



Financial Policies FY 2022 Updates Stakeholder Meeting

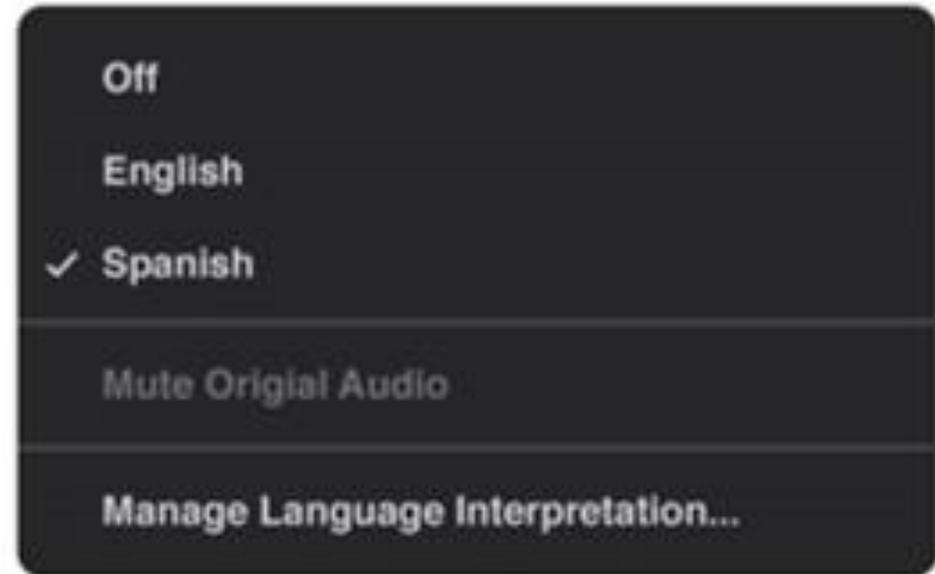
Austin
WATER



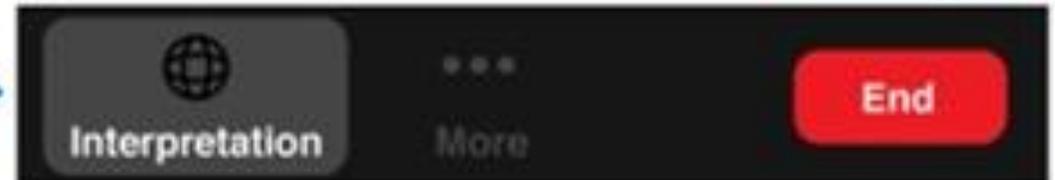
February 9, 2021

Instrucciones para activar audio en Español

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- **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**



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- **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



Website Information and Zoom Meeting Process

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

Austin Water Financial Policies FY 2022 Update

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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 aligns with internal goals that have been in place for several years. Austin Water has internal goals for Debt Service Coverage of 1.85x, Capital Projects Equity Contributions of 35% to 50%, 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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- ☆ [Cooling Tower & Evaporative Loss](#)
- ☆ [Dillo Dirt](#)
- ☆ [Balcones Canyonlands Preserve](#)
- ☆ [Center for Environmental Research](#)

Contact Info

- Key Contact: Austin Water Financial Services**
[Contact Email](#)



Website Information



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and 245 Days of Operating Cash Reserves.

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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

[Updates](#)

[Documents & Resources](#)

[Glossary & FAQ](#)

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 2021 and Austin City Council in August 2021.

