

Austin Energy Quarterly Financial Report

2nd Quarter FY 2019 (October – March)

Mark Dombroski
Chief Financial Officer



May 13, 2019

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Disclaimer

This information is unaudited and should be read in conjunction with the audited Comprehensive Annual Financial Reports for the City of Austin, when published on:

<http://austintexas.gov/service/current-comprehensive-annual-financial-report>



Agenda

QUARTERLY Financial Report



Executive Summary



Financial Policy Compliance



Financial Performance Measures



Actual to Budget Analysis



Financial Statements



Market and Industry Analyses



Austin Energy Quarterly Financial Report

Executive Summary



Executive Summary



Substantially compliant with all financial policies. Capital Reserve balance below minimums but total cash above minimum of \$417m.



Generally meet financial metrics supporting AA credit rating.



\$ 631 Million Revenues

Operating revenues exceed forecast by 1.4% due to higher power supply and interests revenue offset with lower retail sales due to mild weather.



\$ 523 Million Expenses

Operating expenses exceed forecast by 4.7% due to higher ERCOT market prices from congestion coupled with planned outages.



Balance sheet is liquid and adequately capitalized. Cash balances trending downward due to energy sales lower than forecasted.



Maintaining excellent credit ratings assists Austin Energy in achieving its Affordability Goal. Austin Energy will sell \$475m in revenue bonds this Spring to fund Nacogdoches purchase and \$277m to refinance our Commercial Paper.

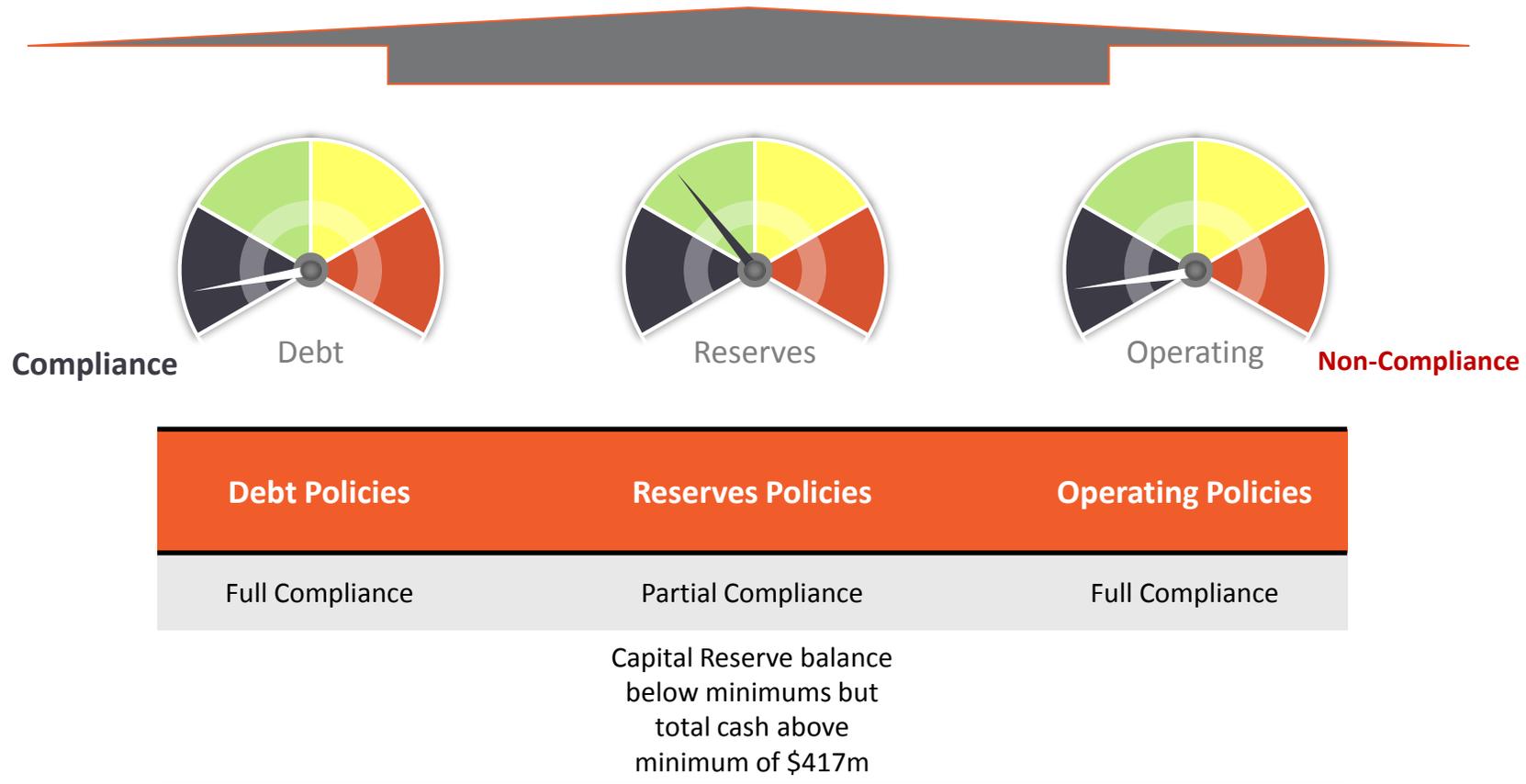


Austin Energy Quarterly Financial Report

Financial Policy Compliance



Financial policies are memorialized and adopted by ordinance each year during the budgeting process



Austin Energy Quarterly Financial Report

Financial Performance Measures



AA Standard & Poor's Global Ratings Achieved November 2018



Days Cash on Hand	Debt Service Coverage Ratio	Operating Margins	Debt to Capitalization
Minimum > 150 Days	Minimum > 2.0	Minimum > 10%	Minimum < 50%
Actual 221 Days	Actual 3.5	Actual 6.8%	Actual 44.1%
Excludes General Fund Transfer			



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Austin Energy's Affordability Goal has Two Metrics



Affordability Metric	Competitiveness Metric
Full Compliance Since 2013	Non-Compliance Since 2015
<p>Maintain system average rates at or below 2% annual compound growth rate that began October 2012.</p>	<p>Maintain an average annual system rate in the lower 50% of all Texas utilities serving residential, commercial and industrial customers as measured by published data from the Energy Information Administration (EIA) Form 861.</p>



