

9/12/16

Late Backup

## Financial Policies — 2016-17

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Policy	Current Status
<b>Austin Energy Financial Policies</b>	
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 commercial paper, and non-revenue obligations will be included at 1.0x.	In compliance. Debt service coverage (DSC) for the FY 2016-17 Budget is 3.3x.
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.

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<p>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.</p>	
<p>Commercial paper may be used to finance voter approved revenue bond projects before the commercial paper is converted to refunding bonds.</p>	
<p>9. Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.</p>	In compliance.
<p>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.</p>	In compliance.
<p>11. Austin Energy shall maintain a minimum operating cash equivalent (also known as Working Capital) <del>to</del> 45 of 60 days of budgeted operations and maintenance expense, less power supply costs, plus the amount of additional monies required to bring the sum of all Austin Energy's reserves to no less than 150 days of operating and maintenance expense.</p>	In compliance
<p>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. <del>such as working capital.</del> Once these obligations have been met, any remaining net revenues will be deposited in the following order into Austin Energy's reserve funds until each reserve reaches its minimum funding level: Working Capital, Contingency Reserve, Power Supply Stabilization Reserve, and then Capital Reserve. The sum of the four reserves shall be the cash equivalent of no less than 150 days of operating and maintenance expense.</p>	In compliance.
<p>13. The General Fund transfer shall not exceed 12% of Austin Energy three-year average revenues less power supply costs and on-site energy resource revenue, calculated using the current year estimate and the previous two years' actual revenues less power supply costs and on-site energy resource revenue from the City's Comprehensive Annual Financial Report.</p>	In compliance.
<p>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.</p>	In compliance.
<p>15. <del>A Repair and Replacement Fund</del> The Capital Reserve shall be created and established. <del>Moneys on deposit in the Repair and Replacement Fund shall be used</del> for providing extensions, additions, replacements and improvements to the Electric System. <del>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.</del> The Capital Reserve <del>targeted balance</del> shall maintain a minimum cash equivalent of <del>not exceed</del> 50% of the previous year's electric utility depreciation expense, <del>which is at a level necessary to keep the electric system in good operating condition or to prevent a loss of revenues.</del></p>	Not In compliance.

# Financial Policies – 2016-17

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## Policy

16. ~~A Strategic Reserve Fund shall be maintained. It will have three components:~~

## Current Status

In compliance for the Emergency and Contingency Reserve. Not in compliance for the Rate Stabilization Reserve.

~~An Emergency Reserve with a minimum of 60 days of non-power supply operating requirements.~~

~~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 Rate Stabilization 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 created and established for unanticipated or unforeseen events that reduce revenue or increase obligations, such as costs related to a natural disaster, extended unplanned plant outages, insurance deductibles, or unexpected costs created by Federal or State legislation, and liquidity support for unexpected changes in power supply costs for Austin Energy customers. The Contingency Reserve may be used to fund unanticipated power supply expenses only after the Power Supply Stabilization Reserve has been fully depleted. The Contingency Reserve shall maintain an operating cash equivalent of 60 days of budgeted operations and maintenance expense, less power supply costs.~~

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

~~A Rate Stabilization Reserve shall be maintained, 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. The balance shall not exceed 90 days of 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.~~

# Financial Policies – 2016-17

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Policy	Current Status
<p>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 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.</p>	In compliance.
<p>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.</p> <p>A rate adequacy review shall be completed every five years, at a minimum, through performing a cost of service study.</p>	
<p>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.</p>	In compliance.
<p>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.</p>	In compliance.
<p>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.</p>	In compliance.
<p>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.</p>	In compliance.
<p>22. The Power Supply Stabilization Reserve shall be created and established for mitigating power supply cost volatility which causes frequent variation in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall maintain a cash equivalent of 90 days of net power supply costs. Net power supply costs shall be defined as costs eligible for inclusion in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall be funded using net revenues after meeting other obligations and consistent with the flow of funds schedule.</p>	In compliance.