Financial Policies FY2022 Updates
Response to Questions

QUESTION NUMBER: 2

REQUESTED BY: Grant Rabon

DATE REQUESTED: 2/09/2021

QUESTION: What's driving the need to change the financial policy and what is gained from these changes?

RESPONSE:

The value of financial policies is that they support long-term financial planning and institutionalize strong financial management practices since formal policies outlive their creation and thus promote stability and continuity. One of the biggest driving factors for the proposed financial policy changes, is the lessons learned during the drought from 2011 to 2015. Austin Water saw drought related revenue shortfalls totaling $96 million from 2012 to 2015. As a result of those revenue shortfalls, debt service coverage, which measure the amount of revenues available to cover debt service as a multiple of annual debt service requirements, dropped to 1.27 times annual debt service requirements in 2014, which was slightly above the bond covenant level of 1.25. Had Austin Water experienced a larger revenue shortfall in 2014, it could have been in technical default and likely would have had its bond rating downgraded. In addition, Austin Water saw its days cash on hand financial metric drop to 53 days, which was below the financial policy level of 60 days.

As a result of the low debt service coverage and days cash on hand levels, two of the three major rating agencies placed Austin Water on a negative rating outlook, which signaled to the investor community that a downgrade was a possibility. As liquidity and debt service coverage improved, the negative rating outlook was removed, and Austin Water's bond ratings stabilized. However, it became clear that Austin Water's current financial policies were too low to provide the strategic guidance needed to maintain minimum levels of financial performance to ensure compliance with bond covenants and to maintain Austin Water's AA credit rating.