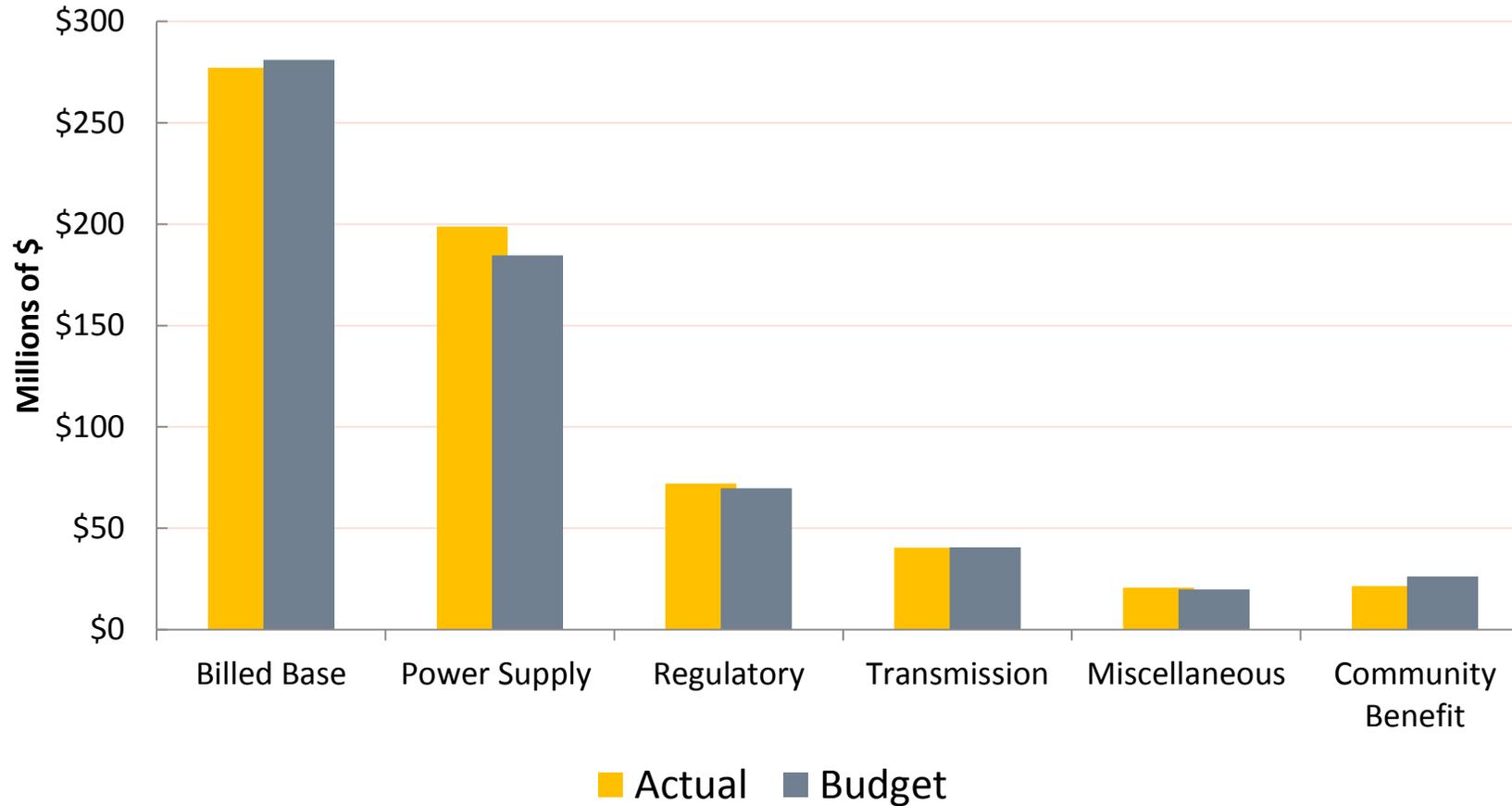
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Actual to Budget Analysis



