Austin WATER
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Questions?

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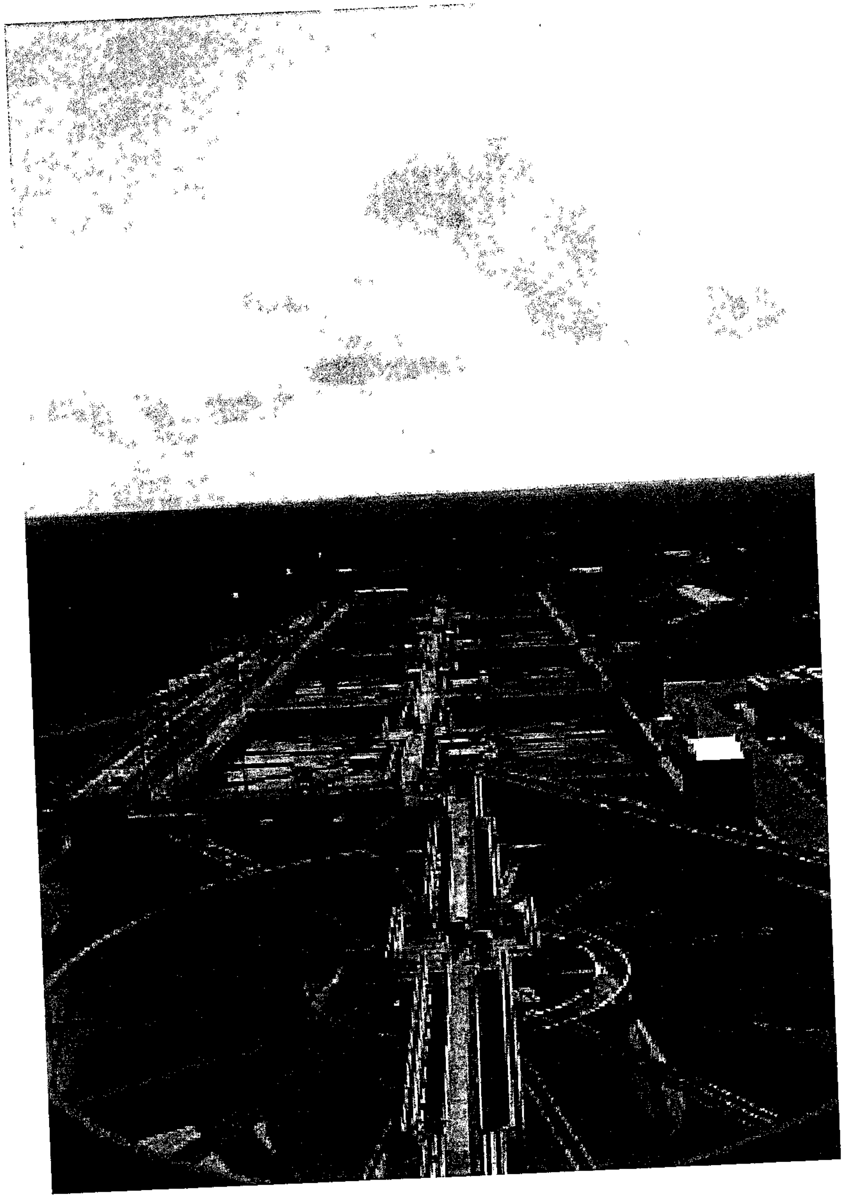

Austin Water Utility

Rating Agency Report Review

July 3, 2013

Rating Agency Report Review

- AWU Bond Sale – Series 2013A
  - 3 Rating Agencies
    - Standard and Poor's — AA / Positive
    - Moody's — Aa2 / Stable
    - Fitch — AA- / Stable
- Process
  - Rating presentation to each agency
  - Review of forecast, CAFR, financial metrics and plans
  - Each agency issues ratings report

Key Report Results - Strengths

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- Strong service area
- Strong economy and diverse customer base
- Above average wealth levels
- Sufficient treatment capacity
- Long term water supply through 2100
- Strong conservation plans
- Positive changes to AWU's rate structure
- Implementation of a reserve fund and surcharge
- Forecast shows financial improvements
- Forecast consistent with prior forecasts

Key Report Results - Strengths

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- S&P outlook upgrade from stable to positive reflecting their expectation our adopted financial policies will enhance our solid financial risk profile
- Management have targeted improvement of cash flow and reserves
- Increased fixed charges from 11% to 20%
- $83 average residential bill reasonable due to water supply agreements already in place
- Plans to strengthen liquidity

Key Report Results – Sensitivities

- Weak financials for AA rated utility
- Debt service coverage and days cash significantly below rating medians
- High debt levels – 70% of future CIP spending in debt
- Sizable capital program
- Debt levels have increased by 37% since 2008
- Debt levels high compared to total debt outstanding
- Annual debt service to be 40% of operating revenue, almost 2x the AA medians

