Austin Water Utility

Joint Committee on AWU Financial Plan

May 30, 2012
Presentation Outline

• Financial Metrics
  – Decision points
  – Targets
  – Financial policies

• Volumetric Rates
  – Dollar variance between blocks 1 and 5
  – Future rate increases
Financial Metrics
Financial Metrics

• Decision Points
  – Debt Service Coverage targets
    ➢ Minimum in bond covenant
    ➢ Financial policy levels
  – Cash Balances
    ➢ Number of days of O& M expense
  – CIP Funding
    ➢ Debt vs. cash funding targets
  – Timelines
    ➢ Timelines to meet financial metric goals
Financial Metrics

• Debt Service Coverage (DSC)
  – Description: the ratio of the amount of net cash flow available compared to annual principal and interest on debt
  – Calculation:
    Total Revenue minus Operations & Maintenance costs divided by total debt service (revenue bonds)
  – Bond covenant levels
    ➢ Bond covenants require a 1.25x DSC
  – Financial policy levels
    ➢ City financial policies require a minimum of 1.50x DSC
  – Rating agency benchmarks
    ➢ Midrange to strong AA rated utilities should be between 1.50x and 2.0x
Financial Metrics

• Debt Service Coverage
  – Financial forecast assumes increasing coverage from 1.50x in 2013 to 1.63x in 2017

• AWU Preliminary Recommendations
  – Target 1.75x over a longer period of time between 5-10 years
  – Debt position after 2018 should benefit AWU and achieving its debt coverage goals
  – Consistent with rating agency benchmarks
Financial Metrics

• Cash Balances
  – Amount of cash in relation to the number of days of operations and maintenance it could cover
  – Financial policy levels
    ➢ City financial policies require a minimum of 45 days of O&M in working capital, which is not cash only
  – Targets in 2012 forecast
    ➢ AWU has targeted cash between 66 and 71 days O&M in their financial forecast this year
    ➢ AWU will continue to target increased cash balances in future forecasts

• Reserve Fund Cash
  ➢ 120 days of reserve fund cash would be counted toward achieving goals

• Rating Agency benchmarks
  ➢ Midrange to strong utilities should have between 6 months to a year of cash
Financial Metrics

• Cash Balances
  – Financial forecast assumes a cash only balance of 66 days in 2013 growing to 71 days by 2017

• AWU Preliminary Recommendations
  – Reserve fund targeted at 120 days
  – Operating fund cash balance targeted at a minimum of 60 days
  – Consistent with rating agency benchmarks
Financial Metrics

• Capital Improvement Program (CIP) Funding
  – Cash funding levels of CIP
    ➢ Amount of cash used to fund CIP projects as compared to using debt
  – Financial policy levels
    ➢ City policies recommend a minimum of 20% cash funding of capital spending
  – Rating agency benchmarks
    ➢ Midrange to strong utilities should fund between 20% to 50% of their capital spending in cash
Financial Metrics

• CIP Cash Funding
  – Financial forecast assumes 30% cash funding of CIP in 2013 growing to about 50% in 2017
  – Increased cash funding saves significant financing costs on capital projects

• AWU Preliminary Recommendation
  – Cash funding of CIP should be between 30% and 50%
  – Consistent with rating agency benchmarks
Financial Metrics

• Timelines
  – Improving financial metrics would be transitioned over several years to reduce rate impacts
  – Number of years to reach financial metric goal could vary depending on the financial metric

• AWU Preliminary Recommendations
  – Debt coverage targets over 5-10 years
  – Cash balance targets included in 2013 budget
  – Cash funding of CIP targets over 5 years
Questions & Discussion?
Volumetric Rates
Volumetric Rates

- **Historical Residential Rate Increases**
  - General historical practice has been equal percentage increase of each block rate
  - This practice has increased spread between blocks 1 and 5
  - Block 1 rate today is less than it was in 1994
  - Increases subsidy of lower use customers

- **Future Rate Increases**
  - Continue historical practices which will further increase spread between blocks 1 and 5
  - Propose rates that maintain or minimize the increase in the spread between block 1 and 5
Volumetric Rate Spread

• Volumetric rate spread between blocks 1 & 5
  – Current: $11.02 spread ($1.17 to $12.19)

• Future volumetric rate spread illustration
  – Assumed 5% rate increase per year for 10 years
  – Rate blocks adjusted to be consistent with Option 27
  – Includes fixed charges
  – Future volumetric rates illustrations
    ➢ All blocks increase at same percent per block per year
    ➢ All blocks increase at same dollar amount per block per year
Volumetric Rate Spread Illustration

- Assumptions: 5% rate increase per year
  - All rate blocks increase at same percent per block per year
    - $7.10 minimum charge increases to $11.56 or 63% by 2022
    - Tiered fixed fee rate spread between tiers 1 and 5 increases from $8.50 to $13.84 or 63% by 2022
    - Rate spread between blocks 1 and 5 increases from $11.00 to $17.90 or 63% by 2022
  - All blocks increase at same dollar amount per block per year
    - $7.10 minimum charge increases to $11.56 or 63% by 2022
    - Tiered fixed fee rate spread between tiers 1 and 5 stays the same at $8.50 through 2022
    - Rate spread between blocks 1 and 5 stays the same at $11.00 through 2022
Volumetric Rates

• Volatility
  – Higher dollar variances between blocks 1 and 5 will increase the volatility of residential rates

• AWU Preliminary Recommendation
  – Future rate increases should maintain or minimize the increases in the dollar variance between blocks 1 and 5.
Questions & Discussion?