Approved Policy
(FY21)

Proposed
Policy(FY22)

Comments

Contact Info

 Key Contact: Austin Water
Financial Services

[Contact Email](#)



Website Information



[Customer Service](#) ▾ [Infrastructure](#) ▾ [Saving Water](#) ▾ [Water Quality](#) ▾ [Environmental Protection](#) ▾ [Technical Center](#) ▾ [About](#) ▾



More Information

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Proposed Financial Policies

[Updates](#)

[Documents & Resources](#)

[Glossary & FAQ](#)

Rating Agency Reports for Austin Water

- [Fitch](#) - [2014](#), [2015](#), [2016](#), [2017](#), [2019](#), [2020](#), [2020 Press Release](#)
- [Moody's](#) - [2014](#), [2015](#), [2016](#), [2017](#), [2019](#), [2020](#)
- [S&P](#) - [2014](#), [2015](#), [2016](#), [2017](#), [2020](#)

Rating Criteria, Methodology and Medians Reports

- [Fitch](#) - [2018 Outlook](#), [2018 Medians](#), [2019 Medians](#), [2020 Rating Criteria](#)
- [Moody's](#) - [2017 Revenue Debt Methodology](#), [2018 Outlook](#), [2019 Medians](#), [2020 Outlook](#)
- [S&P](#) - [2016 Rating Methodology and Assumptions](#), [2016 Credit Rating Model](#)

Miscellaneous

- [Financial Policies from 2020 Approved Budget](#)

More Information

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Proposed Financial Policies

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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

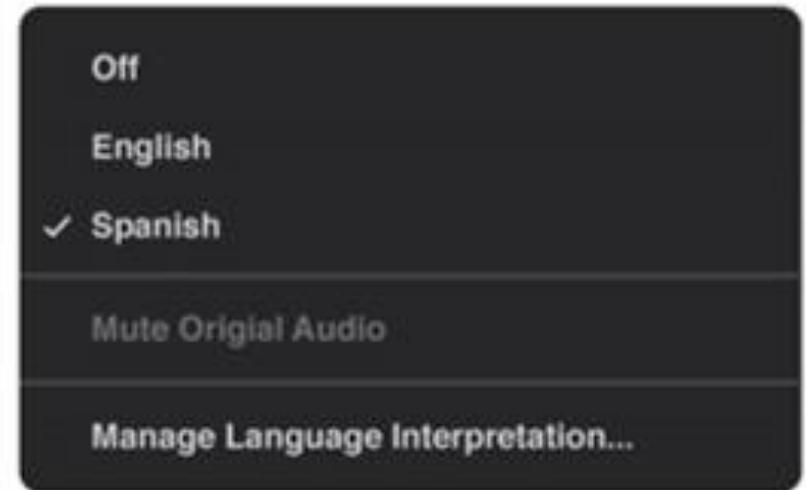
Email us your comments or questions about the recommended financial policies to AW-FinancePublicInput@austintexas.gov.

Question and Answer Summary

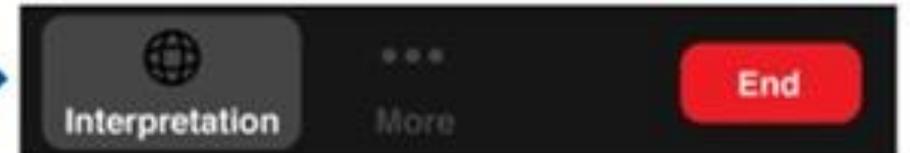
A summary of stakeholder input will be compiled and posted on a monthly basis below.

