.3	2.4	2.5	2.5	2.5	2.5	2.5	2.5	2.6	2.6	2.6	2.7	0.9%
Annual Growth Rate		5.6%	1.0%	0.4%	0.8%	0.7%	1.0%	0.9%	1.2%	0.9%	1.3%	0.9%	
Average Enplanements per Passenger Aircraft Landing	85	89	89	90	91	91	92	93	93	94	94	95	
Annual Growth Rate		5.2%	0.2%	0.8%	0.8%	0.8%	0.8%	0.6%	0.6%	0.6%	0.6%	0.6%	
Average Seats per Passenger Aircraft Landing	110	114	115	116	116	117	118	118	119	119	120	121	
Annual Growth Rate		3.9%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	
Average Boarding Load Factor	77.0%	77.9%	77.6%	77.8%	78.0%	78.2%	78.3%	78.4%	78.5%	78.6%	78.6%	78.7%	
Average Aircraft Landed Weight (Thousands lbs.)	126.4	131.5	132.2	133.0	133.9	134.7	135.5	136.2	136.8	137.5	138.1	138.8	
Annual Growth Rate		4.1%	0.6%	0.6%	0.6%	0.6%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%	

CAGR: Compound average growth rate.

### Comparison of Enplanement Forecasts with FAA Terminal Area Forecast (TAF)

The FAA develops annual airport forecasts for planning, budgeting, and staffing purposes (the Terminal Area Forecast, or TAF). The most recent TAF was published in January 2018. Forecast publications lag more than a year behind forecast development, so the latest TAF considers actual performance only through federal fiscal year 2016 (which ended on September 30, 2016). To compare the TAF with this report’s forecasts, the TAF was scaled up to reflect the FY2018 estimate. With this adjustment, annual enplanements will grow at an average rate of 1.1 percent, reaching 1.76 million in FY2028—1.6 percent lower than the low forecast for that year. Figure 39 shows the adjusted TAF along with the base, high, low, and selected Monte Carlo simulation forecasts. The adjusted TAF tracks the low forecast closely.

Figure 39 | Comparison of ELP Forecast with FAA Terminal Area Forecast



Sources: FAA Terminal Area Forecast (TAF) 2018 and Unison Consulting, Inc. (all other forecasts).

## Forecast Uncertainty and Risk Factors

The forecasts of enplanements are based on information available at the time of analysis, measurable factors that drive air travel demand, and assumptions about the availability and characteristics of airline service at the Airport. These assumptions may not hold in the future, so that actual enplanements could differ materially from the forecasts. In addition, broader factors affect the aviation industry and the Airport, and they could bring risk and uncertainty to the forecasts.

### Economic Conditions

National and regional economic conditions affect airport traffic trends. The national economy is a major driver of the regional economy as a whole, and it is an important determinant of air travel demand. Economic expansions increase income, boost consumer confidence, stimulate business activity, and increase demand. In contrast, economic recessions reduce income, diminish consumer confidence, dampen business activity, and weaken demand. Generally, air travel demand declines during economic recessions and grows during economic recoveries and expansions. While the diversity of the regional economy helps temper the effects of business cycles, the regional economy can be vulnerable to a national economic recession as deep as the Great Recession in 2008-2009.

The U.S. economy is now on its ninth year of expansion after the Great Recession. Driven by growth in consumer spending and business investment, the U.S. economy is predicted to continue growing over the next few years. According to the WSJ May 2018 survey of economists, U.S. real GDP is forecast to grow by 2.9 percent in 2018, 2.4 percent in 2019, and 1.9 percent in 2020. While the probability of a recession in the near-term remains low (15 percent according to the WSJ May 2018 survey), many factors within the country and abroad present economic risks. Sources of economic risks include significant economic policy changes, the high level of U.S. government and private debt, tightening monetary policy, the adverse effects of volatile oil prices on the U.S. energy and manufacturing sectors, and the continuing political tensions involving the Middle East, Russia, and North Korea.

### Trends in Oil Prices and Jet Fuel Prices

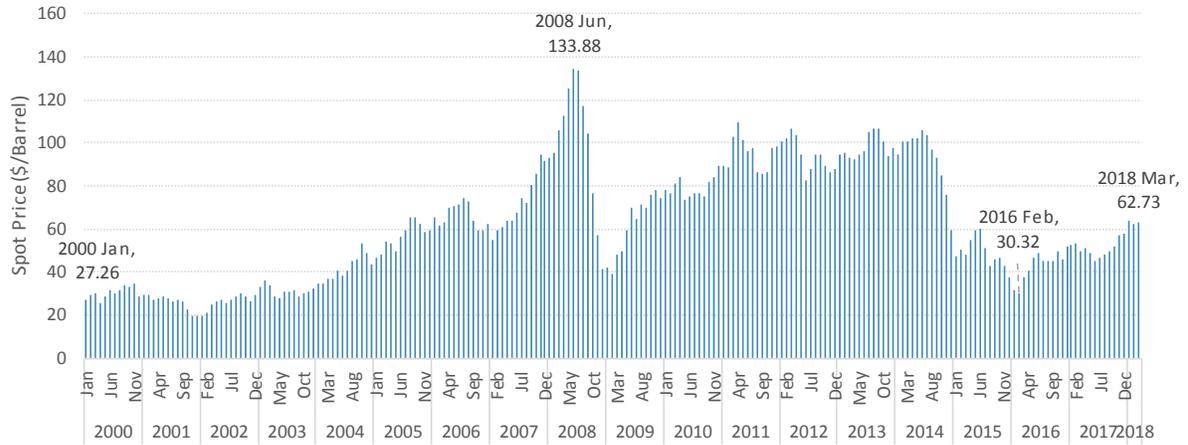
Oil prices affect one of the largest components of airline costs—jet fuel. The sharp increases in oil prices (Figure 40) in the past decade caused sharp increases in jet fuel costs (Figure 41). The U.S. airline industry suffered huge financial losses, pushing many airlines into bankruptcy and prompting significant changes in airlines' operations and business practices. In contrast, the sharp decrease in oil prices since June 2014 has brought airlines windfall profits, allowing them to renew their fleets and invest in other service improvements.

World oil prices are slowly recovering. Since June 2017 they have been on a steady upward trend, raising the average spot price per barrel for 2017 to \$50.79 and for March 2018 to \$62.73.

According to the U.S. Energy Information Administration forecast, WTI spot prices could average around \$66 per barrel in 2018 and around \$61 per barrel in 2019.<sup>37</sup>

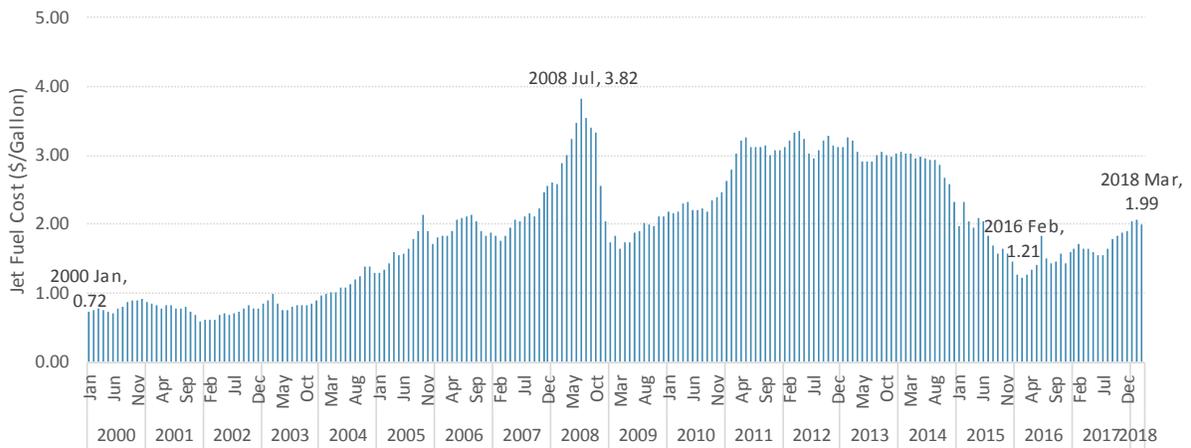
U.S. airlines yet again face increases in jet fuel prices, although this time with more fuel-efficient fleet, more cost-efficient business operations, and better financial conditions.

Figure 40 | Monthly Crude Oil Spot Prices (Cushing, OK WTI)



Source: U.S. Energy Information Administration.

Figure 41 | U.S. Jet Fuel Cost



Source: U.S. Bureau of Transportation Statistics.

<sup>37</sup> U.S. Energy Information Administration Short-Term Energy Outlook, May 8, 2018.

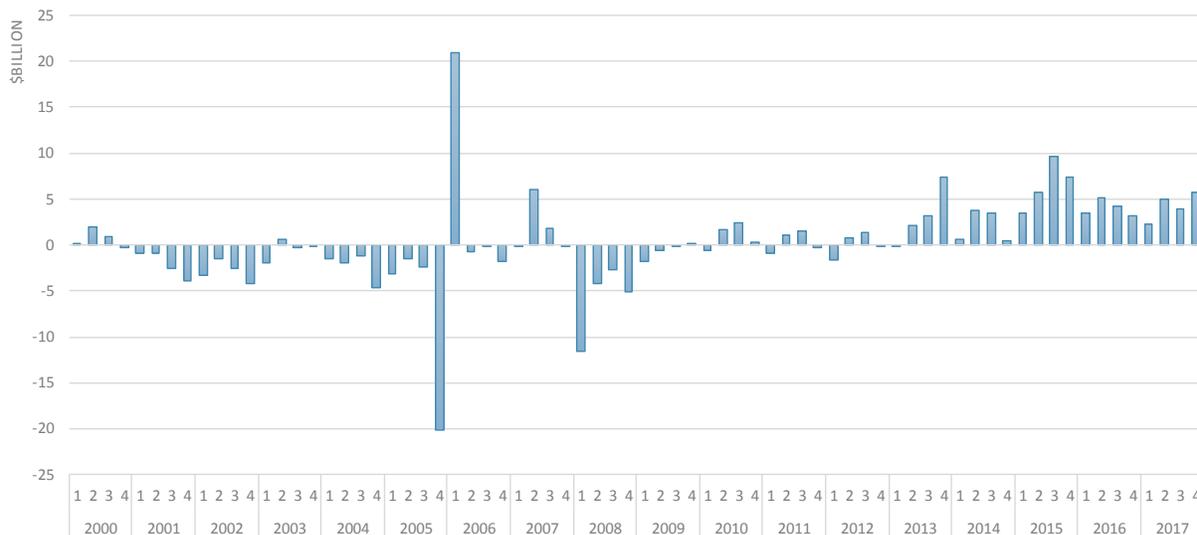
### Financial Health of the U.S. Airline Industry

Since 2000, the U.S. airline industry has incurred losses in seven years, totaling \$83.9 billion, and has made profits in 11 years, totaling \$114.2 billion (Figure 42). The period from 2010 to 2017 has been one of the industry’s most profitable periods, with an average of \$10.7 billion in profits each year.

All of the airline industry’s losses were incurred prior to 2010, when the demand for air travel declined following the September 2001 terrorist attacks, during the Great Recession, and when fuel prices increased to record levels. Mounting financial difficulties forced airlines into bankruptcy and liquidation. Surviving airlines merged, cut costs, retired fuel-inefficient aircraft, scaled back networks, changed pricing of airline services, and took many other measures to improve financial results.

The airline industry has been earning profits since 2010, reaping the benefits of lower fuel prices, capacity discipline, traffic recovery along with global and U.S. economic recovery. Amid strong air travel demand, airlines have been able to raise airfares and earn substantial revenues from ancillary services. Airports have benefitted with increases in airline service.

Figure 42 | U.S. Carrier Quarterly Net Profit, Q1 2000Q1-Q4 2017



Source: U.S. Bureau of Transportation Statistics F41 Schedule P12 data.

### Performance of the Largest Airlines Serving the Airport<sup>38</sup>

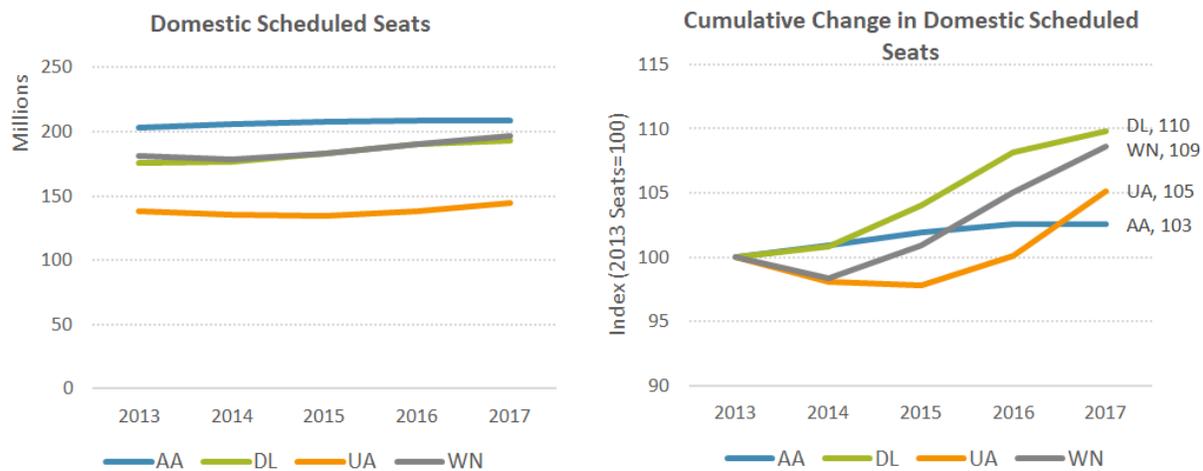
The market performance of major airlines can affect future Airport traffic. The four major airlines accounted for nearly all of the Airport’s total passengers in 2017—Southwest (49.0 percent),

<sup>38</sup> The discussion is based on information and reports contained in the airlines’ websites and operating data from the Bureau of Transportation Statistics.

American (33.1 percent), United (10.3 percent), and Delta (7.5 percent). Their relative shares of ELP passenger traffic have remained relatively stable in recent years, despite the entry of Allegiant Air, an ultra-low cost carrier (ULCC).

In recent years, all four carriers have been earning profits, aided by the continuing economic expansion and relatively stable fuel prices. The airlines have been renewing and upgauging their fleets, allowing them to increase scheduled capacity (see Figure 43 for the U.S. domestic market).

Figure 43 | Domestic Scheduled Seats by the Four Major U.S. Airlines



AA – American Airlines (includes US Airways in 2013-2015)  
 DL – Delta Airlines  
 UA – United Airlines  
 WN – Southwest Airlines (includes AirTran Airways in 2013-2014)

Source: OAG Schedules Analyzer.

### Southwest Airlines

Southwest is the second largest scheduled domestic market U.S. carrier, based on its share of U.S. system revenue passenger miles (18.2 percent in 2017). In 2017, Southwest reported its 45<sup>th</sup> consecutive annual net income of \$3.5 billion, maintaining its record as the only major U.S. airline that has remained consistently profitable through all the downturns in the airline industry.

Southwest’s business strategy centers on cost discipline and profitably charging competitively low fares. Adjusted for stage length, Southwest has lower unit costs, on average, than the majority of major domestic carriers. Southwest is able to keep its costs low by (1) using a single aircraft type, the Boeing 737, (2) operating an efficient point-to-point route structure, and (4) achieving high labor productivity.

Southwest began flying Boeing’s new 737 MAX 8 aircraft in October 2016, believed to be the best narrow-body airplane of comparable size in the world in terms of fuel efficiency and noise reduction. As of December 31, 2017, Southwest operated a total of 706 Boeing 737 aircraft, 13 of

them are the new MAX 8 aircraft. Southwest expects to grow its fleet to 750 aircraft by the end of 2018.

Like other airlines, Southwest cut capacity during the last recession and the early years of economic recovery. Like other airlines, it began increasing capacity in recent years—2015 was the turning point for Southwest’s domestic capacity as shown in Figure 43. Southwest’s scheduled domestic seats in 2017 were up 9 percent from 2013. Southwest expects to continue its strategic capacity increases in 2018.<sup>39</sup>

### *American Airlines*

American is the largest scheduled domestic market U.S. passenger carrier, based on its 18.3 percent share of U.S. system revenue passenger miles in 2017. American earned a net income of \$1.92 billion in 2017. It has been profitable in every year since emerging from bankruptcy and merging with U.S. Airways in December 2013. As a result of the merger, US Airways Group became a subsidiary of AMR Corporation, which changed its name to American Airlines Group Inc. (AAG). US Airways operations were fully integrated into American Airlines in late 2015.

As of year-end 2017, American had 948 aircraft in its mainline fleet and 597 aircraft in its regional fleet. As of April 2018, American expects to expand its mainline fleet to 951 aircraft and reduce its regional fleet to 593 aircraft by year-end 2018.

As shown in Figure 43, American has steadily increased domestic seat capacity since 2013, albeit very slowly. American’s scheduled domestic seats in 2017 were up 3 percent from 2013. American plans to continue adding capacity in 2018, as much as 3 percent for domestic capacity.<sup>40</sup>

### *United Airlines*

United is the fourth largest scheduled domestic market U.S. passenger carrier, as measured by its 14.9 percent share of U.S. system revenue passenger miles in 2017. United merged with Continental Airlines in October 2010 and began operating as a single airline in November 2011. United reported \$2.13 billion in net profit for 2017. It has consistently earned a net annual profit since 2013.

As of year-end 2017, United had 744 aircraft in its mainline fleet and 518 aircraft in its regional fleet. As of April 17, 2018, United plans to expand its mainline fleet to 768 and its regional fleet to 554 by year-end 2018.<sup>41</sup>

As shown in Figure 43, United continued to cut its domestic seats through 2015, but had since turned around to increase its scheduled domestic seats in 2017 by 5 percent more than its 2013 schedules. For 2018, United plans to increase capacity by 4.5 to 5.5 percent.

### *Delta Air Lines*

Delta is the third largest scheduled domestic market U.S. carrier, accounting for 16.8 percent of U.S. system revenue passenger miles in 2017. Delta earned a net income of \$1.1 billion in 2017,

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<sup>39</sup> Southwest Airlines Co. 2017 Annual Report to Shareholders, March 23, 2018.

<sup>40</sup> American Airlines Investor Relations Update, April 26, 2018.

<sup>41</sup> United Investor Update, April 17, 2018.

consistently earning an annual profit since 2010.<sup>42</sup> Delta merged with Northwest Airlines in October 2008 and completed the integration of the two airlines in 2010.

As of March 31, 2018, Delta has 867 aircraft in its mainline fleet. Delta is taking delivery of 60 new aircraft for the entire year in 2018 toward meeting its target of 30 percent mainline fleet renewal by 2020.<sup>43</sup>

As shown in Figure 43, Delta has steadily increased domestic seat capacity since 2013, posting the highest cumulative increase of 10 percent through 2017, among the four airlines. Delta plans to continue increasing system-wide seat capacity in 2018.

### Airline Competition

Competition within the airline industry is intense and highly unpredictable—one of the main reasons for the volatility of the airline industry. Airlines compete on various factors including (1) pricing and cost structure, (2) routes, frequent flyer programs, schedules; and (3) customer service, operational reliability, and amenities. Airlines also face competition from other forms of transportation and alternatives to travel such as videoconferencing and the internet.

Pricing is a significant competitive factor in the airline industry because airfares are an important consideration for customers when choosing flights. The Internet has made it easy for customers to compare fares and identify competitor promotions and discounts.

The significant growth of ULCCs has made price competition even more fierce. ULCCs offer “a la carte” service offerings, promoting extremely low relative base fares while separately charging for related services and products. Certain major U.S. airlines have responded by introducing a new “Basic Economy” fare product, offering a lower base fare to compete with a ULCC base fare but with significant restrictions on related amenities and services. This price competition has led to lower fares across the industry.<sup>44</sup>

### Airline Mergers

Responding to competition, cost and regulatory pressures, the airline industry has been consolidating. The most recent examples of large mergers include Delta and Northwest in 2008, United and Continental in 2010, Southwest and AirTran in 2011, American and US Airways in 2013, and Alaska and Virgin America in 2016.