Key Report Results – Sensitivities

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- Rates somewhat high relative to income levels of city residents
- Average combined bill of $83 is high at nearly 2% of median family income
- AWU financial performance has been largely uneven in recent years due to variable weather conditions and drought
- AWU's assumptions for water and wastewater demand are somewhat aggressive given recent trend of droughts
- Ongoing rate increases necessary to fund CIP spending
- Narrow liquidity compared to other highly rated systems

Key Report Results - Warnings

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- AWU's efforts to steadily improve its financial metrics is critical to maintaining AA rating
- Any deviation from stated financial targets will result in a downward rating action
- No measurable improvements in financial performance will likely result in rating downgrade
- Future divergences from currently planned rate increases would be viewed negatively if financial performance weakened
- Fitch will continue to monitor AWU's ability to achieve its stated financial goals and respond accordingly

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Key Report Results - Warnings

- Outlook could be reduced if economic fundamentals shift or if AWU unable to achieve the forecasted financial performance
- Ratings could go down if debt coverage erodes, more than expected debt issuance, lack of rate increases, or weakened liquidity

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Impacts of Rating Downgrade

- Interest rates on issued bonds will increase
  - 1% possible increase to bond rates
  - $150M issuance would result in $23M in additional debt service over 30 years
  - $800k increase to annual debt service for each issue
  - All current outstanding bonds, while issued at AA, would become A credit value to bondholders, impacting the bonds marketability and value

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Debt Service Coverage

Actual	2007	2008	2009	2010	2011	2012
Debt Coverage	1.38	1.67	1.57	1.40	1.64	1.53
Projected	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Debt Coverage	1.40	1.53	1.64	1.65	1.67	1.56

- Fitch Medians for AA systems – 1.9x
- Goals / Actions / Impacts
  - Transition towards median
  - Financial policy change to higher DSC than 1.50
  - More cash financing of capital spending
  - Methodology change in calculation
  - Impact: higher rates or need for reduced costs

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Days Operating Cash

Actual	2007	2008	2009	2010	2011	2012
OC Balance	$24.8	$34.7	$44.3	$39.1	$42.0	$36.0
O&M	$137.9	$151.4	$167.8	$167.0	$172.7	$184.5
Cash Days O&M	66	84	96	85	89	71

Projected	2013	2014	2015	2016	2017	2018
OC Balance	$29.1	$38.3	$42.5	$48.5	$59.4	$65.0
O&M	$217.8	$226.5	$240.3	$253.0	$265.7	$278.8
Cash Days O&M	49	62	65	70	82	85

- Fitch Medians for AA systems – 418 days
- Goals / Actions / Impacts
  - FY14 Proposed Budget (Opt #31) increasing to 85 days by FY18
  - Balance between operating cash and equity financing of CIP
  - Combine with Revenue Stability Reserve Fund to meet median
  - Impact: higher rates or need for reduced costs

Revenue Stability Reserve Fund

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Actual	2007	2008	2009	2010	2011	2012
Reserve Balance	-	-	-	-	-	-
Days O&M	-	-	-	-	-	-
Projected	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
Reserve Balance	$5.5	$13.6	$24.3	$36.1	$49.2	$51.5
Days O&M	17	39	66	93	120	120

- Goals / Actions / Impacts
  - 120 days of operations and maintenance
  - Use only when absolutely necessary to offset large shortfalls
  - Consider possible increase in number of days reserve in future
  - Impact: higher rates or need for reduced costs

CIP Spending – Debt Financed

Actual	2007	2008	2009	2010	2011	2012
CIP Spending (Act.)	134.9	258.3	203.1	188.6	246.3	266.7
% Debt Financed (Est.)	86%	86%	77%	86%	80%	81%
Projected	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**
CIP Spending	259.4	237.3	204.2	186.7	187.2	170.3
% Debt Financed	77%	77%	60%	54%	54%	51%

- Fitch Medians for AA systems – 38%
- Goals / Actions / Impacts
  - Keep CIP spending in check – below $1.0B
  - Goal of about 50% debt financed by 2018
  - Reduce to 40% over time
  - Impact: higher rates or need for reduced costs

Other Financial Metrics – AA Credits

	Fitch Median	AWU
Debt Per Customer	$1,828	$5,774
Debt per Capita	$492	$2,918
Average Monthly Bill	$65	$88
Quick Ratio	3.0	1.37