- Meeting Process
- Translation Room
- Raising Hands
- Chat

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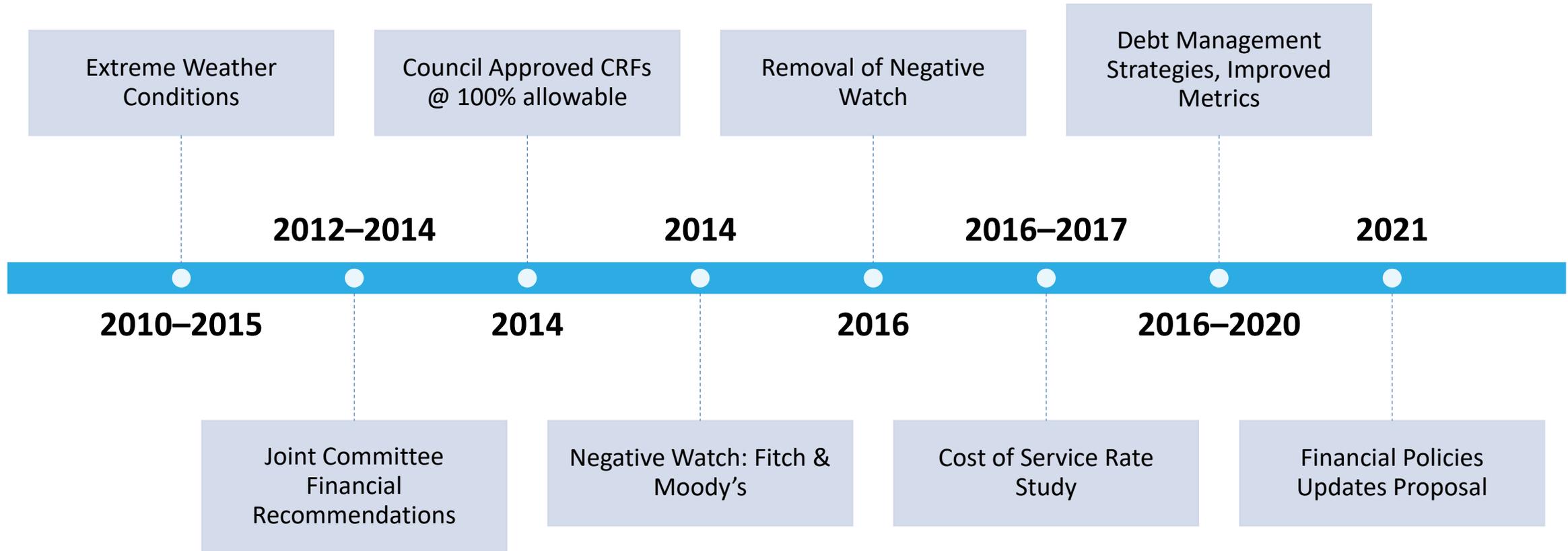
