Financial Policies FY 2022 Updates Stakeholder Meeting February 9, 2021
Webinar Disponible en Español

Instrucciones para activar audio en Español

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
• Introduction of Presenters
• Website Information
• Zoom Meeting Process
• Background Timeline of Events
• Rating Agency Criteria – PFM Financial, LLC
• Financial Policy Review
• Outlook/Update Overview/Next Steps

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Introductions of Presenters

• Ginny Guerrero – Program Manager, Public Information Office, Austin Water
• Joseph Gonzales – Assistant Director, Financial Services, Austin Water
• PFM Financial Advisors, LLC
  ➢ Blake Roberts, Senior Managing Consultant
  ➢ Dennis Waley, Managing Director

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Website Information and Zoom Meeting Process

Ginny Guerrero - Program Manager, Public Information Office, Austin Water

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Financial policies are essential to the fiscal health of Austin Water and help provide financial stability and continuity.

Austin Water has performed a review of its financial policies and recommends updates to Debt Service Coverage, Capital Projects Equity Contributions, Operating Cash Reserves, and Drinking Water Protection Zone beginning in Fiscal Year 2022.

The recommended updates to these financial policies align with internal goals that have been in place for several years. Austin Water has internal goals for Debt Service Coverage of 1.8x, Capital Projects Equity Contributions of 8% to 10%, and 245 Days of Operating Cash Reserves.

Public Input Stakeholder Meeting

Join us for a review of Austin Water’s financial policies FY 2022 update at the upcoming Public Input Stakeholder Meeting on:

- Public Input Stakeholder Meeting
- February 9, 2021 at 4 p.m.
- Agenda and Presentation
- Join Zoom Video Conferencing

The stakeholder meeting will be held via Zoom video conferencing in accordance

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Feedback Opportunities

Your feedback is requested, email us your comments or questions about the recommended financial policies to AW-FinancePublicInput@austintexas.gov.

More Information

In 2016, Austin Water launched a Cost of Service Study that included discussions on Austin Water’s Financial Policies. Upon completion of the study in 2018 and recommendations made to Austin City Council, Austin Water agreed to create a process that provides for stakeholder input before making future changes to its financial policies.

Proposed Financial Policies

The financial policy updates proposed below will be included in the annual budget process, with a presentation to the City of Austin’s Audit and Finance Committee in May 2023 and Austin City Council in August 2023.

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More Information

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Proposed Financial Policies

Updates

Rating Agency Reports for Austin Water


Rating Criteria, Methodology and Medians Reports

- S&P - 2018 Rating Methodology and Assumptions, 2016 Credit Rating Model

Miscellaneous

- Financial Policies from 2020 Approved Budget

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
More Information

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Proposed Financial Policies

A helpful list of terms and frequently asked questions have been compiled to help customers as they review the supporting documents and proposed updates.

- Glossary of Terms
- Frequently Asked Questions

Contact Us

Email us your comments or questions about the recommended financial policies to AW.FinancePublicInput@austintexas.gov.

Question and Answer Summary

A summary of stakeholder input will be compiled and posted on a monthly basis below.
Zoom Meeting Process

- Meeting Process
- Translation Room
- Raising Hands
- Chat

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Background Timeline of Events

Joseph Gonzales - Assistant Director, Financial Services, Austin Water

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Background Timeline of Events

2010–2015

- Extreme Weather Conditions
- Council Approved CRFs @ 100% allowable

2012–2014

- Joint Committee Financial Recommendations
- Removal of Negative Watch

2014

- Negative Watch: Fitch & Moody’s

2016

- Cost of Service Rate Study

2016–2017

- Debt Management Strategies, Improved Metrics

2016–2020

- Removal of Negative Watch
- Cost of Service Rate Study

2021

- Financial Policies Updates Proposal

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Cost of Service Rate Study - 2016

- Public Involvement Process
- Financial Policy Review
- Executive Team Decisions
  - Debt Service Coverage: Target 1.85x
  - Days Cash On Hand: Target 245 days
  - Cash Financing of Capital Projects: Target 50%

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Debt Management Strategy Impacts

Total Debt Service Requirements Comparison
FY 2016 to Current - Budget Basis

- Current Debt Service Requirements
- Debt Svc Reduction
- 2016 Debt Service Requirements

Total Debt Service Savings $475.7M Since 2016

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Rating Agency Criteria

Blake Roberts – Senior Managing Consultant, PFM Financial Advisors, LLC
Key Financial Metric – Annual Debt Service Coverage

Sufficiency of Net Revenues to Repay Debt Obligations

- **Annual Debt Service Coverage ("DSC")** is a measure of a utility’s ability to repay scheduled principal and interest payments with net operating revenues.

- The rating agencies view coverage of debt service and other fixed obligations as a key financial metric.