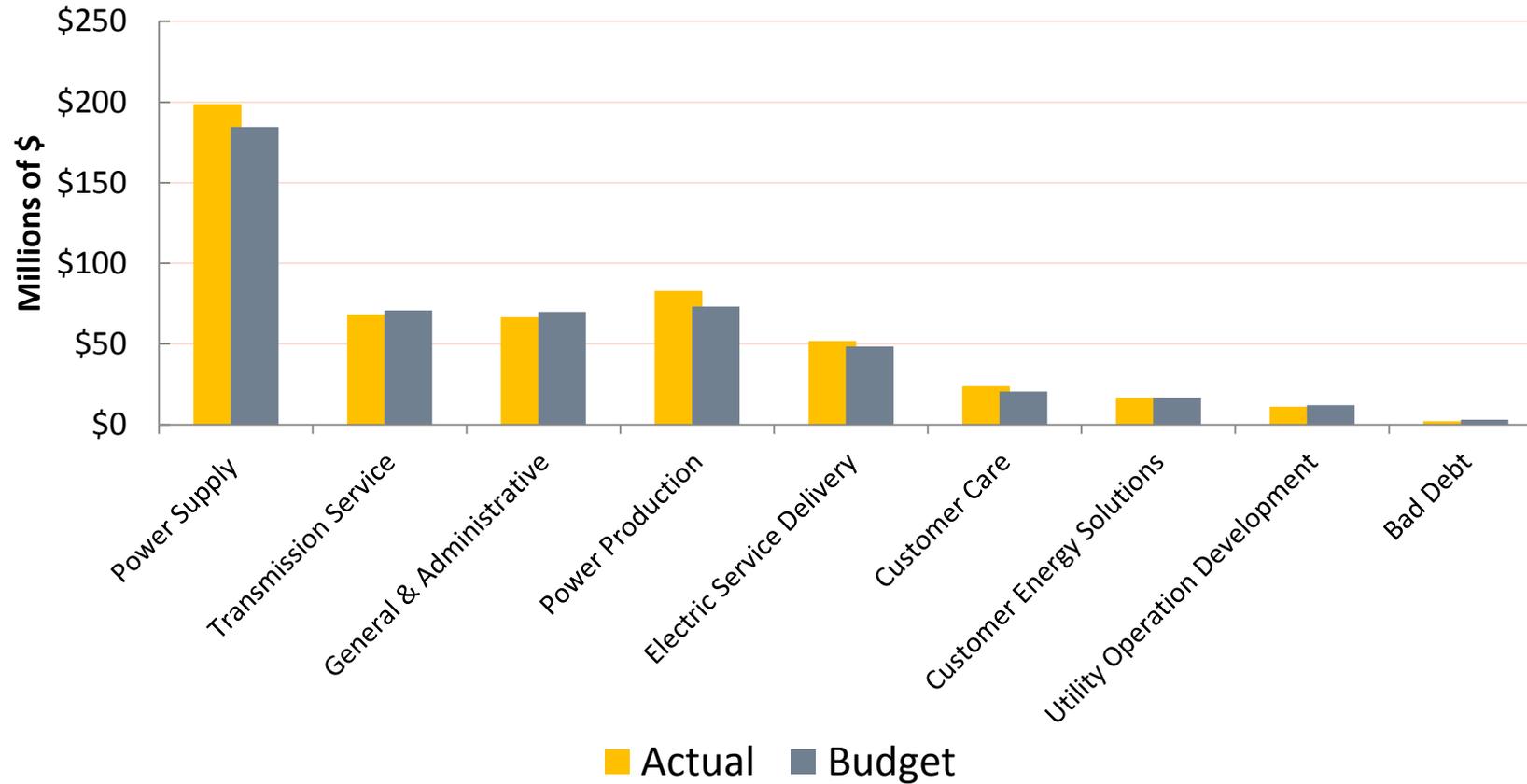
Actual to Budget Analysis

**Budget Based Operating Revenues
Fiscal Year Through March 31, 2019**



Actual to Budget Analysis

Budget Based Operating Expenses Fiscal Year Through March 31, 2019



Actual to Budget Analysis

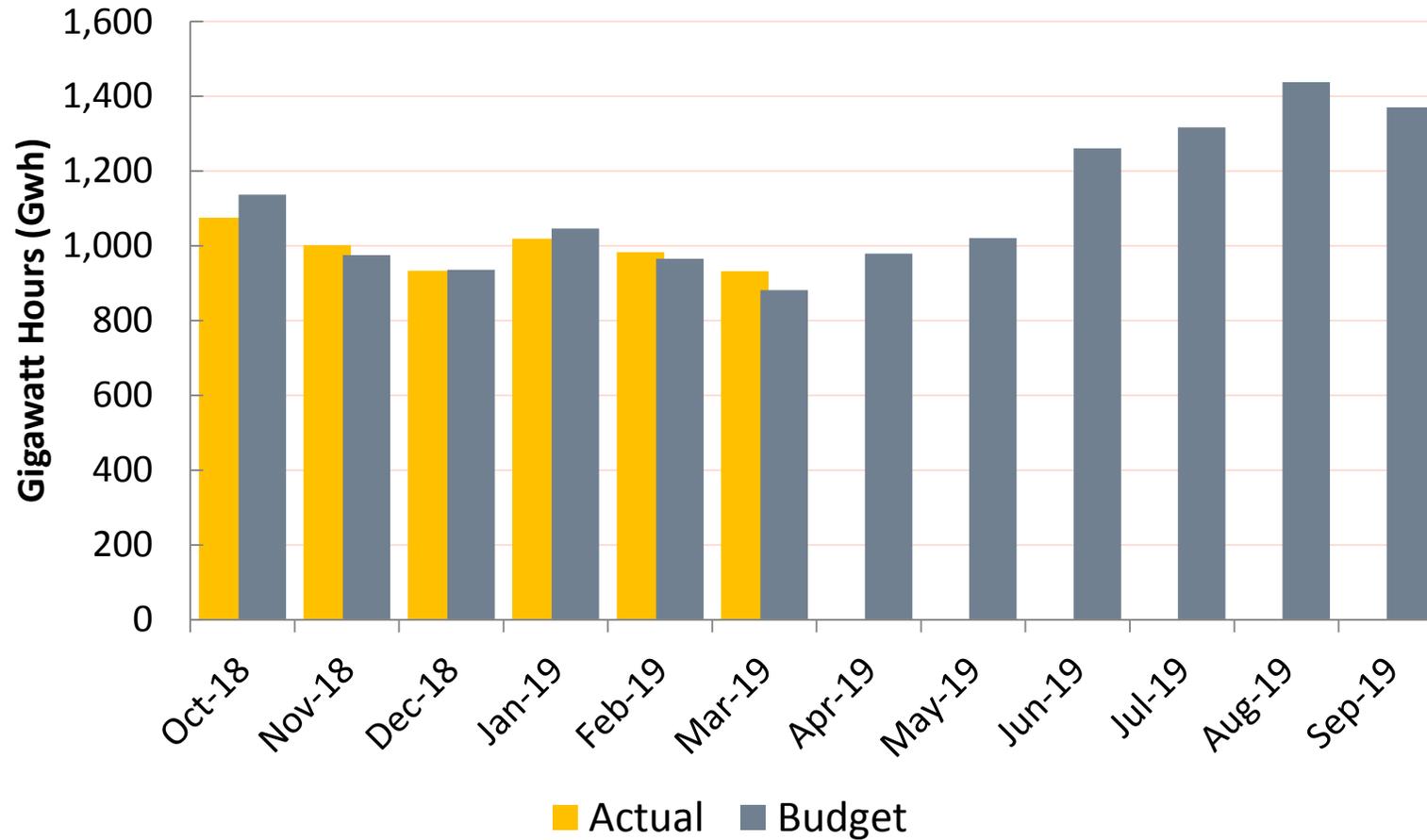
Budget Based Fund Summary Fiscal Year Through March 31, 2019

Millions of \$			Variance to Budget Favorable (Unfavorable)		Variance to Prior Year Favorable (Unfavorable)		
	Actual	Budget	Amount	%	Prior Year Actual	Amount	%
Operating Revenues	\$630.7	\$622.1	\$8.6	1.4%	\$617.7	\$13.0	2.1%
Operating Expenses	522.5	499.3	(23.2)	(4.7%)	486.9	(35.6)	(7.3%)
Operating Income (Loss)	\$108.2	\$122.8	\$(14.6)	(11.9%)	\$130.8	\$(22.6)	(17.2%)
Interest Revenue	8.2	4.5	3.7	81.1%	4.7	3.5	70.7%
Debt Service	(41.7)	(38.9)	(2.8)	(6.9%)	(41.0)	(0.7)	(1.7%)
Income (Loss) Before Transfers	\$74.7	\$88.4	\$(13.7)	(15.5%)	\$94.5	\$(19.8)	(21.0%)
Administrative Support	(14.5)	(14.5)	0	0%	(13.0)	(1.5)	(11.2%)
General Fund	(55.0)	(55.0)	0	0%	(54.5)	(0.5)	(0.9%)
Economic Development	(4.3)	(4.3)	0	0%	(3.4)	(0.9)	(24.2%)
CTM Fund	(5.0)	(5.0)	0	0%	(4.3)	(0.7)	(15.9%)
Other City Transfers	(1.2)	(1.2)	0	0%	(1.1)	(0.1)	(12.6%)
Internal Transfers / CIP	(73.3)	(73.3)	0	0%	(64.3)	(9.0)	(8.9%)
Excess (Deficiency) of Revenues	\$(78.6)	\$(64.9)	\$(13.7)	(21.0%)	\$(46.1)	(32.5)	(70.3%)



