M E M O R A N D U M

TO: Mayor and Council Members

CC: Marc A. Ott, City Manager

FROM: Larry Weis, General Manager, Austin Energy

DATE: April 9, 2012

SUBJECT: Fiscal Year 2013 Forecast Summary

Due to time constraints, Austin Energy did not have an opportunity to present its five year forecast as scheduled today. Therefore, I would like to offer the following summary points:

- The forecast included the full $127 million rate review increase currently before City Council, phased in over three increments, as follows:
  - $71 million commencing September 1, 2012
  - $31 million in FY2015 – Fund reserves and remainder of increase
  - $25 million in FY2016 – Industrial contracts expire

- Controllable costs are held constant at 2012 levels through 2013, and then escalate at 3.5% per year. AE has not added full time equivalents (FTEs) since 2009 and does not anticipate adding FTEs until 2015.

- The five year capital improvement plan totals $1.15 billion and is debt funded at 60% to 70% per year.

- Austin Energy's operations do not generate sufficient revenue to support its requirements until FY2015 when the second phase of the rate increase becomes effective and contract rates expire. Consequently, Austin Energy will draw on its reserves through FY2014, creating a $183 million reserve shortfall by that year end.

- Austin Energy will be in non-compliance with its financial policies regarding reserve fund balances and debt service coverage.

Please let me know if you have further questions.