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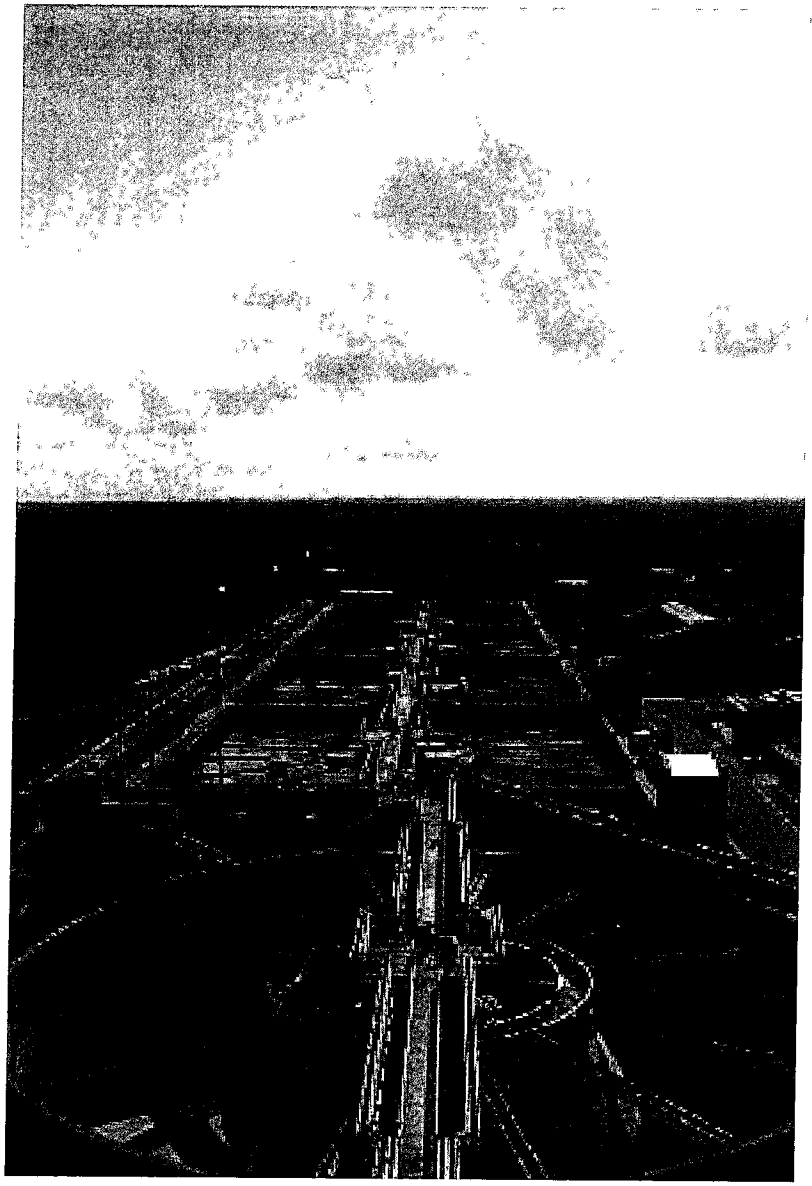

Austin Water Utility

Rating Agency Meeting

May 2014

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Participants

City of Austin

Marc Ott, City Manager, City of Austin
Robert Goode, Assistant City Manager, City of Austin
Elaine Hart, Chief Financial Officer, City of Austin
Greg Canally, Deputy Chief Financial Officer, City of Austin
Ed Van Eenoo, Deputy Chief Financial Officer, City of Austin
Greg Meszaros, Director, Austin Water Utility
David Anders, Assistant Director, Austin Water Utility
Michael Castillo, Utility Budget & Finance Manager, Austin Water Utility
Kristi Fenton, Utility Financial Manager, Austin Water Utility
Robert Rowan, Utility Financial Manager, Austin Water Utility
Art Alfaro, Treasurer, City of Austin
Georgia Sanchez, Assistant Treasurer, City of Austin

Public Financial Management

Dennis Waley, Managing Director, PFM
John Crumrine, Senior Managing Consultant, PFM
Keith Dash, Analyst, PFM

Presentation Outline

- Austin Overview
- Austin Water Utility Overview
- Austin Water Utility Financial Performance and Forecast
- Summary
- Timetable

Austin Overview & Economy

Marc Ott, City Manager

Elaine Hart, Chief Financial Officer

Greg Canally, Deputy Chief Financial Officer

Austin Overview

Vision: *"We want Austin to be the most livable city in the country."*

Mission: *"To be the best-managed city in the country."*

- Austin's quality of life continues to attract employers and new citizens
- Austin remains strongest regional economy among major metros across the nation
- Consistently recognized among the most inventive, creative, wired, educated, fit, and loved cities in which to live and work

Austin Rankings

- Highly ranked in a variety of lists

America's Top Boomtown
Bloomberg – April 2013

#1 Best Cities for Job-seekers
NerdWallet – January 2014

#7 World's 20 Most Dynamic Cities
City Momentum Index
Jones Lang LaSalle - January 2014

10 Up and Coming Cities for Entrepreneurs (International)
Forbes – September 2013

#1 Top 10 Cities to be a Moviemaker
MovieMaker – March 2013

#1 Hottest U.S. Startup Scene
GoodApril.com – July 2013

#1 Metro Areas with Most Economic Momentum Going Into 2014
Forbes – December 2013

Holiday Hotspots: Where to go in 2014 (International)
The Guardian – January 2014