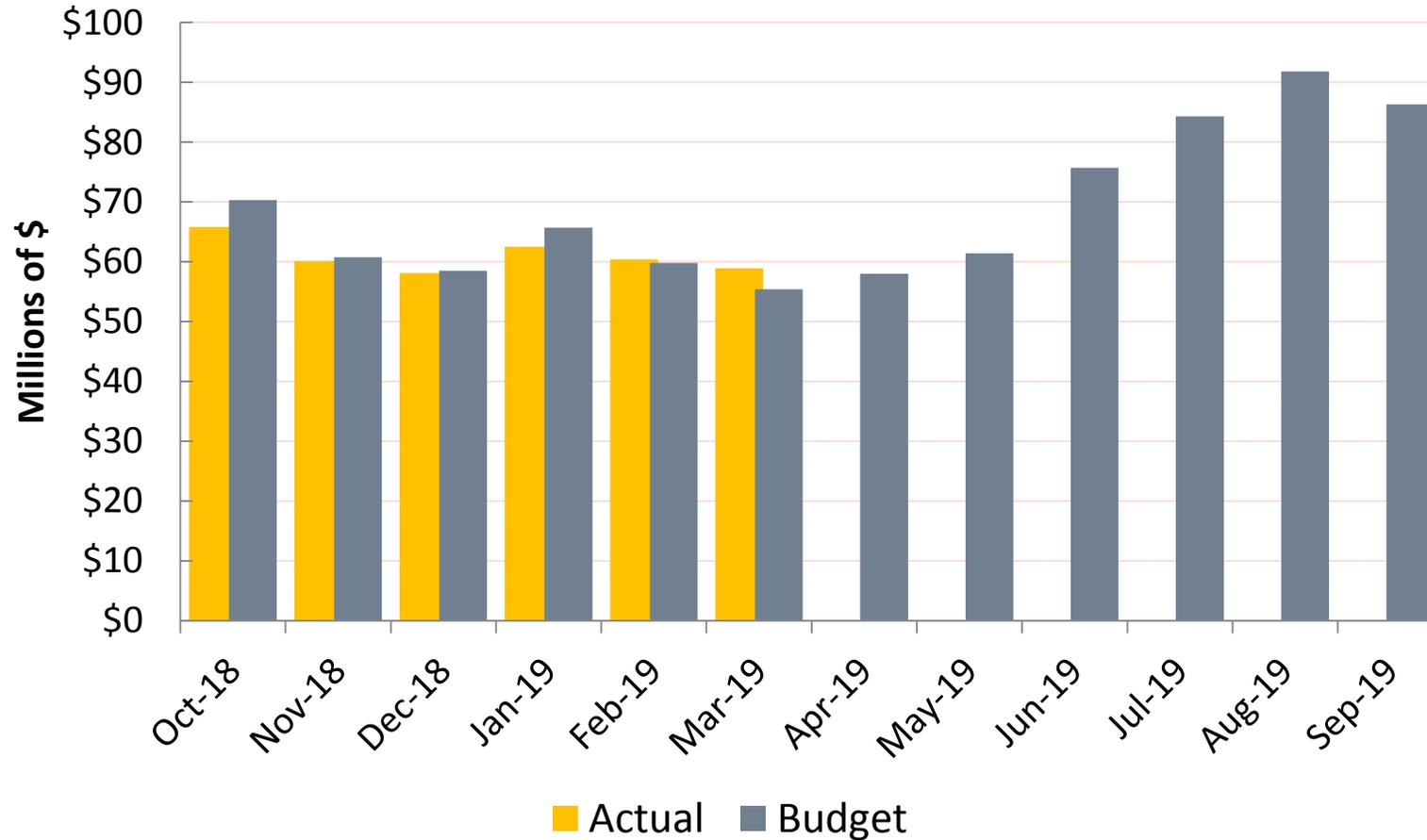
Actual to Budget Analysis

Actual to Budget Retail Energy Sales



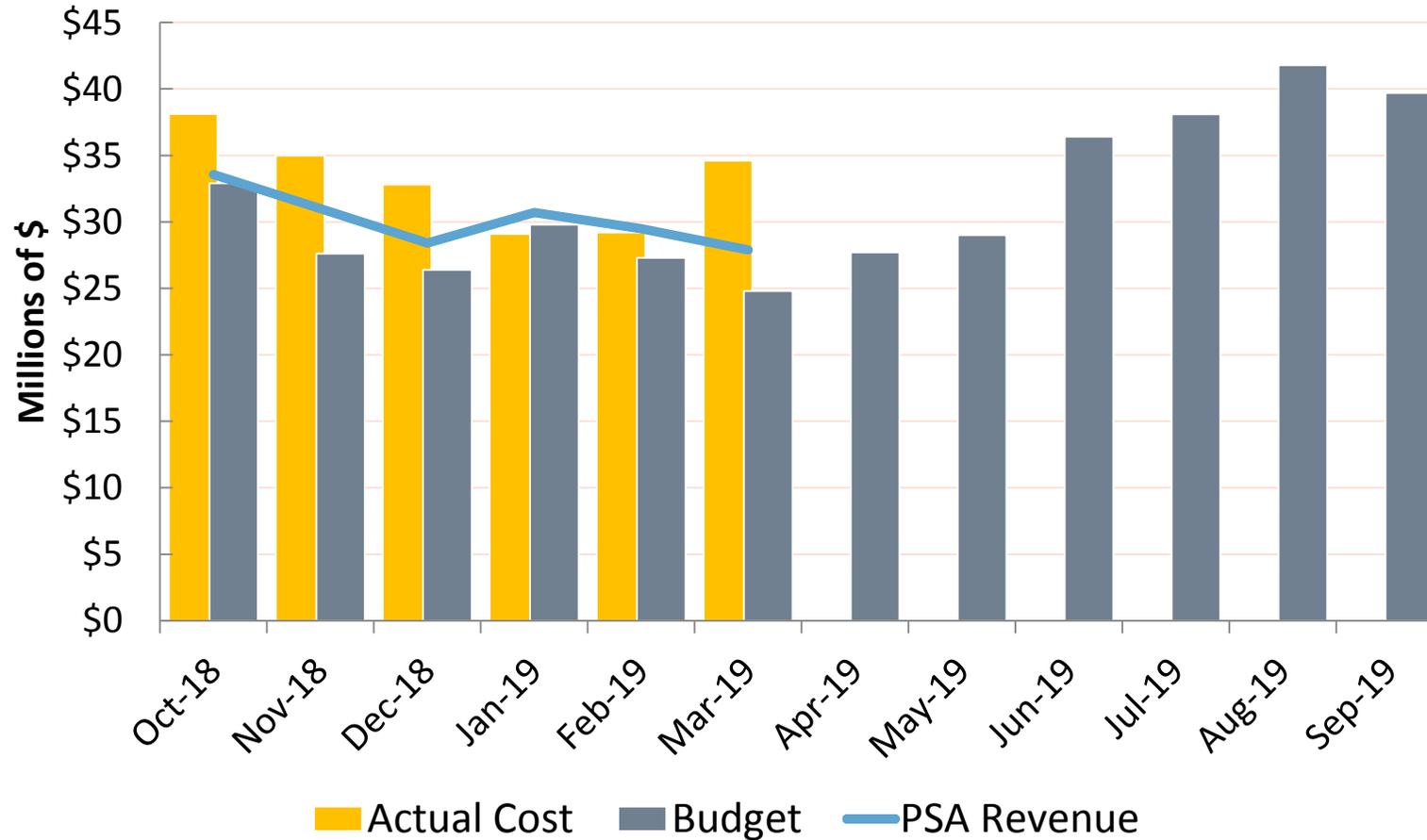
Actual to Budget Analysis

Actual to Budget Non-Power Supply Revenues



Actual to Budget Analysis

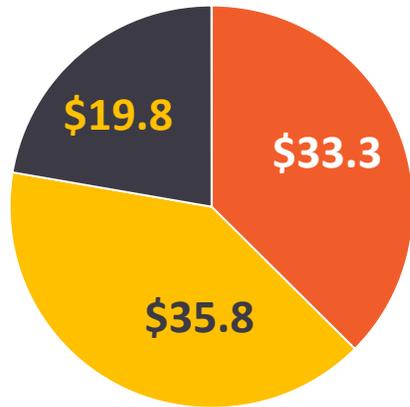
Actual to Budget Power Supply



Capital Improvement Plan Summary

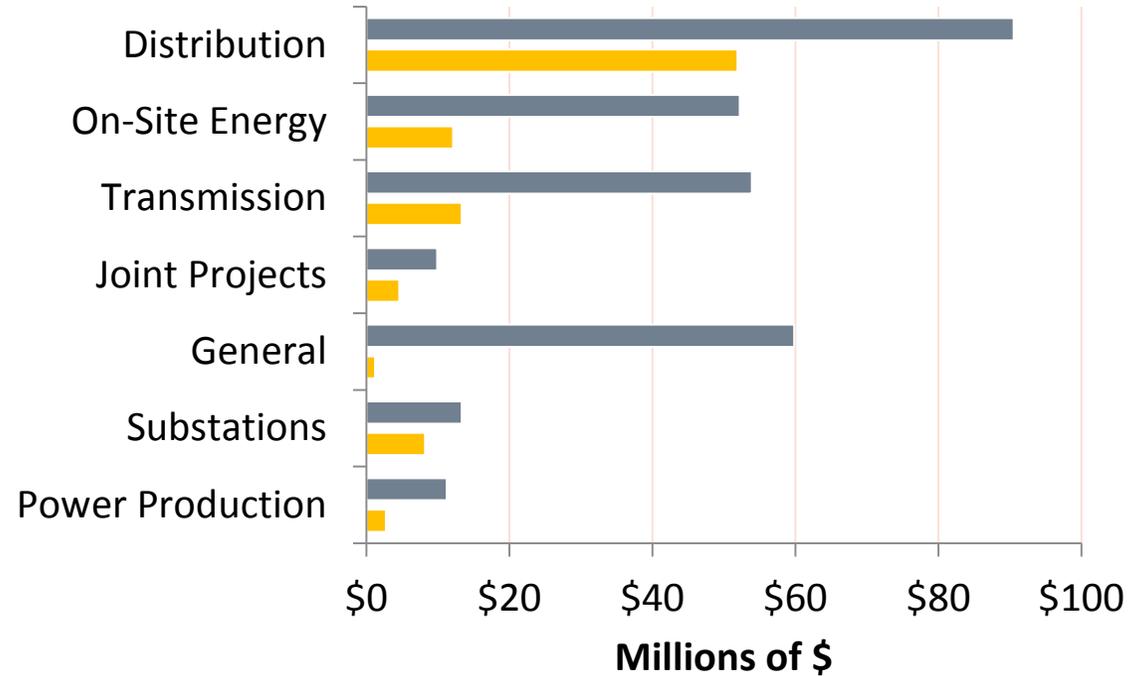
Fiscal Year Through March 31, 2019

Type of Financing



- Cash
- Debt
- Contributions in Aid of Construction

