

# Austin Energy Quarterly Financial Report

3<sup>rd</sup> Quarter FY 2022 (April - June)

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August 30, 2022

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# Disclaimer

Certain information set forth in this presentation contains forecasted financial information. Forecasts necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance.

Although the forecasted financial information contained in this presentation is based upon what Austin Energy management believes are reasonable assumptions, there can be no assurance that forecasted financial information will prove to be accurate, as actual results and future events could differ materially from those anticipated in such forecasts.

In addition, this presentation contains unaudited information and should be read in conjunction with the audited Annual Comprehensive Financial Reports for the City of Austin, which was published on March 14, 2022:

[http://finance.austintexas.gov/web/controller/annual\\_comprehensive\\_financial\\_report/annual\\_comprehensive\\_financial\\_report\\_2021.pdf](http://finance.austintexas.gov/web/controller/annual_comprehensive_financial_report/annual_comprehensive_financial_report_2021.pdf)



# Agenda

## Quarterly Financial Report



# Austin Energy Quarterly Financial Report

## Executive Summary



# Executive Summary



AE is in partial compliance with its financial policies. Debt Service Coverage is below 2.0x. Contingency and capital reserve balances are also below minimums, but total cash is above the minimum of \$480m<sup>1</sup>.



Working capital decreased by \$159m year over year, primarily due to decreased margins, scheduled funding of CIP, and the reduction in the recovered Power Supply adjustment rate due to Winter Storm Uri.



**\$1.1**

Billion Operating Revenue

Operating revenue for June FYTD is 11% over budget, primarily due to increases in usage, base revenue, and power supply revenue due to hot weather.



**\$(1.2)**

Billion Expenses w/transfers

Operating expenses for June FYTD including transfers are 10% over budget, primarily due increases in power supply and power production expenses due to hot weather.



Austin Energy is meeting its target S&P bond rating of AA, but financial metrics show this to be at risk.



Fitch has downgraded its rating for Austin Energy's credit, from AA to AA-.



1. The policy framework considers a minimum of 150 days cash, with daily rate of cash expense measured at the time of budgeting.

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# Austin Energy Quarterly Financial Report

## Financial Policy Compliance



# Financial Policy Monitoring

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

Compliance Non-Compliance



Debt Policies	Reserves Policies	Operating Policies
Partial Compliance	Partial Compliance	Full Compliance
Actual 1.9x DSC Policy minimum is 2.0x DSC	Contingency and Capital Reserve balances are below minimums but total cash above minimum of \$480m <sup>1</sup>	



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# Austin Energy Quarterly Financial Report

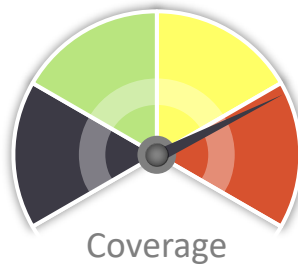
## Financial Performance Measures



# Ratings Monitoring

AE has held a AA rating from Standard & Poor's Global Ratings (S&P) since November 2018, but this rating is at risk given current financial metrics.

Excessive Deficient



Days Cash on Hand	Debt Service Coverage Ratio	Operating Margins	Debt to Capitalization
Minimum > 150 Days	Minimum > 2.0	Minimum > 10%	Minimum < 50%
Actual 141 Days	Actual 1.9	Actual -2.8%	Actual 55%
Daily expense here uses trailing twelve month actuals	Excludes General Fund Transfer		



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# Monitoring AE's Affordability Goal and Its Metrics



Affordability Metric	Competitiveness Metric
Full Compliance Since 2013	Full Compliance Since 2019
Maintain system average rates at or below 2% annual compound growth rate that began October 2012.	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.



