JOINT SUBCOMMITTEE

RESOURCE MANAGEMENT COMMISSION, WATER & WASTEWATER COMMISSION, AND IMPACT FEE ADVISORY COMMITTEE

REFERENCE MATERIAL

AUSTIN WATER FINANCIAL PLANNING

FINANCIAL POLICIES- 2011/12

Austin WATER

CITY OF AUSTIN, TEXAS

FINANCIAL POLICIES

Prepared by
Financial and Administrative Services Department

Austin Energy Financial Policies

	Policy	Status
1.	The term of debt generally shall not exceed the useful life of the asset, and in no case shall the term exceed 30 years.	In compliance.
2.	Capitalized interest shall only be considered during the construction phase of a new facility if the construction period exceeds 7 years. The time frame for capitalizing interest may be 3 years but not more than 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	N/A
3.	Principal repayment delays shall be 1 to 3 years, but shall not exceed 5 years.	In compliance.
4.	Austin Energy shall maintain either bond insurance policies or surety bonds issued by highly rated ("AAA") bond insurance companies or a funded debt service reserve or a combination of both for its existing revenue bond issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.	In compliance.
5.	A debt service reserve fund shall not be required to be established or maintained for the Parity Electric System Obligations so long as the "Pledged Net Revenues" of the System remaining after deducting the amounts expended for the Annual Debt Service Requirements for Prior First Lien and Prior Subordinate Lien Obligations is equal to or exceeds one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations. If the "Pledged Net Revenues" do not equal or exceed one hundred fifty per cent (150%) of the Annual Debt Service Requirements of the Parity Electric Utility Obligations, then a debt service reserve fund shall be established and maintained in accordance with the Supplemental Ordinance for such Parity Electric System Obligations.	In compliance.
6.	Debt service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commmercial paper, and non-revenue obligations will be included at 1.0x.	Not in compliance. Debt service coverage (DSC) for the FY 2011-12 Budget is 1.56x. Planned rate increase will improve DSC.
7.	Short-term debt, including commercial paper, shall be used when authorized for interim financing of capital projects and fuel and materials inventories. The term of short-term debt will not exceed 5 years. Both Tax Exempt and Taxable commercial paper may be issued in order to comply with the Internal Revenue Service Rules and Regulations applicable to Austin Energy. Total short-term debt shall generally not exceed 20% of outstanding long-term debt.	In compliance.
8.	Commercial paper may be used to finance capital improvements required for normal business operation for Electric System additions, extensions, and improvements or improvements to comply with local, state and federal mandates or regulations. However, this shall not apply to new nuclear generation units or conventional coal generation units.	In compliance.

Commercial paper will be converted to refunding bonds when dictated by economic and business conditions. Both Tax-Exempt and Taxable refunding bonds may be issued in order to comply with the Internal Revenue Service Rules and Regulations applicable to Austin Energy.

Commercial paper may be used to finance voter approved revenue bond projects before the commercial paper is converted to refunding bonds.

9.	Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.	In compliance.
10.	Austin Energy shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). The source of this information should be the Comprehensive Annual Financial Report.	In compliance.
11.	Austin Energy shall maintain operating cash equivalent to 45 days of budgeted operations and maintenance expense, less fuel.	In compliance.
12.	Net Revenue generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements such as working capital.	In compliance.
13.	The General Fund transfer shall not exceed 12% of Austin Energy three-year average revenues, calculated using the current year estimate and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.	In compliance.
14.	Capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio between 35% and 60% is desirable.	In compliance.
15.	A Repair and Replacement Fund shall be created and established. Moneys on deposit in the Repair and Replacement Fund shall be used for providing extensions, additions, replacements and improvements to the Electric System. Net revenues available after meeting the General Fund Transfer, capital investment (equity contributions from current revenues) and 45 days of working capital may be deposited in the Repair and Replacement Fund. The targeted balance shall not exceed 50% of the previous year's electric utility depreciation expense, which is at a level necessary to keep the electric system in good operating condition or to prevent a loss of revenues.	In compliance.
16.	A Strategic Reserve Fund shall be created and established, replacing the Debt Management Fund. It will have three components:	In compliance.

- An Emergency Reserve with a minimum of 60 days of non-power supply operating requirments.
- Up to a maximum of 60 days additional non-power supply operating requirements set aside as a Contingency Reserve.
- Any additional funds over the maximum 120 days of non-power supply operating requirements may be set aside in a Competitive Reserve.

The Emergency Reserve shall only be used as a last resort to provide funding in the event of an unanticipated or unforeseen extraordinary need of an emergency nature, such as costs related to a natural disaster, emergency or unexpected costs created by Federal or State legislation. The Emergency Reserve shall be used only after the Contingency Reserve has been exhausted.

The Contingency Reserve shall be used for unanticipated or unforeseen events that reduce revenue or increase obligations such as extended unplanned plant outages, insurance deductibles, unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in fuel costs or purchased power which stabilizes fuel rates for Austin Energy customers.

In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted amount within two (2) years.

A Rate Stabilization Reserve shall be created and established, replacing the Competitive Reserve in FY 2011-12, for the purpose of stabilizing electric utility rates in future periods. The Rate Stabilization Reserve may provide funding for: (1) deferring or minimizing future rate increases, (2) new generation capacity construction and acquisition costs and (3) balancing of annual power supply costs (net power supply/energy settlement cost). The balance shall not exceed 90 days of net power supply costs.

Funding may be provided from net revenue available after meeting the General Fund Transfer, capital investment (equity contributions from current revenue), Repair and Replacement Fund, and 45 days of working capital.

17. Electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to support (1) the full cost (direct and indirect) of operations including depreciation, (2) debt service, (3) General Fund transfer, (4) equity funding of capital investments, (5) requisite deposits of all reserve accounts, (6) sufficient annual debt service requirements of the Parity Electric Utility Obligations and other bond covenant requirements, if applicable, and (7) any other current obligations. In addition, Austin Energy may recommend to Council in the approved budget directing excess net revenues for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies and other Austin Energy requirements such as working capital. In addition to these requirements, electric rates shall be designed to generate sufficient revenue, after consideration of interest income and miscellaneous revenue, to ensure a minimum debt service coverage of 2.0x on electric utility revenue bonds. A rate adequacy review shall be completed every five years, at a minimum, through performing a cost of service study.	In compliance. A rate review is currently underway with a rate increase anticipated in the second quarter of FY 2011-12. A cost of service study is being performed for this rate review.
18. A decommissioning trust shall be established external to the City to hold the proceeds for moneys collected for the purpose of decommissioning the South Texas Nuclear Project. An external investment manager may be hired to administer the trust investments.	In compliance.
19. The master ordinance of the Parity Electric System Obligations does not require a debt service reserve fund. Austin Energy will maintain a minimum of unrestricted cash on hand equal to six months debt service for the then outstanding Parity Electric System Obligations.	In compliance.

20. Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.	In compliance.
21. A Non-Nuclear Plant Decommissioning Fund shall be established to fund plant retirement. The amount set aside will be based on a decommissioning study of the plant site. Funding will be set aside over a minimum of four (4) years prior to the expected plant closure.	In compliance.

Austin Water Utility Financial Policies

1. The term of debt generally shall not exceed the useful life of the asset, and shall not generally exceed 30 years.	In compliance.
2. Capitalized interest shall only be considered during the construction phase of a new facility, if the construction period exceeds 7 years. The time frame for capitalizing interest may be 3 years but not more than 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	In compliance.
3. Principal repayment delays on revenue bonds shall be 1 to 3 years but shall not exceed 5 years.	In compliance.
4. Each utility shall maintain a fully funded debt service reserve for its existing revenue bond issues and future issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.	In compliance
5. Debt service coverage of at least 1.50x shall be targeted.	In compliance.
6. Short-term debt, including tax-exempt commercial paper, shall be used when authorized for interim financing of capital projects. The term of short-term debt shall not exceed 5 years. Commercial paper will be converted to refunding bonds when appropriate under economic and business conditions. Total short-term debt shall generally not exceed 20% of outstanding long-term debt.	In compliance.
7. Commercial paper may be used to finance new water and wastewater plants, capital expansions, and growth-related projects that are located in the "Desired Development Zone." In addition, commercial paper may be used to finance routine capital improvements required for normal business operation. Commercial paper for the necessary amount may also be used to finance improvements to comply with local, state and federal mandates or regulations.	In compliance.
8. Voter-approved revenue bonds will be used to finance new water and wastewater plants, capital expansions, and growth-related projects that are located in the Drinking Water Protection Zone. Such projects located in the "Desired Development Zone" and capital improvement projects necessary to comply with local, state and federal mandates or regulations will not require voter approval. Projects that have been approved by voters but which require additional funding to complete the original scope of the project will also not require voter approval provided such additional funding amount does not exceed 50% of the original project cost estimate as adjusted for inflation. Commercial paper may be used to finance voter-approved revenue bond projects before the commercial paper is converted to refunding bonds.	In compliance.

9.	Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.	In compliance.
10.	Capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio of at least 20% is desirable.	In compliance.
11.	The Austin Water Utility shall maintain a minimum quick ratio of 1.50 (Current Assets less inventory divided by Current Liabilities). Source of information shall be the Comprehensive Annual Financial Report.	Not in compliance at 1.01
12.	The Austin Water Utility shall maintain working capital that is equivalent to 45 days of budgeted operations and maintenance expense. (Current assets less current liabilities.)	In compliance.
13.	Revenue generated by the Austin Water Utility from Debt Service Coverage requirements shall be used for General Fund transfers, capital investment, or other Austin Water Utility requirements such as working capital reserve or non-CIP capital.	In compliance.
14.	Austin Water Utility rates shall be designed to generate sufficient revenues to support the full cost (direct and indirect) of operations and debt, provide debt service coverage and meet other revenue bond covenants, if applicable, and ensure adequate and appropriate levels of working capital.	In compliance.
15.	The General Fund Transfer shall not exceed 8.2% of the Austin Water Utility three-year average revenues, calculated using the current year estimate at March 31 and the previous two years' actual revenues from the City's Comprehensive Annual Financial Report.	In compliance.

Airport Financial Policies

1.	Debt service coverage shall be targeted at a minimum of 1.25x.	In compliance.
2.	The debt service reserve shall be funded at the same time long-term debt is issued (typically equal to 1 year's average debt service requirement).	In compliance.
3.	The term of long-term debt shall not exceed the expected useful life of the capital asset being financed, and in no case shall the life of the debt exceed 30 years.	In compliance.
4.	Capitalized interest during construction shall generally not exceed 5 years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.	In compliance.
5.	The Airport shall maintain a ratio of current assets plus operating reserve to current liabilities of at least 1.5 times. Source of information shall be the Comprehensive Annual Financial Report.	In compliance.
6.	The Aviation Fund shall maintain working capital that is equivalent to 60 days of budgeted operations and maintenance expense, in accordance with bond ordinance provisions. (Current assets plus operating reserve less current liabilities.)	In compliance.