Airline mergers affect service and traffic at airports, when they consolidate facilities, optimize route networks, and route connecting traffic through other hubs. The impact on affected airports usually plays out within a few years—sometimes immediately—following the merger. The impact can be significant or trivial, depending upon whether the merging airlines have a large market share at an airport and whether they carry significant connecting traffic through the airport.

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<sup>42</sup> Delta Air Lines Earnings Releases, various years.

<sup>43</sup> Delta Air Lines Investor Day 2017, December 14, 2017.

<sup>44</sup> Southwest Airlines Co. 2017 Annual Report to Shareholders, March 23, 2018.

## Aviation Security, Health and Safety Concerns

Concerns about security, health, and safety influence consumer travel behavior. Even with tightened security measures implemented by the Department of Homeland Security, terrorism remains a serious threat to the aviation industry. Additionally, the stringent airport security screening and long waits at security screening lines discourage air travel particularly to destinations that can be reached by ground transportation within a reasonable amount of time. Health and safety concerns can also cause temporary dips in traffic in affected routes.

## Structural Changes in Travel Demand

Consumers alter their travel patterns in response to changes at airports, changes in airline business practices, and changes in technology. For example, the stringent airport security screening and long wait times at airports after the 2001 terrorist attacks decreased the demand for air travel for short-haul trips. Intense fare competition and the ease of comparison shopping allowed by the internet have made consumers more price-sensitive. The widespread use of tele- and videoconferencing has decreased the need for business travel.

## Summary

This section reviews the historical trends in commercial passenger traffic at ELP and presents forecasts of enplanements and aviation activity at the Airport.

The past 20 years were eventful for the U.S. aviation industry and the Airport. Significant events caused structural changes in the airline industry, the air travel market, and airline service at the Airport, many with lasting impacts on airline service and passenger traffic trends at the Airport. ELP experienced fluctuations in passenger traffic coinciding with adverse events, and, over the long term, its passenger enplanements declined from a peak of 1.9 million in FY1995 to 1.5 million in FY2017. On average, ELP enplanements declined 1.1 percent annually over the 23 years between FYs 1995 and 2017.

This section presents a range of forecasts for enplanements at ELP and corresponding forecasts of aircraft landings and landed weight. Under the base forecast, enplanements will increase from 1.6 million in FY2018 to 1.9 million in FY2028, growing at an average annual rate of 2 percent. Aircraft landings will increase 1 percent annually on average from 24,600 in FY2018 to 27,100 in FY2028, while total landed weight will increase 1.4 percent annually on average from 2.4 billion pounds to 2.8 billion pounds over the same period.

## SECTION 4 | FINANCIAL ANALYSIS

This section reviews the framework for the financial operation of the Airport. This financial analysis (1) reviews the recent historical financial performance of the Airport, (2) examines the ability of the Airport to generate sufficient Net Revenues in each Fiscal Year of the forecast period to meet the obligations of the bond indentures, and (3) discusses the information and assumptions underlying the financial forecasts, which include Revenues, Maintenance and Operation Expenses (M&O Expenses), debt service requirements, and debt service coverage. The financial projections presented in this section are based on the base enplanement forecast developed in Section 3 and are shown for the period FY2018 through FY2023.

### Financial Framework

#### The Airport System Accounting and Financial Reporting

The City operates the Airport as an Enterprise Fund in accordance with generally accepted accounting principles (GAAP) for governmental entities. The City prepares its financial statements based on the City's fiscal year, which begins on September 1<sup>st</sup> of each calendar year and ends on August 31<sup>st</sup> of each succeeding year.

#### Airline Operating Agreements and Terminal Building Leases

The City has entered into separate, but substantially similar, Airline Operating Agreements and Terminal Building Leases (the Airline Agreements) with the following four air carriers operating at the Airport (the Signatory Airlines): American Airlines, Delta Airlines, Southwest Airlines, and United Airlines. The Airline Agreements cover the use of, and the rate-setting mechanisms for, the airfield and terminal facilities at the Airport. The Airline Agreements, as extended, have a term commencing on September 1, 2012 and terminating on August 31, 2019. The Airport anticipates renewing the Airline Agreements with rate provisions that are substantially similar to the provisions in the current Airline Agreements. Therefore, the financial analyses and projections in this section assume that same rate making provisions in the current Airline Agreements will remain in place throughout the remainder of the forecast period.

Following are the major provisions of the Airline Agreements:

- Term is September 1, 2012 to August 31, 2017, with two (2) one-year optional extension periods (through mutual agreement of the airline and the City).
- Residual rate methodology in the Airfield.
- Commercial compensatory rate methodology in the Terminal (with some minor revenue offsets).
- Capital Improvements and Equipment/Capital Outlays.
  - During the agreement, the City has the discretion to undertake any capital improvements to improve the Airport.

- The Airport must provide a Capital Improvement Plan to the airlines when requested.
- On or before July 15th of each year as part of the Budget, the Airport Director will provide costs detail for any equipment or capital to be purchased or constructed during that year, as well as the costs that will be included in the airline rate base.
- Other
  - Signatory Airlines report passengers of their affiliates (code share partners & subsidiaries, parent companies or contract airlines) combined with their own passengers and serve as the financial guarantor for their affiliates.
  - Non-Signatory Airlines pay 125 percent of the rates paid by Signatory Airlines.
  - All airline gates are preferential use with a utilization standard for each gate and also if the Director determines there is need for the use of the gate by another Signatory airline. Reassignment of gates by the Airport is allowed if the airline's scheduled overall gate utilization falls below four flights per day per gate.

### Airline Rates and Charges

The City collects landing fees, terminal rentals, security surcharges, and other fees from the airlines operating at the Airport to support the maintenance and operation of the facilities used by the airlines.

The calculation methodologies for the airline rates and charges, as specified in the current Airline Agreements, include a cost center residual methodology for the landing fee and a cost center compensatory methodology for the terminal rental rate. The calculations for the projected landing fee and terminal rental rate during the forecast period are presented later in this section. The airline revenue projections presented in this section reflect the current airline rate methodology.

The methodology for calculating these fees and charges, as specified in the Airline Agreement, is discussed below.

*Landing Fees.* The Signatory Airlines are responsible for paying landing fees in an amount necessary to recover the Airfield net deficit, which is defined in the Airline Agreement as total annual Airfield expenses, minus a credit for non-signatory and all revenues derived from landing area operations. Airfield expenses are listed below:

- M&O Expenses
- Equipment and Capital Outlays associated with the Landing Area
- Debt Service and coverage allocable to the Landing Area
- Any deficiency in the Renewal and Replacement Account resulting from an expenditure allocable to the Landing Area
- Landing Area portion of Maintenance and Operating Reserve deposits

- Any other Landing Area portion of a deposit to a reserve account
- The amount of any judgment against the City net of Insurance allocable to the Landing Area

The Airfield net deficit used for purposes of establishing the landing fee rate is computed by reducing the Airfield expenses listed above by the following revenue credits:

- Equipment Parking Rentals
- Gate Use Fees
- Air Cargo Apron Rentals
- RON Fees
- Non-Signatory Airline landing fee revenue
- Other non-airline revenue allocated to the Airfield

Prior to the beginning of each year, Airport Management projects the Airfield net deficit for the year based on budgeted Airfield expenses and the offsetting revenue credits. The signatory landing fee rate is calculated as the Airfield net deficit divided by the projected signatory aircraft landed weight in thousand pound units. Non-Signatory Airlines are charged a landing fee that is 125 percent of the fee charged to Signatory Airlines.

Airport Management can conduct a review any time during the year to compare the budgeted amounts with actual expenses and revenues received to date as indicated in the Airline Agreement. If the review indicates that there will be a variance of 10 percent or more, Airport Management, in conformance with the City budget procedure and authorization, may make an adjustment to the rates in accordance with Article 7 of the Airline Agreement. Any such adjustment will be effective for the balance of the fiscal year. At the end of each fiscal year the City conducts a year-end reconciliation no later than 180 days after the City has completed its full accounting process. This involves the actual expenses and revenues being compared to the amounts collected during the previous year. Any deficiency in the amounts collected from the Signatory Airlines will be billed to the Signatory Airlines. If the amount collected was higher than the actual net deficit, the difference will be remitted to the airlines by check within 30 days following the completion of the year-end settlement calculation.

*Terminal Rents.* The Signatory Airlines pay annual Terminal rent based on the airlines' use of the Terminal. The Terminal net deficit is computed by aggregating all expenses for the Terminal cost center and deducting certain revenues that are used to offset these expenses. Terminal expenses are listed below:

- M&O Expenses
- Equipment and Capital Outlays associated with the Terminal Building
- Debt Service and coverage allocable to the Terminal Building

- Any deficiency in the Renewal and Replacement Account resulting from an expenditure allocable to the Terminal Building
- Terminal Building portion of Maintenance and Operating Reserve deposits
- Any other Terminal Building portion of a deposit to a reserve account
- The amount of any judgment against the City net of Insurance allocable to the Terminal Building

The rental rate for Terminal space occupied by the Signatory Airlines will be determined by dividing the Terminal net deficit by the total amount of Usable Space in the Terminal.

A comparison of actual and budgeted Terminal expenses can be conducted at any time during the year. If the review indicates that there will be a variance of 10 percent or more, Airport Management, at its discretion, may make an adjustment to the rates in accordance with Article 7 of the Airline Agreement. Any such adjustment will be effective for the balance of the fiscal year. At the end of each fiscal year the City will conduct a year-end reconciliation no later than 180 days after the City has completed its full accounting process. This involves the actual expenses and revenues being compared to the amounts collected during the previous year. Any deficiency in the amounts collected from the airlines will be billed to the airlines. If the amount collected was higher than the actual net deficit, the difference will be remitted to the airlines by check within 30 days following the completion of the year-end settlement calculation.

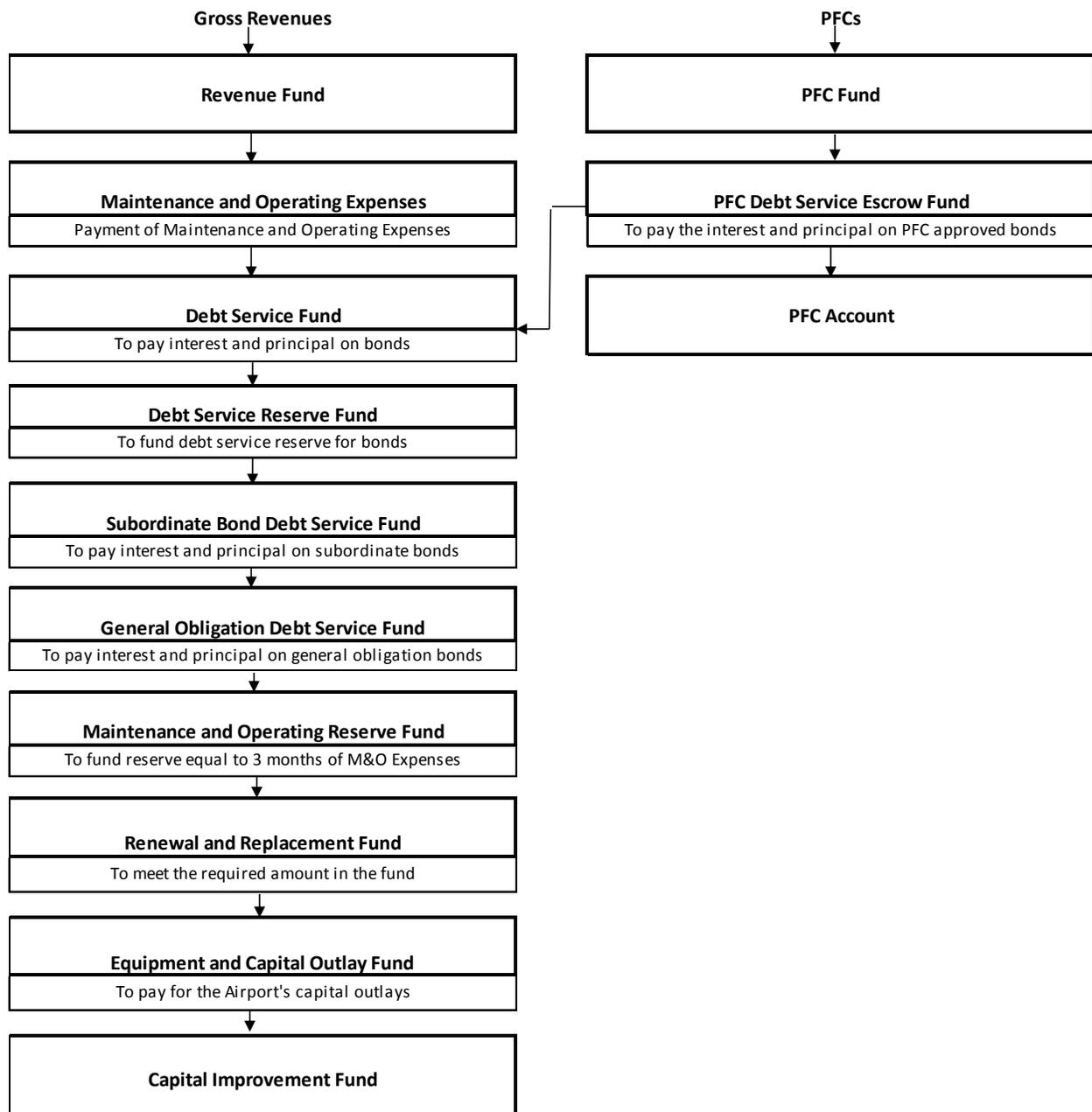
#### Application of Revenues

Figure 44 illustrates the application of and priority in the uses of amounts in the Revenue Fund and the PFC Fund. Pursuant to the Bond Resolutions, the City shall establish a separate account in the Revenue Fund to be known as the PFC Revenue Fund into which all PFC Revenues shall be deposited. Such monies accumulated in the PFC Revenue Fund shall be applied: first, to the PFC Debt Service Escrow Fund to pay debt service for all PFC eligible projects and second, to pay costs associated with other PFC approved projects. All other monies remaining in the Revenue Fund shall be applied in the order of priority shown in Figure 44.

#### Rate Covenant Requirement

Pursuant to the Bond Resolutions, the City shall establish and impose a schedule of rates, rentals, fees, and charges sufficient so that in each fiscal year, Airport Net Revenues, together with Other Available Funds, will be at least equal to one hundred twenty-five percent (125%) of the current year Debt Service. Net Revenues are defined as all Airport Revenues less M&O Expenses (excluding depreciation). Other Available Funds, as defined in the Bond Resolutions, include amounts on deposit in the Coverage Fund and the Capital Improvement Fund. However, Other Available Funds to be included in the rate covenant calculation shall not exceed 25 percent of the current year Debt Service.

Figure 44 | Flow of Funds



Note: During a Fiscal Year, all PFCs in the PFC Fund will first be transferred into the PFC Debt Service Escrow Fund, on a monthly basis, until an amount equal to the principal and interest scheduled to come due during the ensuing Fiscal Year on the portion of the debt service that applies to the PFC-approved projects. No PFCs will be transferred to the PFC Account in any Fiscal Year until the PFC Debt Service Escrow Fund has been fully funded.

### Maintenance and Operation Expenses

Pursuant to the Bond Resolutions, “Maintenance and Operation Expenses” are those costs incurred in the maintenance and operations of the Airport Table 12 presents historical M&O Expenses for

the period FY2013 through FY2017. Total M&O Expenses increased from approximately \$28.9 million in FY2013 to \$30.8 million in FY2017, representing an average annual increase of 1.7 percent during that period. The largest components of FY2017 M&O Expenses were Salaries and Fringe Benefits (combined, 32.7 percent of total M&O Expenses), Outside Contracts (21.3 percent), and Public Safety (19.5 percent). Together, these largest categories accounted for approximately 73.5 percent of total FY2017 M&O expenses. The historical changes in the various categories of M&O Expenses are discussed in the subsections below.

Table 12 also shows the allocation of M&O Expenses by cost center, as used in the Airport's airline rate setting methodology. In FY2017, Terminal expenses accounted for the largest share of total M&O Expenses (43.4 percent), followed by Non-Aviation (22.3 percent), Airfield (14.9 percent), Ground Transportation (12.8 percent), Air Cargo (3.5 percent), Aviation (2.9 percent), and Direct Airline cost center (0.8 percent).

During the forecast period, total M&O Expenses are projected to increase to approximately \$39.2 million in FY2023, as shown on Table 13. The projection of M&O Expenses reflects the Airport's FY2018 Estimate; the Airport's FY2019 Budget; anticipated future expense trends, including an inflation factor; and the projected operating expense impacts of the capital projects. The projected changes in the various elements of projected M&O expenses are explained in the sub-sections below.

FY2018 M&O Expenses are estimated to total approximately \$34.9 million, an increase of 13.2 percent over the FY2017 M&O Expenses. The major factors in the FY2018 estimate increase are items related to salaries and contractual services, as discussed in the associated subsections below. The FY2019 M&O Expenses are budgeted to increase to \$35.1 million, an increase of 0.5 percent over the FY2018 estimated M&O Expenses.

Table 12 | Historical M&O Expenses

Total M&O Expenses	Fiscal Years Ended August 31					CAGR
	2013	2014	2015	2016	2017	
Wages & Salaries	\$ 6,493,867	\$ 6,882,105	\$ 6,797,993	\$ 6,891,227	\$ 6,714,841	0.8%
Fringe Benefits	3,050,519	3,085,869	3,045,774	3,995,834	3,371,237	2.5%
Outside Contracts	5,683,873	5,831,815	5,774,623	6,204,570	6,565,943	3.7%
Maintenance & Repairs	523,208	716,327	1,332,706	847,886	804,087	11.3%
Utilities	1,836,707	1,687,189	1,447,499	1,614,116	1,794,724	-0.6%
Other Expenses	2,944,767	3,995,061	3,072,940	2,542,686	2,805,776	-1.2%
City Allocations	1,572,083	1,272,979	1,299,049	1,691,408	1,665,703	1.5%
Public Safety	5,652,990	5,525,648	5,996,196	6,103,903	6,007,404	1.5%
Dispatch/Badging	877,863	857,372	790,233	836,873	877,908	0.0%
Direct Airline Expenses	233,949	227,245	258,766	222,257	236,856	0.3%
<b>Total M&amp;O Expenses</b>	<b>\$ 28,869,826</b>	<b>\$ 30,081,610</b>	<b>\$ 29,815,779</b>	<b>\$ 30,950,760</b>	<b>\$ 30,844,480</b>	<b>1.7%</b>

Total M&O Expenses by Cost Center	2013	2014	2015	2016	2017	CAGR
Airfield	\$ 4,936,378	\$ 4,798,647	\$ 4,542,369	\$ 4,732,456	\$ 4,570,325	-1.9%
Terminal	11,104,929	12,267,268	13,068,454	13,150,274	13,298,767	4.6%
Aviation	966,579	985,700	954,224	947,785	898,207	-1.8%
Non-Aviation	6,624,705	6,462,071	6,211,453	6,632,290	6,833,379	0.8%
Ground Transportation	3,948,884	4,309,696	3,862,988	4,273,487	3,922,567	-0.2%
Air Cargo	1,054,402	1,030,983	917,525	992,210	1,084,379	0.7%
Direct Airline Expenses	233,949	227,245	258,766	222,257	236,856	0.3%
<b>Total M&amp;O Expenses</b>	<b>\$ 28,869,826</b>	<b>\$ 30,081,610</b>	<b>\$ 29,815,779</b>	<b>\$ 30,950,759</b>	<b>\$ 30,844,480</b>	<b>1.7%</b>

