Letters of Credit

1. A City department may accept letters of credit for less than $10,000 from any bank or savings and loan if the total Citywide exposure for that institution is less than $250,000.

   A City department may accept any letter of credit that is 110% collateralized by an acceptable investment instrument registered in the City's name. The Treasurer's Office must receive safekeeping receipts for all collateral before the letter of credit is accepted. If the value of the collateral falls below 105% of the letter of credit value, the Treasurer's Office will make a margin call.

   Letters of credit that are not collateralized, and are $10,000 or more, which are issued by an institution whose total Citywide exposure is $250,000 or more, may be accepted only if the issuer meets the following criteria:

   Banks

   - Equity capital of at least $5 million;
   - Capital Evaluation Rating of Well Capitalized according to Federal Deposit Insurance Corporation capitalization thresholds for depository institutions;
   - Veribanc rating of "Green"; and
   - Total letters of credit held by the City at each bank totaling no more than 50% of the bank's equity capital.

   Credit Unions

   - Equity capital of at least $5 million;
   - Core capital as a percent of total assets of at least 7%;
   - Veribanc rating of "Green"; and,
   - Total letters of credit held by the City at each credit union totaling no more than 50% of the credit union's equity capital.

   Foreign banks do not report financial data to the Federal Deposit Insurance Corporation, which prevents financial analysis. Therefore, foreign banks are not acceptable institutions to issue letters of credit to the City of Austin, unless approved by the City Treasurer.

   The City of Austin will draw on any letter of credit if a bank or credit union no longer meets the criteria. The City will not accept new letters of credit issued by institutions that do not meet these criteria.

   Each department will provide the Treasurer's Office with a quarterly report listing dollar values, by institution, of that department's letter of credit. The Treasurer's Office will prepare a quarterly report indicating total City-wide exposure at each financial institution.

   Letters of credit that support an Energy Market Agreement (Power Purchase Agreement, ISDA, EEI, or NAESB) with Austin Energy are governed by Austin Energy's Letter of Credit Policies for

Energy Market Agreements, as enacted and overseen by Austin Energy's Risk Oversight Committee.

Austin Water Financial Policies

1. The term of debt generally shall not exceed the useful life of the asset, and shall not generally exceed 30 years.

2. Capitalized interest shall only be considered during the construction phase of a new facility if the construction period exceeds seven years. The time frame for capitalizing interest may be three years but not more than five years. Council approval shall be obtained before proceeding with a financing that includes capitalized interest.

3. Principal repayment delays on revenue bonds shall be one to three years, but shall not exceed five years.

4. Each utility shall maintain a fully funded debt service reserve for its existing revenue bond issues and future issues, in accordance with the Combined Utility Systems Revenue Bond Covenant.

5. Debt service coverage of at least ~~1.50x~~ 1.75x shall be targeted.

6. Short-term debt, including tax-exempt commercial paper, shall be used when authorized for interim financing of capital projects. The term of short-term debt shall not exceed five years. Commercial paper will be converted to refunding bonds when appropriate under economic and business conditions. Total short-term debt shall generally not exceed 20% of outstanding long-term debt.

7. Commercial paper may be used to finance new water and wastewater plants, capital expansions, and growth-related projects as well as to finance routine capital improvements required for normal business operation. Commercial paper for the necessary amount may also be used to finance improvements to comply with local, State and Federal mandates or regulations.

8. 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 Commissions~~ The Water and Wastewater 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.~~

9. Ongoing routine, preventive maintenance should be funded on a pay-as-you-go basis.

10. 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%~~ 35% to 50% is desirable.

11. Austin Water shall maintain a minimum quick ratio of 1.50 (current assets less inventory divided by current liabilities). Source of information shall be the Comprehensive Annual Financial Report.

12. Austin Water shall maintain operating cash reserves equivalent to a minimum of ~~60~~ 180 days of budgeted operations and maintenance expense.

Airport Financial Policies

1. Debt service coverage shall be targeted at a minimum of 1.25x.

2. The Debt Service Reserve shall be funded at the same time long-term debt is issued (typically equal to one year's average debt service requirement).

3. The term of long-term debt shall not exceed the expected useful life of the capital asset being financed, and in no case shall the life of the debt exceed 30 years.

4. Capitalized interest during construction shall generally not exceed five years. Council approval shall be obtained before proceeding with financing that includes capitalized interest.

5. The Airport shall maintain a ~~ratio of current assets plus operating reserve to current liabilities of at least 1.5x. Source of information shall be the Comprehensive Annual Financial Report.~~ minimum of 400 days cash on hand based on the budgeted operating and maintenance costs for a given year

6. ~~The~~ Aviation ~~Fund~~ shall maintain ~~working capital~~ operating cash reserves ~~that is~~ equivalent to a minimum of 60 days of budgeted operations and maintenance expense.~~, in accordance with bond ordinance provisions (current assets plus operating reserve less current liabilities).~~