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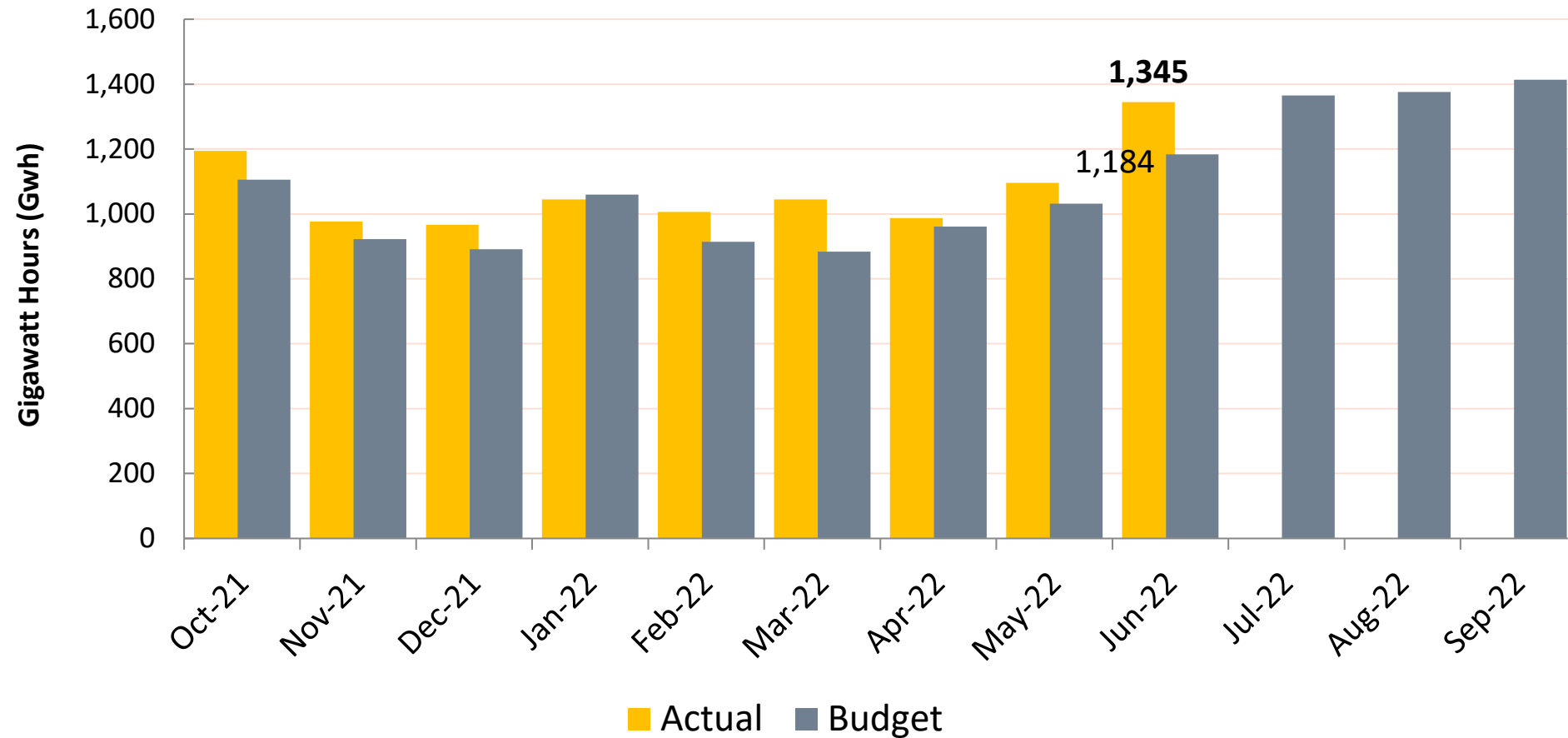
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# Austin Energy Quarterly Financial Report