Source: Airport Records

Table 13 | Projected M&O Expenses

Total M&O Expenses	For Fiscal Years Ended August 31						CAGR 2019 - 2023
	Estimate	Budget	Projected				
	2018	2019	2020	2021	2022	2023	
Wages & Salaries	\$ 7,781,917	\$ 7,485,326	\$ 7,597,605	\$ 7,711,569	\$ 7,827,243	\$ 7,944,652	1.5%
Fringe Benefits	3,618,148	3,451,929	3,527,871	3,605,484	3,684,805	3,765,871	2.2%
Outside Contracts	7,803,713	8,004,368	8,404,586	8,824,816	9,266,057	9,729,359	5.0%
Maintenance & Repairs	955,000	694,400	729,120	765,576	803,855	844,048	5.0%
Utilities	1,961,800	1,906,924	1,948,877	1,991,752	2,035,570	2,080,353	2.2%
Other Expenses	3,676,767	4,224,945	4,317,894	4,412,888	4,509,971	4,609,190	2.2%
City Allocations	1,586,246	1,665,703	1,702,348	1,739,800	1,778,076	1,817,193	2.2%
Public Safety	6,289,248	6,481,633	6,624,229	6,769,962	6,918,902	7,071,117	2.2%
Dispatch/Badging	998,115	964,099	985,309	1,006,986	1,029,140	1,051,781	2.2%
Direct Airline Expenses	238,278	219,876	224,786	229,731	234,785	239,950	2.2%
<b>Total M&amp;O Expenses</b>	<b>\$ 34,909,232</b>	<b>\$ 35,099,203</b>	<b>\$ 36,062,626</b>	<b>\$ 37,058,564</b>	<b>\$ 38,088,403</b>	<b>\$ 39,153,515</b>	<b>2.8%</b>

Total M&O Expenses by Cost Center	2018	2019	2020	2021	2022	2023	CAGR
Airfield	\$ 4,940,127	\$ 5,200,120	\$ 5,344,728	\$ 5,494,060	\$ 5,648,294	\$ 5,807,617	2.8%
Terminal	14,398,043	14,335,164	14,666,527	15,007,482	15,358,385	15,719,612	2.3%
Aviation	1,091,800	1,025,409	1,046,699	1,068,489	1,090,794	1,113,629	2.1%
Non-Aviation	7,566,898	7,311,010	7,567,431	7,834,241	8,111,898	8,400,880	3.5%
Ground Transportation	5,436,980	5,745,191	5,922,559	6,106,524	6,297,366	6,495,378	3.1%
Air Cargo	1,237,105	1,262,434	1,289,896	1,318,038	1,346,881	1,376,449	2.2%
Direct Airline Expenses	238,278	219,876	224,786	229,731	234,785	239,950	2.2%
<b>Total M&amp;O Expenses</b>	<b>\$ 34,909,231</b>	<b>\$ 35,099,203</b>	<b>\$ 36,062,626</b>	<b>\$ 37,058,564</b>	<b>\$ 38,088,403</b>	<b>\$ 39,153,515</b>	<b>2.8%</b>

### Wages & Salaries

Wages & Salaries is the largest category of M&O Expenses, representing approximately 22.8 percent of total M&O Expenses in FY2017. Wages & Salaries expenses grew from \$6.5 million in FY2013 to \$6.7 million in FY2017 or by an average of 0.8 percent per year. The increases were attributed to normal cost of living adjustment to salaries. Wages & Salaries are estimated at approximately \$7.8 million in FY2018, and are budgeted at \$7.5 million. The budgeted decrease in FY 2018 reflects the change in accounting for City legal staff working on Airport projects. Rather than budgeting salaries and fringe benefits for the legal staff, the Airport is now being charged an hourly rate. Beginning in FY 2019, this category is projected to grow by 1.5 percent per year to account for cost of living salary adjustments., to \$7.9 million in FY 2023.

### Fringe Benefits

Fringe Benefits grew by an average of 2.5 percent per year from FY2013 to FY2017, from \$3.0 million in FY2013 to \$3.4 million in FY2017. Fringe Benefits are estimated at \$3.6 million in FY2018 and budgeted at \$3.5 million in FY2019. Fringe Benefits. The decrease in FY 2019 reflects the change in accounting for City legal staff, as described above. Beginning in FY 2019, Fringe Benefits are projected to increase approximately at the rate of annual inflation (estimated at 2.2 percent), from the FY2019 budget of \$3.5 million to \$3.8 million in FY2023.

### Outside Contracts

Outside Contract expenses include any contract that the Airport executes with a vendor or contractor that provides services to the Airport, including but not limited to security guard service, advertising, public relations, and janitorial services. This category was the second largest group of expenses in FY2017, at 21.3 percent of total M&O Expenses. Outside Contract expenses grew by approximately 3.7 percent per year, from approximately \$5.7 million in FY2013 to \$6.6 million in FY2017. The growth in Outside Contract expenses was primarily due to increased janitorial expenses, air service development expenses, and additional materials and supplies and maintenance expenses that were re-classified to this category. Outside Contract expenses are estimated to increase to \$7.8 million in FY2018 and budgeted to increase to \$8.0 million in FY2019, mainly because the Airport is transferring the operations of the Airport public parking shuttle service to Standard Parking, the outside parking management company. Outside Contract expenses are projected to increase from \$7.8 million in the FY2018 Budget to \$9.7 million in FY2023.

### Maintenance & Repairs

Maintenance & Repairs increased at an average annual rate of 11.3 percent per year from FY2013 to FY2017, with significant increases in FY2014 and FY2015, followed by decreases in FY2016 and FY2017. This expense category increased from approximately \$0.5 million in FY2013 to \$1.3 million in FY2015 before decreasing to \$804,000 in FY2017. The large increases were mainly due to the cost of major maintenance projects that were planned in the Airport's capital improvement program, but which were more accurately accounted for as M&O Expenses. Maintenance & Repairs expenses are estimated to increase to \$955,000 in FY2018. Repairs and Maintenance expenses are budgeted to decrease to \$694,000 in FY2019. Airport management does not anticipate undertaking

any significant maintenance projects during the forecast period. Therefore, Maintenance & Repairs expenses are projected to increase at a slower average annual rate than the increases during the historical period. This expense category is projected to increase approximately 5 percent per year, from \$694,000 in FY2019 to \$844,000 in FY2023.

### Utilities

Utilities expenses consist of expenditures for electricity, natural gas, sewage, and water. Utilities expenses decreased from approximately \$1.8 million in FY2013 to \$1.4 million in FY2015, and then increased to \$1.6 million in FY2016 and \$1.9 million in FY2017. The decreases in Utilities expenses were mainly due to Airport management's cost savings initiatives to implement capital investments designed to reduce utility expenses, such as a new HVAC system, new boilers, new energy-efficient lighting, and updated energy-efficient windows in the terminal building. The subsequent modest increases in Utilities expenses were due to increased usage (corresponding to increased passenger activity), combined with utility rate increases. Utilities expenses are estimated to increase slightly in FY2018 to approximately \$2.0 million, before decreasing slightly to \$1.9 million in the FY2019 Budget. Utilities expenses are projected to increase by the estimated annual inflation rate of 2.2 percent during the remainder of the forecast period, to approximately \$2.1 million in FY2023.

### Other Expenses

Other Expenses include Professional Services, Supplies & Materials, Minor Equipment & Furniture, Parking Enforcement Controllers and other smaller categories of expenses. Taken together, these expenses decreased overall during the historical period, from \$2.9 million in FY2013 to \$2.8 million in FY2017. The decrease was mainly due to cost savings in parking enforcement controller expenses, which declined by an average of 4.8 percent per year. Other Expenses are estimated to increase to approximately \$3.7 million in FY2018. Other Expenses are budgeted to continue to increase to \$4.2 million in FY2019, primarily due to anticipated increases in professional services expenses. Other Expenses are projected to increase in accordance with the estimated annual inflation rate (2.2 percent) during the forecast period, to approximately \$4.6 million in FY2023.

### City Allocations

City Allocations represent charges for professional services provided to the Airport by other City departments. This category of expenses fluctuated during the historical period, but increased overall, from \$1.6 million in FY2013 to \$1.7 million in FY2017. These expenses are estimated to increase to \$1.6 million in FY2018 and budgeted to continue increasing to approximately \$1.7 million in FY2019. City Allocation expenses are projected to increase by inflation from \$1.6 million in FY2018 to \$1.8 million in FY2023.

### Public Safety

Public Safety expenses include the following four components: Aircraft Rescue and Fire Fighting (ARFF); Airport Police; Canine; and Airport Fire and Medical Services. Public Safety expenses grew by an average of 1.5 percent per year from \$5.6 million in FY2013 to \$6.0 million in FY2017. Together, the FY2017 expenses for ARFF and Airport Police represented 83 percent of the total expenses for this category for the year. ARFF expenses decreased from \$3.1 million in FY2013 to \$2.7 million in FY2017, mainly due to initiatives implemented by Airport management to reduce

overtime expenses, while still maintaining the proper level of protective services for the Airport. Airport Police expenses increased from \$2.1 million in FY2013 to \$2.3 million in FY2017, mainly due to wage increases. Canine expenses remained relatively flat during the historical period at slightly more than \$300,000. Airport Fire & Medical Service expenses, which consist of costs for Ambulance services at the Airport, increased from \$86,000 in FY2013 to \$652,000 in FY2017. In total, Public Safety expenses are estimated to increase to \$6.3 million in FY2018 because of increased salaries for police, fire and medical services. Public Safety expenses are budgeted to continue to increase in FY2019 to \$6.5 million. During the forecast period, Public Safety expenses are projected to increase at the approximate rate of inflation, to approximately \$7.1 million in FY2023.

### Direct Airline Expenses

Direct Airline Expenses are charged directly to the airlines that use those services at the Airport. These expenses include electricity and law enforcement officers. Direct Airline Expenses remained flat during the historical period and are estimated at \$237,000 in FY2017. Direct Airline Expenses are estimated to increase slightly to \$238,000 in FY2018. Direct Airline Expenses are projected to increase from the budgeted amount of \$220,000 in FY2019 to \$240,000 in FY2023.

### Debt Service

As discussed in Section 1, a portion of the Airport's CIP costs are being funded with the proceeds of the Series 2018 Bonds. The annual debt service requirements projected during the forecast period are presented on Table 14. In addition to the issuance of the Series 2018 Bonds, the City has outstanding debt obligations that will continue throughout the forecast period. The debt service obligations of the Series 2011 Bonds are paid with Airport funds. The debt service obligations of the Series 2014 Bonds are paid with CFCs collected by the rental car companies from their customers.

Annual debt service for the Series 2018 Bonds is projected to equal approximately \$5.4 million in each Fiscal Year during the forecast period. As discussed in Section 1, the Series 2018 Bonds are payable solely from and secured by a pledge of Net Revenues of the Airport and from moneys on deposit from time to time in certain funds and accounts created under the Bond Ordinance, plus a first lien on certain Pledged Funds, including the PFC Debt Service Escrow Fund. However, because approximately 79 percent of the project costs being funded with the proceeds of the Series 2018 Bonds are approved PFC-eligible costs, the Department plans to apply PFCs to fund 79 percent of the annual debt service. Therefore, PFCs will be used to pay approximately \$4.3 million each Fiscal Year during the forecast period.

Total annual debt service is projected to increase from approximately \$4.3 million in FY2018 to \$9.7 million in FY2019, due to the start of the debt service for the Series 2018 Bonds. Total annual debt service is estimated to increase slightly, to approximately \$9.8 million in FY2021 through the remainder of the forecast period. Annual debt service net of the offsets for PFCs and CFCs is projected to increase from approximately \$1.4 million in FY2018 to \$2.6 million from FY2019 through the remainder of the forecast period.

Table 14 | Projected Debt Service

Debt Service by Series	Fiscal Years Ending August 31					
	2018	2019	2020	2021	2022	2023
Series 2011	\$ 1,446,225	\$ 1,448,150	\$ 1,447,425	\$ 1,447,025	\$ 1,445,425	\$ 1,447,625
Series 2014	2,876,004	2,877,686	2,879,090	2,969,986	2,972,677	2,970,902
Series 2018 Bonds <sup>1</sup>	-	5,398,725	5,397,750	5,393,750	5,396,250	5,394,500
<b>Total Debt Service</b>	<b>\$ 4,322,229</b>	<b>\$ 9,724,561</b>	<b>\$ 9,724,265</b>	<b>\$ 9,810,761</b>	<b>\$ 9,814,352</b>	<b>\$ 9,813,027</b>
Less: PFC applied Debt Service <sup>2</sup>	-	(4,269,312)	(4,268,541)	(4,265,378)	(4,267,355)	(4,265,971)
Less: CFC applied to Debt Service <sup>3</sup>	(2,876,004)	(2,877,686)	(2,879,090)	(2,969,986)	(2,972,677)	(2,970,902)
<b>Debt Service Net of PFC and CFC</b>	<b>\$ 1,446,225</b>	<b>\$ 2,577,562</b>	<b>\$ 2,576,634</b>	<b>\$ 2,575,398</b>	<b>\$ 2,574,321</b>	<b>\$ 2,576,154</b>
<b>Debt Service by Cost Center</b>						
Terminal	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Air Cargo	-	-	-	-	-	-
Airfield	-	-	-	-	-	-
Non-Aviation	1,446,225	2,577,562	2,576,634	2,575,398	2,574,321	2,576,154
PFC Back Bonds	-	4,269,312	4,268,541	4,265,378	4,267,355	4,265,971
Ground Transportation (Rental Car)	2,876,004	2,877,686	2,879,090	2,969,986	2,972,677	2,970,902
<b>Total Airport Debt Service</b>	<b>\$ 4,322,229</b>	<b>\$ 9,724,561</b>	<b>\$ 9,724,265</b>	<b>\$ 9,810,761</b>	<b>\$ 9,814,352</b>	<b>\$ 9,813,027</b>

<sup>1</sup> Estimated debt service provided by Hilltop Securities as of August 30, 2018, with assumed annual interest rate of approximately 3.1%, ten-year bond amortization, and par amount of \$41.97 million.

<sup>2</sup> Approximately 79% of debt service for the Series 2018 Bonds will be funded with PFCs, based on the ratio of PFC eligible project costs funded with the proceeds of the Series 2018 Bonds.

<sup>3</sup> CFCs are applied to pay the debt service on the Series 2014 Bonds.

## Gross Revenues

Gross Revenues, as defined in the Bond Resolutions, consist of all monies received by the Airport from any source, including all rates, fees, charges, rents and other income derived by the City from the ownership or operation of the Airport. Gross Revenues do not include (1) proceeds of bonds or other borrowings by the City, or interest earned thereon, (2) proceeds of grants and gifts for limited purposes or the proceeds of the disposition of property financed by such grants and gifts, (3) condemnation proceeds or insurance proceeds, except those received from rental or business interruption insurance, (4) all income and revenue collected and received by the City with respect to properties and facilities which are not included in the definition of Airport, or (5) Special Facility Revenues.

Historical and Projected Gross Revenues are present on Table 15 and Table 16, respectively. Airport Revenues increased from approximately \$35.2 million in FY2013 to \$37.0 million in FY2017. The changes in Gross Revenues will be described in the subsections below. Gross Revenues are estimated to increase to \$38.1 million in FY2018 and budgeted to increase to \$40.1 million in FY2019. Gross Revenues are projected to increase to \$44.3 million in FY2023. The projections of the various categories of Gross Revenues are explain in the subsections below.

Table 15 | Historical Gross Revenues

Gross Revenues	Fiscal Years Ended August 31					CAGR
	2013	2014	2015	2016	2017	
<b>Airline Revenues</b>						
Signatory Landing Fees	\$ 3,675,415	\$ 3,639,899	\$ 3,880,587	\$ 3,802,221	\$ 3,710,740	0.2%
Non-Signatory Landing Fees	230,070	289,736	289,355	378,054	455,295	18.6%
Terminal Space Rentals	4,667,737	5,281,850	5,530,536	5,481,802	5,161,919	2.5%
Other Airline Revenues	303,954	290,400	316,026	292,342	281,091	-1.9%
<b>Total Airline Revenue</b>	<b>\$ 8,877,176</b>	<b>\$ 9,501,885</b>	<b>\$ 10,016,504</b>	<b>\$ 9,954,419</b>	<b>\$ 9,609,046</b>	<b>2.0%</b>
<b>Non-Airline Revenues</b>						
Fuel Flowage Fees & Miscellaneous	\$ 463,083	\$ 393,142	\$ 402,614	\$ 418,503	\$ 387,294	-4.4%
Terminal Non-Airline Revenues						
Food & Beverage	\$ 749,991	\$ 786,575	\$ 773,627	\$ 791,038	\$ 852,687	3.3%
Gift Shop and Newsstand	556,569	579,054	589,249	576,685	618,536	2.7%
La Placita	88,103	70,296	70,796	67,298	62,216	-8.3%
Advertising	221,056	215,516	205,257	243,907	239,132	2.0%
Other Terminal Space Rental	622,952	634,677	659,354	633,668	654,693	1.3%
Utility Reimbursements	242,114	267,528	232,150	209,084	235,421	-0.7%
Other Terminal Revenue	11,487	10,929	11,207	9,428	8,764	-6.5%
Terminal Non-Airline Revenues	\$ 2,492,272	\$ 2,564,575	\$ 2,541,640	\$ 2,531,108	\$ 2,671,449	1.8%
Ground Transportation Revenue						
Parking Lot Fees	\$ 6,236,539	\$ 5,611,223	\$ 6,166,460	\$ 6,225,763	\$ 6,255,488	0.1%
Car Rental	4,469,690	4,410,645	4,459,229	4,365,293	4,368,138	-0.6%
Ground Rentals	210,097	210,227	223,337	296,442	499,647	24.2%
Other Miscellaneous	27,930	24,180	156,845	29,207	49,156	15.2%
Ground Transportation Revenue	\$ 10,944,256	\$ 10,256,275	\$ 11,005,871	\$ 10,916,705	\$ 11,172,429	0.5%
Aviation Revenue	1,733,472	1,388,807	1,700,267	1,702,890	1,681,537	-0.8%
Non-Aviation Revenue	9,287,464	9,740,903	10,136,424	9,910,725	9,956,445	1.8%
Air Cargo Revenue	1,381,020	1,222,445	1,225,405	1,332,033	1,495,426	2.0%
<b>Total Non-Airline Revenues</b>	<b>\$ 26,301,567</b>	<b>\$ 25,566,147</b>	<b>\$ 27,012,221</b>	<b>\$ 26,811,964</b>	<b>\$ 27,364,580</b>	<b>1.0%</b>
<b>Total Gross Revenues</b>	<b>\$ 35,178,743</b>	<b>\$ 35,068,032</b>	<b>\$ 37,028,725</b>	<b>\$ 36,766,383</b>	<b>\$ 36,973,626</b>	<b>1.3%</b>

Source: Airport records.

Table 16 | Projected Gross Revenues

Gross Revenues	For Fiscal Years Ended August 31						CAGR 2019 - 2023
	2018	2019	2020	2021	2022	2023	
<b>Airline Revenues</b>							
Signatory Landing Fees	\$ 3,970,187	\$ 4,284,492	\$ 4,456,341	\$ 4,601,046	\$ 4,750,139	\$ 4,907,312	3.5%
Non-Signatory Landing Fees	351,045	346,661	357,834	366,587	375,811	385,279	2.7%
Terminal Space Rentals	5,516,759	5,302,563	5,456,842	5,585,420	5,717,827	5,854,209	2.5%
Other Airline Revenues	277,340	264,776	270,035	275,348	280,717	286,251	2.0%
<b>Total Airline Revenue</b>	<b>\$ 10,115,331</b>	<b>\$ 10,198,492</b>	<b>\$ 10,541,052</b>	<b>\$ 10,828,402</b>	<b>\$ 11,124,495</b>	<b>\$ 11,433,051</b>	<b>2.9%</b>
<b>Non-Airline Revenues</b>							
Fuel Flowage Fees	\$ 415,000	\$ 360,000	\$ 362,929	\$ 365,432	\$ 368,368	\$ 368,368	0.6%
Terminal Non-Airline Revenues							
Food & Beverage	\$ 795,000	\$ 867,000	\$ 902,303	\$ 939,438	\$ 976,558	\$ 1,016,557	4.1%
Gift Shop and Newstand	575,000	643,000	669,182	696,722	724,252	753,917	4.1%
La Placita	68,500	59,000	-	-	-	-	N/A
Advertising	245,000	230,000	235,060	240,231	245,516	250,918	2.2%
Other Terminal Space Rental	609,000	655,000	674,057	689,940	706,296	723,142	2.5%
Utility Reimbursements	212,000	225,000	229,950	235,009	240,179	245,463	2.2%
Other Terminal Revenues	5,700	450	5,704	5,829	5,956	6,086	91.8%
Terminal Non-Airline Revenues	\$ 2,510,200	\$ 2,679,450	\$ 2,716,257	\$ 2,807,169	\$ 2,898,757	\$ 2,996,083	2.8%
Ground Transportation Revenue							
Parking Lot Fees	\$ 6,250,000	\$ 7,845,115	\$ 7,991,967	\$ 8,145,053	\$ 8,287,700	\$ 8,444,825	1.9%
Car Rental	4,340,000	4,400,000	4,579,163	4,767,619	4,956,003	5,158,995	4.1%
Ground Rentals	547,815	440,000	449,680	459,573	469,684	480,017	2.2%
Other Miscellaneous	45,100	113,100	117,703	122,546	127,386	132,601	4.1%
Ground Transportation Revenue	\$ 11,182,915	\$ 12,798,215	\$ 13,138,513	\$ 13,494,791	\$ 13,840,773	\$ 14,216,439	2.7%
Aviation Revenue	1,715,620	1,635,620	1,669,046	1,703,253	1,737,965	1,773,631	2.0%
Non-Aviation Revenue	10,710,600	10,915,932	11,156,083	11,401,516	11,652,350	11,908,701	2.2%
Air Cargo Revenue	1,495,060	1,534,927	1,560,910	1,587,465	1,614,604	1,642,341	1.7%
Total Non-Airline Revenues	\$ 28,029,395	\$ 29,924,144	\$ 30,603,738	\$ 31,359,626	\$ 32,112,817	\$ 32,905,562	2.4%
<b>Total Gross Revenues</b>	<b>\$ 38,144,726</b>	<b>\$ 40,122,636</b>	<b>\$ 41,144,790</b>	<b>\$ 42,188,028</b>	<b>\$ 43,237,312</b>	<b>\$ 44,338,613</b>	<b>2.5%</b>

### Airline Revenues

Airline revenues consist of landing fees, terminal rentals, passenger security screening charges, and other revenue. Total airline revenues increased from approximately \$8.9 million in FY2013 to \$9.6 million in FY2017, mainly due to increases in the M&O Expenses allocated to the Airfield, a function of the increases in the various categories of M&O Expenses, as described earlier in this section.

