

## **Exhibit A: Proposed Changes to the Fiscal Year 2027 Financial Policies**

### **Austin Energy Policies**

1. Current Policy

Principal repayment delays shall be one to three years but shall not exceed five years.

Proposed Policy

Principal repayment delays must not exceed five years.

2. Current Policy

Debt service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.

Note: Debt service coverage for the FY 2025-26 Budget is 2.2x.

Proposed Policy

Debt service coverage of a minimum of 2.0x shall be targeted for the Electric Utility Bonds. All short-term debt, including commercial paper, and non-revenue obligations will be included at 1.0x.

3. Current Policy

Austin Energy shall maintain a minimum operating cash equivalent (also known as Working Capital) of 60 days of budgeted operations and maintenance expense, less power supply costs, plus the amount of additional monies required to bring the sum of all Austin Energy's reserves to no less than 150 days of operating and maintenance expense.

Proposed Policy

Austin Energy shall maintain a minimum operating cash equivalent (also known as Working Capital) of 60 days of budgeted operations and maintenance expense, plus the amount of additional monies required to bring the sum of all Austin Energy's reserves to no less than 200 days of operating and maintenance expense.

4. Current Policy

The Contingency Reserve shall be created and established for unanticipated or unforeseen events that reduce revenue or increase obligations, such as costs related to a natural disaster, extended unplanned plant outages, insurance deductibles, or unexpected costs created by Federal or State legislation. The Contingency Reserve may be used to fund unanticipated power supply expenses only after the Power Supply Stabilization Reserve has been fully depleted. The Contingency Reserve shall maintain an operating cash equivalent of 60 days of budgeted operations and maintenance expense; less power supply costs. In the event any portion of the Contingency Reserve is used, the balance will be replenished to the targeted funding level within two fiscal years.

Proposed Policy

The Contingency Reserve shall be created and established for unanticipated or unforeseen events that reduce revenue or increase obligations, such as costs related to a natural disaster, extended unplanned plant outages, insurance deductibles, or unexpected costs created by Federal or State legislation. The Contingency Reserve may be used to fund unanticipated power supply expenses only after the Power

Supply Stabilization Reserve has been fully depleted. The Contingency Reserve shall maintain an operating cash equivalent of 90 days of budgeted operations and maintenance expense; less power supply costs.

5. Current Policy

The Power Supply Stabilization Reserve shall be created and established for mitigating power supply cost volatility which causes frequent variation in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall maintain a cash equivalent of 90 days of net power supply costs. Net power supply costs shall be defined as costs eligible for inclusion in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall be funded using net revenues after meeting other obligations and consistent with the flow of funds schedule.

Proposed Policy

The Power Supply Stabilization Reserve shall be created and established for mitigating power supply cost volatility which causes frequent variation in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall maintain a cash equivalent of 120 days of net power supply costs. Net power supply costs shall be defined as costs eligible for inclusion in the Power Supply Adjustment. The Power Supply Stabilization Reserve shall be funded using net revenues after meeting other obligations and consistent with the flow of funds schedule.

6. Current Policy

Net Revenue generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements. Once these obligations have been met, any remaining net revenues will be deposited in the following order into Austin Energy's reserve funds until each reserve reaches its minimum funding level: Working Capital, Contingency Reserve, Power Supply Stabilization Reserve, and then Capital Reserve. The sum of the four reserves shall be the cash equivalent of no less than 150 days of operating and maintenance expense.

Proposed Policy

Net Revenue generated by Austin Energy shall be used for General Fund transfers, capital investment, repair and replacement, debt management, competitive strategies, and other Austin Energy requirements. Once these obligations have been met, any remaining net revenues will be deposited in the following order into Austin Energy's reserve funds until each reserve reaches its minimum funding level: Working Capital, Contingency Reserve, Power Supply Stabilization Reserve, and then Capital Reserve. The sum of the four reserves shall be the cash equivalent of no less than 200 days of budgeted operating and maintenance expense. In the event the sum of the four reserves is less than 200 days of budgeted operating and maintenance expense, Austin Energy will propose a plan to establish compliance in the subsequent forecast submittal.

7. Current Policy

Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as "structural balance"). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance.

### Proposed Policy

Current revenue, which does not include the beginning balance, will be sufficient to support current expenditures (defined as “structural balance”). However, if projected revenue in future years is not sufficient to support projected requirements, ending balance may be budgeted to achieve structural balance and rates shall be designed to achieve an ongoing structural balance.

## **Austin Water**

### 8. Current Policy

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.

### Proposed Policy

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 for large generational projects, and 35% to 50% is desirable for all other projects.

## **GO Debt Policies**

### 9. Current Policy

The ratio of net debt (total outstanding tax supported general obligation debt less G.O. Debt Service Fund balance) to Total Assessed Valuation shall not exceed 2%. This excludes debt of overlapping jurisdictions. The City shall structure its bond issuance to achieve and maintain a debt-to-assessed-value of 2% or less.

### Current Policy

The ratio of Debt Service to Total Expenditures (operating expenditures and debt service combined) shall not exceed approximately 20%.

### Proposed Policy (replaces both the above)

The City shall structure its bond issuances and manage its long-term bond sale schedule in a manner not likely to result in a downgrade to the City’s credit rating.

### 10. Current Policy

The total dollar amount of bond election propositions recommended to the voters shall not exceed the City’s estimated ability to issue said bonds within a normal six-year period.

### Proposed Policy

It is the City’s priority to size bond election propositions in a manner consistent with a six-year bond program implementation cycle. However, smaller or larger proposition sizes may be used in response to an emergency or other exigent circumstance.

11. Current Policy

The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects. Reimbursement resolutions may be used for any project which is on the bond sale schedule or is revenue supported.

Proposed Policy

The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects.

12. Proposed New Policy

Bond programs shall be designed in a manner that allows flexibility in project delivery such that CIP spending plans can be adapted to meet changing market conditions and project delivery priorities.

13. Current Policy

Timing of general obligation bond elections shall be determined by the inventory of current authorized unissued bonds remaining to be sold. An estimated two years of authorized unissued bonds shall remain before an election will be held.

A. Proposed Policy

It is the City's priority to not hold a new bond election until prior bond programs have reached substantial completion, which is generally considered to occur when approximately 90% of bond program expenditures have been incurred. However, more frequent bond elections may be held in response to an emergency or other exigent circumstance.

B. Alternate Policy

It is the City's priority to not hold a new bond election for a bond proposition category until projects within that category from prior bond programs have reached substantial completion, which is generally considered to occur when approximately 90% of bond ~~program~~ proposition expenditures have been incurred. However, more frequent bond elections may be held in response to an emergency or other exigent circumstance.