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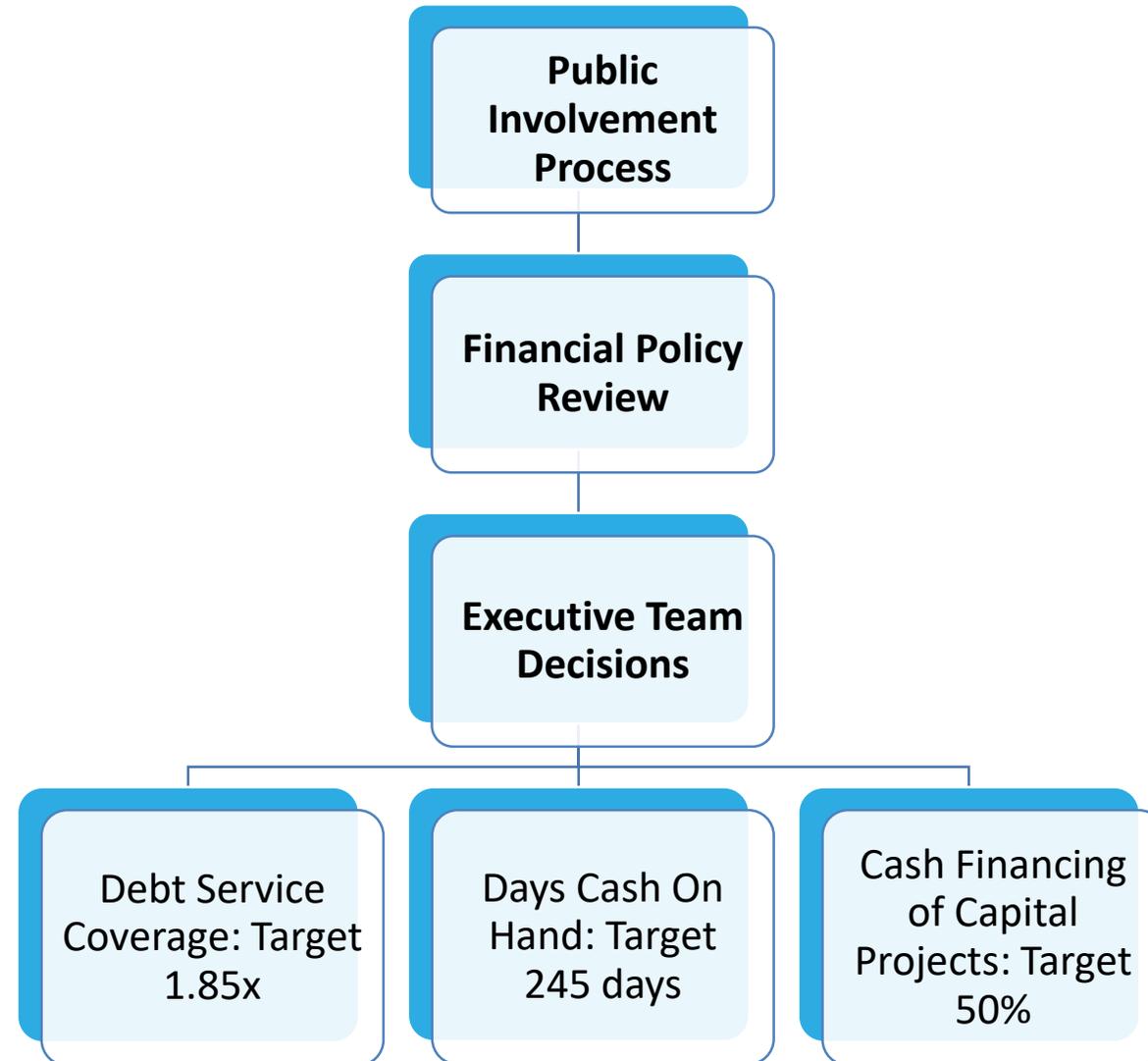
Background Timeline of Events