Type of Project

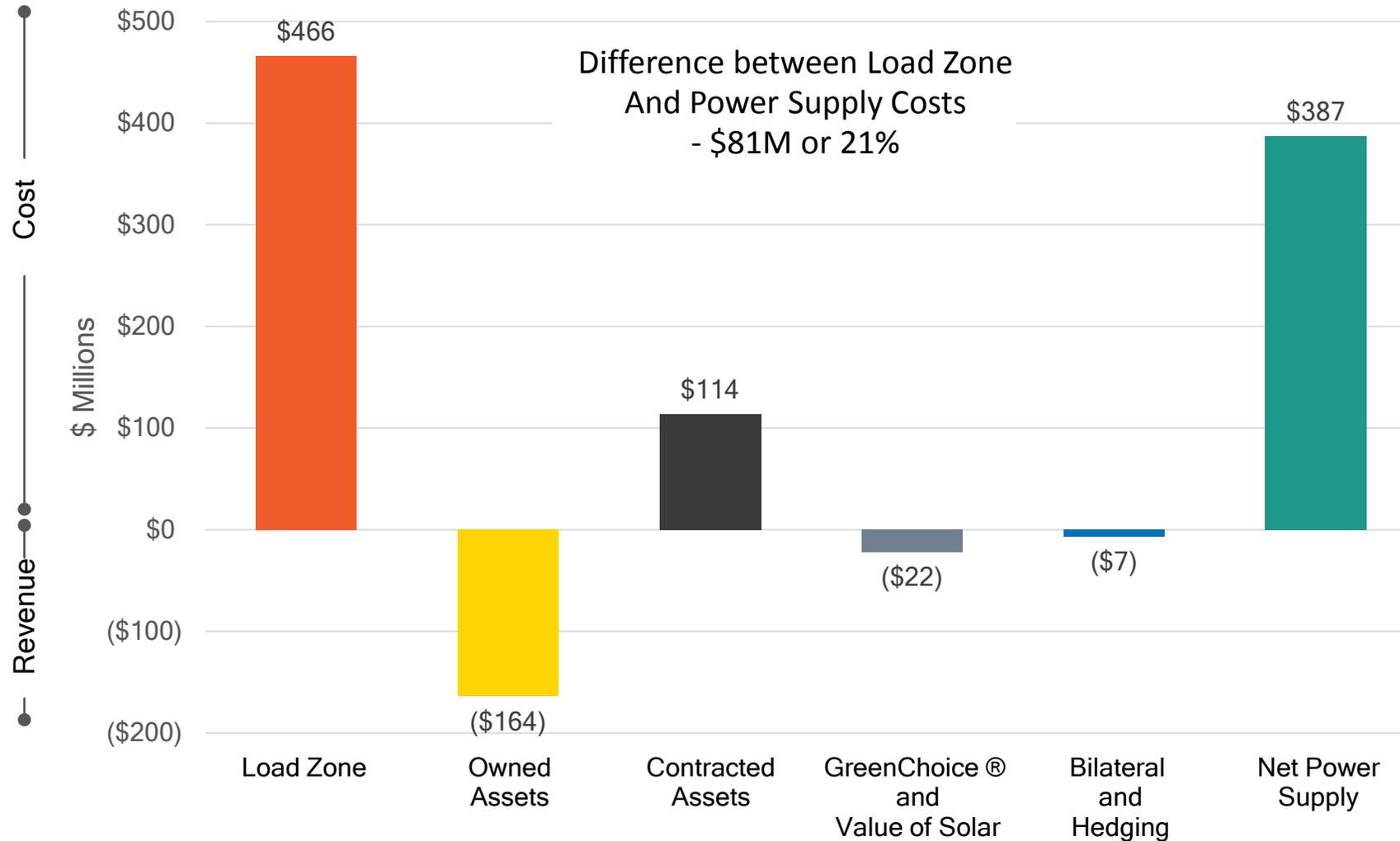


■ FY 2019 Spend Plan ■ Year-to-Date



Power Supply Adjustment Cost Components

Twelve Months March 2019



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Financial Statements

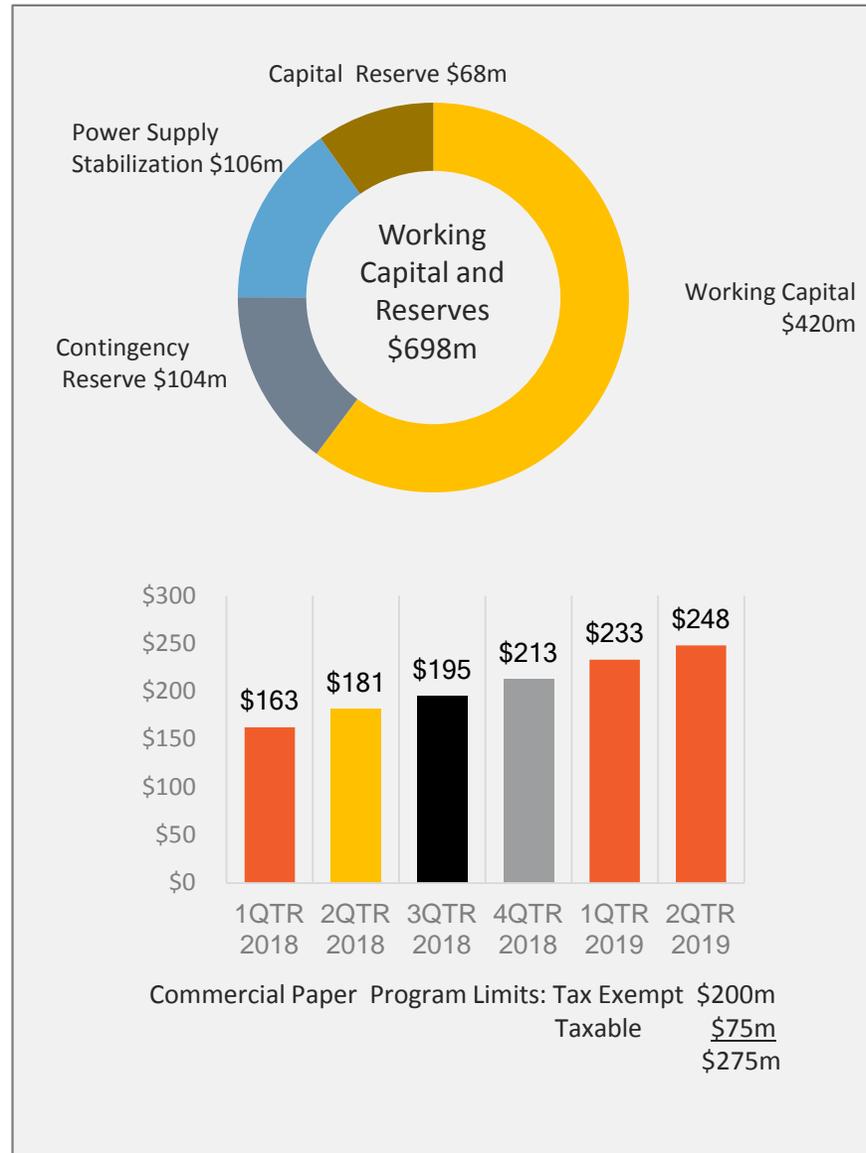


Balance Sheet Snapshot

\$ in Millions

Assets	Mar 2018	Mar 2019
Cash	\$389.4	\$420.4
Current Assets	272.5	264.6
Capital Assets	2,591.5	2,597.5
Long-Term Assets	1,204.5	1,420.2
Total Assets	\$4,457.9	\$4,702.7