Airline revenues are estimated to total approximately \$10.1 million in FY2018 and budgeted to total \$10.2 million in FY2019. Airline revenues are projected to grow to \$11.4 million in FY2023.

The components of airline revenues, as well as the historical trends and projections for the various components are discussed below.

### Landing Fees

Landing Fee revenues consist of fees collected from Signatory and Non-Signatory Airlines based on the landed weight of each carrier's activity at the Airport. As explained previously, the airlines pay fees established to recover the Airfield net deficit, which equals total Airfield expenses minus non-airline revenue. Signatory Landing Fee revenue grew from \$3.7 million in FY2013 to \$3.9 million in FY2015 before decreasing to \$3.7 million in FY2017.

The Signatory Landing Fee Requirement to be recovered from the airlines is projected to increase from approximately \$3.9 million in the FY2018 Estimate. The Signatory Landing Fee Requirement is budgeted to increase to \$4.3 million in the FY2019. The Signatory Landing Fee Requirement is projected to increase to approximately \$4.9 million in FY2023, as shown in Table 17. Below is a brief description of the two main components of the Landing Fee Requirement:

- Total Airfield Costs are projected to increase from approximately \$5.0 million in the FY2018 Estimate to approximately \$5.3 million in the FY2019 Budget. Total Airfield Costs are projected to increase to approximately \$6.0 million in FY2023 due to projected increases in M&O Expenses.
- Total credits deducted from total Airfield Costs are projected to remain relatively flat during the forecast period at approximately \$1.1 million.

The projected signatory Landing Fee rate is calculated by dividing the projected annual Landing Fee Requirement by the projected annual signatory landed weight for each year of the forecast period. The total signatory landed weight was estimated at approximately 2.3 million thousand-pound units for FY2018, and it is projected to increase to approximately 2.5 million thousand-pound units in FY2023.

Based on the above calculations, Signatory Landing Fee revenue is projected to grow from approximately \$4.0 million in FY2018 to \$4.3 million in FY2019. Signatory Landing Fee revenue is projected to grow to \$4.9 million in FY2023. The Signatory Landing Fee rate is projected to increase from \$1.84 in FY2019 to \$2.00 in FY2023.

The Non-Signatory Landing Fee Rate is charged to the non-signatory carriers and it is calculated as 125% of the Signatory Landing Fee Rate. The Non-Signatory Landing Fees are credited to the Airfield costs to reduce the fee charged to the signatory carriers. The non-signatory landing fee rate is projected to increase from \$2.30 in FY2019 to \$2.50 in FY2023. The Non-Signatory Landing Fees are projected to increase from approximately \$347,000 in FY2019 to \$385,000 in FY2023.

Table 17 | Projected Landing Fee Rate

Landing Fee Rate	For Fiscal Years Ended August 31					
	2018	2019	2020	2021	2022	2023
M&O Expenses (Direct and Indirect)	\$ 4,940,127	\$ 5,200,120	\$ 5,344,728	\$ 5,494,060	\$ 5,648,294	\$ 5,807,617
M&O Reserve (Three Months of M&O)	-	-	36,152	37,333	38,559	39,831
Equipment and Capital Outlays	117,280	110,800	116,340	122,157	128,265	134,678
Total Airfield Costs	\$ 5,057,407	\$ 5,310,920	\$ 5,497,220	\$ 5,653,550	\$ 5,815,117	\$ 5,982,126
<u>Credit for Other Airfield Revenues:</u>						
Non-Signatory Landing Fees	\$ 385,820	\$ 346,661	\$ 357,834	\$ 366,587	\$ 375,811	\$ 385,279
Equipment Parking Rentals	32,000	34,500	34,768	35,051	35,293	35,576
Gate Use Fees	-	-	-	-	-	-
Air Cargo Apron Rentals	244,000	274,867	274,867	274,867	274,867	274,867
RON Fees	10,400	10,400	10,481	10,566	10,639	10,724
Fuel Flowage Fees	415,000	360,000	362,929	365,432	368,368	368,368
Total Airfield Credit	\$ 1,087,220	\$ 1,026,428	\$ 1,040,880	\$ 1,052,504	\$ 1,064,978	\$ 1,074,814
Landing Fee Requirement	\$ 3,970,187	\$ 4,284,492	\$ 4,456,341	\$ 4,601,046	\$ 4,750,139	\$ 4,907,312
Signatory Landed Weight (1,000 lb units)	2,281,649	2,327,723	2,358,233	2,390,069	2,419,316	2,451,814
Signatory Landing Fee Rate (per 1,000 lbs)	\$ 1.74	\$ 1.84	\$ 1.89	\$ 1.93	\$ 1.96	\$ 2.00
Non-Signatory Landing Fee Rate	\$ 2.18	\$ 2.30	\$ 2.36	\$ 2.41	\$ 2.45	\$ 2.50
Total Non-Signatory Landed Weight	149,398	150,670	151,489	152,343	153,125	153,996
Signatory Landing Fee Revenue	\$ 3,970,187	\$ 4,284,492	\$ 4,456,341	\$ 4,601,046	\$ 4,750,139	\$ 4,907,312
Non-Signatory Landing Fee Revenue	351,045	346,661	357,834	366,587	375,811	385,279
Total Landing Revenue	4,321,232	4,631,153	4,814,175	4,967,633	5,125,951	5,292,590

### Terminal Space Rentals

Signatory Space Rental revenue consists of rents collected from Signatory Airlines for space occupied in the Airport Terminal. As explained previously, the Signatory Airlines pay fees established to recover the Terminal Building Requirement, Terminal space rentals increased from approximately \$4.7 million in FY2013 to \$5.2 million in FY2017. Space rentals are projected to decrease from \$5.5 million in the FY2018 Estimate to \$5.3 million in the FY2019 Budget, mainly due to a decrease in airline rented space resulting from the construction of the Checked Baggage Inspection System (CBIS), which reduced the space available for airline rental. Space rentals are projected to increase to \$5.8 million in FY2023, primarily due to the projected increases in M&O Expenses, as described earlier in this section. The calculation of the Signatory Airline Terminal Rental Rate is presented on Table 18.

- Total Terminal Building Expenses are projected to increase from approximately \$14.5 million in FY2019 to approximately \$16.0 million in FY2023 mainly due to projected increases in M&O Expenses.
- The credits offsetting Terminal Building Expenses are projected to increase from approximately \$220,000 in FY2019 to \$240,000 in FY2023.

The Terminal Rental Rate is calculated by dividing the projected Net Terminal Requirement by the projected number of usable square feet. The Signatory Airline Terminal Rental Rate is projected to increase slightly from \$42.61 in FY2018 to \$42.68 in FY2019. The Signatory Airline Terminal Rental Rate is projected to continue to increase during the forecast period to \$47.12 in FY2023.

Table 18 | Projected Terminal Rental Rate

Terminal Rental Rate	For Fiscal Years Ended August 31					
	2018	2019	2020	2021	2022	2023
M&O Expenses (Direct and Indirect)	\$ 14,398,043	\$ 14,335,164	\$ 14,666,527	\$ 15,007,482	\$ 15,358,385	\$ 15,719,612
M&O Reserve (3 Months of M&O)	-	-	82,841	85,239	87,726	90,307
Equipment and Capital Outlays	163,754	138,040	144,942	152,189	159,799	167,788
Total Terminal Building Expenses	\$ 14,561,797	\$ 14,473,204	\$ 14,894,310	\$ 15,244,909	\$ 15,605,910	\$ 15,977,707
Less:						
Direct Electricity Charges	\$ 81,940	\$ 66,876	\$ 68,420	\$ 69,925	\$ 71,463	\$ 73,035
Passenger Security Screening Fees	153,000	153,000	156,366	159,806	163,322	166,915
Total Terminal Credits	\$ 234,940	\$ 219,876	\$ 224,786	\$ 229,731	\$ 234,785	\$ 239,950
Terminal Building Requirement	\$ 14,326,857	\$ 14,253,328	\$ 14,669,524	\$ 15,015,178	\$ 15,371,125	\$ 15,737,757
Usable Space (square feet)	336,264	333,992	333,992	333,992	333,992	333,992
Signatory Airline Terminal Rental Rate	\$ 42.61	\$ 42.68	\$ 43.92	\$ 44.96	\$ 46.02	\$ 47.12
Non-Signatory Rate (at 125 percent)	\$ 53.26	\$ 53.35	\$ 54.90	\$ 56.20	\$ 57.53	\$ 58.90
Airline Rented Space (square feet)	129,471	124,240	124,240	124,240	124,240	124,240
Airline Terminal Rental Revenue	\$ 5,516,759	\$ 5,302,563	\$ 5,456,842	\$ 5,585,420	\$ 5,717,827	\$ 5,854,209

#### Other Airline Revenues

Other airline revenues include passenger security screening fees, equipment parking rentals, RON fees, direct electricity charges, and loading bridge charges. Loading bridge charges were discontinued at the end of FY2016, when the airlines began maintaining the loading bridges and paying all operation and maintenance costs directly. Other Airline Revenues decreased from approximately \$304,000 in FY2013 to \$281,000 in FY2017. This category is projected to decrease slightly, to \$277,000 in the FY2018 Estimate and \$265,000 in the FY2019 Budget. Other Airline Revenues are projected to increase to approximately \$286,000 in FY2023, based on the following assumptions: passenger security screening fees are projected to grow by the same rate as passengers, since it is a per passenger charge; equipment parking rentals and RON Fees are projected to grow at the rate of landings; and direct electricity charges are projected to grow at the same rate as the utilities expenses, or 2.2 percent per year.

#### Non-Airline Revenues

Non-airline revenues consist of fuel flowage fees, terminal concession revenues, ground transportation revenues, aviation revenues, non-aviation revenues, and air cargo revenues. Non-airline revenues increased by an average of 1.3 percent per year, from \$26.3 million in FY2013 to \$27.4 million in FY2017. Non-airline revenues are projected to increase from \$28.0 million in the FY2018 Estimate to \$29.9 million in the FY2019 Budget. Non-airline revenues are projected to

increase to \$32.9 million in FY2023. The components of non-airline revenue, including historical trends and projected increases, are discussed in the paragraphs below.

#### Airfield Non-Airline Revenues

The non-airline revenues in the Airfield consist of fuel flowage Fees and miscellaneous airfield revenues. This revenue category decreased during the historical period, from approximately \$463,000 in FY2013 to \$387,000 in FY2017. Fuel flowage fees are estimated to increase to \$415,000 in FY2018 before decreasing to \$360,000 in the FY2019 Budget. Fuel flowage fees are projected to grow at the estimated rate of growth for airline operations during the forecast period. The fuel flowage fees are projected to increase to \$368,000 in FY2023.

#### Terminal Non-Airline Revenues

The non-airline revenues in the Terminal consist of concessions, advertising, other terminal space rentals, utility reimbursements and other terminal revenues. Terminal non-airline revenues increased by an average of 1.8 percent per year, from \$2.5 million in FY2013 to \$2.7 million in FY2017. Terminal non-airline revenues are projected to increase from \$2.5 million in the FY2018 Estimate to approximately \$2.7 million in the FY2019 Budget. Terminal non-airline revenues are projected to increase to \$3.0 million in FY2023. The components of non-airline revenues, as well as the historical trends and projected changes, are briefly described in the following paragraphs.

The Department receives Concessions revenues from a number of concessions in the passenger terminal, including food and beverage concessions, gift shop and newsstand concessions, and La Placita, which is a retail store selling jewelry and other retail items. Food and beverage revenues grew by an average of 3.3 percent per year from FY2013 through FY2017. On a per-enplanement basis, food and beverage revenue ranged from \$0.54 in FY2013 to \$0.58 in FY2017. The FY2018 Estimate implies a rate of \$0.50 per enplanement and the FY2019 Budget implies a rate of \$0.53 per enplanement. Gift shop and newsstand revenues grew by approximately 2.7 percent per year from FY2013 to FY2017. On a per-enplanement basis, gift shop and newsstand revenues changed slightly from FY2013 through FY2017, ranging between \$0.40 and \$0.43. The FY 2018 Estimate and FY2019 Budget for gift shop and newsstand revenues implies per-enplanement amounts of \$0.36 and \$0.40, respectively. Revenues from the La Placita store declined from FY2013 through FY2017, and it is phasing out in FY 2018 and FY 2019 due to the termination of that lease Concession revenues are projected to grow based on the forecast growth rate in enplanements, plus an inflation factor to simulate future price increases. Food and beverage revenues are projected to grow from \$867,000 in FY2019 to \$1.0 million in FY2023. Gift shop and newsstand revenues are projected to grow from \$643,000 in FY2019 to \$754,000 in FY2023.

Advertising revenues increased by an average of 2.0 percent per year from \$221,000 in FY2013 to \$239,000 in FY2017. Advertising revenues are projected to grow at the rate of inflation to \$251,000 in FY2023.

Other terminal space rentals are fees paid by the TSA and concessionaires to lease space in the terminal. Other terminal space rentals increased from \$623,000 in FY2013 to approximately \$655,000 in FY2017. Terminal space rentals are projected to grow at the same rate as the terminal rental rate. These revenues are projected to increase to \$723,000 in FY2023.

Utility reimbursements decreased from \$242,000 in FY2013 to \$235,000 in FY2017, mirroring the general decrease in the Airport's utilities expenses resulting from cost savings initiatives implemented during the historical period, as discussed above in the section describing M&O Expenses. For the forecast period, utility expenses are projected to increase at the same rate as the projected increases in the Airport's utilities expenses. Utility reimbursements are projected to increase from \$225,000 in the FY2019 Budget to \$245,000 in FY2023.

Other terminal revenues decreased from \$11,000 in FY2013 to \$9,000 in FY2017 and this category is estimated at \$5,700 in FY2018. For the forecast period, this revenue category is projected to increase at the rate of inflation, to approximately \$6,100 in FY2023.

### Ground Transportation Revenues

Ground Transportation revenues include parking lot fees, car rental revenues (including car rental parking), ground rentals and other miscellaneous ground transportation revenues. Ground Transportation revenues grew by an average of 0.5 percent per year, from \$10.9 million in FY2013 to approximately \$11.2 million in FY2017. Ground Transportation revenues are budgeted to increase from \$11.2 million in FY2018 to \$12.8 million in FY2019. The increase is from increased parking rates, as discussed below. Ground Transportation revenues are projected to increase \$14.2 million in FY2023, based on the factors discussed in the paragraphs below.

Parking lot fees decreased from approximately \$6.2 million in FY2013 to \$5.6 million in FY2014, mainly due to the reduced supply of short-term parking spaces during the construction of the ConRAC. In FY2015, parking lot fees recovered to \$6.2 million in FY2016 and \$6.3 million in FY2017, mainly due to the effects of parking rate increases implemented in FY2014 and FY2015, and the completion of the ConRAC (which ended the disruptions to the short-term parking supply). Airport management plans to increase in the maximum daily rate for long-term parking from \$5.00 to \$7.00 in FY2019, which is anticipated to increase parking revenue by approximately \$1.6 million. For the remainder of the forecast period, parking lot fees are projected to increase to approximately \$8.4 million in FY2023, due to projected increases in parking demand corresponding to the forecast increase in enplanements.

Car rental revenues decreased by an average of 0.6 percent per year during the historical period, from approximately \$4.5 million in FY2013 to \$4.4 million in FY2017. Car rental revenues are estimated to remain relatively flat in FY2018 and FY2019. Car rental revenues are projected to grow at the same rate as enplanements plus inflation from FY2019 to FY2023. Car rental revenues are projected to increase from \$4.4 million in the FY2019 Budget to \$5.2 million in FY2023.

Ground rental revenues increased from \$210,000 in FY2013 to approximately \$500,000 in FY2017. The majority of the growth occurred in FY2017 when the revenues increased by 68.5 percent, due to the ground rent paid by the rental car companies for use of the ConRAC. Ground rental revenues are estimated to increase to \$548,000 in FY2018 before decreasing to \$440,000 in the FY2019 Budget. Ground rental revenues are projected to increase at the rate of inflation during the forecast period, to approximately \$480,000 in FY2023.

The majority of the other miscellaneous ground transportation revenues comes from transportation network companies and taxi and limousine fees. Other miscellaneous ground transportation revenues increased from approximately \$28,000 in FY2013 to \$49,000 in FY2017. This revenue category is projected to grow to approximately \$132,000 in FY2023.

### Aviation Revenues

Aviation revenues include building rentals, aircraft parking fees, T-Hangar rental fees, ground rentals, and other miscellaneous sources. Aviation revenues totaled \$1.7 million in FY2017. This revenue category is projected to increase in accordance with the forecast growth in aircraft operations, plus an inflation factor, to approximately \$1.8 million in FY2023.

### Non-Aviation Revenues

Non-aviation revenues include ground rentals, golf course fees, permit fees, pipeline easement fees, and other miscellaneous revenues. Ground rental revenues and golf course fees are the largest types of non-aviation revenues and are estimated to represent 69.0 and 18.4 percent, respectively, of Non-aviation revenues. Ground rental revenues include revenues from Butterfield Trail Industrial Park and the Southern Industrial Park. Golf course fees are generated by the Butterfield Trail Golf Club and the Lone Star Golf Club. Non-aviation revenues increased by an average of 1.8 percent per year from \$9.3 million in FY2013 to approximately \$10.0 million in FY2017, mainly due to additional ground rental revenues, as older leases in the industrial parks were replaced with new leases at higher market rates. In addition, beginning in FY2015, the Airport began receiving revenue from a new hotel lease, as well as higher rates on existing hotel leases. For the forecast period. Because the ground leases generally include CPI adjustments every five years, ground rental revenue is projected to grow at the rate of inflation during the forecast period. Total Non-aviation revenue is projected to increase to approximately \$11.9 million in FY2023.

### Air Cargo Revenues

Air cargo revenues include building rental revenue, aircraft parking fees and equipment fees. Air cargo revenues grew by an average of 2.0 percent per year during the historical period, from \$1.4 million in FY2013 to \$1.5 million in FY2017. For the forecast period, air cargo revenues are projected to grow at the forecast growth rate in air cargo operations, plus an annual inflation factor, to approximately \$1.6 million in FY2023.