## Actual to Budget Analysis

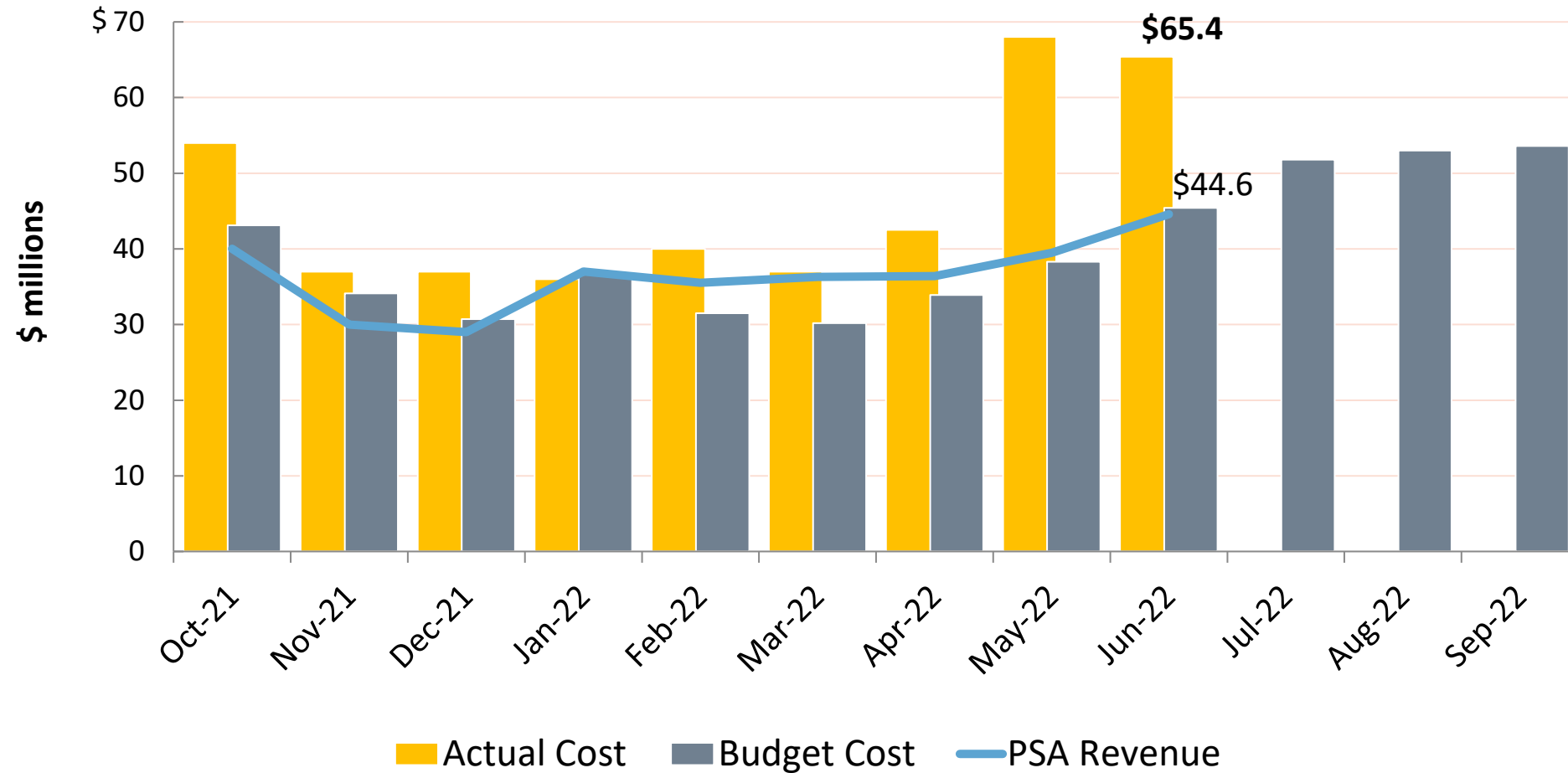


# Actual to Budget Analysis: Consumption



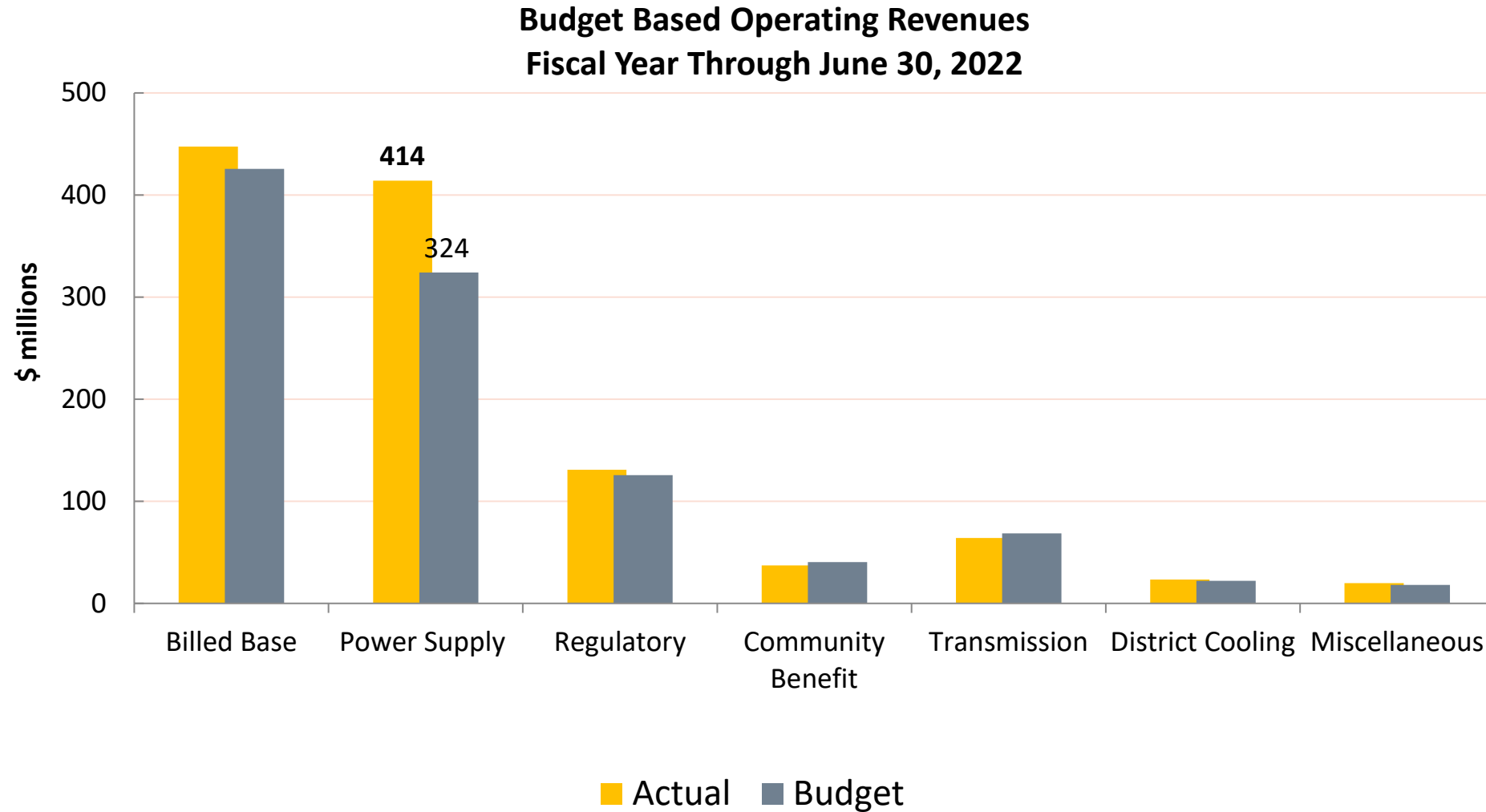
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# Actual to Budget Analysis: Power Supply Adjustment