#1 Top 15 Aspirational Cities
The *Daily Beast* – July 2013

8 Best Run Cities in America
24/7 Wall St. - January 2014

#4 Best Big Cities for Women in the Workforce
NerdWallet – May 2013

#1 2013 Small Business Friendliness Survey
Thumbtack.com – June 2013

Austin Economy

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- Thriving, diverse and resilient economy - one of the most robust economies in U.S.
- Topped Forbes' list of America's Fastest-Growing Cities for 4th consecutive year
- # 1 in 2013 Milken Institute Best-Performing Cities Index, up 3 spots from # 4 in 2011
- Created 105,000+ new jobs over last four years
- Planned medical school at University of Texas at Austin
- Tourism is a growing element of local economy

Austin Economy - Tourism

- Hotel occupancy strong in 2013
  - City-wide occupancy at 72.5%; downtown at 77.0%

- SXSW hosted 27th annual festival in March 2013
- Austin City Limits Music Festival expanded to 2 weekends
- Circuit of The Americas (COTA) - annexed in 2013
  - Formula One™, Australian V8 Supercars, MotoGP, American LeMans series, Motocross, motorsport clubs, concerts, foot and bicycle races
  - Second year of Formula One™ race attended by 250,000
  - ESPN summer X Games 2014 – 2018

Austin Economy - Airport

Austin Water
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Austin-Bergstrom International Airport (ABIA)

- 2013 set new annual traffic record for 3rd consecutive year, 6% increase over previous year's record
  - Over 10 million passengers
- Three new carriers inaugurated services in 2013
- British Airways offered first transatlantic air service between London and Austin in March 2014
  - Connections with over 70 countries throughout Europe, Africa, the Middle East and Asia
- Council recently approved launch of seven gate expansion