### Key Financial Indicators

An important component of the financial feasibility report is an assessment of how the Series 2018 Bonds will affect the Airport's key financial variables. The following sub-sections discuss the following: (1) the application of Airport Revenues pursuant to the provisions of the Bond Resolution; (2) the Department's ability to meet the Rate Covenant contained in the Bond Resolution; and (3) the airline cost per enplaned passenger.

### Application of Revenues

Table 19 shows the forecast application of Gross Revenues pursuant to the provisions of the bond documents during the forecast period. Gross Revenues are applied in the order shown on Figure 44, shown earlier in this section. After meeting the required financial obligations, the Remaining Net

Revenue is projected to increase from approximately \$1.7 million to \$2.5 million during the forecast period.

Table 19 | Application of Gross Revenues

	For Fiscal Years Ended August 31					
	2018	2019	2020	2021	2022	2023
Total Gross Revenues	\$ 38,144,726	\$ 40,122,636	\$ 41,144,790	\$ 42,188,028	\$ 43,237,312	\$ 44,338,613
M&O Expenses	34,909,232	35,099,203	36,062,626	37,058,564	38,088,403	39,153,515
Deposit to M&O Reserve Account	-	-	118,993	122,571	126,284	130,138
Net Revenues	\$ 3,235,494	\$ 5,023,433	\$ 4,963,171	\$ 5,006,892	\$ 5,022,625	\$ 5,054,961
Debt Service						
Series 2011 Bonds	\$ 1,446,225	\$ 1,448,150	\$ 1,447,425	\$ 1,447,025	\$ 1,445,425	\$ 1,447,625
Series 2014 Bonds	2,876,004	2,877,686	2,879,090	2,969,986	2,972,677	2,970,902
Series 2018 Bonds	-	5,398,725	5,397,750	5,393,750	5,396,250	5,394,500
Total Debt Service	\$ 4,322,229	\$ 9,724,561	\$ 9,724,265	\$ 9,810,761	\$ 9,814,352	\$ 9,813,027
Less: CFCs applied	(2,876,004)	(2,877,686)	(2,879,090)	(2,969,986)	(2,972,677)	(2,970,902)
Less: PFCs applied	-	(4,269,312)	(4,268,541)	(4,265,378)	(4,267,355)	(4,265,971)
Debt Service net of PFCs and CFCs	\$ 1,446,225	\$ 2,577,562	\$ 2,576,634	\$ 2,575,398	\$ 2,574,321	\$ 2,576,154
Remaining Net Revenues	\$ 1,789,269	\$ 2,445,871	\$ 2,386,536	\$ 2,431,495	\$ 2,448,304	\$ 2,478,806

### Rate Covenant

The calculations of the Rate Covenant for GARBs contained in the Bond Resolution, shown on Table 20, reflect the projected debt service of the Series 2011 Bonds and the Series 2018 Bonds<sup>45</sup>. The City has covenanted to establish and collect fees and charges sufficient so that in each fiscal year, Airport Net Revenues, together with Other Available Funds, will be at least equal 125 percent of the current year debt service on the outstanding bonds. Net Revenues are defined in the Bond Resolution as Airport Revenues less M&O Expenses. Other Available Funds, as defined in the Bond Resolutions, include amounts on deposit in the Coverage Fund and the Capital Improvement Fund. However, Other Available Funds to be included in the rate covenant calculation cannot exceed 25 percent of the current year debt service.

The City plans to apply PFCs to pay the PFC eligible debt service for the Series 2018 Bonds (estimated at approximately 79 percent). The amount of debt service being paid with PFCs is excluded from the debt service Rate Covenant calculations. Debt Service coverage calculated according to the Rate Covenant is projected to equal at least 2.49 times debt during the forecast period.

<sup>45</sup> The Series 2014 Bonds are secured by the general revenues of the City, not the Revenues of the Airport. Therefore, the debt service on the Series 2014 Bonds is not included in the Rate Covenant for GARBs.

Table 20 | Rate Covenant

	For Fiscal Years Ended August 31					
	2018	2019	2020	2021	2022	2023
Gross Revenues	\$ 38,144,726	\$ 40,122,636	\$ 41,144,790	\$ 42,188,028	\$ 43,237,312	\$ 44,338,613
M&O Expenses	34,909,232	35,099,203	36,062,626	37,058,564	38,088,403	39,153,515
Deposits to M&O Reserve Account	-	-	118,993	122,571	126,284	130,138
Net Revenues	\$ 3,235,494	\$ 5,023,433	\$ 4,963,171	\$ 5,006,892	\$ 5,022,625	\$ 5,054,961
Other Available Funds	361,556	1,711,719	1,711,294	1,710,194	1,710,419	1,710,531
Net Revenues plus Other Available Funds	\$ 3,597,050	\$ 6,735,152	\$ 6,674,464	\$ 6,717,086	\$ 6,733,043	\$ 6,765,492
Debt Service on Airport Revenue Bonds						
Series 2011 Bonds	\$ 1,446,225	\$ 1,448,150	\$ 1,447,425	\$ 1,447,025	\$ 1,445,425	\$ 1,447,625
Series 2018 Bonds	-	5,398,725	5,397,750	5,393,750	5,396,250	5,394,500
Total Debt Service	\$ 1,446,225	\$ 6,846,875	\$ 6,845,175	\$ 6,840,775	\$ 6,841,675	\$ 6,842,125
Less: PFCs applied	-	(4,269,312)	(4,268,541)	(4,265,378)	(4,267,355)	(4,265,971)
Debt Service net of PFCs	\$ 1,446,225	\$ 2,577,563	\$ 2,576,634	\$ 2,575,398	\$ 2,574,321	\$ 2,576,154
Debt Service Coverage on GARBs	2.49	2.61	2.59	2.61	2.62	2.63

### PFC Cash Flow

The projected PFC cash flow is presented on Table 21. The projections assume the PFC collection level will remain at the current rate of \$4.50. PFC collections, net of the airline collection fee, are projected to increase from \$6.3 million in FY2018 to \$7.0 million in FY2023. As discussed above, the City plans to pay the eligible debt service with PFCs. In addition, the City is applying PFCs on a Pay-As-You-Go basis toward PFC eligible costs of the capital program. PFC uses are projected to increase from \$1.4 million in FY2018 to a high of \$4.8 million in FY2021 and FY2022.

Table 21 | Projected PFC Cash Flow

PFC Sources and Uses	For Fiscal Years Ending August 31					
	2018	2019	2020	2021	2022	2023
PFC Beginning Balance <sup>1</sup>	\$ 4,203,845	\$ 7,091,393	\$ 6,975,563	\$ 9,078,689	\$ 10,945,639	\$ 12,974,308
<b>PFC Sources</b>						
Enplanements	1,586,061	1,621,579	1,651,933	1,683,576	1,713,061	1,745,539
Eligible Enplanements <sup>2</sup>	90% 1,427,455	1,459,421	1,486,740	1,515,219	1,541,755	1,570,985
PFC Collections	\$4.50 \$ 6,423,549	\$ 6,567,396	\$ 6,690,330	\$ 6,818,483	\$ 6,937,898	\$ 7,069,432
Less: Airline Collection Fee	\$0.11 (157,020)	(160,536)	(163,541)	(166,674)	(169,593)	(172,808)
PFC Revenues	\$ 6,266,528	\$ 6,406,859	\$ 6,526,788	\$ 6,651,809	\$ 6,768,305	\$ 6,896,624
Interest Income <sup>3</sup>	0.50% 21,019	35,457	34,878	45,393	54,728	64,872
Total Sources	\$ 6,287,548	\$ 6,442,316	\$ 6,561,666	\$ 6,697,203	\$ 6,823,033	\$ 6,961,495
<b>PFC Uses</b>						
Pay-As-You-Go (PFC #6)	\$ (769,798)	\$ -	\$ -	\$ -	\$ -	\$ -
Pay-As-You-Go (PFC #7)	(2,630,202)	(2,288,834)	-	-	-	-
Series 2018 Debt Service (PFC #8)	-	(4,269,312)	(4,268,541)	(4,265,378)	(4,267,355)	(4,265,971)
Pay-As-You-Go (PFC #9)	-	-	(190,000)	(564,875)	(527,010)	-
Total Uses	\$ (3,400,000)	\$ (6,558,146)	\$ (4,458,541)	\$ (4,830,253)	\$ (4,794,365)	\$ (4,265,971)
PFC Ending Balance in PFC Fund	\$ 7,091,393	\$ 6,975,563	\$ 9,078,689	\$ 10,945,639	\$ 12,974,308	\$ 15,669,832

<sup>1</sup> Source: PFC Quarterly Report.

<sup>2</sup> Source: Airport's PFC Project Funding Report.

<sup>3</sup> Calculated assuming 0.2% average annual balance.

### Signatory Cost per Enplaned Passenger

An important component of the financial feasibility study report is an assessment of how the planned capital improvements and the related financings will affect airline rates and charges. Based on the financial projections discussed above, the signatory cost per enplaned passenger (CPE), presented on Table 22, is projected to increase from \$5.81 in FY2018 to \$5.96 in FY2023. The projected increases in the CPE are mainly due to the projected increased M&O expenses during the forecast period. This CPE appears reasonable when compared to other small hub airports, based on CPE data compiled for FY2016 (most recent data available) for comparative airports. The CPE for small hub airports ranges from \$1.71 to \$19.24 with an average CPE of \$7.87.

Table 22 | Projected Signatory Cost per Enplaned Passenger

Signatory Cost per Enplaned Passenger	For Fiscal Years Ended August 31					
	2018	2019	2020	2021	2022	2023
Signatory Passenger Airline Landing Fees	\$ 3,137,590	\$ 3,403,765	\$ 3,552,140	\$ 3,679,920	\$ 3,810,661	\$ 3,949,612
Airline Terminal Rental Revenue	5,516,759	5,302,563	5,456,842	5,585,420	5,717,827	5,854,209
Electricity Charges	81,940	66,876	68,420	69,925	71,463	73,035
Passenger Security Screening Fees	153,000	145,002	148,744	151,951	155,545	158,741
Equipment Parking Rentals	32,000	34,500	34,768	35,051	35,293	35,576
RON Fees	10,400	10,400	10,481	10,566	10,639	10,724
<b>Total Signatory Airline Revenue</b>	<b>\$ 8,931,689</b>	<b>\$ 8,963,106</b>	<b>\$ 9,271,396</b>	<b>\$ 9,532,834</b>	<b>\$ 9,801,428</b>	<b>\$ 10,081,899</b>
Signatory Enplaned Passengers	1,536,813	1,571,411	1,600,826	1,631,490	1,660,063	1,691,536
<b>Signatory Cost per Enplaned Passenger</b>	<b>\$ 5.81</b>	<b>\$ 5.70</b>	<b>\$ 5.79</b>	<b>\$ 5.84</b>	<b>\$ 5.90</b>	<b>\$ 5.96</b>

**APPENDIX D**

SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE

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## APPENDIX D

### SUMMARY OF CERTAIN PROVISIONS OF THE BOND ORDINANCE

The following constitutes a summary of certain portions of the Bond Ordinance. This summary should be qualified by reference to other provisions of the Bond Ordinance referred to elsewhere in this Official Statement, and all references and summaries pertaining to the Bond Ordinance in this Official Statement are separately and in whole, qualified by the exact terms of the Bond Ordinance, a copy of which may be obtained from the City.

#### ARTICLE I

##### DEFINITIONS AND OTHER PRELIMINARY MATTERS

###### Section 1.01 Definitions

“Act” means, collectively, Chapter 1503, Texas Government Code, as amended, and Chapter 22, Texas Transportation Code, as amended.

“Additional Parity Bonds” means the additional parity revenue bonds permitted to be issued by the City pursuant to Section 6.01 [of the Ordinance].

“Airport” means (i) El Paso International Airport and all additions, extensions, replacements, and improvements thereto, and (ii) any future airport or aviation facilities, or any interest therein, from time to time hereafter owned, operated or controlled in whole or in part by the City and determined by the City to be a part of the Airport.

“Airport Consultant” means a nationally recognized independent firm, person or corporation having a widely known and favorable reputation for special skill, knowledge and experience in methods of development, operation and financing of airports of approximately the same size as the properties constituting the Airport.

“Airport Obligations” means the Parity Bonds and the Subordinate Obligations.

“Bond” means any of the Bonds.

“Bonds” means the City of El Paso, Texas, Airport Revenue Bonds, Series 2018 (El Paso International Airport), authorized by the Ordinance.

“Business Day” means a day that is not a Saturday, Sunday, legal holiday or other day on which banking institutions in the City where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located in the State of Texas are generally authorized or obligated by law or executive order to close.

“Capital Improvement Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“City” means the City of El Paso, Texas, and, where appropriate, the City Council thereof, or any successor thereto as owner and operator of the Airport.

“City Council” means the governing body of the City of El Paso, Texas.

“Closing Date” means the date of the initial delivery of and payment for the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, including the regulations and published rulings thereunder.

“Completion Bonds” means each series of Parity Bonds permitted to be issued by the City pursuant to Section 6.02 [of the Ordinance].

“Construction Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Debt Service Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Debt Service Requirements” means for any particular period of time, an amount equal to the sum of the following for such period with respect to all or any portion of Parity Bonds then Outstanding:

(i) That portion of interest which would accrue during such period if interest were deemed to accrue only during the 6 month period prior to its payment (12 month period in the case of capital appreciation or compound interest bonds), plus

(ii) That portion of the principal amount of such Parity Bonds which would accrue during such period if principal were deemed to accrue only during the 12 month period prior to its scheduled payment date (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Parity Bond redemptions);

less and except any such interest or principal for the payment of which provision has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest or principal either from proceeds of bonds, from Airport funds other than Net Revenues, or from any combination of such sources (including any PFC Revenues) and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a dedicated fund or account, the proceeds of which are required to be transferred to the Debt Service Fund or directly to the paying agent for such Parity Bonds.

“Debt Service Reserve Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Debt Service Reserve Fund Requirement” means the amount required to be maintained in the Debt Service Reserve Fund. Such amount shall be computed and recomputed annually as a part of the City’s budget process and upon the issuance of each series of Parity Bonds to be the arithmetic average of the Debt Service Requirements (determined prior to deducting any amounts deposited to the PFC Debt Service Escrow Fund) scheduled to occur in the then current and each future Fiscal Year for all Parity Bonds then Outstanding including the series of Parity Bonds then being issued. In no event, however, will the amount deposited in the Debt Service Reserve Fund that is allocable to the Parity Bonds, in accordance with Section 1.148-6 of the regulations promulgated under the Code, exceed the least of (a) 10% of the stated principal amount of each issue of which such Parity Bonds are a part, (b) the maximum annual principal and interest requirements of such issue or (c) 125% of the average annual principal and interest requirements of such issue, unless there is received an opinion of nationally recognized bond counsel to the effect that such additional amount will not cause the Parity Bonds to be “arbitrage bonds” within the meaning of Section 148 of the Code and the regulations promulgated from time to time thereunder.

“Debt Service Reserve Fund Surety Bond” means any surety bond or insurance policy having an investment grade rating from at least two national rating agencies; in either case, such bond or policy issued to the City for the benefit of the Owners of the Parity Bonds to satisfy any part of the Debt Service Reserve Fund Requirement as provided in Section 5.07 [of the Ordinance].

“Designated Payment/Transfer Office” means (i) with respect to the initial Paying Agent/Registrar named herein, its designated office specified in the Pricing Certificate, or at such other location designated by the Paying Agent/Registrar, and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the City and such successor.

“Director of Aviation” means the City employee primarily responsible for overseeing all aspects of the management, development, operation and maintenance of the Airport, currently the Managing Director of Aviation and International Bridges; any successor Director of Aviation of the City; or any person or persons acting in such capacity on a permanent or interim basis, regardless of title.

“DTC” means The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” means the brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“El Paso International Airport” means the currently existing City owned and operated airport, consisting of approximately 6,800 acres of land, including but not limited to, Butterfield Trail Industrial Park, Butterfield Trail Aviation Park, El Paso International Airport Tracts and other lands, as well as the buildings, improvements and equipment located thereon which are owned by the City, consisting generally of the passenger terminal building, parking facilities and passenger loading and unloading areas, cargo terminal buildings, aircraft runways, ramps, aprons, taxiways, various hangars, storage facilities, miscellaneous buildings and rolling stock.

“Equipment and Capital Outlay Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Equipment and Capital Outlays” means those capital expenditures which are funded from the Equipment and Capital Outlay Fund and expensed in the year in which acquired for purposes of calculating airline rates and charges.

“Federal Payments” means those funds received by the City in connection with the Airport from the federal government or any agency thereof as payments for the use of any facilities or services of the Airport.

“Fiscal Year” means the City’s fiscal year as from time to time designated by the City, which is currently September 1 to August 31.

“General Obligation Airport Bonds” means those bonds or other obligations of the City secured by a levy of ad valorem taxes from time to time issued or to be issued by the City for Airport purposes.

“Gross Revenues” means all income and revenues derived directly or indirectly by the City from the ownership, operation and use of and otherwise pertaining to the Airport, or any part thereof, whether resulting from extensions, enlargements, repairs, betterments or other improvements to the Airport, or otherwise, and includes, except to the extent hereinafter expressly excluded, all revenues received by the City from the Airport, including, without limitation, all rentals, rates, fees and other charges for the use of the Airport, or for any service rendered by the City in the operation thereof, and interest and other income realized from the investment or deposit of amounts required to be transferred or credited to the Revenue Fund. Gross Revenues expressly exclude:

- (i) proceeds of any Airport Obligations;
- (ii) interest or other investment income derived from Airport Obligation proceeds deposited to the credit of a construction fund, and all other interest or investment income not required to be transferred or credited to the Revenue Fund pursuant to Section 5.19 [of the Ordinance];
- (iii) any monies received as grants, appropriations, or gifts, the use of which is limited by the grantor or donor to the construction or acquisition of Airport facilities, except to the extent any such monies shall be received as payments for the use of Airport facilities;
- (iv) revenues derived from any Special Facilities which are pledged to the payment of Special Facilities Bonds;
- (v) insurance proceeds other than loss of use or business interruption insurance proceeds;
- (vi) PFC Revenues and the receipts from any other per-passenger charge as may be hereafter lawfully authorized;
- (vii) sales and other taxes collected by the Airport on behalf of the State of Texas and any other taxing entities;
- (viii) Federal Payments received by the City in connection with the Airport to the extent that such payments, if included in Gross Revenues, would cause the interest on the Bonds to be includable within the gross income of the Owners thereof for federal income tax purposes;
- (ix) the proceeds received by the City from the sale or other disposition of all or part of the Airport property, except amounts representing interest or finance charges in a deferred sale or other similar method of conveyance where a portion of the sale price is payable on a deferred basis, in which case any interest or finance charges shall be considered Gross Revenues;
- (x) revenues that are derived from properties constituting a part of the Airport that are required to be deposited to the Restricted Land Sales Fund;
- (xi) Other Available Funds transferred to the Revenue Fund as provided herein; and;
- (xii) revenues that are derived from the imposition of a customer facility charge on each customer renting a motor vehicle from an on-airport vehicle rental concessionaire, the primary purpose of which is to fund the development, construction, maintenance and operation of a consolidated car rental facility.

“Initial Bond” means the Initial Bond authorized by Section 2.05(d) [of the Ordinance].

“Interest Payment Date” means the date or dates on which interest on the Bonds is scheduled to be paid until their respective dates of maturity or redemption, such dates being February 15 and August 15, commencing on the date specified in the Pricing Certificate.

“Issue Date” means the date designated as the Issue Date of the Bonds in the Pricing Certificate.