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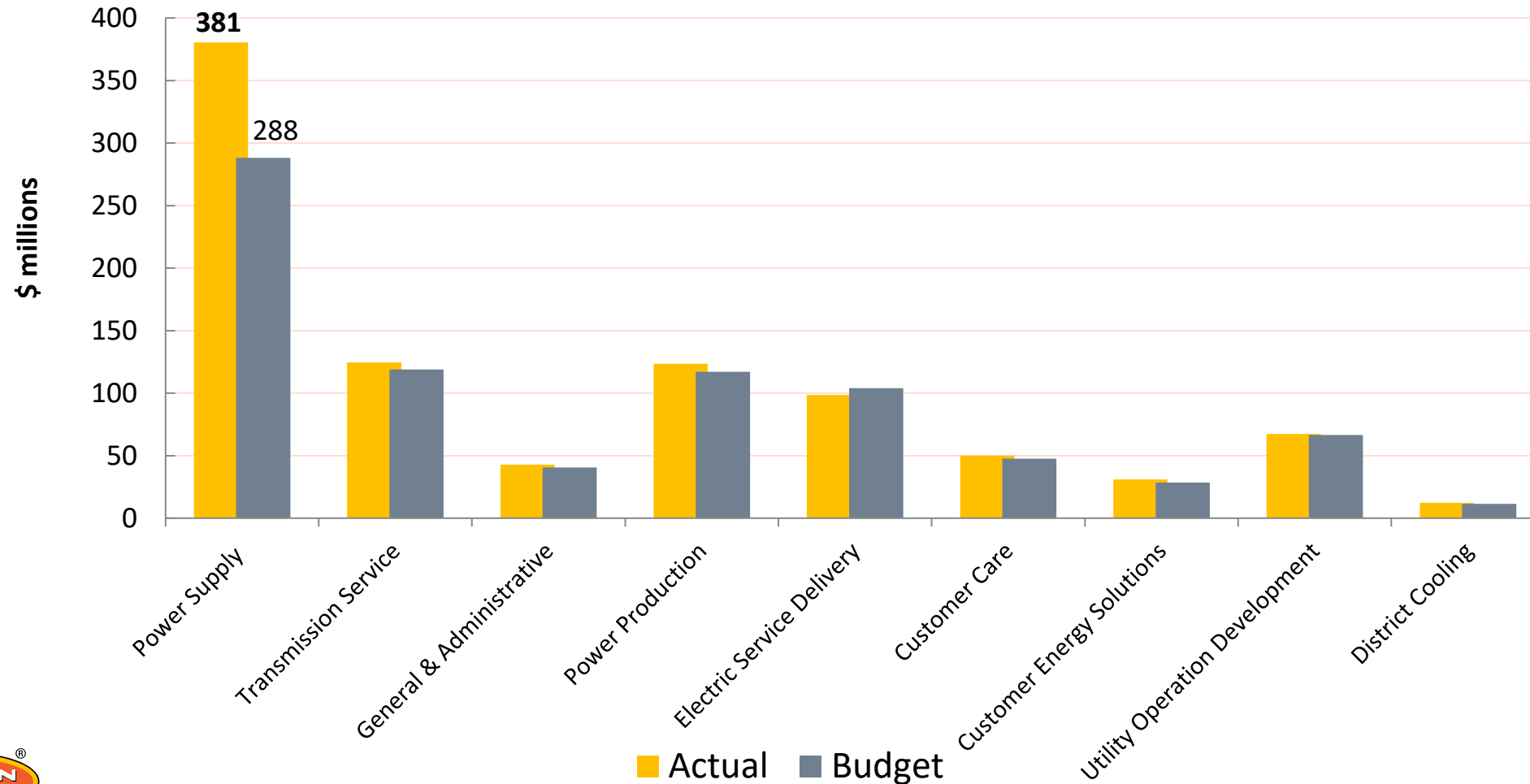
# Actual to Budget Analysis: Revenue



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# Actual to Budget Analysis: Expense