Austin Economy - Employment

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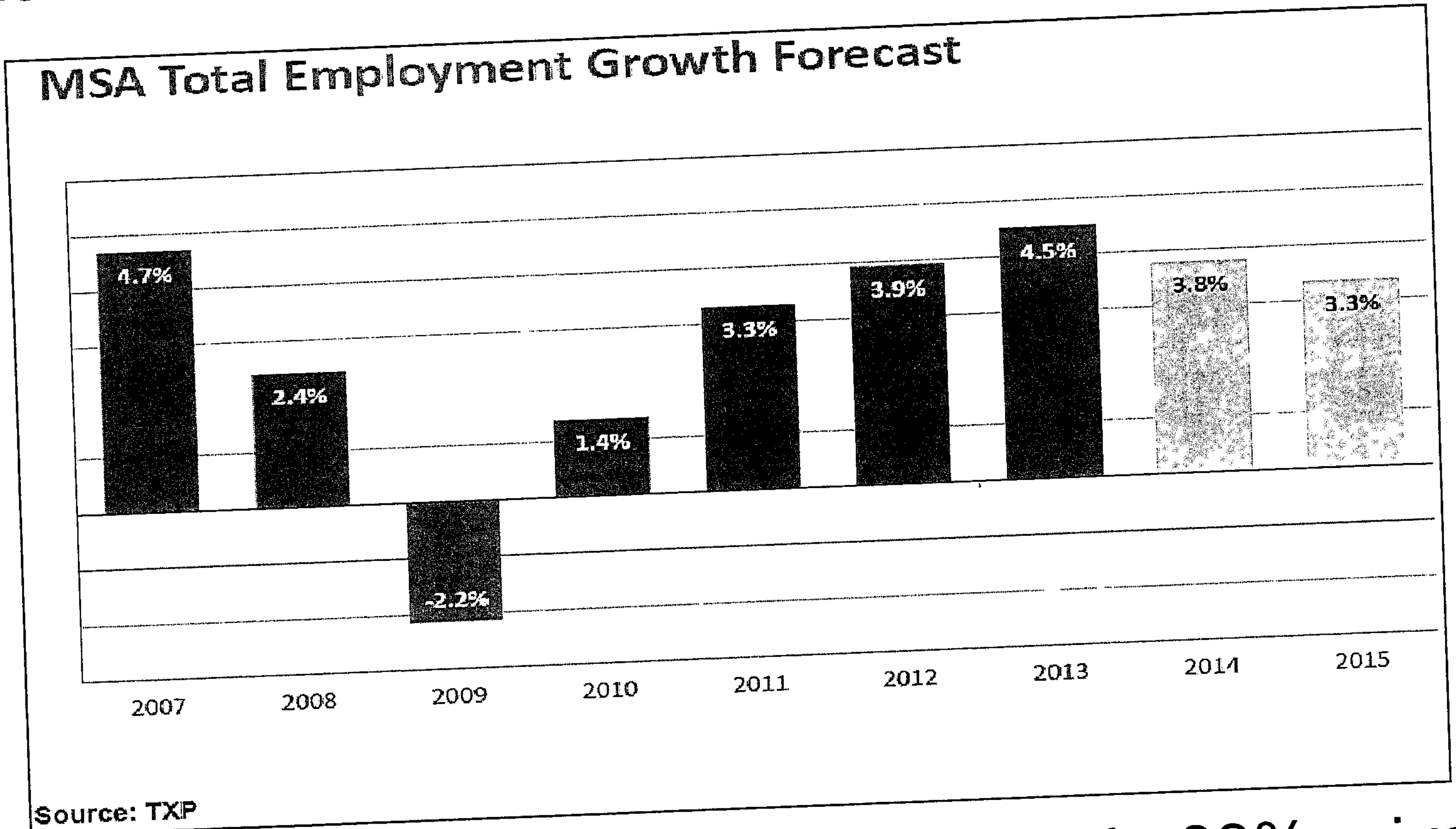
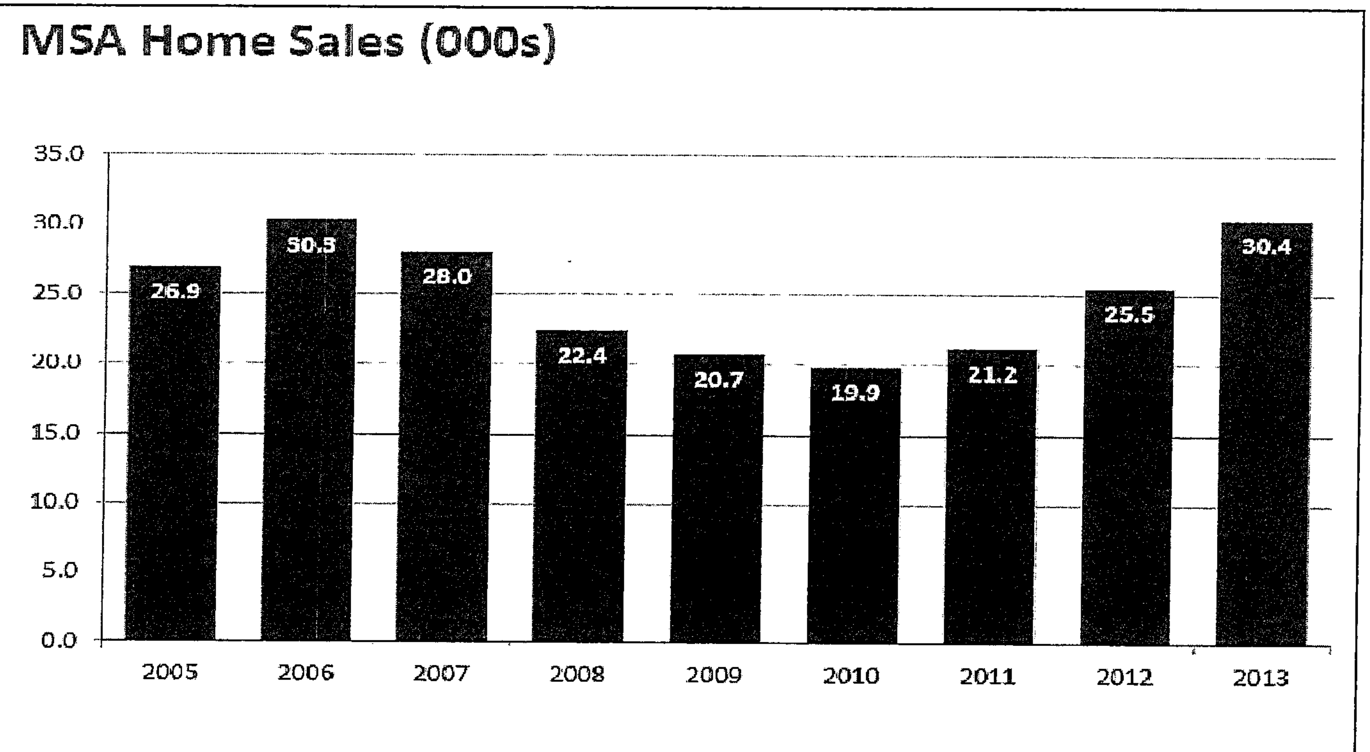


- 37,100 new jobs; 4.5% annual growth; 93% private sector
- Unemployment rate at 4.8%