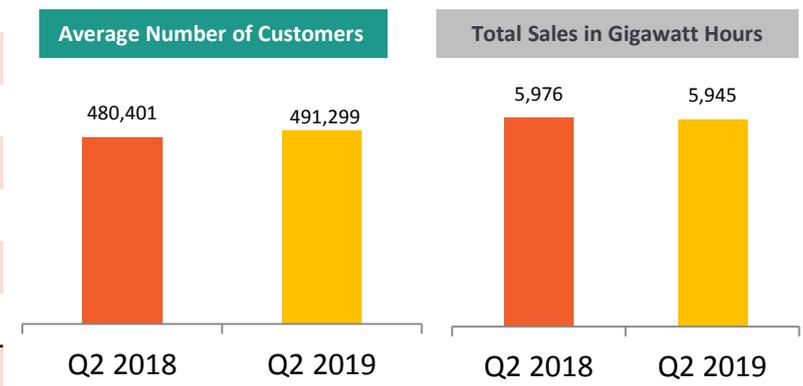
Liabilities and Fund Equity	Mar 2018	Mar 2019
Current Liabilities	\$184.7	\$197.4
Long-term Liabilities	2,047.4	2,223.8
Deferred Inflow of Resources	371.3	397.5
Retained Earnings	1,854.5	1,884.0
Total Liabilities & Fund Equity	\$4,457.9	\$4,702.7



GAAP Financial Summary

Comparative Statement of Net Position			
\$ in Millions	03/31/2018	03/31/2019	Change
Cash	\$389	\$420	\$31
Accounts Receivable (net)	94	105	11
Non-PSA Under-Recoveries	7	2	(5)
Debt Service	25	24	(1)
Contingency Reserve	98	103	5
Power Supply Stabilization Reserve	95	106	11
Capital Reserve	43	68	25
Nuclear Decommissioning Reserve	218	226	8
Other Restricted Assets	123	115	(8)
Other Assets	775	937	162
Capital Assets	2,591	2,597	6
Total Assets	\$4,458	\$4,703	\$245
Other Current Liabilities	\$129	\$133	\$4
Power Supply Over-Recovery	28	17	(11)
Non-PSA Over-Recoveries	8	24	16
Revenue Bonds	1,284	1,238	(46)
Commercial Paper	181	248	67
Other Long-Term Liabilities	974	1,159	185
Retained Earnings	1,854	1,884	30
Total Liabilities and Fund Equity	\$4,458	\$4,703	\$245

Income Statement		
\$ in Millions	12 Months Ending	
	03/31/2018	03/31/2019
Operating Revenues	\$920	\$946
Power Supply Revenues	437	468
Power Supply Expenses	437	468
Non-Power Supply Expenses	617	684
Depreciation Expense	165	167
Operating Income/(Loss)	\$138	\$95
Other Revenue (Expense)	(1)	45
General Fund Transfer	(109)	(110)
Net Income/(Loss)	\$28	\$30
Debt Service Coverage	3.9	3.5
Debt Equity Ratio	44%	44%



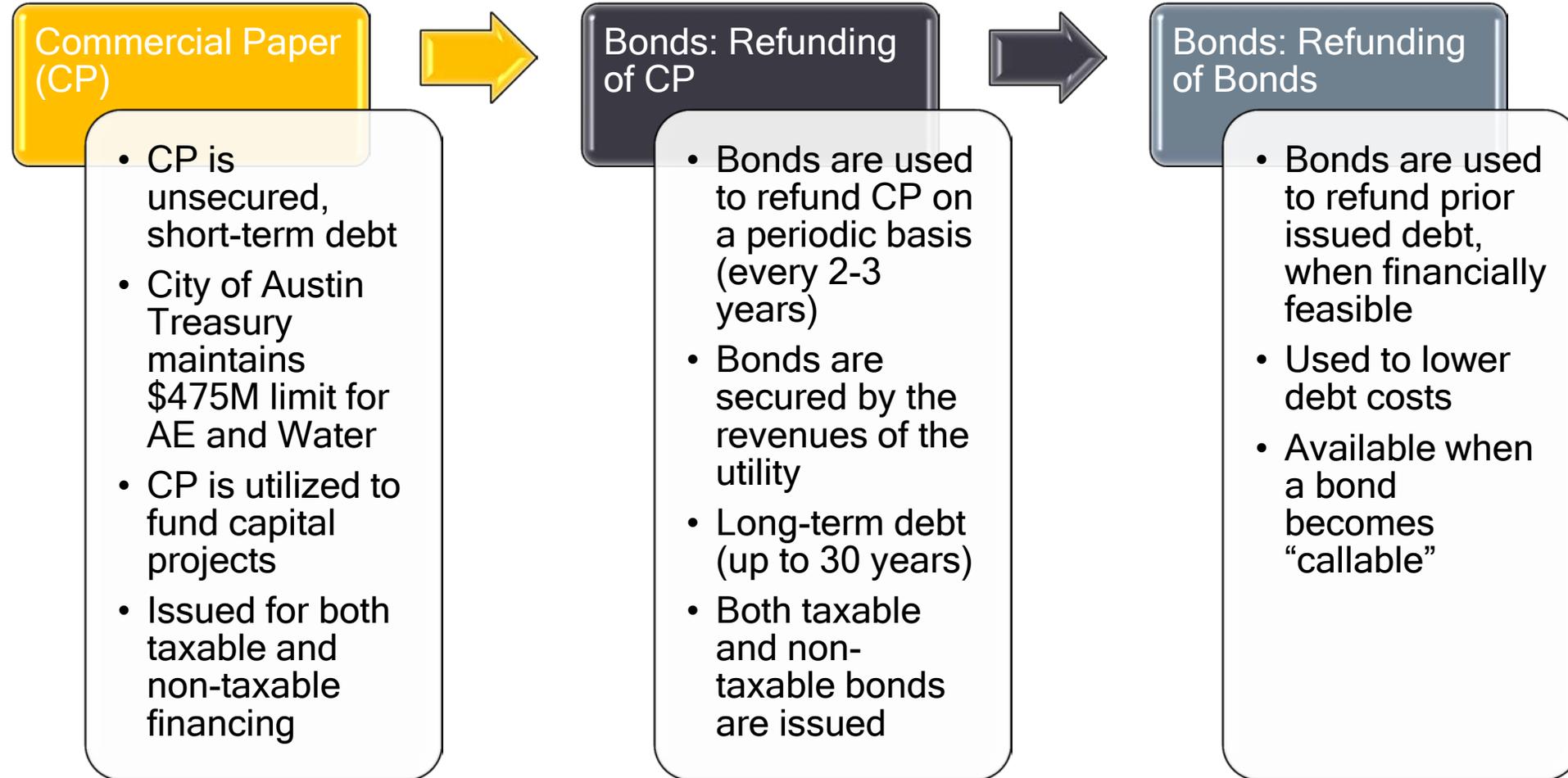
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Austin Energy Quarterly Financial Report