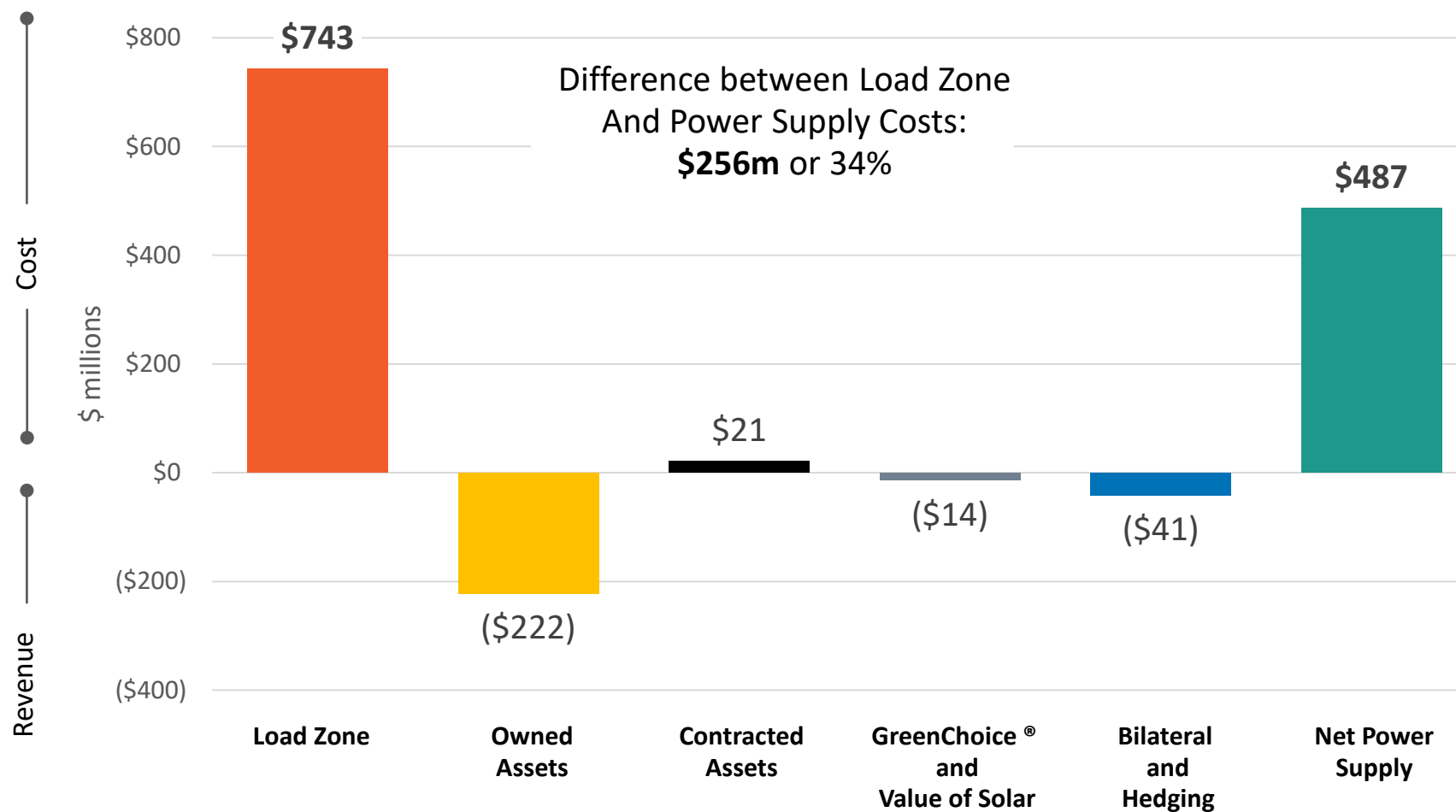
Budget Based Operating Expenses  
Fiscal Year Through June 30, 2022



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# Power Supply Adjustment Cost Components

Twelve Months Ending June 2022



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# Actual to Budget Analysis: Fund Summary

## Budget Based Fund Summary

Fiscal Year Through June 30, 2022

### Variance to Budget

Favorable (Unfavorable)

Millions of \$	Actual	Budget	Amount	%
Operating Revenues	\$1,137	\$1,025	\$112	11%
Operating Expenses	931	823	(108)	(13%)
<b>Operating Income (Loss)</b>	<b>\$206</b>	<b>\$202</b>	<b>\$4</b>	<b>2%</b>
Interest Revenue	2	3	(1)	(28%)
Debt Service	(109)	(108)	(1)	(1%)
<b>Income (Loss) Before Transfers</b>	<b>\$99</b>	<b>\$97</b>	<b>(\$2)</b>	<b>(3%)</b>
Administrative Support	(21)	(21)	0	0%
General Fund	(86)	(86)	0	0%
Economic Development	(7)	(7)	0	0%
CTM Fund	(9)	(9)	0	0%
Voluntary Utility Assistance Fund	(1)	(1)	0	0%
Other City Transfers	(2)	(2)	0	0%
Internal Transfers / CIP	(40)	(40)	(0)	0%
<b>Excess (Deficiency) of Revenues</b>	<b>(\$67)</b>	<b>(\$69)</b>	<b>\$2</b>	<b>4%</b>