Joseph Gonzales - Assistant Director, Financial Services, Austin Water

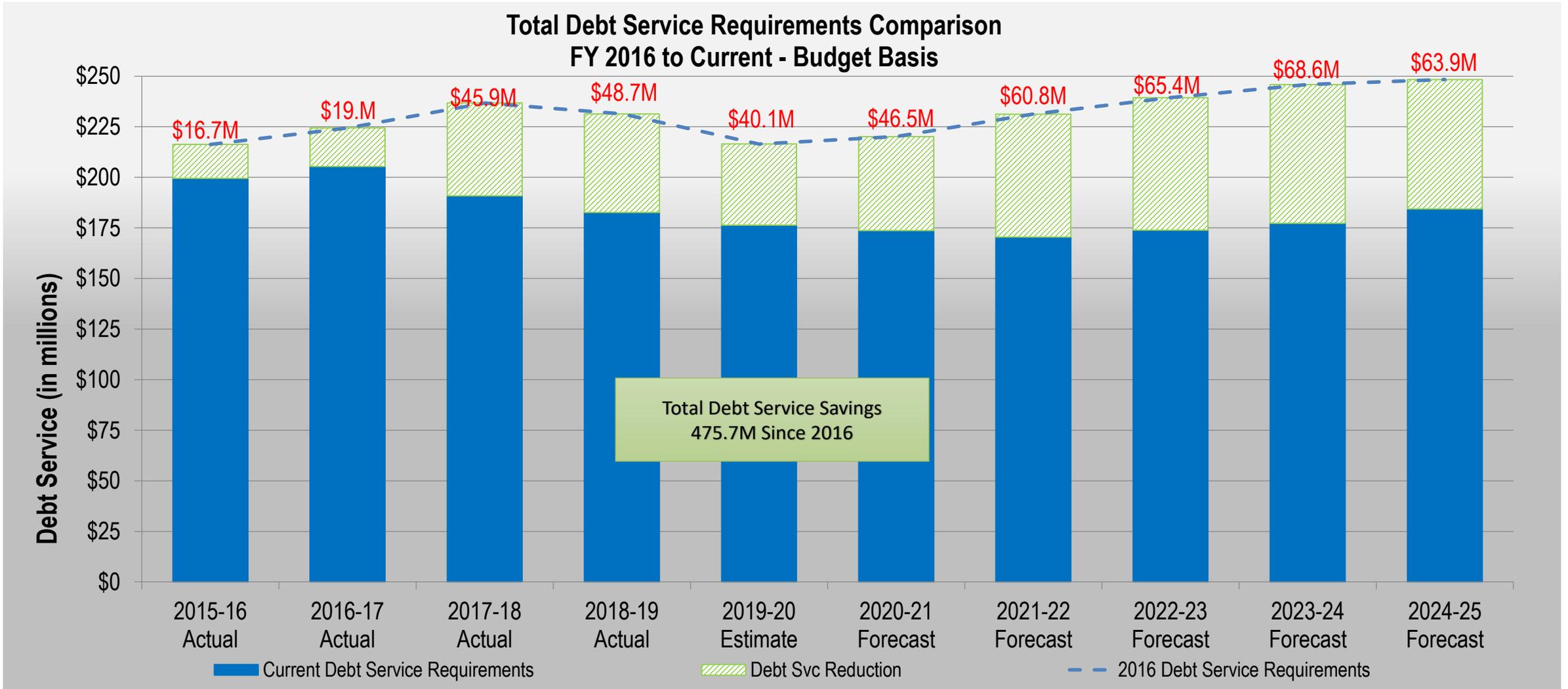
Background Timeline of Events



Cost of Service Rate Study - 2016



Debt Management Strategy Impacts



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

Financial Strength (40%)	Aaa	Aa	A	Baa	Ba	B and Below
Annual Debt Service Coverage (15%)	> 2.00x	2.00x ≥ n > 1.70x	1.70x ≥ n > 1.25x	1.25x ≥ n > 1.00x	1.00x ≥ n > 0.70x	≤ 0.70x

**AW’s Proposed Financial Policy
1.85x DSC Ratio**

Sources: Moody’s Rating Methodology, “US Municipal Utility Revenue Debt” dated October 19, 2017;
Moody’s Rating Report, “Credit Opinion – Austin, TX Water & Wastewater System” dated October 9, 2020.



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

Moody’s Days Cash on Hand Criteria

Financial Strength (40%)	Aaa	Aa	A	Baa	Ba	B and Below
Days Cash on Hand (15%)	> 250 Days	250 Days ≥ n > 150 Days	150 Days ≥ n > 35 Days	35 Days ≥ n > 15 Days	15 Days ≥ n > 7 Days	≤ 7 Days

**AW’s Proposed Financial Policy
245 Days Cash on Hand**

Sources: Moody’s Rating Methodology, “US Municipal Utility Revenue Debt” dated October 19, 2017; Moody’s Rating Report, “Credit Opinion – Austin, TX Water & Wastewater System” dated October 9, 2020.