- Moody’s, one of the major rating agencies, has published criteria which states that a debt service coverage ratio of between 1.70x and 2.00x is consistent with the Aa-rating category.

- In its last rating report, Austin Water’s DSC ratio was cited at 1.9x in 2019 by Moody’s.

**Moody’s Annual Debt Service Coverage Criteria**

<table>
<thead>
<tr>
<th>Financial Strength (40%)</th>
<th>Aaa</th>
<th>Aa</th>
<th>A</th>
<th>Baa</th>
<th>Ba</th>
<th>B and Below</th>
</tr>
</thead>
<tbody>
<tr>
<td>Annual Debt Service Coverage (15%)</td>
<td>&gt; 2.00x</td>
<td>2.00x ≥ n &gt; 1.70x</td>
<td>1.70x ≥ n &gt; 1.25x</td>
<td>1.25x ≥ n &gt; 1.00x</td>
<td>1.00x ≥ n &gt; 0.70x</td>
<td>≤ 0.70x</td>
</tr>
</tbody>
</table>

**AW’s Proposed Financial Policy**

1.85x DSC Ratio

Key Financial Metric – Cash on Hand

Measure of Cash Reserves Available for Operating Expenses

- Liquidity or reserves relative to operating expenses, measured as **Days Cash on Hand**, is a measure of a utility’s ability to fund its operating needs with available resources. It is a measure of the degree to which a utility can withstand difficult operating conditions and unforeseen budget hardships.

- **Days Cash on Hand = Unrestricted Cash & Investments / Operating Expenses (Excl. Depreciation) x 365**

- Moody’s, one of the major rating agencies, published criteria states that a Days Cash on Hand ratio of between 150 days and 250 days is consistent with the Aa-rating category

- In its last rating report, Austin Water’s Days Cash on Hand was cited at 267 days by Moody’s

<table>
<thead>
<tr>
<th>Financial Strength (40%)</th>
<th>Aaa</th>
<th>Aa</th>
<th>A</th>
<th>Baa</th>
<th>Ba</th>
<th>B and Below</th>
</tr>
</thead>
<tbody>
<tr>
<td>Days Cash on Hand (15%)</td>
<td>&gt; 250 Days</td>
<td>250 Days ≥ n &gt; 150 Days</td>
<td>150 Days ≥ n &gt; 35 Days</td>
<td>35 Days ≥ n &gt; 15 Days</td>
<td>15 Days ≥ n &gt; 7 Days</td>
<td>≤ 7 Days</td>
</tr>
</tbody>
</table>

**Moody’s Days Cash on Hand Criteria**

**AW’s Proposed Financial Policy**

245 Days Cash on Hand

Financial Policy Review

Joseph Gonzales - Assistant Director, Financial Services, Austin Water

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Debt Service Coverage

Purpose of Metric

- Indicates the financial margin to meet current debt service with current revenues available for debt service

Calculation

- Debt Service Coverage = $\frac{\text{Net Revenue (*)}}{\text{Debt Service Requirement}}$
- (*$)Net Revenue = Gross Revenue less Operating Expense

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Debt Service Coverage Ratio

Debt Service Coverage

- Actual/Projected DSC
- Financial Policy
- AW Target

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
# Debt Service Coverage - Comparison

AW Proposed Debt Service Coverage: 1.85x  
Moody’s Medians: 2.3X

<table>
<thead>
<tr>
<th>City</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austin Water</td>
<td>1.57</td>
<td>1.83</td>
</tr>
<tr>
<td>Austin Energy</td>
<td>3.56</td>
<td>4.00</td>
</tr>
<tr>
<td>City of Arlington</td>
<td>4.80</td>
<td>3.46</td>
</tr>
<tr>
<td>City of Dallas</td>
<td>1.96</td>
<td>1.74</td>
</tr>
<tr>
<td>City of Fort Worth</td>
<td>2.31</td>
<td>2.34</td>
</tr>
<tr>
<td>City of Houston</td>
<td>1.49</td>
<td>1.39</td>
</tr>
<tr>
<td>Oklahoma City</td>
<td>3.42</td>
<td>3.64</td>
</tr>
<tr>
<td>City of Phoenix</td>
<td>2.15</td>
<td>1.82</td>
</tr>
<tr>
<td>City of Portland</td>
<td>1.48</td>
<td>1.34</td>
</tr>
<tr>
<td>City of San Antonio</td>
<td>1.98</td>
<td>2.14</td>
</tr>
<tr>
<td>City of Seattle</td>
<td>2.40</td>
<td>2.46</td>
</tr>
<tr>
<td><strong>Average Debt Service Coverage</strong></td>
<td><strong>2.47</strong></td>
<td><strong>2.38</strong></td>
</tr>
</tbody>
</table>

Days Cash on Hand

Purpose of Metric

• Measures an entity’s available resources to meet short-term liabilities, particularly in the event of unforeseen hardships or difficult operating conditions.