Market and Industry Analyses



Capital Project Funding



Credit Rating Agencies

Austin Energy Engages Three Major Agencies



Credit Rating Agency	Rate Range		Austin Energy's Rating & Outlook
	Default/Highest Risk	Highest Credit Quality	
Fitch Inc.	D, C, CC, CCC, B, BB, <u>BBB</u> , A, AA , AAA + or - indicates strength or weakness in the assigned rating		AA- / Stable
Moody's	B3, B2, B1, Ba3, Ba2, Ba1, <u>Baa3</u> , Baa2, Baa1, A3, A2, A1, Aa3 , Aa2, Aa1, Aaa		Aa3 / Stable
Standard & Poor's	D, C, CC, CCC, B, BB, <u>BBB</u> , A, AA , AAA + or - indicates strength or weakness in the assigned rating		AA / Stable

High-Yield or "Junk" ————— Investment Grade



Moody's Credit Opinion

November 20, 2018

Credit Strengths

- Strong and growing service area incorporated in the Aaa rating on the City of Austin's general obligation bonds
- Strong adjusted debt service coverage and sound liquidity with forecasts indicating continued sound results
- Municipally owned utility which benefits from unregulated rate setting
- Flexibility in the balance sheet owing to the modest debt ratio and conservative objectives not to exceed a 50% debt ratio
- Diverse generation mix that includes nuclear, coal, natural gas, and an increasing portfolio of energy efficiency measures and renewable energy sources, such as solar and wind

Credit Challenges

- Uneconomic biomass generation facility costing \$58 million annually (plus 3% annual increases) as a fixed capacity payment
- Maintaining competitiveness and sound financial profile while executing a power supply strategy which focuses on renewable energy, efficiency programs and reducing carbon emissions
- Reducing carbon dioxide (CO2 power plant emissions) 20% below 2005 levels by 2020 while balancing rate impacts
- Deregulated Texas retail electricity market could create competitive pressures particularly for coal-fired base load generation units
- Commodity price risk tied to the natural gas component of the fuel mix
- Political involvement in power resource decisions and rate setting
- Above average level of transfers to the City of Austin's General Fund
- Long-term nuclear decommissioning obligation for its 16% ownership interest in the 1,250 MW South Texas Project (STP). STP has operating license through 2048.



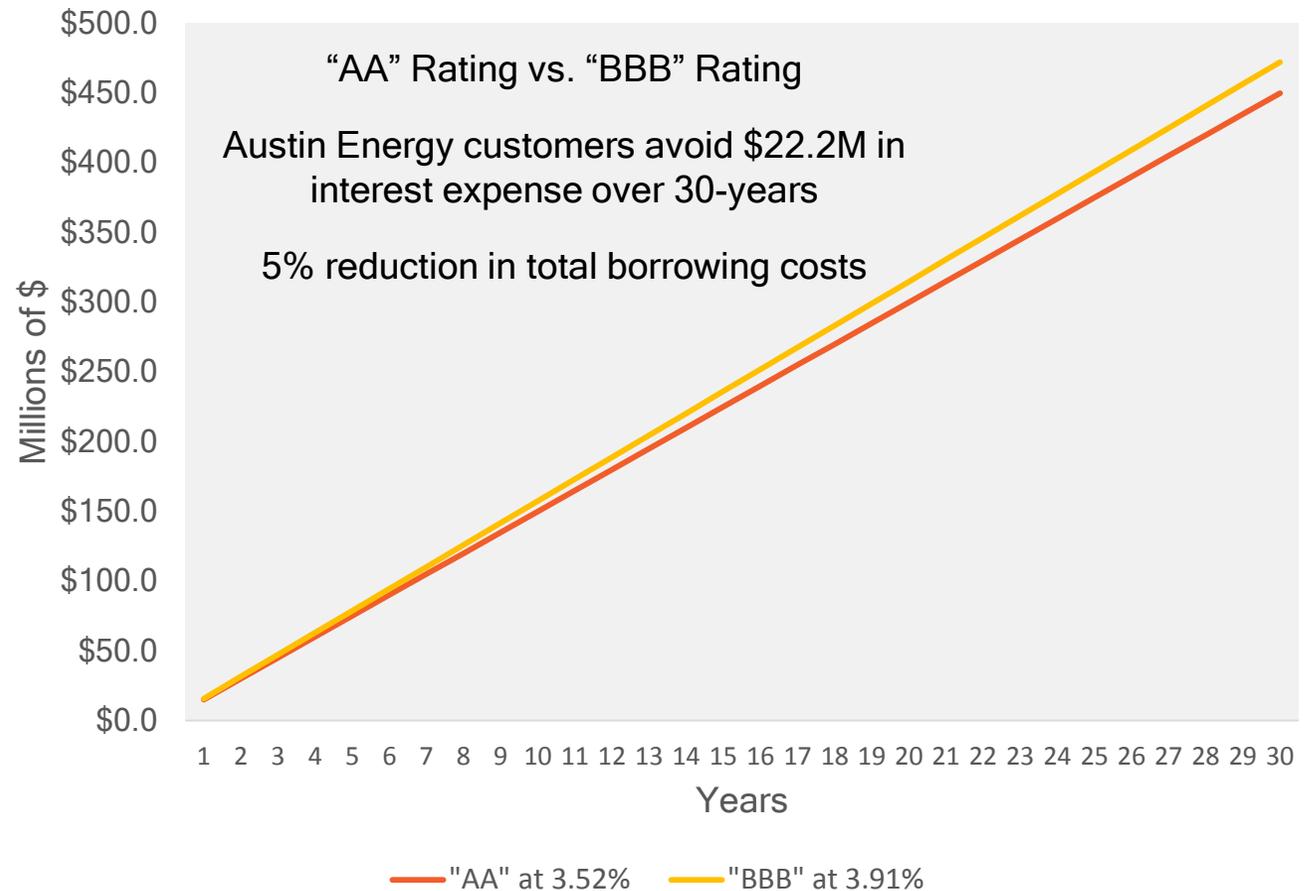
Impact of Credit Rating on Debt Service

Credit Ratings are an Important Indicator to Investors

Austin Energy's credit ratings are assigned by agencies based on their analysis of the credit risks associated with business and regulatory risks, financial risks, management quality and ability to service debt.

Austin Energy's current investment-grade ratings allows our customers to have lower bills. A rating downgrade would result in higher costs to borrow money and higher bills for our customers.