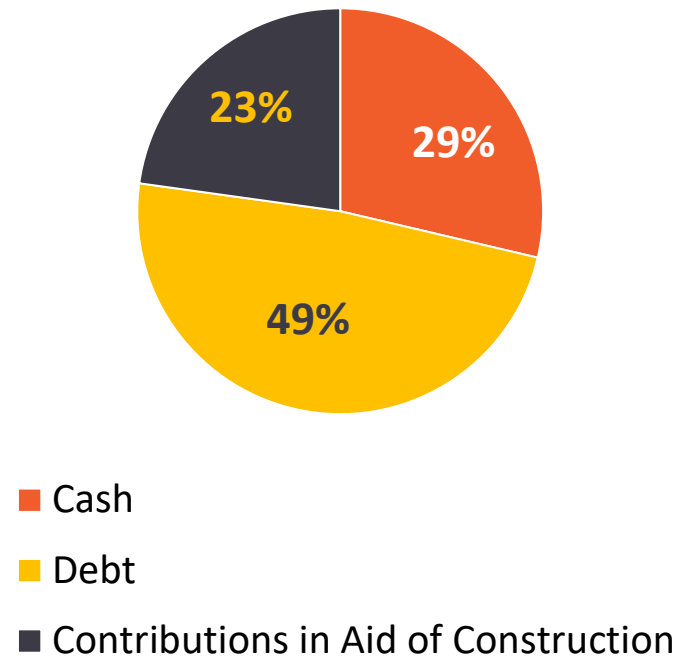
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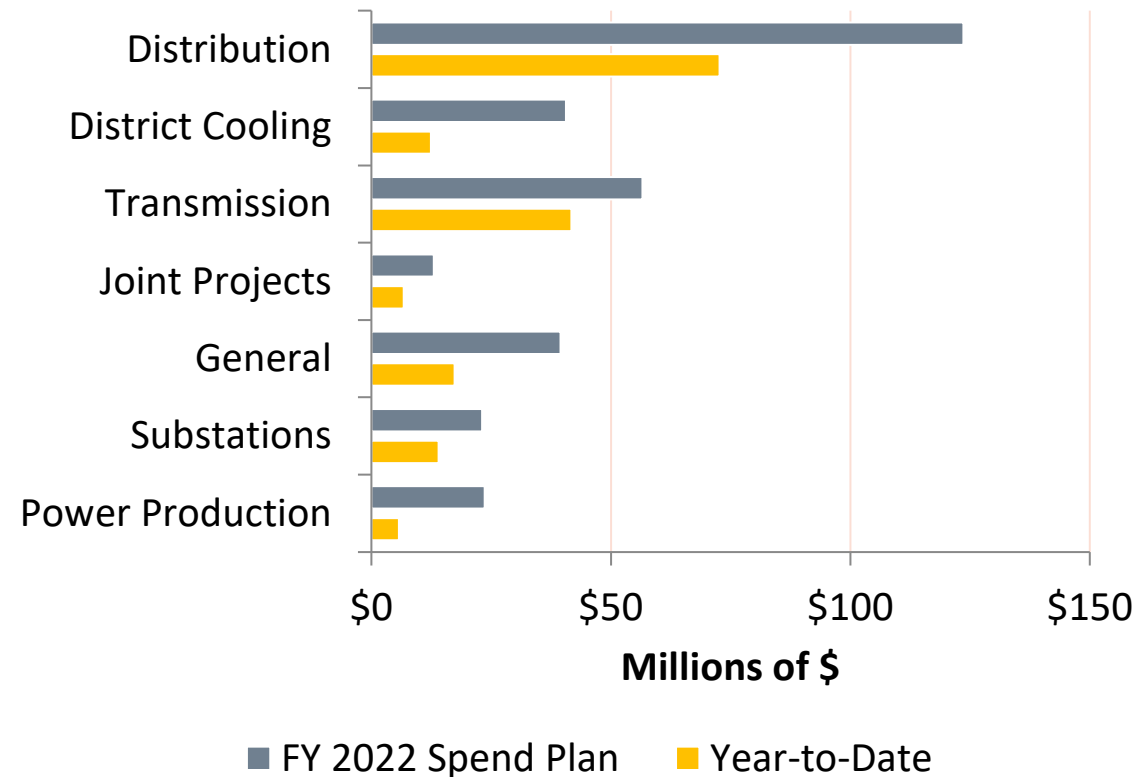
# Capital Improvement Plan Summary

Fiscal Year Through June 30, 2022

## Type of Financing



## Type of Project 53% of Spend Plan



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# Austin Energy Quarterly Financial Report