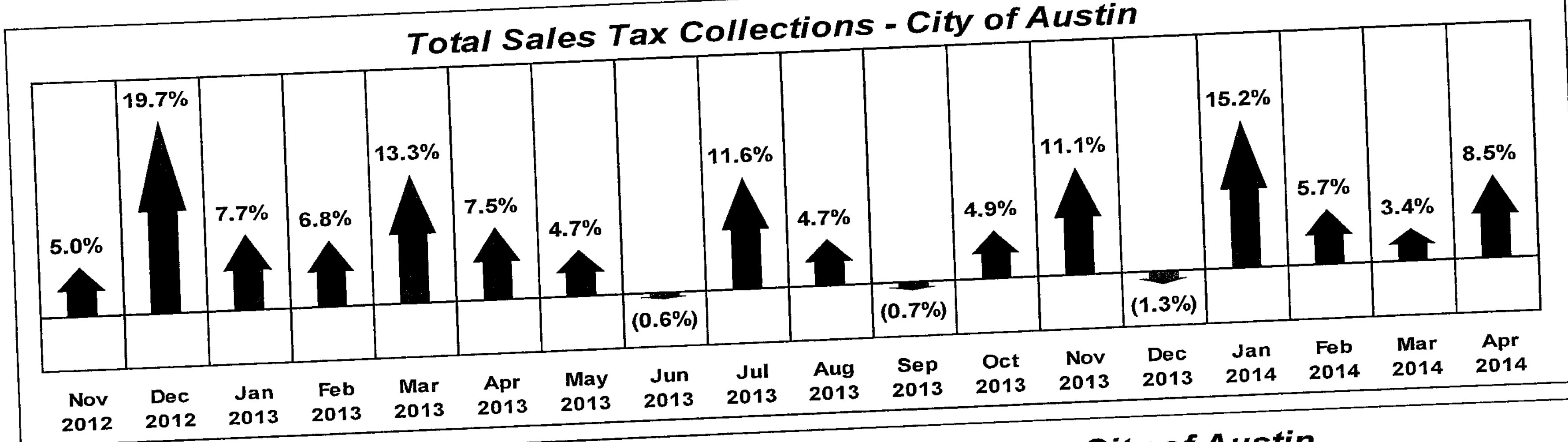
Austin Economy – MSA Home Sales

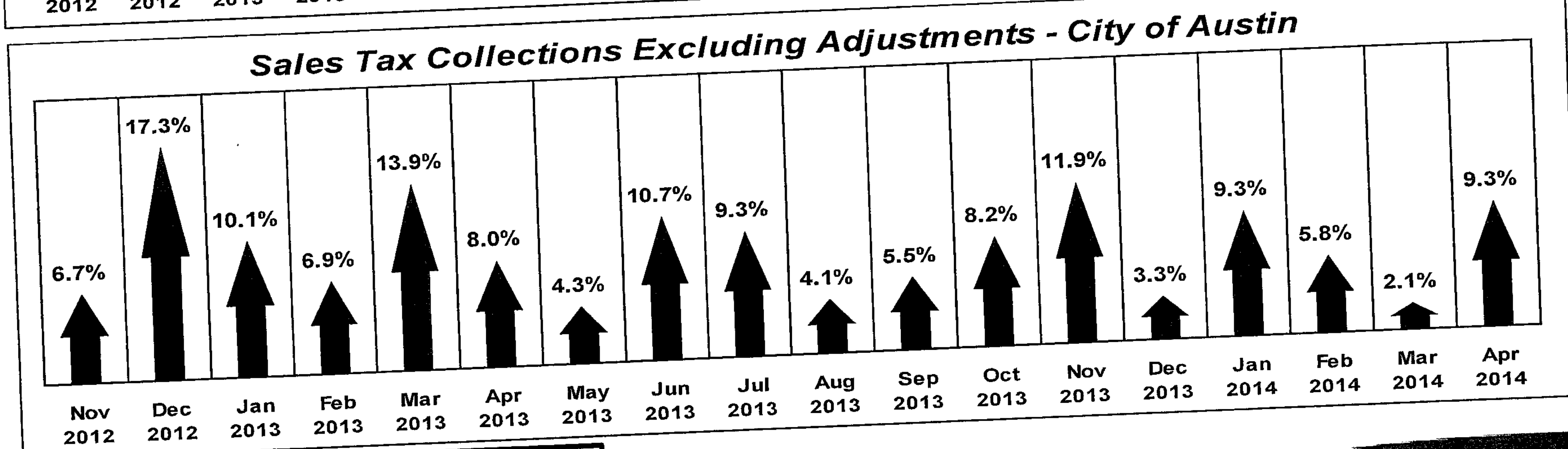


Source: Texas A&M Real Estate Center; TXP

- Home sales up 16%, 12 months Year over Year
- Available inventory at 2.2 months March 2014

Austin Economy – Sales Tax





FY 2014 budgeted increase = 4%.
Actual increase thru April = 6.1%.

