



## FINANCIAL POLICIES UPDATE

### Frequently Asked Questions (FAQ)

#### **Debt Service Coverage (DSC) FAQ**

**Question:** What is Debt Service Coverage?

**Answer:** Debt Service Coverage, also known as DSC, is a key statistic that measures the sufficiency of net operating revenues to cover debt service. This measure tracks a utility system's capacity to repay debt service (principal and interest) due within the next 12 months.

**Question:** Why is Debt Service Coverage Important?

**Answer:** Debt Service Coverage is important because it communicates to investors and other stakeholders the financial ability of a utility system to repay its debt.

**Question:** Why is it important to update the financial policy for Debt Service Coverage Ratio?

**Answer:** Improving the debt service coverage indicates healthier finances and indicates the degree to which a utility can manage revenue and expenditure volatility while servicing debt. The rating agencies' median debt service coverage ratio for high-grade water and wastewater utilities is above 2.0x. In addition, stronger debt service coverage can result in stable bond ratings, which offer more security and lower yields.

**Question:** What is the current Austin Water Financial Policy for Debt Service Coverage Ratio?

**Answer:** Austin Water's current financial policy requires a DSC of at least 1.50x shall be targeted.

**Question:** What is the proposed Austin Water Financial Policy for Debt Service Coverage Ratio?

**Answer:** Austin Water is proposing a DSC of at least 1.85x shall be targeted.

#### **Days of Operating Cash Reserves (Days Cash on Hand) FAQ**

**Question:** What is Days of Operating Cash Reserves?

**Answer:** Days of Operating Cash Reserves is a key measure of a utility's financial security and reflects the number of days that a utility can continue to pay its operating expenses given existing unrestricted cash available, in the absence of additional revenue.

**Question:** Why is Days of Operating Cash Reserves important?

**Answer:** Days of Operating Cash indicates the level of cash reserves available to withstand volatility in revenues and expenditures and manage unexpected cash requirements. A higher number of Days of Operating Cash Reserves indicates that a utility has greater flexibility and a stronger financial cushion to withstand budget pressures.

**Question:** Why is it important to update the financial policy for Days of Operating Cash Reserves?

**Answer:** A higher cash balance provides greater flexibility and rating agencies view this as a key indicator and one of the primary financial ratios when assessing credit risk.

**Question:** What is the current Austin Water Financial Policy for Days of Operating Cash Reserves?

**Answer:** Austin Water shall maintain operating cash reserves equivalent to a minimum of 60 days of budgeted operations and maintenance expense.

**Question:** What is the proposed Austin Water Financial Policy for Days of Operating Cash Reserves?

**Answer:** Austin Water shall maintain operating cash reserves equivalent to a minimum of 245 days of budgeted operations and maintenance expense.

### **Capital Projects Equity Contribution (Pay-As-You-Go CIP) FAQ**

**Question:** What is Capital Projects Equity Contribution?

**Answer:** Capital projects equity contribution is a funding method that uses available cash to fund a portion of a utility's annual Capital Improvement Program ("CIP").

**Question:** Why is Capital Projects Equity Contribution important?

**Answer:** The capital projects equity contribution uses available operating cash to fund smaller capital projects or portions of larger capital projects, that would have otherwise incurred interest and other financing costs associated if funded with debt. The more capital projects funded in full or in part by available cash saves the Utility financing costs and reduces our debt burden. Rating agencies review the debt burden of a utility system when rating its bonds.

**Question:** Why is it important to update the financial policy for Capital Projects Equity Contribution?

**Answer:** Capital Projects Equity Contribution measures the degree to which a utility uses debt to finance capital expenditures. More cash financing reduces the extent to which debt financing is used and results in lower debt ratios. Rating agencies view lower debt levels as a positive factor.

**Question:** What is the current Austin Water Financial Policy for Capital Projects Equity Contribution?

**Answer:** Austin Water capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio of at least 20% is desirable.

**Question:** What is the proposed Austin Water Financial Policy for Capital Projects Equity Contribution?

**Answer:** Austin Water capital projects should be financed through a combination of cash, referred to as pay-as-you-go financing (equity contributions from current revenues), and debt. An equity contribution ratio of at least 35% to 50% is desirable.

## **Drinking Water Protection Zone (DWPZ) Project Review FAQ**

**Question:** What is the Drinking Water Protection Zone (DWPZ) Project Review?

**Answer:** DWPZ are the areas within the Barton Springs Zone, the Barton Creek Watershed, all Water Supply Rural Watersheds, and all Water Supply Suburban Watersheds that are in the City's planning jurisdiction. The capital projects within these areas are required to be reviewed by five separate Boards and Commissions.

**Question:** Why is the Drinking Water Protection Zone Project Review financial policy important?

**Answer:** The Drinking Water Protection Zone is important, as it restricts impervious surfaces and protects the highland lakes system and water sources for clean drinking water. Projects within these areas are environmentally sensitive.

**Question:** Why is it important to update the financial policy for the Drinking Water Protection Zone?

**Answer:** Austin Water projects included in DWPZ have been limited to only a very few projects in past. Review by each of the five Commissions has been extremely limited and generally are approved upon consent. The Public hearing at City Council during the budget process has consistently had no speakers over the years. There is a significant amount of time and effort to get on all five Commissions during budget process is extensive, with generally no input. Revising the financial policy to go to the Water and Wastewater Commission only will allow for efficiencies and still provide a process that allows for citizen comment.

**Question:** What is the current Austin Water Financial Policy for Drinking Water Protection Zone Projects?

**Answer:** Austin Water capital improvement projects for new water and wastewater treatment plants, capital expansions, and growth-related projects that are located in the Drinking Water Protection Zone (DWPZ) will be identified and submitted, as part of the annual budget process, to the following Boards and Commissions: Water and Wastewater Commission, Resource Management Commission, Environmental Board, Planning Commission, and the Zoning and Platting Commission. These Boards and Commission will review growth-related DWPZ capital projects spending plans, obtain Board and Commission and citizen input, review consistency with Imagine Austin Comprehensive Plan, review effect on growth within the DWPZ, and make recommendations on project approval for inclusion in Austin Water's five-year capital spending plan. A public hearing will be held during the City's annual budget review process to provide citizens an additional opportunity to comment on growth related projects located within the DWPZ.

**Question:** What is the proposed Austin Water Financial Policy for Drinking Water Protection Zone Projects?

**Answer:** Austin Water capital improvement projects for new water and wastewater treatment plants, capital expansions, and growth-related projects that are located in the Drinking Water Protection Zone (DWPZ) will be identified and submitted, as part of the annual budget process, to the Water and Wastewater Commission. The Water and Wastewater Commission will review growth-related DWPZ capital projects spending plans, obtain Commission and citizen input, review consistency with Imagine

Austin Comprehensive Plan, review effect on growth within the DWPZ, and make recommendations on project approval for inclusion in Austin Water's five-year capital spending plan.