“Maintenance and Operating Expenses” means all reasonable and necessary current expenses of the City, paid or accrued, of operating, maintaining and repairing the Airport, including, without limitation, those reasonably allocated City overhead expenses relating to the protection, administration, maintenance and operation of the Airport; insurance and fidelity bond premiums; payments to pension and other funds and to any self-insurance fund; any general and excise taxes or other governmental charges imposed by entities other than the City, any required rebate of any portion of interest income to the federal government which is payable from Gross Revenues or the Revenue Fund; costs of contractual and professional services, labor, materials and supplies for current operations, including the costs of such direct City services rendered to the Airport as are requested from the City by the Airport and as are reasonably necessary for the operation of the Airport; costs of issuance of Airport Obligations for the Airport (except to the extent paid from the proceeds thereof); fiduciary costs; costs of collecting and refunding Gross Revenues; utility costs; any lawful refunds of any Gross Revenues; and all other administrative, general and commercial expenses, but excluding:

- (i) any allowance for depreciation;
- (ii) costs of capital improvements, including any liabilities incurred or accrued in connection therewith;
- (iii) reserves for major capital improvements, Airport operations, maintenance or repair,
- (iv) any allowance for redemption of, or payment of interest or premium on, Airport Obligations;
- (v) expenses of lessees under Special Facilities Leases and maintenance and operating expenses pertaining to Special Facilities to the extent they are required to be paid by such lessees pursuant to the terms of the Special Facilities Leases;
- (vi) any charges or obligations incurred in connection with any lawful Airport purpose, including the lease, acquisition, operation or maintenance of any facility or property benefitting the Airport, provided that the payment of such charges or obligations is expressly agreed by the payee to be payable solely from proceeds of the Capital Improvement Fund;
- (vii) payment of liabilities based upon the City’s negligence or other grounds not based on contract; and
- (viii) so long as Federal Payments are excluded from Gross Revenues, an amount of expenses that would otherwise constitute Maintenance and Operating Expenses for such period equal to the Federal Payments for such period.

“Maintenance and Operating Reserve Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Maturity Date” means the date specified in the Pricing Certificate on which the principal of the Bonds is due and payable.

“MSRB” means the Municipal Securities Rulemaking Board.

“Net Revenues” means that portion of the Gross Revenues remaining after the deduction of the Maintenance and Operating Expenses of the Airport.

“Ordinance” means the Ordinance adopted by the City Council which authorizes the issuance of the Bonds and all amendments thereof and supplements thereto.

“Other Available Funds” means any amount of unencumbered funds accumulated in the Operating Account of the Capital Improvement Fund which, prior to the beginning of any Fiscal Year, is designated by the City as Other Available Funds and are transferred at the beginning of such Fiscal Year to the Revenue Fund; but in no event may such amount exceed twenty-five percent (25%) of the Debt Service Requirements (determined prior to deducting any amounts deposited to the PFC Debt Service Escrow Fund) for the Parity Bonds for such Fiscal Year for purposes of Sections 5.03 and 6.01 [of the Ordinance].

“Outstanding” when used with reference to any Airport Obligations means, as of a particular date, all those obligations theretofore and thereupon delivered except: (a) any such obligation paid, discharged or canceled by or on behalf of the City at or before such date; (b) any such obligation defeased pursuant to the defeasance provisions of the ordinance authorizing its issuance,

or otherwise defeased as permitted by applicable law; and (c) any such obligation in lieu of or in substitution for which another obligation shall have been delivered pursuant to the ordinance authorizing the issuance of such obligation.

“Owner” or “Registered Owner,” when used with respect to any Parity Bond means the person or entity in whose name such Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Parity Bonds then Outstanding under the Ordinance.

“Parity Bonds” means the Series 2011 Bonds, the Bonds and each series of Additional Parity Bonds or Completion Bonds from time to time hereafter issued.

“Passenger Facility Charge” means the charge approved by Federal Aviation Administration, pursuant to Title 14, Code of Federal Regulations (CFR) 158, as amended, which is imposed on enplaned passengers at El Paso International Airport.

“Paying Agent/Registrar” means, for the Bonds, the banking association or other entity determined by the Pricing Officer in the Pricing Certificate to be the initial Paying Agent/Registrar, or any successor thereto or replacement therefor as provided in the Ordinance.

“PFC Act” or “PFC Regulations” means respectively 49 USC §40117, as amended, and Title 14, Code of Federal Regulations (CFR) Part 158, as amended.

“PFC Debt Service Escrow Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“PFC Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“PFC Revenues” means the Passenger Facility Charge receipts collected from enplaned passengers at El Paso International Airport, less any collection or service fee retained by the collecting airlines, which have been approved by the Federal Aviation Administration, pursuant to the PFC Regulations, which are remitted to the City, plus interest earnings thereon.

“PFC-approved Project Costs” means costs that are approved by the Federal Aviation Administration for PFC funding in accordance with the PFC Regulations.

“Pledged Funds” shall have the meaning given it in Section 5.01(d).

“Pricing Certificate” means the pricing certificate that sets forth the terms of the Bonds in accordance with Section 2.02 [of the Ordinance] and is executed by the Pricing Officer, all in accordance with the provisions of Chapter 1371.

“Pricing Officer” means each of the City Manager, the Chief Financial Officer of the City or the Director of Aviation, acting in such capacity severally and not jointly.

“Purchaser” means, with respect to the Bonds, the initial purchasers named in the Pricing Certificate.

“Record Date” means the last business day of the month preceding an Interest Payment Date.

“Register” means the books of registration kept by the Paying Agent/Registrar in which are maintained the names and addresses of and the principal amounts registered to each Owner.

“Renewal and Replacement Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Renewal and Replacement Fund Requirement” means the amount required to be maintained in the Renewal and Replacement Fund pursuant to Article V [of the Ordinance], or any greater amount required by any ordinance authorizing any series of additional Parity Bonds.

“Representation Letter” means the Blanket Letter of Representation among the City, the Paying Agent/Registrar and DTC.

“Restricted Land Sales Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Revenue Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Rule” means SEC Rule 15c2-12, as amended from time to time.

“SEC” means the United States Securities and Exchange Commission.

“Series 2011 Bonds” means the “City of El Paso, Texas, Airport Revenue Bonds, Series 2011 (El Paso International Airport),” dated June 1, 2011, originally issued in the principal amount of \$16,330,000.

“Special Facilities” means structures, hangars, terminals, cargo, aircraft overhaul, maintenance or repair shops, heliports, hotels, storage facilities, garages, in-flight kitchens, training facilities and any and all other facilities and appurtenances being a part of or related to the Airport, the cost of the construction or other acquisition of which is financed with the proceeds of Special Facilities Bonds.

“Special Facilities Bonds” means those bonds from time to time hereafter issued by the City pursuant to Section 6.04 [of the Ordinance].

“Special Facilities Lease” means any lease or agreement, howsoever denominated, pursuant to which a Special Facility is leased by the City to the lessee in consideration for which the lessee agrees to pay (i) all debt service on the Special Facilities Bonds issued to finance the Special Facility (which payments are pledged to secure the Special Facilities Bonds) and (ii) the maintenance and operating expenses of the Special Facility.

“Special Payment Date” means the date that is fifteen (15) days after the Special Record Date.

“Special Record Date” means the new record date for interest payment established in the event of a nonpayment of interest on a scheduled payment date, and for thirty (30) days thereafter as described in Section 2.04(e).

“Subordinate Debt Fund” means the fund so designated which is created and established pursuant to Article V [of the Ordinance].

“Subordinate Obligations” means each series of bonds, notes or other obligations, including reimbursement obligations, which the City has reserved the right to issue or incur from time to time pursuant to Section 6.03 [of the Ordinance] as Subordinate Obligations secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the lien on Net Revenues securing payment of the Parity Bonds.

“Unclaimed Payments” means money deposited with the Paying Agent/Registrar for the payment of principal, redemption premium, if any, or interest on the Bonds as the same become due and payable or money set aside for the payment of the Bonds called for redemption, if any, prior to maturity and remaining unclaimed by the Owners of such Bonds for 90 days after the applicable payment or redemption date.

\* \* \*

## ARTICLE V

### SECURITY AND SOURCE OF PAYMENT FOR ALL PARITY BONDS

#### Section 5.01 Pledge and Source of Payment

(a) The City hereby covenants and agrees that Gross Revenues shall be deposited and paid into the special funds hereinafter established, and shall be applied in the manner hereinafter set forth, in order to provide for the payment of all Maintenance and Operating Expenses of the Airport and to provide for the payment of all principal, interest and any redemption premiums on the Parity Bonds and all expenses of providing for their full and timely payment in accordance with their terms.

(b) The Parity Bonds shall constitute special obligations of the City that shall be payable from, and shall be equally and ratably secured by a first lien on, the Net Revenues.

(c) Such Net Revenues, together with certain proceeds of the Parity Bonds or other lawfully available funds of the City, shall, in the manner herein provided, be set aside for and pledged to the payment of the Parity Bonds in the Debt Service Fund and the Debt Service Reserve Fund as hereinafter provided.

(d) The City hereby grants a first lien on the Net Revenues and further grants a first lien on the Debt Service Fund, the Debt Service Reserve Fund, the PFC Debt Service Escrow Fund and the Capitalized Interest Account (collectively, the “Pledged

Funds”) to secure the payment of principal of, premium, if any, and interest on the Parity Bonds and all expenses of providing for their full and timely payment in accordance with their terms.

(e) All Parity Bonds shall be in all respects on a parity with and of equal dignity with one another.

(f) The owners of the Parity Bonds shall never have the right to demand payment of either the principal of, interest on or any redemption premium on the Parity Bonds out of any funds raised or to be raised by taxation.

(g) The City represents that, under Chapter 1208.002, Texas Government Code, a security interest in property, other than real property, that is created by the City is valid and effective according to the terms of the security agreement and is perfected from the time the security agreement is entered into or adopted continuously through the termination of the security interest, without physical delivery or transfer of control of the property, filing of a document, or another act. The City covenants that, if Chapter 1208.002 is amended at any time while the Bonds are outstanding and unpaid, the City shall take all actions required in order to preserve for the Owners of the Bonds a perfected security interest in the property in which such security interest is granted pursuant to Section 5.01 [of the Ordinance]

Section 5.02 Annual Budget

(a) So long as any Parity Bonds remain Outstanding, the Director of Aviation shall, prior to the commencement of each Fiscal Year, prepare and deliver to the City Council a recommended annual budget for the Airport for such Fiscal Year.

(b) The City Council shall adopt annual budgets for the Airport for each Fiscal Year, each of which shall contain an estimate of Gross Revenues and only such budgeted expenditures as will produce Net Revenues in an amount not less than the Net Revenues necessary to comply with the rate covenant in Section 5.03 below.

(c) After the adoption of the annual Airport budget by the City Council, the total expenditures for Maintenance and Operating Expenses may not exceed the total expenditures authorized for such purposes by such budget, as it may from time to time be amended.

Section 5.03 Rate Covenant

(a) The City covenants that it will at all times fix, charge, impose and collect rentals, rates, fees and other charges for the use of the Airport, and, unless prohibited by state or federal law, revise the same as may be necessary or appropriate, in order that in each Fiscal Year the Net Revenues will be at least sufficient to equal the larger of either:

(i) all amounts required to be deposited in such Fiscal Year to any Fund or Account required by the terms [of the Ordinance], or

(ii) an amount, together with Other Available Funds, not less than 125% of the Debt Service Requirements for the Parity Bonds for such Fiscal Year.

(b) If the Net Revenues in any Fiscal Year are less than the amounts specified above, the City, promptly upon receipt of the annual audit for such Fiscal Year, must request an Airport Consultant to make its recommendations, if any, as to a revision of the City’s rentals, rates, fees and other charges, its Maintenance and Operating Expenses or the method of operation of the Airport in order to satisfy as quickly as practicable the foregoing requirements.

(c) Copies of such request and the recommendations of the Airport Consultant shall be filed with the City Clerk.

(d) So long as the City substantially complies in a timely fashion with the recommendations of the Airport Consultant, the City will not be deemed to have defaulted in the performance of its duties under the Ordinance even if the resulting Net Revenues plus Other Available Funds are not sufficient to be in compliance with the covenant set forth above, so long as principal of and interest on Parity Bonds are paid when due; provided however, that this subsection (d) shall not apply if the City is required to satisfy the rate covenant contained in Section 5.03(a)(ii) and the amounts specified by Section 5.03(a)(ii) are less than 100% of the Debt Service Requirements for the Parity Bonds for such Fiscal Year.

Section 5.04 Special Funds

(a) The following special funds and accounts which have been established are hereby confirmed and shall be, maintained and accounted for as hereinafter provided so long as any of the Parity Bonds remain Outstanding. Such funds and accounts may also include any additional accounts or subaccounts as may from time to time be designated by the City, including

specifically rebate accounts or subaccounts for accumulating rebatable arbitrage payable to the federal government, so long as they are not inconsistent with the Ordinance: Airport Revenue Fund (“Revenue Fund”);

- (i) Airport Revenue Fund (“Revenue Fund”);
- (ii) Airport Parity Bond Debt Service Fund (“Debt Service Fund”);
- (iii) Airport Parity Bond Debt Service Reserve Fund (“Debt Service Reserve Fund”);
- (iv) Airport Subordinate Bond Debt Service Fund (“Subordinate Debt Fund”);
- (v) Airport General Obligation Bond Debt Fund (“General Obligation Debt Fund”);
- (vi) Airport Maintenance and Operating Reserve Fund (“Maintenance and Operating Reserve Fund”);
- (vii) Airport Renewal and Replacement Fund (“Renewal and Replacement Fund”);
- (viii) Airport Equipment and Capital Outlay Fund (“Equipment and Capital Outlay Fund”);
- (ix) Airport Capital Improvement Fund (“Capital Improvement Fund”), including the “Operating Account” and “PFC Account”;
- (x) Airport Construction Fund (“Construction Fund”), including the “Capitalized Interest Account” and the “Project Account”;
- (xi) Airport Restricted Land Sales Fund (“Restricted Land Sales Fund”);
- (xii) Airport Passenger Facility Charge Fund (“PFC Fund”); and
- (xiii) Airport Passenger Facility Charge Debt Service Escrow Fund (“PFC Debt Service Escrow Fund”).

(b) All Funds and Accounts established hereby shall be maintained as separate funds and accounts, respectively, on the books of the City and all amounts credited thereto shall be maintained in an official depository bank of the City.

(c) The Debt Service Fund, the Debt Service Reserve Fund, the PFC Debt Service Escrow Fund and the Capitalized Interest Account shall constitute trust funds which shall be held in trust for the owners of the Parity Bonds, and the proceeds of which (other than interest income thereon which may be transferred as herein provided) are pledged, as herein provided, to the payment of the Parity Bonds.

Section 5.05 Flow of Funds

- (a) Gross Revenues shall be deposited as received into the Revenue Fund.
- (b) Federal Payments not restricted for capital purposes, may be deposited by the City to the Revenue Fund, provided that, so long as such Federal Payments are excluded from the definition of Gross Revenues, such Federal Payments shall be applied solely to the payment of Maintenance and Operating Expenses or capital expenditures and never constitute Net Revenues.
- (c) Other Available Funds may also be deposited to the Revenue Fund.
- (d) Moneys from time to time credited to the Revenue Fund shall be applied as follows in the following order of priority:
  - (i) First, to provide for all payments of Maintenance and Operating Expenses required by the Ordinance and by any ordinance authorizing the issuance of additional Parity Bonds.
  - (ii) Second, to transfer all amounts to the Debt Service Fund required by the Ordinance and any ordinance authorizing the issuance of additional Parity Bonds.
  - (iii) Third, to transfer all amounts to the Debt Service Reserve Fund required by the Ordinance and any ordinance authorizing the issuance of additional Parity Bonds.

(iv) Fourth, to transfer all amounts necessary to provide for the payment of Subordinate Obligations, or to provide reserves for such payment, as may be required by any ordinance authorizing such Subordinate Obligations.

(v) Fifth, to transfer all amounts necessary to provide for the payment of principal of and interest on General Obligation Airport Bonds, as may be required by any ordinance authorizing such General Obligation Airport Bonds.

(vi) Sixth, to transfer all amounts to the Maintenance and Operating Reserve Fund required by the Ordinance and any other ordinance authorizing additional Parity Bonds.

(vii) Seventh, to transfer all amounts to the Renewal and Replacement Fund required by the Ordinance and any other ordinance authorizing Additional Parity Bonds or other Airport Obligations.

(viii) Eighth, to transfer all amounts to the Equipment and Capital Outlay Fund required by the Ordinance and any other ordinance authorizing Additional Parity Bonds or other Airport Obligations.

(ix) Ninth, the balance shall be transferred to the Capital Improvement Fund.

Section 5.06 Debt Service Fund

(a) On or before the last Business Day of each month so long as any Parity Bonds remain Outstanding, after making all required payments of Maintenance and Operating Expenses, there shall be transferred to the Debt Service Fund from the Revenue Fund the following amounts:

(i) Such amounts as shall be necessary so that the balance in the Debt Service Fund equals the Debt Service Requirements on all Parity Bonds accrued to the end of the next succeeding month; plus

(ii) An amount equal to all fees charged or incurred in connection with paying agent and registrar services incurred in connection with Parity Bonds.

(b) Moneys credited to the Debt Service Fund shall be used solely for the purpose of paying principal (at maturity or prior redemption or to purchase Parity Bonds issued as term bonds in the open market to be credited against mandatory redemption requirements), interest and redemption premiums on the Parity Bonds, plus all bank charges and other costs and expenses relating to such payment, including those described in clause (a)(ii) above.

(c) On or before each principal and/or interest payment date on the Parity Bonds, the City shall transfer from the Debt Service Fund to the appropriate paying agent/registrar or other obligee amounts equal to the principal, interest and redemption premiums payable on the Parity Bonds on such date.

Section 5.07 Debt Service Reserve Fund

(a) The City shall establish and maintain as hereinafter provided a balance in the Debt Service Reserve Fund equal to the Debt Service Reserve Fund Requirement for the Parity Bonds.

(b) Each increase in the Debt Service Reserve Fund Requirement resulting from the issuance of additional Parity Bonds shall be funded at the time of issuance and delivery of such series of additional Parity Bonds by depositing to the credit of the Debt Service Reserve Fund either (A) proceeds of such additional Parity Bonds or other lawfully appropriated funds in not less than the amount which will be sufficient to fund fully the Debt Service Reserve Fund Requirement or (B) a Debt Service Reserve Fund Surety Bond sufficient to provide such portion of the Debt Service Reserve Fund Requirement.

(c) The City further expressly reserves the right to substitute at any time a Debt Service Reserve Fund Surety Bond for any funded amounts in the Debt Service Reserve Fund and to apply the funds thereby released, to the greatest extent permitted by law, to any of the purposes for which the related Parity Bonds were issued or to pay debt service on the related Airport Obligations.

(d) The City shall not employ any Debt Service Reserve Fund Surety Bond unless (i) the Debt Service Reserve Fund Surety Bond does not impose upon the City a repayment obligation (in the event the Debt Service Reserve Fund Surety Bond is drawn upon) greater than can be funded in twelve (12) monthly installments as provided in subsection (e) below, payable out of Net Revenues on a parity with the monthly deposits that are otherwise required to be made to the Debt Service Reserve Fund, and

(ii) that any interest due in connection with such repayment obligation does not exceed the highest lawful rate of interest which may be paid by the City at the time of delivery of the Debt Service Reserve Fund Surety Bond.

(e) In any month in which the Debt Service Reserve Fund contains less than the Debt Service Reserve Fund Requirement for the Parity Bonds or in which the City is obligated to repay or reimburse any issuer of a Debt Service Reserve Fund Surety Bond (in the event such Debt Service Reserve Fund Surety Bond is drawn upon), then on or before the last Business Day of such month, after making all required transfers to the Debt Service Fund, there shall be transferred into the Debt Service Reserve Fund from the Revenue Fund, in approximately equal monthly installments, amounts sufficient to enable the City within a twelve (12) month period to reestablish in the Debt Service Reserve Fund the Debt Service Reserve Fund Requirement for the Parity Bonds and satisfy any repayment obligations to the issuer of any Debt Service Reserve Fund Surety Bond.

(f) After such amount has been accumulated in the Debt Service Reserve Fund and after satisfying any repayment obligation to any Debt Service Reserve Fund Surety Bond issuer and so long thereafter as such Fund contains such amount and all such repayment obligations have been satisfied, no further transfers shall be required to be made, and any excess amounts in such Fund shall be transferred to the Revenue Fund, however, if and whenever the balance in the Debt Service Reserve Fund is reduced below such amount or any Debt Service Reserve Fund Surety Bond repayment obligations arise, monthly transfers to such Fund shall be resumed and continued in such amounts as shall be required to restore the Debt Service Reserve Fund to such amount and to pay such reimbursement obligations within a twelve (12) month period.