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Austin Water Utility Overview

Greg Meszaros, Director
Austin Water Utility

Water Service Revenue Loss

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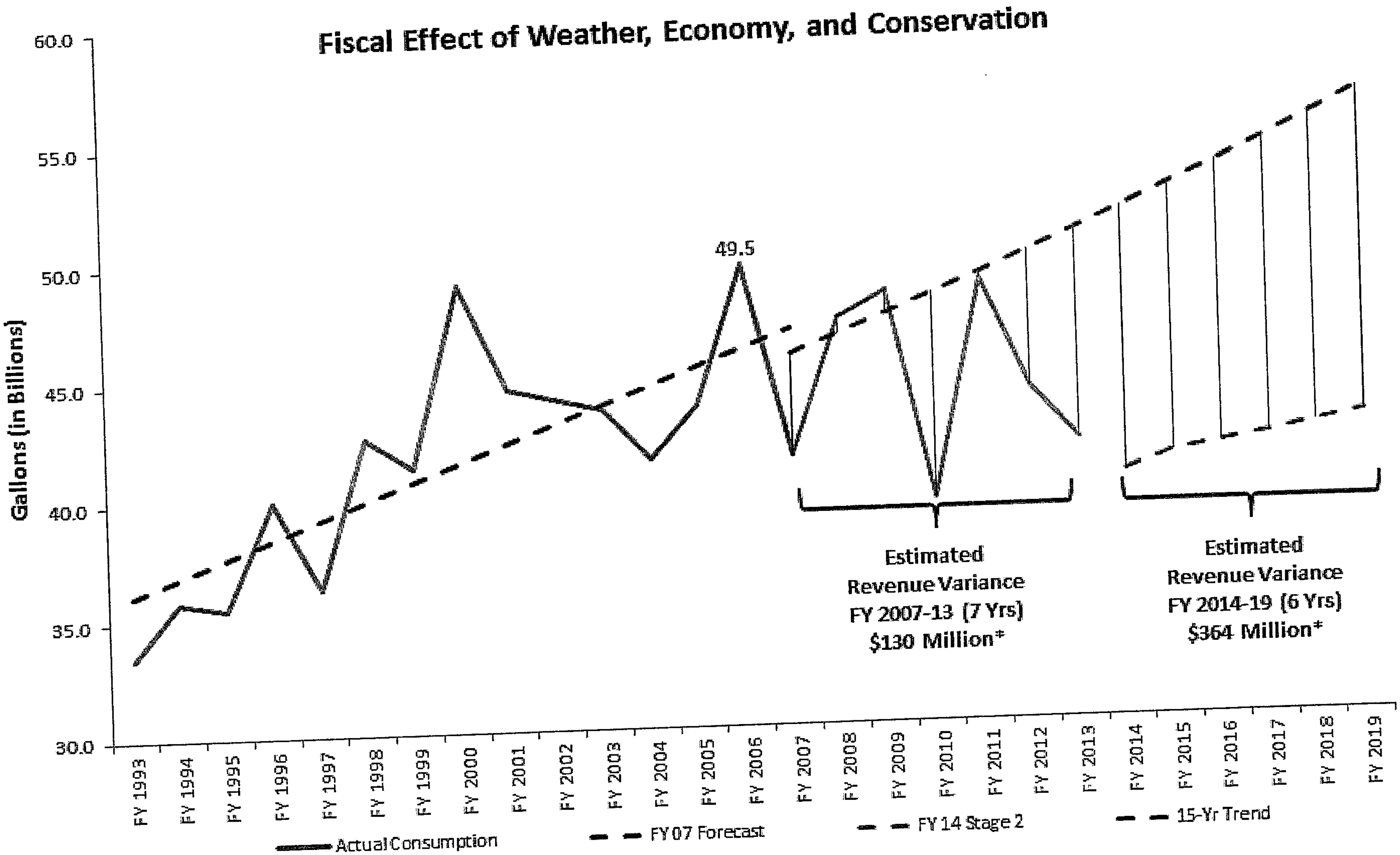

*Figure based on FY 2014 COS average volumetric rate per 1,000 gallons.

AWU Action Plan

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- Rate increase approved for 2014
  - New water rates went into effect on November 1, 2013
- Joint Committee – 2014
  - Reconvened Joint Committee through May 2014
  - Review 2015 proposed rates
  - Drought rates
  - Expense review
- Met all EPA administrative requirements
- Drought Conditions / LCRA
  - Long-term Water Supply Agreement
  - Water Resource Planning Task Force

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Financial Performance & Forecast

David Anders, Assistant Director
Austin Water Utility

Joint Committee Process

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- Joint Committee reconvened to review Austin Water business model
  - Review financial forecast and rate projections
    - Consider financial forecast options and impacts
  - Develop recommendations on rate design for projected 2015 water rates
    - Fixed revenue increases
    - Residential rate design – volume block rate adjustments
  - Develop recommendations on possible drought rates for stage 3 and 4 water restrictions
    - Automatic rate increases when stages reached
  - Develop recommendations on utility expenses
    - Review of cost reductions

Joint Committee Process

- Schedule
  - Meetings scheduled for April and May
  - Recommendations deadline is the end of May in order for these to be considered for 2015 proposed budget

- Website
  - All information on website including schedules, meeting backup information, presentations and video links