Financial Policy Review

**Joseph Gonzales - Assistant Director, Financial
Services, Austin Water**

Debt Service Coverage

Purpose of Metric

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

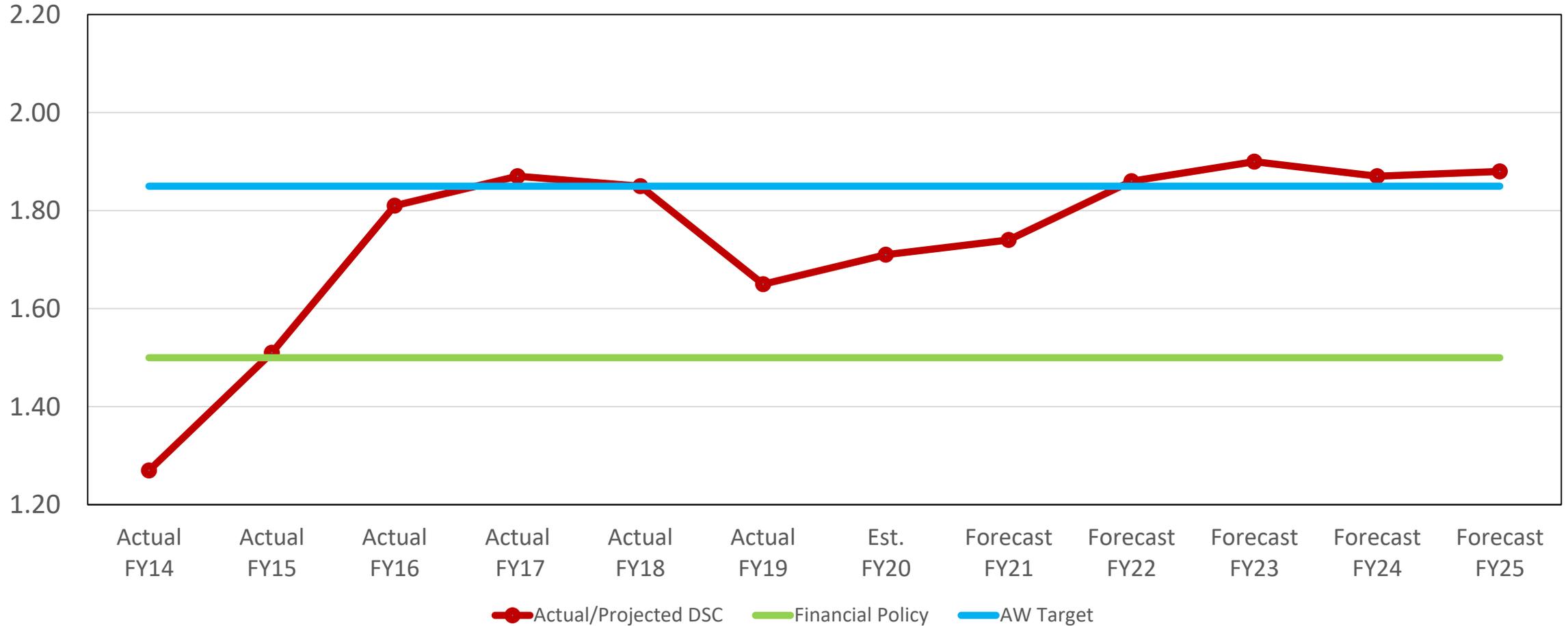
Calculation

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



Debt Service Coverage Ratio

Debt Service Coverage





Debt Service Coverage - Comparison

AW Proposed Debt Service Coverage: 1.85x

Moody's Medians: 2.3X

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

Days Cash on Hand

Purpose of Metric

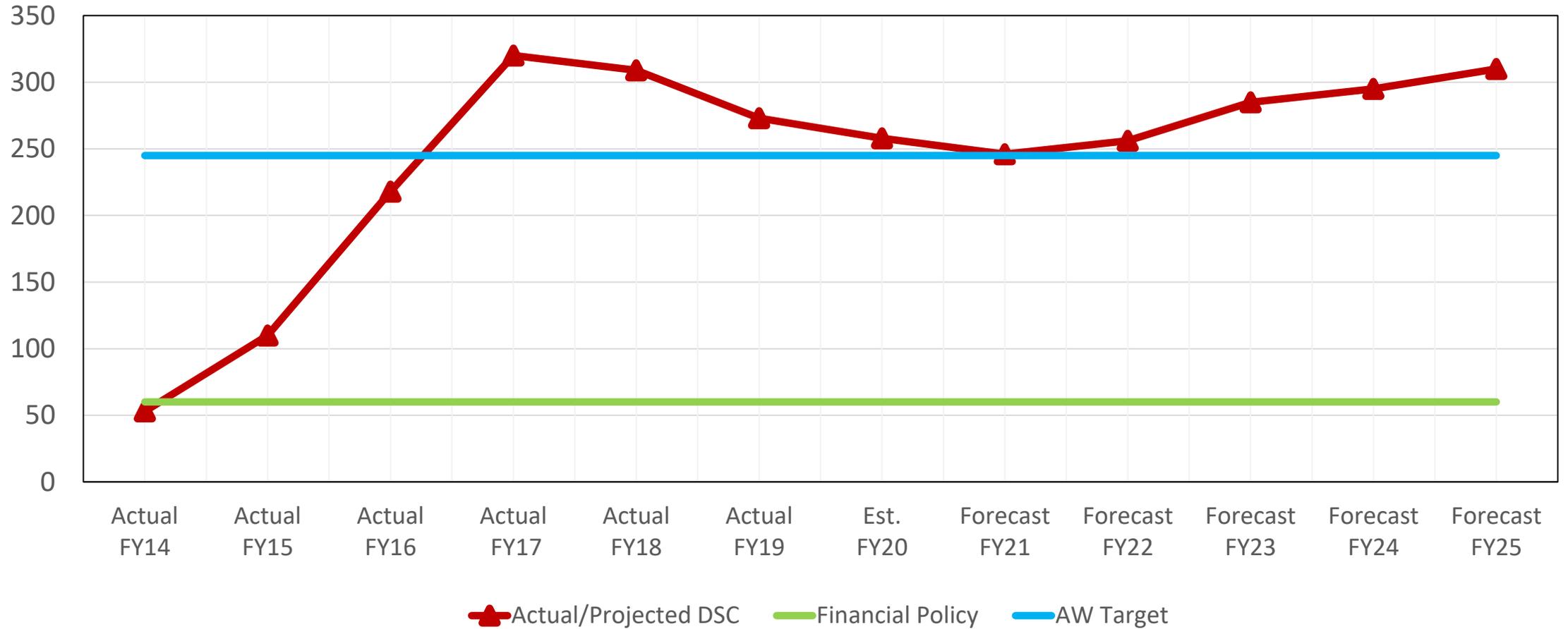
- Measures an entity's available resources to meet short-term liabilities, particularly in the event of unforeseen hardships or difficult operating conditions

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.

Days Cash on Hand

Days Cash on Hand





Days Cash on Hand - Comparison

AW Proposed Days Cash on Hand: 245 days

Moody's Medians: 467 days

City	FY18	FY19
Austin Water	280	263
Austin Energy	224	218
City of Arlington	109	165
City of Dallas	279	291
City of Fort Worth	156	141
City of Houston	1201	1345
Oklahoma City	698	848
City of Phoenix	368	378
City of Portland	1232	1201
City of San Antonio	547	509
City of Seattle	215	264
Average Days Cash on Hand	483	511

