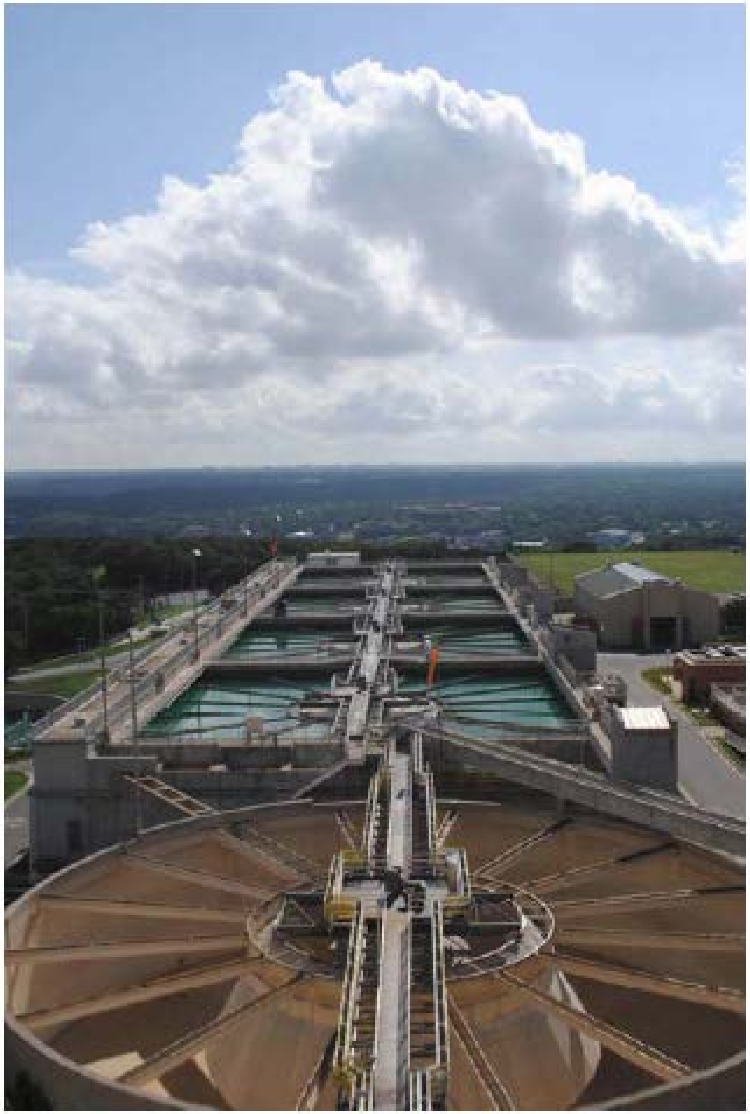

Austin Water Utility

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?