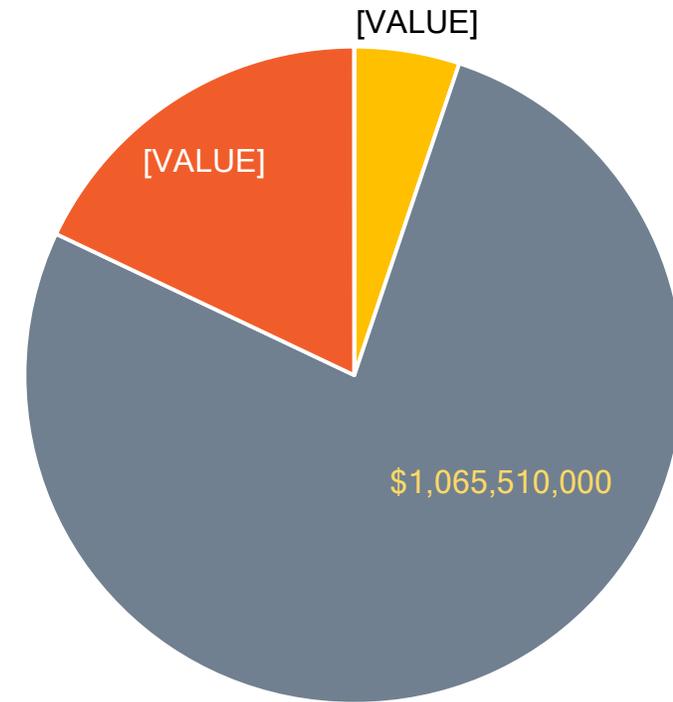
Debt Service Requirements for \$275M Issuance



Current Debt Levels

Outstanding Bonds and Commercial Paper

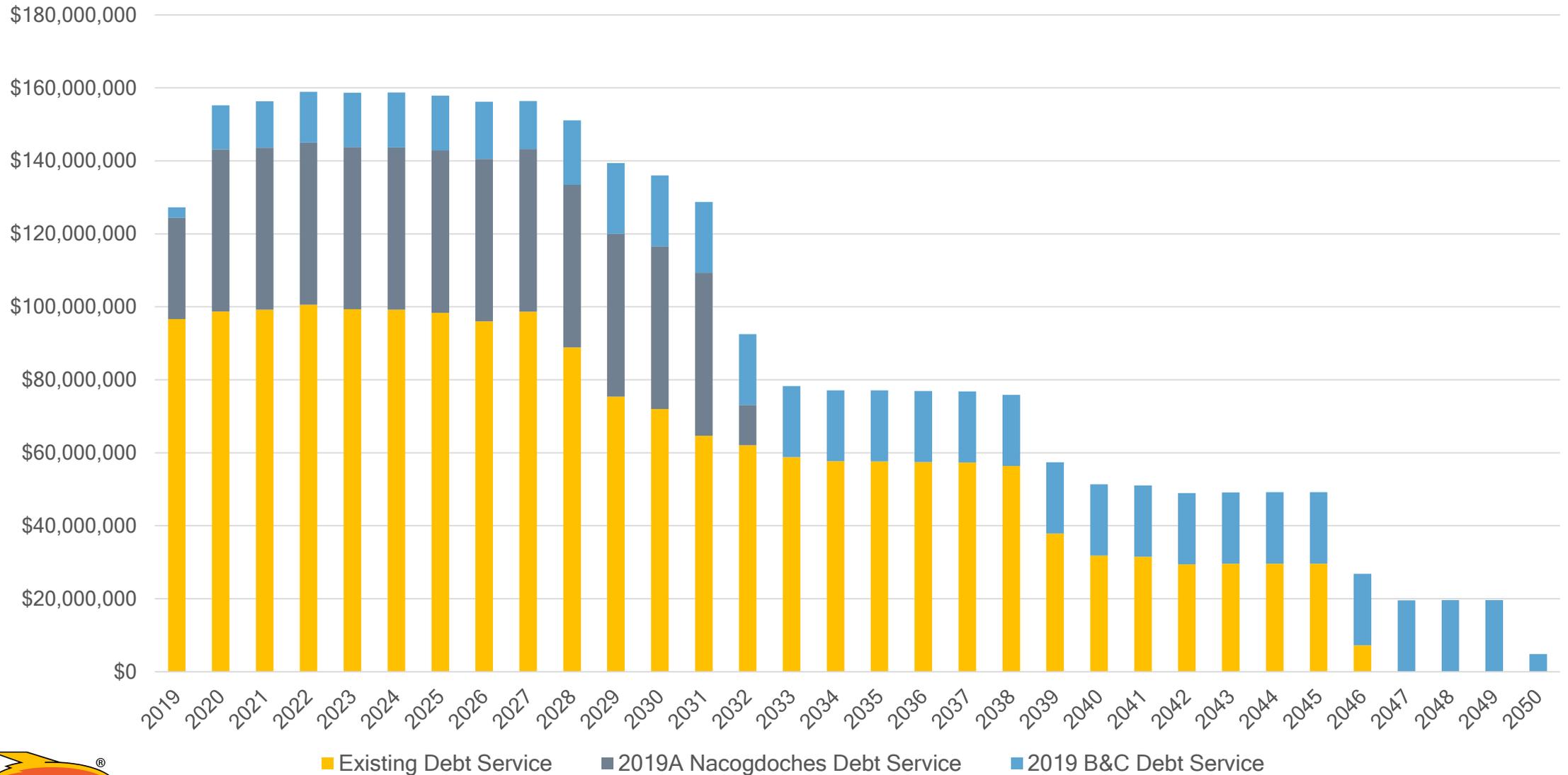
Austin Energy currently has \$1.137 billion of principal in long-term debt and \$248 million in short-term Commercial Paper debt.



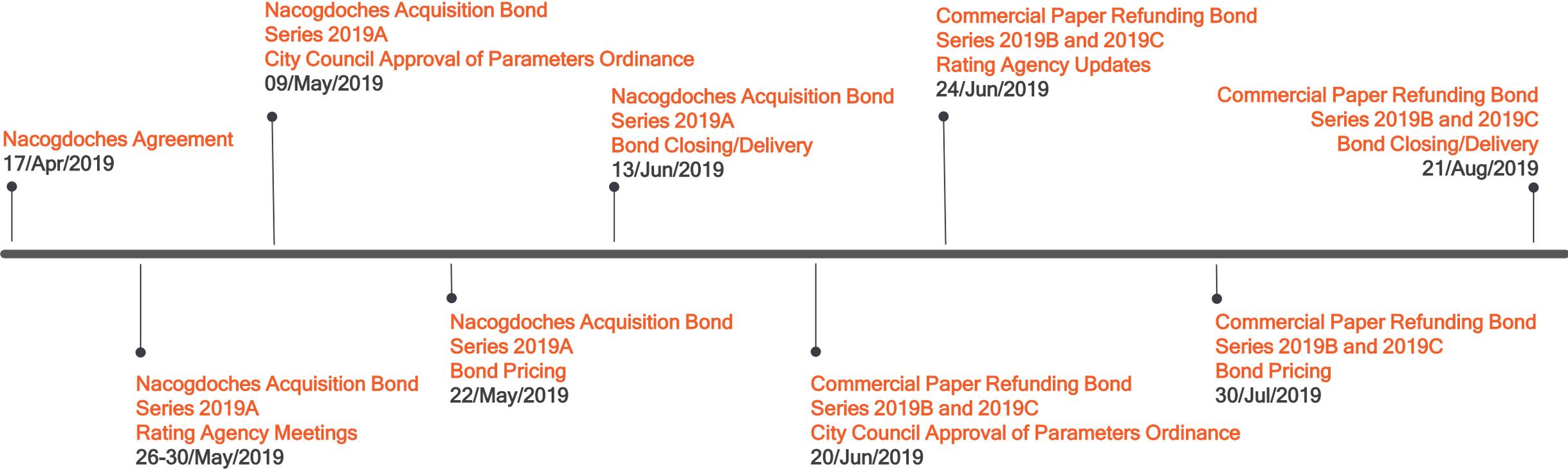
- Prior Subordinate Lien Obligations
- Parity Electric Utility Obligations
- Commercial Paper



Electric Utility System Revenue Bond Debt Service



Key Financial Milestones for Proposed Bond Sales





**Customer Driven.
Community Focused.**