Purpose of Metric

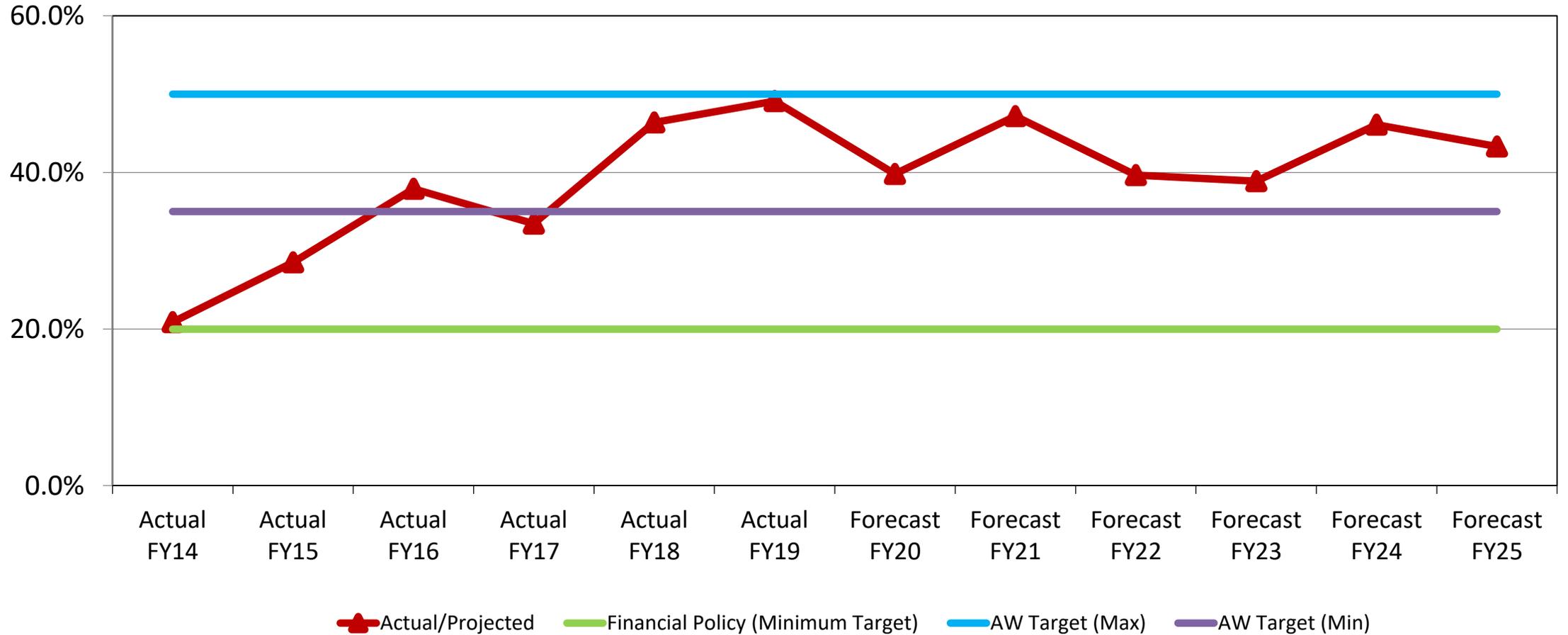
- Measures the degree to which an entity limits debt exposure by utilizing cash funding for a significant portion of its' capital programs

Calculation

- Cash Financing % = $\frac{\text{Capital projects funded with Current Revenue}^{(*)} \img alt="water tap icon" data-bbox="715 635 760 700}}{\text{Total Capital Spending} \img alt="hand holding money icon" data-bbox="625 705 665 750}} \times 100\%$
- (*)Current Revenue is the transfer from service revenue to fund capital projects for the year.

Cash Financing of Capital Projects

Cash Financing of Capital Projects





CIP Financing of Capital Projects – Comparison

AW Proposed CIP Financing of Capital Projects: Min. 35% to Max. 50%

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

Drinking Water Protection Zone

Current Policy

- 5 Boards & Commissions
- City Council Public Hearing

Proposed Policy

- WWS Commission

- Improved Financial Benchmarks
- Forecasted Future Slight Rate Increases



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Update Overview

Debt Service Coverage

Minimum of 1.85x shall be targeted

Days Cash on Hand

Minimum of 245 Days shall be targeted

Cash Financing of CIP Projects

Minimum of 35% and maximum of 50% is desirable

Drinking Water Protection Zone

Public Input at Water and Wastewater Commission

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