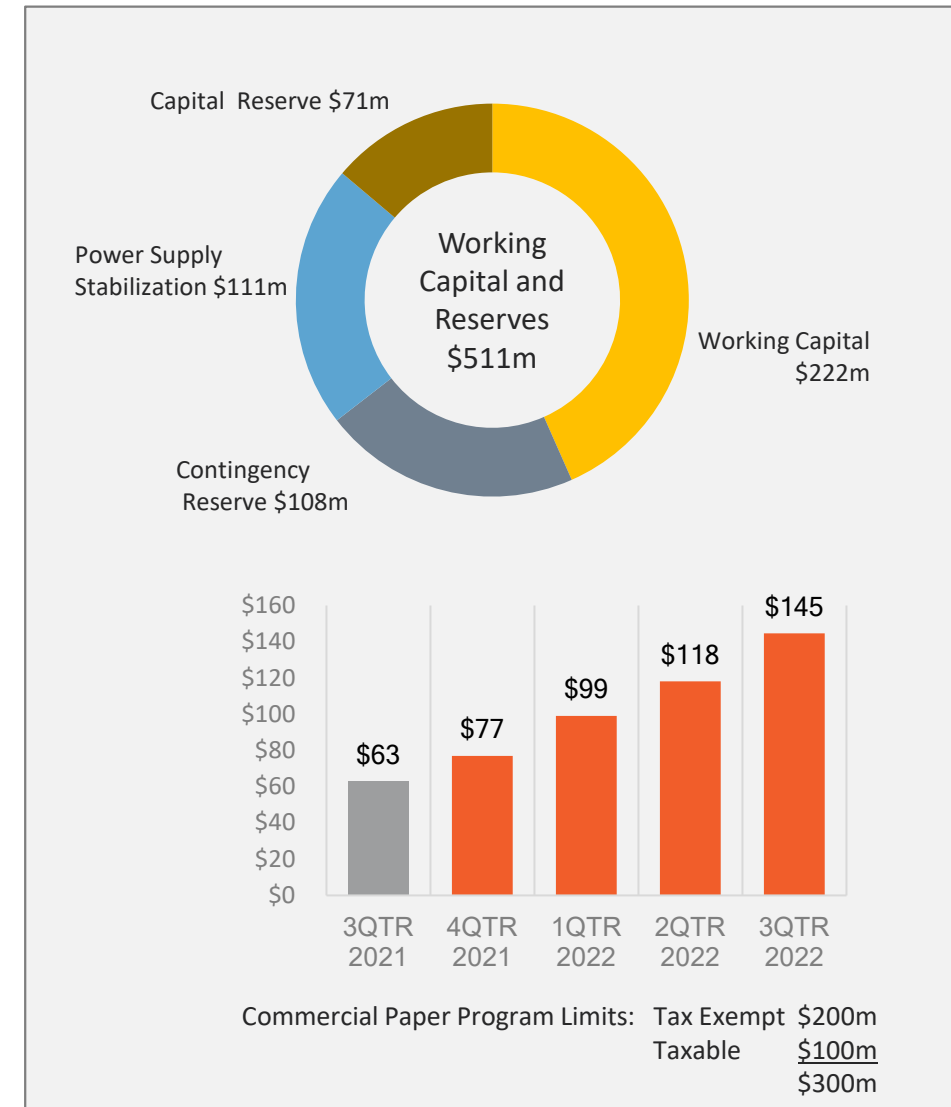
## Financial Statements



# Balance Sheet Snapshot

## Comparative Statement of Net Position

\$ in Millions	6/30/2022	6/30/2021
Cash	\$222	\$381
Other Current Assets	292	291
Operating Reserves	289	288
Nuclear Decommissioning Reserve	245	240
Other Restricted Assets	292	172
Capital Assets	3,004	3,054
Other LT Assets & Deferred Outflows	1,685	1,525
<b>Total Assets and Deferred Outflows</b>	<b>6,029</b>	<b>5,951</b>
Other Current Liabilities	302	181
Revenue Bonds	1,971	2,070
Commercial Paper	145	63
Other LT Liabilities & Deferred Inflows	1,849	1,839
Retained Earnings	1,762	1,798
<b>Total Liabilities, Deferred Inflows, and Fund Equity</b>	<b>6,029</b>	<b>5,951</b>