(g) The Debt Service Reserve Fund shall be used to pay the principal of and interest on the Parity Bonds at any time when there is not sufficient money available in the Debt Service Fund for such purpose, and to make any payments required to satisfy repayment obligations to issuers of Debt Service Reserve Fund Surety Bonds, and may be used to make the final payments for the retirement or defeasance of Parity Bonds.

(h) Amounts in the Debt Service Reserve Fund in excess of the Debt Service Reserve Fund Requirement may be transferred to the other Funds created by the Ordinance in the order of priority established in Section 5.05.

Section 5.08      Funds and Accounts for Subordinate Obligations

On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund and the Debt Service Reserve Fund, there shall be transferred into such funds and accounts as shall be established for such purpose pursuant to the ordinances authorizing the issuance or incurrence of any Subordinate Obligations, such amounts as shall be required pursuant to such ordinances to provide for the payment, or to provide reserves for the payment, of the Subordinate Obligations, including all principal and interest and costs of paying same.

Section 5.09      General Obligation Airport Bonds

On or before the last Business Day of each month, so long as any General Obligation Airport Bonds remain Outstanding after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund and any of the aforesaid funds and accounts established by ordinances authorizing the issuance of Subordinate Obligations, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, such amounts as shall be necessary to provide for payment, when due, of principal of and interest on General Obligation Airport Bonds, as may be required by any ordinance authorizing such General Obligation Airport Bonds.

Section 5.10      Maintenance and Operating Reserve Fund

(a) As of July 31, 2018, the Maintenance and Operating Reserve Fund was funded in the amount of \$8,564,913 from lawfully available funds of the Airport. For Fiscal Year 2018, that amount represents, and the City shall budget and fund as hereinafter provided, the Maintenance and Operating Reserve Fund in an amount at least equal to three (3) months budgeted Maintenance and Operating Expenses.

(b) On or before the last Business Day of each month, after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, and any required transfers for Subordinate Obligations or any General Obligation Airport Bonds as hereinabove provided, there shall be transferred from the Revenue Fund, to the extent amounts are available therein, to the Maintenance and Operating Reserve Fund an amount equal to one-twelfth (1/12th) of the deficiency, if any, therein as of the last day of the previous Fiscal Year until the required balance therein is established or reestablished.

(c) Amounts from time to time credited to the Maintenance and Operating Reserve Fund may be used at any time first, to pay for any Maintenance and Operating Expenses for which amounts are not otherwise available in the Revenue Fund; second, to pay any costs or expenses payable from the Renewal and Replacement Fund for which there are insufficient amounts in the Renewal and Replacement Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund,

the Debt Service Reserve Fund or any similar fund created to provide for the payment, and reserves for the payment, of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Section 5.11      Renewal and Replacement Fund

(a)      The Renewal and Replacement Fund Requirement is \$1,000,000 which is currently 100% funded from lawfully available funds of the Airport. Periodically, the City shall reexamine and may, upon the recommendation of an Airport Consultant, adjust such Renewal and Replacement Fund Requirement annually as a part of the budget process.

(b)      On or before the last business day of each month, if the Renewal and Replacement Fund contains less than the Renewal and Replacement Fund Requirement, then after making all required transfers to the Debt Service Fund, the Debt Service Reserve Fund, and any required transfers for Subordinate Obligations or the General Obligation Airport Bonds as hereinabove provided, and to the Maintenance and Operating Reserve Fund, there shall be transferred from the Revenue Fund, to the extent funds are available therein, to the Renewal and Replacement Fund an amount equal to one-twelfth (1/12th) of the deficiency (being the amount by which the Renewal and Replacement Fund Requirement exceeded the unappropriated balance therein) as of the last day of the previous Fiscal Year and, at the discretion of the City, to pay directly from the Revenue Fund any other costs that could be paid from amounts on deposit in the Renewal and Replacement Fund. Such transfers shall be required to be made into the Renewal and Replacement Fund until such time as the Renewal and Replacement Fund Requirement has again been accumulated in the Renewal and Replacement Fund.

(c)      Amounts from time to time credited to the Renewal and Replacement Fund may be used at any time first, to pay for any costs of replacing depreciable property and equipment of the Airport and making repairs, replacements or renovations of the Airport; second, to pay any Maintenance and Operating Expenses for which insufficient amounts are available in the Maintenance and Operating Reserve Fund; and third, to the extent any amounts are remaining, to be transferred to the Debt Service Fund, the Debt Service Reserve Fund or any similar fund created to provide for the payment, and reserves for the payment, of Subordinate Obligations and General Obligation Airport Bonds to the extent of any deficiency therein.

Section 5.12      Equipment and Capital Outlay Fund

On or before the last Business Day of each month there shall be transferred from the Revenue Fund to the Equipment and Capital Outlay Fund the amount expected to be expended for Equipment and Capital Outlays for such month.

Section 5.13      Capital Improvement Fund

(a)      After making all payments and transfers hereinabove required, not less frequently than annually all amounts remaining in the Revenue Fund shall be transferred to the Capital Improvement Fund; provided, however, that no transfers shall be made to the Capital Improvement Fund unless all Funds created by the Ordinance contain the amounts then required to be on deposit therein. Unless otherwise provided by subsequent ordinance, all such amounts shall be credited to the Operating Account of the Capital Improvement Fund.

(b)      Amounts credited to the Capital Improvement Fund may be used only for lawful purposes relating to the Airport, including, without limitation, to pay for any capital expenditures or to pay costs of replacing any depreciable property or equipment of the Airport, to make any major or extraordinary repairs, replacements or renewals of the Airport, to acquire land or any interest therein, to pay costs necessary or incident to the closing or disposition of any facility of the Airport and, at the City's discretion, to be designated as Other Available Funds to be transferred to the Revenue Fund.

Section 5.14      Restricted Land Sales Fund

Amounts representing proceeds from the sale or other disposition of land, improvements or equipment constituting part of the Airport and revenues from such land, improvements or equipment which by the terms of any deed restrictions or agreements existing on the date [of the Ordinance] are required to be deposited to the Restricted Land Sales Fund shall be deposited thereto. Moneys deposited to such Fund may only be used in a manner consistent with the restrictions set forth in such deed restrictions or agreements.

Section 5.15      PFC Fund

PFC Revenues shall be deposited as received to the PFC Fund. In each Fiscal Year, there is hereby continuously appropriated and the City shall transfer monthly from the PFC Fund to the PFC Debt Service Escrow Fund PFC Revenues until there has been transferred during such Fiscal Year an amount equal to the principal and interest scheduled to come due during the ensuing Fiscal Year on the portion of the Bonds used to finance or refinance PFC-approved Project Costs. Any PFC Revenues not transferred pursuant to the provisions of this paragraph may be transferred, at the direction of the City, to the PFC Debt Service Escrow Fund or to the PFC Account in the Capital Improvement Fund to pay PFC-approved Project Costs.

Section 5.16      PFC Debt Service Escrow Fund

On or before the fifth day next preceding each Interest Payment Date, the City shall transfer from the PFC Debt Service Escrow Fund to the Debt Service Fund an amount equal to the principal and interest due on such Interest Payment Date determined by the City to be attributable to the portion of the Bonds used to finance or refinance PFC-approved Project Costs.

Section 5.17      Deficiencies in Funds or Accounts

If in any month there shall not be transferred into any Fund or Account maintained pursuant to Sections 5.06 through 5.13 of this Article the full amounts required herein, amounts equivalent to such deficiency shall be set apart and transferred to such Fund or Account from the first available and unallocated moneys in the Revenue Fund, and such transfer shall be in addition to the amounts otherwise required to be transferred to such Fund or Account during any succeeding month or months.

Section 5.18      Construction Fund

(a) From the proceeds of each series of Parity Bonds there shall be deposited into the Capitalized Interest Account established in the Construction Fund for such series the amount of capitalized interest, if any, required by the ordinance authorizing issuance of such series of Parity Bonds. Such amounts may be applied to pay interest on such series of Parity Bonds as provided in such ordinance.

(b) From the proceeds of each series of Parity Bonds there shall be deposited into the applicable Project Account established in the Construction Fund such amounts as shall be provided in the ordinance authorizing such series of Parity Bonds. Such amounts may be applied to pay costs of improving, enlarging, extending and repairing the Airport or any project to become part of the Airport, to reimburse advances made by the City for such costs, to pay costs of issuance of Parity Bonds and to pay any other capital costs of the Airport as provided in the ordinance authorizing such series of Parity Bonds.

(c) Following completion of each project for which Parity Bonds have been issued, any amounts remaining in the Construction Fund shall be transferred at the discretion of the City to either the Debt Service Fund or to the Capital Improvement Fund for projects permitted by Texas Law for the use of such amounts and by the Code to be financed with the proceeds of tax exempt bonds.

Section 5.19      Investment of Funds: Transfer of Investment Income

(a) Money in all Funds and Accounts shall, at the option of the City, be invested in the manner provided by Texas law and the Investment Policy of the City; provided, that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times.

(b) Money in such Funds and Accounts may be subject to further investment restrictions imposed from time to time by ordinances authorizing the issuance of Additional Parity Bonds and Subordinate Obligations.

(c) All such investments shall be valued no less frequently than once per Fiscal Year at market value, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount.

(d) For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other Funds or with other money of the City, in common investments or in a common pool of such investments maintained by the City at an official depository of the City or in any fund or investment vehicle permitted by Texas law and the Investment Policy of the City, which shall not be deemed to be a loss of the segregation of such money or Funds provided that safekeeping receipts, certificates of participation or other documents clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund.

(e) If and to the extent necessary, such investments or participations therein shall be promptly sold to prevent any default.

(f) All interest and income derived from deposits and investments credited to any of the following funds and accounts shall be applied as follows, except as provided in subsection (g) below:

<u>Source of Interest or Income</u>	<u>Fund or Account to which such Interest or Income should be Credited</u>
Revenue Fund	Remains in Revenue Fund
Debt Service Fund	Remains in Debt Service Fund
Debt Service Reserve Fund	Remains in the Debt Service Reserve Fund until the Debt Service Reserve Fund Requirement is satisfied; thereafter to the Revenue Fund
Maintenance and Operating Reserve Fund	Remains in the Maintenance and Operating Reserve Fund until fully funded; thereafter to the Revenue Fund
Renewal and Replacement Fund	Remains in the Renewal and Replacement Fund until Renewal and Replacement Fund Requirement is met; thereafter to the Revenue Fund
Capital Improvement Fund	Remains in the appropriate Account within the Capital Improvement Fund
Construction Fund	Remains in the appropriate Account within the Construction Fund
Equipment and Capital Outlay Fund	Revenue Fund
Restricted Land Sales Fund	Remains in the Restricted Land Sales Fund
PFC Fund	Remains in the PFC Fund
PFC Debt Service Escrow Fund	PFC Fund

(g) Notwithstanding anything to the contrary contained herein, any interest and income derived from deposits and investments of any amounts credited to any fund or account may be (i) transferred into any rebate account or subaccount and (ii) paid to the federal government if in the opinion of nationally recognized bond counsel such payment is required to comply with any covenant contained herein or required in order to prevent interest on any bonds payable from Net Revenues from being includable within the gross income of the Owners thereof for federal income tax purposes.

Section 5.20 Security for Uninvested Funds

So long as any Parity Bonds remain Outstanding, all uninvested moneys shall be secured as provided by Texas law.

ARTICLE VI

ADDITIONAL BONDS

Section 6.01 Additional Parity Bonds

The City reserves the right to issue, for any lawful Airport purpose, one or more installments of Additional Parity Bonds payable from and secured on a parity with the Bonds; provided, however, that no such Additional Parity Bonds shall be issued unless:

(a) No Default. The Mayor and the Director of Aviation certify that, upon the issuance of such Additional Parity Bonds, the City will not be in default under any term or provision of any Parity Bonds then Outstanding or any ordinance pursuant to which any of such Parity Bonds were issued.

(b) Proper Fund Balances. The City's Chief Financial Officer, or such other person appointed to act in such capacity, shall certify that, upon the issuance of such Additional Parity Bonds, the Debt Service Reserve Fund will contain the applicable Debt Service Reserve Fund Requirement or so much thereof as is required to be funded at such time.

(c) Projected Coverage for Additional Parity Bonds. An Airport Consultant provides a written report setting forth projections which indicate that the estimated Net Revenues, together with the estimated Other Available Funds, of the Airport for each of three (3) consecutive Fiscal Years beginning in the earlier of:

(i) the first Fiscal Year following the estimated date of completion and initial use of all revenue producing facilities to be financed with Additional Parity Bonds, based upon a certified written estimated completion date by the consulting engineer for such facility or facilities, or

(ii) the first Fiscal Year in which the City will have scheduled payments of interest on or principal of the Additional Parity Bonds to be issued for the payment of which provision has not been made as indicated in the report of such Airport Consultant from proceeds of such Additional Parity Bonds, investment income thereon or from other appropriated sources (other than Net Revenues),

are equal to at least 125% of the Debt Service Requirements on all Parity Bonds scheduled to occur during each such respective Fiscal Year after taking into consideration the additional Debt Service Requirements for the Additional Parity Bonds to be issued.

(d) **Alternate Coverage for Additional Parity Bonds.** In lieu of the certification described in (c) above, the City's Chief Financial Officer or such other person appointed to act in such capacity may provide a certificate showing that, for either the City's most recent complete Fiscal Year or for any consecutive 12 out of the most recent 18 months, the Net Revenues, together with Other Available Funds, of the Airport were equal to at least 125% of the average annual Debt Service Requirements on all Parity Bonds scheduled to occur in the then current or any future Fiscal Year after taking into consideration the issuance of the Additional Parity Bonds proposed to be issued.

(e) **Refunding Bonds.** If Additional Parity Bonds are being issued for the purpose of refunding all or a portion of the previously issued Parity Bonds which are then Outstanding, neither of the certifications described in (c) or (d) above are required so long as the maximum annual Debt Service Requirements in any Fiscal Year after the issuance of such Additional Parity Bonds will not exceed the maximum annual Debt Service Requirements in any Fiscal Year prior to the issuance of Additional Parity Bonds and total debt service has been reduced.

(f) **Bond Ordinance Requirements.** Provision is made in the bond ordinance authorizing the Additional Parity Bonds proposed to be issued for (i) additional payments into the Debt Service Fund sufficient to provide for any principal and interest requirements resulting from the issuance of the Additional Parity Bonds including, in the event that interest on the additional series of Parity Bonds is capitalized and/or to be paid from investment earnings, a requirement for the transfer from the capitalized interest fund or account and/or from the construction fund to the Debt Service Fund of amounts fully sufficient to pay interest on such Additional Parity Bonds during the period specified in the ordinance, and (ii) satisfaction of the Debt Service Reserve Fund Requirement by not later than the date required by the Ordinance or any other ordinance authorizing Additional Parity Bonds.

(g) **Engineer's Certificate.** The City's Engineer or an independent engineer designated by the City shall certify that the estimated costs of the project to be financed with the Additional Parity Bonds are sufficient, along with other funds available and appropriated therefor to pay the costs necessary to complete the proposed project or projects.

#### Section 6.02 Completion Bonds

(a) In addition to the issuance of Additional Parity Bonds that meet the requirements of paragraphs (c) and (d) immediately above, the City reserves the right to issue one or more series of Completion Bonds in the principal amount not exceeding fifteen percent (15%) of the aggregate principal amount of Parity Bonds initially issued to finance a Project to pay the cost of completing any Project for which Parity Bonds have been issued.

(b) Prior to the issuance of any series of Completion Bonds the City must provide, in addition to all of the applicable certificates required by Section 6.01, excluding paragraphs (c) and (d) thereof, the following documents:

(i) a certificate of the consulting engineer engaged by the City to design the Project for which the Completion Bonds are to be issued stating that such Project has not materially changed in scope since the issuance of the most recent series of Parity Bonds for such purpose (except as permitted in the applicable ordinance authorizing such Parity Bonds) and setting forth the aggregate cost of the Project which, in the opinion of such consulting engineer, has been or will be incurred; and

(ii) a certificate of the Comptroller

(A) stating that all amounts allocated to pay costs of the Project from the proceeds of the most recent series of Parity Bonds issued in connection with the Project for which the Completion Bonds are being issued were used or are still available to be used to pay costs of such Project;

(B) containing a calculation of the amount by which the aggregate cost of that Project (furnished in the consulting engineer's certificate described above) exceeds the sum of the costs of the Project paid to such date plus the moneys available at such date within any construction fund or other like account

applicable to the Project plus any other moneys which the Comptroller has determined to be available to pay such costs in any other fund; and

(C) certifying that, in the opinion of the Comptroller, the issuance of the Completion Bonds is necessary to provide funds for the completion of the Project.

(c) For purposes of this Section, the term "Project" shall mean any other Airport facility or project which shall be defined as a Project in any ordinance authorizing the issuance of Additional Parity Bonds for the purpose of financing such Project.

(d) Any such ordinance may contain such further provisions as the City shall deem appropriate with regard to the use, completion, modification or abandonment of such Project.

#### Section 6.03 Subordinate Obligations

(a) The City reserves the right to issue or incur, for any lawful Airport purpose, bonds, notes or other obligations, including reimbursement obligations and obligations pursuant to credit agreements and interest rate hedges, secured in whole or in part by liens on the Net Revenues that are junior and subordinate to the liens on Net Revenues securing payment of the Parity Bonds.

(b) Although herein referred to as "Subordinate Obligations," such bonds, notes or other obligations may bear any name or designation provided by ordinance authorizing their issuance or incurrence.

(c) Such Subordinate Obligations may be further secured by any other source of payment lawfully available for such purposes.

(d) Unless expressly provided herein to the contrary, no default with respect to a Subordinate Obligation shall constitute a default hereunder.

#### Section 6.04 Special Facilities Bonds

(a) The City reserves the right to issue from time to time, in one or more series, Special Facilities Bonds as herein provided to finance and refinance the cost of any Special Facilities, including all reserves required therefor, all related costs of issuance and other amounts reasonably relating thereto, provided that such Special Facilities Bonds shall be payable solely from payments by lessees under Special Facilities Leases and/or other security not provided by the City.

(b) In no event shall Gross Revenues or any other amounts held in any other fund or account maintained by the City as security for the Parity Bonds or for the construction, operation, maintenance or repair of the Airport be pledged to the payment of Special Facilities Bonds.

(c) Unless expressly provided herein to the contrary, no default with respect to a Special Facilities Bond shall constitute a default hereunder.

#### Section 6.05 Credit Agreements

To the fullest extent permitted by applicable law and the investment policy of the City, the City expressly reserves the right to purchase and/or enter into, in connection with any Parity Bonds (including in connection with the Bonds) or Subordinate Obligations, credit agreements, insurance contracts, letters of credit, lines of credit, standby bond purchase agreements, loan agreements, purchase or sale agreements, interest rate swap agreements, interest rate caps, collars or other hedging agreements, provided that any reimbursement, repayment or payment obligation incurred by the City in connection therewith can only be secured by and payable from Net Revenues and the various funds and accounts established or referred to in the Ordinance to the extent permitted by the Ordinance and any of the City's other ordinances authorizing Parity Bonds and Subordinate Obligations.

### ARTICLE VII

#### COVENANTS AND PROVISIONS RELATING TO ALL PARITY BONDS

##### Section 7.01 Punctual Payment of Parity Bonds

The City covenants that it will punctually pay or cause to be paid the interest on and principal of all Parity Bonds according to the terms thereof and will faithfully do and perform, and at all times fully observe, any and all covenants, undertakings, stipulations and provisions contained in the Ordinance and in any other ordinance authorizing the issuance of such Parity Bonds.

Section 7.02      Maintenance of Airport

Except as provided in Section 7.04 [of the Ordinance], the City covenants that it will at all times maintain and operate the Airport, or within the limits of its authority cause the same to be maintained and operated, in good and serviceable condition.

Section 7.03      Limitation on City Charges for Maintenance and Operating Expenses

(a)      The City covenants that it will not charge the Airport any amounts for overhead expenses relating to the administration, maintenance and operation of the Airport except to the extent that such amounts are reasonably allocable to the Airport based upon a stated policy of allocation, reasonably applied to the Airport.

(b)      All such charges imposed by the City upon the Airport shall be consistent with all applicable federal laws, regulations and other requirements applicable to the Airport or imposed upon the Airport in connection with the acceptance by the Airport of any federal grants or aid.