Calculation

• Days Cash on Hand = \[ \frac{\text{Operating Cash Balance} \times 365 \text{ days}}{\text{Operating Requirements}} \]

• (*) Operating Requirements = O&M expense and other operating transfers excludes debt and other transfers.

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### Days Cash on Hand - Comparison

**AW Proposed Days Cash on Hand: 245 days**

**Moody’s Medians: 467 days**

<table>
<thead>
<tr>
<th>City</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austin Water</td>
<td>280</td>
<td>263</td>
</tr>
<tr>
<td>Austin Energy</td>
<td>224</td>
<td>218</td>
</tr>
<tr>
<td>City of Arlington</td>
<td>109</td>
<td>165</td>
</tr>
<tr>
<td>City of Dallas</td>
<td>279</td>
<td>291</td>
</tr>
<tr>
<td>City of Fort Worth</td>
<td>156</td>
<td>141</td>
</tr>
<tr>
<td>City of Houston</td>
<td>1201</td>
<td>1345</td>
</tr>
<tr>
<td>Oklahoma City</td>
<td>698</td>
<td>848</td>
</tr>
<tr>
<td>City of Phoenix</td>
<td>368</td>
<td>378</td>
</tr>
<tr>
<td>City of Portland</td>
<td>1232</td>
<td>1201</td>
</tr>
<tr>
<td>City of San Antonio</td>
<td>547</td>
<td>509</td>
</tr>
<tr>
<td>City of Seattle</td>
<td>215</td>
<td>264</td>
</tr>
</tbody>
</table>

**Average Days Cash on Hand**

- **FY18**: 483 days
- **FY19**: 511 days

Cash Financing of Capital Projects Calculation

Purpose of Metric

• Measures the degree to which an entity limits debt exposure by utilizing cash funding for a significant portion of its' capital programs

Calculation

• Cash Financing % = \( \frac{\text{Capital projects funded with Current Revenue (*)}}{\text{Total Capital Spending}} \times 100\% \)

• (*)Current Revenue is the transfer from service revenue to fund capital projects for the year.

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Cash Financing of Capital Projects

Actual/Projected

Financial Policy (Minimum Target)

AW Target (Max)

AW Target (Min)

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
### AW Proposed CIP Financing of Capital Projects: Min. 35% to Max. 50%

<table>
<thead>
<tr>
<th>City</th>
<th>FY18</th>
<th>FY19</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austin Water</td>
<td>67%</td>
<td>65%</td>
</tr>
<tr>
<td>Austin Energy</td>
<td>37%</td>
<td>32%</td>
</tr>
<tr>
<td>City of Arlington</td>
<td>32%</td>
<td>43%</td>
</tr>
<tr>
<td>City of Dallas</td>
<td>46%</td>
<td>43%</td>
</tr>
<tr>
<td>City of Fort Worth</td>
<td>49%</td>
<td>47%</td>
</tr>
<tr>
<td>City of Houston</td>
<td>90%</td>
<td>88%</td>
</tr>
<tr>
<td>Oklahoma City</td>
<td>47%</td>
<td>45%</td>
</tr>
<tr>
<td>City of Phoenix</td>
<td>55%</td>
<td>54%</td>
</tr>
<tr>
<td>City of Portland</td>
<td>52%</td>
<td>46%</td>
</tr>
<tr>
<td>City of San Antonio</td>
<td>56%</td>
<td>52%</td>
</tr>
<tr>
<td>City of Seattle</td>
<td>69%</td>
<td>65%</td>
</tr>
<tr>
<td><strong>Average CIP Financing of Capital Projects</strong></td>
<td><strong>55%</strong></td>
<td><strong>53%</strong></td>
</tr>
</tbody>
</table>

Drinking Water Protection Zone

Current Policy

• 5 Boards & Commissions
• City Council Public Hearing

Proposed Policy

• WWW Commission

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
Outlook

• Improved Financial Benchmarks

• Forecasted Future Slight Rate Increases

Info and documentation available at austintexas.gov/department/austin-water-financial-policies-fy-2022-update
# Update Overview

<table>
<thead>
<tr>
<th>Debt Service Coverage</th>
<th>Days Cash on Hand</th>
<th>Cash Financing of CIP Projects</th>
<th>Drinking Water Protection Zone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum of 1.85x shall be targeted</td>
<td>Minimum of 245 Days shall be targeted</td>
<td>Minimum of 35% and maximum of 50% is desirable</td>
<td>Public Input at Water and Wastewater Commission</td>
</tr>
</tbody>
</table>

Next Steps

Audit & Finance Committee
- May 26, 2020

Water and Wastewater Commission
- July 7, 2021

City Council Budget Public Input
- July 22, 2021
- July 27, 2021

Written Comments and Questions (we will bring forward to Audit & Finance Committee)
- Email address: AW-FinancePublicInput@austintexas.gov

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