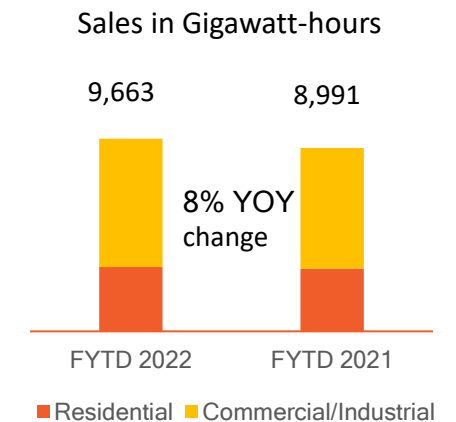
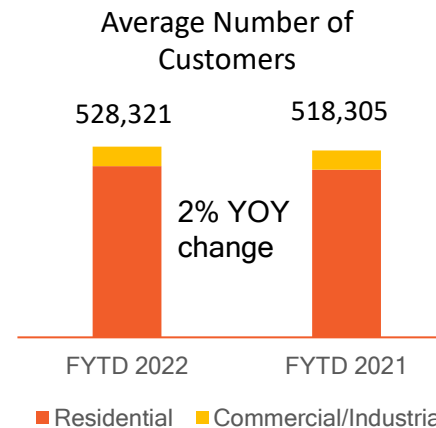
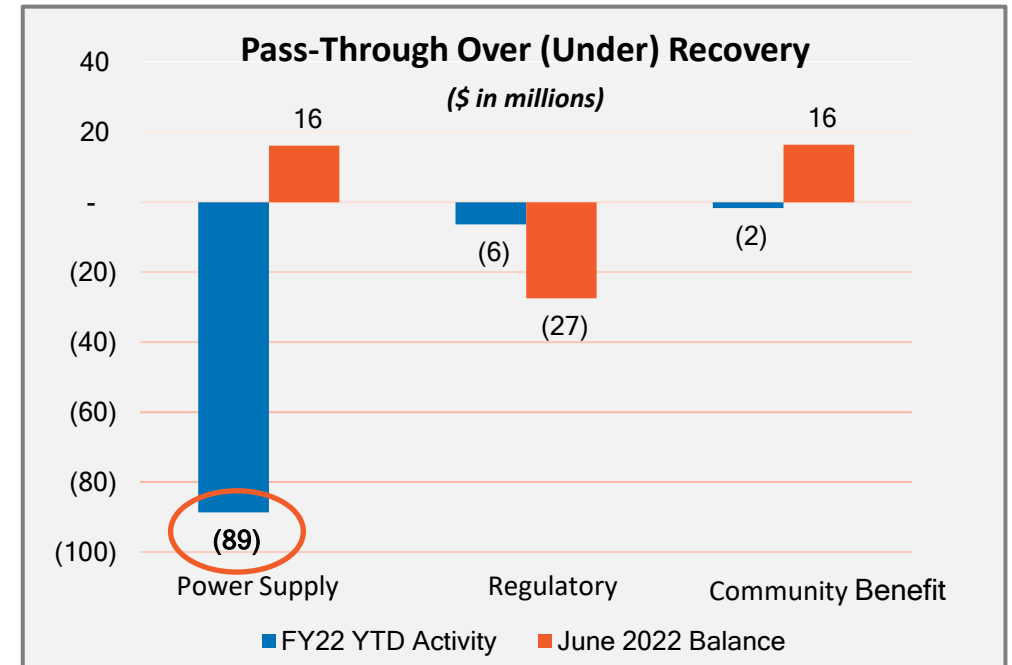


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# Income Statement Summary

Income Statement		
\$ in Millions	12 Months Ending	
	6/30/2022	6/30/2021
Operating Revenues	\$995	\$949
Power Supply Revenues	568	309
Power Supply Expenses	513	255
Non-Power Supply Expenses	813	769
Depreciation Expense	281	287
<b>Operating Income/(Loss)</b>	<b>(\$44)</b>	<b>(\$53)</b>
Other Revenue (Expense)	\$123	\$119
General Fund Transfer	(114)	(113)
<b>Net Income/(Loss)</b>	<b>(\$35)</b>	<b>(\$47)</b>
Debt Service Coverage	1.9	2.1
Debt Capital Ratio	55%	54%



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# Austin Energy Quarterly Financial Report Market and Industry Analysis

## Credit Ratings and Fitch Rating Action



# Credit Ratings for Austin Energy

## Credit ratings provide:

- Independent opinions on creditworthiness
- Assessment of debt issuances' relative likelihood of default

## Credit ratings affect:

- Cost of new debt
- Pricing for Power Purchase Agreements
- Collateral and credit terms in contracts

### Current Rating by Agency<sup>1</sup>

S&P	<ul style="list-style-type: none"><li>• <b>AA</b></li><li>• Outlook Negative</li><li>• Upcoming review September 2022</li><li>• S&amp;P rating at AA is AE's internal strategic planning goal</li></ul>
Fitch	<ul style="list-style-type: none"><li>• <b>AA-</b></li><li>• Outlook Stable</li><li>• June 2022 rating action</li></ul>
Moody's	<ul style="list-style-type: none"><li>• <b>Aa3</b></li><li>• Outlook Stable</li><li>• December 2021 periodic review</li></ul>



# Fitch Rating Action

June 2022 Action Summary	
Rating Action	<ul style="list-style-type: none"><li>• Downgraded from AA to <b>AA-</b></li><li>• Moved to Stable Outlook</li></ul>
Agency's Inputs and Assumptions	<ul style="list-style-type: none"><li>• 7.6%, or \$48m, base rate increase in January 2023</li><li>• 0.6% annual growth in sales</li><li>• \$1.1bn CIP funded ~50/50</li></ul>
Agency's Assessment	<ul style="list-style-type: none"><li>• Elevated leverage</li><li>• Weaker operating cash flows driven primarily by lower base rate revenues</li><li>• Elevated operating risk for ERCOT utilities</li><li>• Base rate increase results in projected improvement in cash flows/leverage</li></ul>



# Future Ratings Management

Austin Energy's ability to manage its ratings is affected by factors within Council influence and by factors outside of Council's control.

Factors that could lead to **lower ratings (downgrades)** include:

- Continued elevated leverage
- Weakened financial profile resulting from sustained inflation pressures
- Unanticipated costs as Austin Energy transitions power portfolio
- Increased risks in the energy sector
- Increased risks in the ERCOT region's operations or finances
- Increased risks to the US or regional economy

Factors that could lead to **improved ratings (upgrades)** include:

- Improvement in cash flows
- Projected decline in leverage
- Improvement in ERCOT reliability or financial stability





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Community Focused.**



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