Section 7.04      Sale or Encumbrance of Airport

(a)      Except for the use of the Airport or services pertaining thereto in the normal course of business, the City covenants that neither all nor a substantial part of the Airport shall be sold, leased, mortgaged, pledged, encumbered, alienated, or otherwise disposed of until all Parity Bonds have been paid in full, or unless provision has been made therefor, and the City shall not dispose of its title to the Airport or to any useful part thereof, including, without limitation, any property necessary to the operation and use of the Airport, except for the execution of leases, licenses, easements, or other agreements in connection with the operation of the Airport by the City, or in connection with any Special Facilities thereof, except for any pledges of and liens on revenues derived from the operation and use of the Airport, or any part thereof, or any Special Facilities pertaining thereto, for the payment of Parity Bonds, Special Facilities Bonds and any other obligations pertaining to the Airport, and except as otherwise provided in the next two paragraphs.

(b)      The City may sell, exchange, lease, or otherwise dispose of, or exclude from the Airport, any property constituting a part of the Airport which the Director of Aviation certifies (i) to be no longer useful in the construction or operation of the Airport, or (ii) to be no longer necessary for the efficient operation of the Airport, or (iii) to have been replaced by other property of at least equal value.

(c)      Except as provided in Section 5.14, the net proceeds of the sale or disposition of any Airport property (or the fair market value of any property so excluded) pursuant to this Section shall be used for the purpose of replacing properties at the Airport, shall be paid into the Capital Improvement Fund or the Restricted Land Sales Fund or shall be applied to retire or pay principal of or interest on Airport Obligations.

(d)      Nothing herein prevents any transfer of all or a substantial part of the Airport to another body corporate and politic (including, but not necessarily limited to a joint action agency or an airport authority) which assumes the City's obligations under the Ordinance and in any ordinance authorizing the issuance of Parity Bonds, wholly or in part, if, (i) in the written opinion of an Airport Consultant, the ability to meet the rate covenant and other covenants under the Ordinance and in any ordinance authorizing the issuance of Parity Bonds, are not materially and adversely affected, (ii) in the written opinion of nationally recognized bond counsel, such transfer and assumption will not cause the interest on any Outstanding Parity Bonds that were issued as "tax-exempt bonds" within the meaning of the regulations promulgated under the Code to be includable in gross income of the Owners thereof for federal income tax purposes, (iii) in the written opinion of counsel for the City, such transfer and assumption will not cause the reversion of any of the real property comprising a part of the Airport to the United States and (iv) either (y) the bond insurer, if any, consents to such transfer or (z) any nationally recognized statistical rating organization then rating the Bonds confirms that the underlying rating on the Bonds will not be adversely affected as a result of such transfer.

(e)      In such event, following such transfer and assumption, all references to the City, any City officials, City ordinances, City budgetary procedures and any other officials, actions, powers or characteristics of the City shall be deemed references to the transferee entity and comparable officials, actions, powers or characteristics of such entity.

(f)      In the event of any such transfer and assumption, nothing herein shall prevent the retention by the City of any facility of the Airport if, in the written opinion of an Airport Consultant, such retention will not materially and adversely affect nor unreasonably restrict the transferee entity's ability to comply with the requirements of the rate covenant and the other covenants of the Ordinance and in any ordinance authorizing the issuance of Parity Bonds.

Section 7.05      Acquisition or Assumptions of New Property

The City covenants and agrees that it will not acquire by purchase, gift, deed or otherwise any lands or properties to be or become part of the Airport which in the reasonable judgment of the Director of Aviation could materially and adversely affect

the financial operations of the Airport or the ability of the City to comply with the other covenants [of the Ordinance], without first obtaining a written report of an Airport Consultant that the City's ability to maintain the rate covenant and the other covenants under the Ordinance and any ordinance authorizing the issuance of Parity Bonds, are not materially and adversely affected.

Section 7.06      Insurance

(a)      The City covenants and agrees that it will keep the Airport insured with insurers of good standing against risks, accidents or casualties against which and to the extent customarily insured against by political subdivisions of the State of Texas operating similar properties, to the extent that such insurance is available; provided, however, that if any such insurance is not commercially available or not available on more favorable economic terms, the City may elect to be self-insured in whole or in part against the risk or loss that would otherwise be covered by such insurance, in which case the City will establish reserves for such risk or loss in amounts the City and, except for liability coverage and motor vehicle property and liability coverage, an independent insurance consultant, determine to be appropriate.

(b)      All net proceeds of property or casualty insurance shall be applied to repair or replace the insured property that is damaged or destroyed or to make other capital improvements to the Airport or to redeem Airport Obligations.

(c)      Proceeds of business interruption insurance may be credited to the Revenue Fund.

Section 7.07      Accounts, Records, and Audits

(a)      The City covenants and agrees that it will maintain a proper and complete system of records and accounts pertaining to the Gross Revenues and the operation of the Airport in which full, true and proper entries will be made of all dealings, transactions, business and affairs which in any way affect or pertain to the Gross Revenues and the Airport.

(b)      The City shall, after the close of each of its Fiscal Years, cause an audit report of such records and accounts to be prepared by an independent certified public accountant or independent firm of certified public accountants, which may be part of an overall audit report of the City and/or other of its enterprise funds.

(c)      All expenses of obtaining such reports shall constitute Maintenance and Operating Expenses of the Airport.

Section 7.08      No Competing Facilities

The City covenants and agrees not to construct, operate or lease any airport, airport navigation or aircraft maintenance facilities or similar facilities, the use or occupation of which would, in the opinion of an Airport Consultant, result in a reduction of Net Revenues below the minimum required to be maintained by Section 5.03.

Section 7.09      Covenants Regarding PFC Revenues

(a)      The City covenants that it will comply with the PFC Act, the PFC Regulations, including the assurances thereunder and the terms and conditions of the PFC approval. The City will not take any action or omit to take any action with respect to PFC Revenues, approved PFC projects, or otherwise if such action or omission would, pursuant to the PFC Regulations, cause the termination of the City's authority to impose PFCs or prevent the use of the PFC Revenue as contemplated hereunder.

(b)      The City covenants that it will not impose any noise restrictions which does not comply with the Airport Noise and Capacity Act of 1990, as amended (the "Noise Act"). In the case of a dispute with the FAA, the City will suspend any restriction until the legality of the restriction is determined and will withdraw any restriction if necessary to avoid a termination of the right to impose a Passenger Facility Charge.

(c)      The City covenants that it will impose the Passenger Facility Charge to the full extent authorized.

(d)      The City covenants that it will increase PFC Revenues by the appropriate amount up to fifteen (15%) percent as provided under Section 158.37(a) of the PFC Regulations, if needed and eligible to be used to pay the principal, redemption premiums, if any, or interest on any Bonds.

(e)      The City covenants that it will, pursuant to Section 158.37(b) of the PFC Regulations, seek an increase in total PFC Revenues beyond that which it may unilaterally implement, if needed and eligible to be used to pay the principal amount of redemption premium, if any, or interest on any outstanding Bonds.

(f)      The City covenants that it will take all action reasonably necessary to cause all collecting carriers to collect and remit to the City all PFC Revenues required by the PFC Regulations to be so collected and remitted to the City.

(g) In the event that the FAA begins proceedings to terminate the City's authority to impose a Passenger Facility Charge, pursuant to Section 158.85 of the PFC Regulations, through a notice of proposed termination in the Federal Register, the City will use its best efforts to avoid termination by (1) complying with FAA-prescribed corrective action contained in the notice; (2) contesting the FAA's proposed termination action; (3) reaching an accommodation with the FAA; or (4) any combination of the foregoing.

(h) Consistent with the definitions of Debt Service Requirements and Gross Revenues, the City acknowledges and agrees that debt service with respect to the Bonds paid from PFC Revenues is not included in the calculation of Debt Service Requirements. The City covenants and agrees, for the benefit of the Owners of the Bonds, that during each Fiscal Year the City will set aside from any passenger facility charges imposed by the City on enplaned passengers the lesser of (i) such passenger facility charges imposed and collected by the City or (ii) \$4.50 derived from each passenger facility charge so imposed and collected by the City for the payment of debt service on the Bonds in the following Fiscal Year, unless the City receives a report from an Airport Consultant showing that an alternative use of all or a portion of the passenger facility charges will not reduce the forecast coverage of Debt Service Requirements with respect to the Bonds by forecast Net Revenues during the following Fiscal Year (or such longer forecast period as may be covered in the Airport Consultant's Report) to less than 125%.

Section 7.10      Pledge and Encumbrance of Revenues

(a) The City covenants and represents that it has the lawful power to create a lien on and to pledge the Net Revenues to secure the payment of the Parity Bonds and has lawfully exercised such power under the Constitution and laws of the State of Texas.

(b) The City further covenants and represents that, other than to the payment of Maintenance and Operating Expenses and the Parity Bonds, the Gross Revenues are not and will not be made subject to any other lien, pledge or encumbrance to secure the payment of any debt or obligation of the City, unless such lien, pledge or encumbrance is junior and subordinate to the lien and pledge securing payment of the Parity Bonds.

Section 7.11      Contract with Bondholders

The Ordinance shall constitute a contract between the City and the Owners of the Parity Bonds from time to time outstanding and the Ordinance shall be and remain irrevocable until the Parity Bonds and the interest thereon shall be fully paid or discharged or provision therefor shall have been made as provided herein.

Section 7.12      Legal Holidays

In any case where the date of maturity of interest on or principal of the Parity Bonds or the date fixed for redemption of any Parity Bonds shall be a day on which a paying agent for the Parity Bonds is authorized by law to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day on which such paying agent is not authorized by law to close with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

ARTICLE VIII

DEFAULT AND REMEDIES

Section 8.01      Events of Default

(a) Each of the following occurrences or events for the purpose of the Ordinance is hereby declared to be an Event of Default:

(i) the failure to make payment of the principal of or interest on any of the Parity Bonds when the same becomes due and payable; or

(ii) default in the performance or observance of any other covenant, agreement or obligation of the City contained herein, which default materially and adversely affects the rights of the Owners, including, but not limited to, their prospect or ability to be repaid in accordance with the Ordinance, and the continuation thereof for a period of 60 days after written notice of such default is given by any Owner to the City.

(b) All notices provided to be given under this Section 8.01 shall be given by certified or registered mail, return receipt requested, postage fully prepaid, addressed to the proper party at the following addresses:

City Clerk  
City of El Paso  
300 North Campbell  
El Paso, Texas 79901

and

Director of Aviation  
El Paso International Airport  
6701 Convair Road  
El Paso, Texas 79925-1091

Section 8.02      Remedies for Default

(a)      Upon the happening of any Event of Default, any Owner or an authorized representative thereof, including, but not limited to, a trustee or trustees therefor, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Ordinance, by mandamus or other suit, action or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief permitted by law, including the specific performance of any covenant or agreement contained herein, or thereby to enjoin any act or thing that may be unlawful or in violation of any right of the Owners hereunder or any combination of such remedies.

(b)      It is provided that all such proceedings shall be instituted and maintained for the equal benefit of all Owners of Parity Bonds then outstanding.

Section 8.03      Remedies Not Exclusive

(a)      No remedy herein conferred or reserved is intended to be exclusive of any other available remedy or remedies, but each and every such remedy shall be cumulative and shall be in addition to every other remedy given hereunder or under the Parity Bonds or now or hereafter existing at law or in equity, provided, however, that notwithstanding any other provision [of the Ordinance], the right to accelerate the debt evidenced by the Parity Bonds shall not be available as a remedy under the Ordinance.

(b)      The exercise of any remedy herein conferred or reserved shall not be deemed a waiver of any other available remedy.

(c)      By accepting the delivery of a Parity Bond authorized under the Ordinance, such Owner agrees that the certifications required to effectuate any covenants or representations contained in the Ordinance do not and shall never constitute or give rise to a personal or pecuniary liability or charge against the officers or employees of the City or members of the City Council.

\*           \*           \*

ARTICLE XI  
ALTERATION OF RIGHTS AND DUTIES;  
AMENDMENT OF ORDINANCE

Section 11.01      Alteration of Rights and Duties

The rights, duties, and obligations of the City and the Owners of the Parity Bonds are subject in all respects to all applicable federal and state laws including, without limitation, the provisions of federal law regarding the composition of indebtedness of political subdivisions, as the same now exist or may hereafter be amended.

Section 11.02      Amendment of Ordinance Without Consent

The City may, without the consent of or notice to any of the Owners of the Parity Bonds, amend the Ordinance for any one or more of the following purposes:

(a)      to cure any ambiguity, defect, omission or inconsistent provision in the Ordinance or in the Parity Bonds; or to comply with any applicable provision of law or regulation of Federal agencies; provided, however, that such action shall not adversely affect the interests of the Owners of the Parity Bonds;

(b) to change the terms or provisions [of the Ordinance] to the extent necessary to prevent the interest on the Parity Bonds from being includable within the gross income of the Owners thereof for federal income tax purposes or to conform to the requirements of federal securities law or other applicable law;

(c) to grant to or confer upon the Owners of the Parity Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Parity Bonds;

(d) to add to the covenants and agreements of the City contained in the Ordinance other covenants and agreements of, or conditions or restrictions upon, the City or to surrender or eliminate any right or power reserved to or conferred upon the City in the Ordinance;

(e) to amend any provisions [of the Ordinance] relating to the issuance of Subordinate Obligations, or the incurrence of and security for reimbursement obligations so long as to do so does not cause any reduction in any rating assigned to the Parity Bonds by any major municipal securities evaluation service then rating the Parity Bonds;

(f) to subject to the lien and pledge [of the Ordinance] additional Net Revenues which may include revenues, properties or other collateral;

(g) to amend the undertaking contained in Article XIV to the extent permitted therein; and

(h) to authorize the issuance of Airport Obligations and to prescribe the terms, forms and details thereof not inconsistent with the Ordinance and, in connection therewith, to create such additional funds and accounts, and to effect such amendments [of the Ordinance] as may be necessary for such issuance, provided that no such additional supplemental ordinance shall be inconsistent with the limitations set forth in Section 11.03.

#### Section 11.03 Amendments of Ordinance Requiring Consent

The City may at any time adopt one or more ordinances amending, modifying, adding to or eliminating any of the provisions [of the Ordinance] but, if such amendment is not of the character described in Section 11.02 [of the Ordinance], only with the consent given in accordance with Section 11.04 [of the Ordinance] of the Owner or Owners of not less than 66-2/3% of the aggregate unpaid principal amount of the Parity Bonds then Outstanding and affected by such amendment, modification, addition, or elimination; provided, however, that nothing in this Section shall permit (a) an extension of the maturity of the principal of or interest on any Parity Bond issued hereunder, or (b) a reduction in the principal amount of any Parity Bond or the rate of interest on any Parity Bond, or (c) a privilege or priority of any Parity Bond or Parity Bonds over any other Parity Bond or Parity Bonds, or (d) a reduction in the percentage of aggregate principal amount of the Parity Bonds required for consent to such amendment without the consent of the Owner of each such Parity Bond effected thereby.

#### Section 11.04 Consent of Owners

(a) Any consent required by Section 11.03 [of the Ordinance] by any Owner shall be in writing, may be in any number of concurrent writings of similar tenor, and may be signed by such Owner or his duly authorized attorney.

(b) Proof of the execution of any such consent or of the writing appointing any such attorney and of the ownership of Parity Bonds, if made in the following manner, shall be sufficient for any of the purposes [of the Ordinance], and shall be conclusive in favor of the City with regard to any action taken, suffered or omitted to be taken by the City under such instrument, namely:

(i) The fact and date of the execution by any person of any such writing may be proved by the certificate of any officer in any jurisdiction who by law has power to take acknowledgments within such jurisdiction that the person signing such writing acknowledged before him the execution thereof, or by affidavit of any witness to such execution.

(ii) The fact of the ownership by any person of any Parity Bond and the date of the ownership of same may be proved by a certificate executed by an appropriate officer of the Paying Agent/Registrar, stating that at the date thereof such Parity Bond was registered in the name of such party in the Register.

(c) In lieu of the foregoing the City may accept such other proofs of the foregoing as it shall deem appropriate.

(d) Consents required pursuant to Section 11.03 shall be valid only if given following the giving of notice by or on behalf of the City requesting such consent and setting forth the substance of the amendment [of the Ordinance] in respect of which such consent is sought and stating that copies thereof are available at the office of the City Clerk for inspection.

(e) Such notice shall be given by certified mail to each Registered Owner of the Parity Bonds affected at the address shown on the Register.

Section 11.05      Revocation of Consent

(a) Any consent by any Owner of a Parity Bond pursuant to the provisions of this Article shall be irrevocable for a period of eighteen (18) months from the date of mailing of the notice provided for in this Article, and shall be conclusive and binding upon all future Owners of the same Parity Bond and any Parity Bond delivered on transfer thereof or in exchange for or replacement thereof during such period.

(b) Such consent may be revoked at any time after eighteen (18) months from the date of the first mailing of such notice by the Owner who gave such consent or by a successor in title, by filing notice thereof with the Paying Agent/Registrar, but such revocation shall not be effective if the Owners of a majority in aggregate principal amount of the Parity Bonds Outstanding as in the Ordinance defined have, prior to the attempted revocation, consented to and approved the amendment.

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**APPENDIX E**

FORM OF BOND COUNSEL'S OPINION

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[Closing Date]

Norton Rose Fulbright US LLP  
2200 Ross Avenue, Suite 3600  
Dallas, Texas 75201-7932  
United States

Tel +1 214 855 8000  
Fax +1 214 855 8200  
nortonrosefulbright.com

IN REGARD to the authorization and issuance of the “City of El Paso, Texas, Airport Revenue Bonds, Series 2018 (AMT) (El Paso International Airport)”, dated September 1, 2018, in the principal amount of \$41,475,000 (the “Bonds”), we have examined into their issuance by the City of El Paso, Texas (the “City”), solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and in denominations of \$5,000 or any integral multiple thereof (within a maturity). The Bonds mature on August 15 in each of the years specified in the pricing certificate (the “Pricing Certificate”) executed pursuant to an ordinance adopted by the City Council of the City authorizing the issuance of the Bonds (the “Ordinance” and, jointly with the Pricing Certificate, the “Bond Ordinance”), unless redeemed prior to maturity in accordance with the terms stated on the Bonds. The Bonds accrue interest from the dates, at the rates, and in the manner and interest is payable on the dates, all as provided in the Bond Ordinance.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings relating to the issuance of the Bonds, including the Bond Ordinance and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements and information contained in such documents and certifications.

BASED ON OUR EXAMINATIONS, IT IS OUR OPINION that, under the applicable laws of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been duly authorized by the City and, when issued in compliance with the provisions of the Bond Ordinance, are valid, legally binding and enforceable obligations of the City and, together with the other outstanding and unpaid Parity Bonds (identified and defined in the Ordinance), are payable solely from and equally and ratably secured by a lien on and pledge of the Net Revenues (as defined in the Ordinance) and certain special funds of the Airport (as defined in the Ordinance), except to the extent that the enforceability thereof may be

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Re: "City of El Paso, Texas, Airport Revenue Bonds, Series 2018 (AMT) (El Paso International Airport)"

affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with the general principles of equity.

2. Pursuant to section 103 of the Internal Revenue Code of 1986, as amended to the date hereof (the "Code"), and existing regulations, published rulings, and court decisions thereunder, and assuming continuing compliance after the date hereof by the City with the provisions of the Ordinance relating to sections 141 through 150 of the Code, interest on the Bonds for federal income tax purposes will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof, except with respect to any Bond for any period of time during which such Bond is held by a "substantial user" of any of the facilities financed with proceeds of the Bonds or by a "related person," within the meaning of section 147(a) of the Code. We call your attention to the fact that interest on the Bonds will be treated as an item of tax preference for purposes of computing the alternative minimum taxable income of owners of the Bonds which are individuals, trusts, estates, or for taxable years that began before January 1, 2018, corporations. Alternative minimum taxable income is the basis on which the alternative minimum tax imposed by section 55 of the Code will be computed. The alternative minimum tax on corporations has been repealed for taxable years beginning on or after January 1, 2018.

WE EXPRESS NO OPINION with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, owners of an interest in a FASIT, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

OUR OPINIONS ARE BASED on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.



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