Operating Summary

Austin Water — Clearly Reliable

	(000's) Fiscal Year Ended September 30				
	12 Months Ended 12-31-13 (4)	2013	2012	2011	2010
Gross Revenues	$482,236	$477,013	$443,020	$448,319	$360,936
Maintenance and Operating Expenditures	204,353	209,890	178,891	163,531	159,401
Net Revenues	$277,883	$267,123	$264,129	$284,788	$201,535
Principal and Interest on Prior First Lien/Prior Subordinate Lien Revenue Obligations (1)	$ 12,150	$ 30,718	$ 44,386	$ 46,016	$ 46,160
Net Revenues Available for Water and Wastewater System Separate Lien Obligations	$265,733	$236,406	$219,743	$238,772	$155,375
Principal and Interest on Water and Wastewater System Separate Lien Obligations (2)	$172,447	$158,294	$133,781	$109,864	$110,227
Debt Service Coverage (Separate Lien Obligations) (3)	1.54x	1.49x	1.64x	2.17x	1.41x

(1) Represents only the portion of Prior First Lien Obligations and Prior Subordinate Lien Obligations allocated to the Water and Wastewater System.
(2) Includes principal and interest on North Austin MUD No. 1.
(3) The Bonds will be on a parity with the Previously Issued Separate Lien Obligations and the Previously Issued Parity Water/Wastewater Obligations. The Bonds, the Previously Issued Parity Water/Wastewater Obligations, the Previously Issued Separate Lien Obligations and any additional Parity Water/Wastewater Obligations issued under the Master Ordinance are (a) "Separate Lien Obligations" under the ordinances authorizing the Prior First Lien Obligations and the Prior Subordinate Lien Obligations and (b) equally and ratably secured, together with the Prior Subordinate Lien Obligations, by the Net Revenues of the City's Water and Wastewater System.
(4) Unaudited.

Forecast Fund Summary

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(In Millions)	Amended 2014	CYE 2014	Forecast 2015	2016	2017	2018	2019
Beginning Balance	**$ 52.0**	**$ 58.2**	**$ 43.1**	**$ 68.6**	**$ 80.9**	**$ 96.5**	**$ 107.3**
Revenue	531.2	495.1	550.4	581.1	606.0	632.0	649.3
Transfers In	13.7	13.7	12.5	15.7	16.6	15.0	16.7
Available Funds	**$ 544.9**	**$ 508.8**	**$ 562.9**	**$ 596.8**	**$ 622.6**	**$ 647.0**	**$ 666.0**
Operating Requirements	207.4	203.9	207.7	219.6	229.8	239.3	253.4
Debt Service	214.3	214.0	216.7	222.4	230.5	244.0	234.5
Transfers Out	117.1	106.0	113.0	142.5	146.7	152.9	153.3
Total Requirements	**$ 538.8**	**$ 523.9**	**$ 537.4**	**$ 584.5**	**$ 607.0**	**$ 636.2**	**$ 641.2**
Excess (Deficiency)	**6.1**	**(15.1)**	**25.5**	**12.3**	**15.6**	**10.8**	**24.8**
Ending Balance	**$ 58.1**	**$ 43.1**	**$ 68.6**	**$ 80.9**	**$ 96.5**	**$ 107.3**	**$ 132.1**
Debt Coverage	1.53	1.31	1.53	1.56	1.56	1.53	1.60

Cash Reserves

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OPERATING CASH RESERVES (In Millions)	Actual 2013	CYE 2014	Forecast 2015	2016	2017	2018	2019
Operating Reserves - Combined (Cash Portion)	$ 23.7	$12.3	$37.3	$49.2	$64.3	$74.6	$98.9
Water Reserve Fund (Cumulative)	$ 5.5	$11.5	$19.1	$28.5	$38.5	$49.0	$52.0

Days of O&M							
Operating Reserve Cash	41	20	60	74	92	102	128
Reserve Fund Cash (Water)	18	34	55	77	98	120	120

Revenue and Rates

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Service Rate Increases - Forecast

	2015	2016	2017	2018	2019
Water:	15.2%	3.0%	3.0%	3.0%	3.0%
Wastewater:	2.4%	3.0%	3.0%	3.0%	2.5%
Reclaimed:	13.9%	17.4%	18.0%	20.2%	18.6%
Combined:	9.0%	3.0%	3.0%	3.0%	2.8%

- Reserve Fund Surcharge
  - Increase from $0.15 to $0.19 per 1,000 gallons in 2015

Average Residential Customer Estimated 5-Year Bill Impact

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	Current 2014	Forecast 2015	Forecast 2016	Forecast 2017	Forecast 2018	Forecast 2019
Water	$ 38.35	48.58	50.75	52.74	54.85	55.68
Wastewater	42.78	44.56	45.90	47.28	48.70	49.92
Total	$ 81.13	$ 93.14	$ 96.65	$ 100.02	$ 103.55	$ 105.60
$ Variance	-	$ 12.01	$ 3.51	$ 3.37	$ 3.53	$ 2.05
% Variance	-	14.8%	3.8%	3.5%	3.5%	2.0%

1. Bills based on 7,000 gallons water usage and 4,700 gallons wastewater discharge
2. Actual bill impact could vary slightly based on cost of service calculations for proposed 2015 budget

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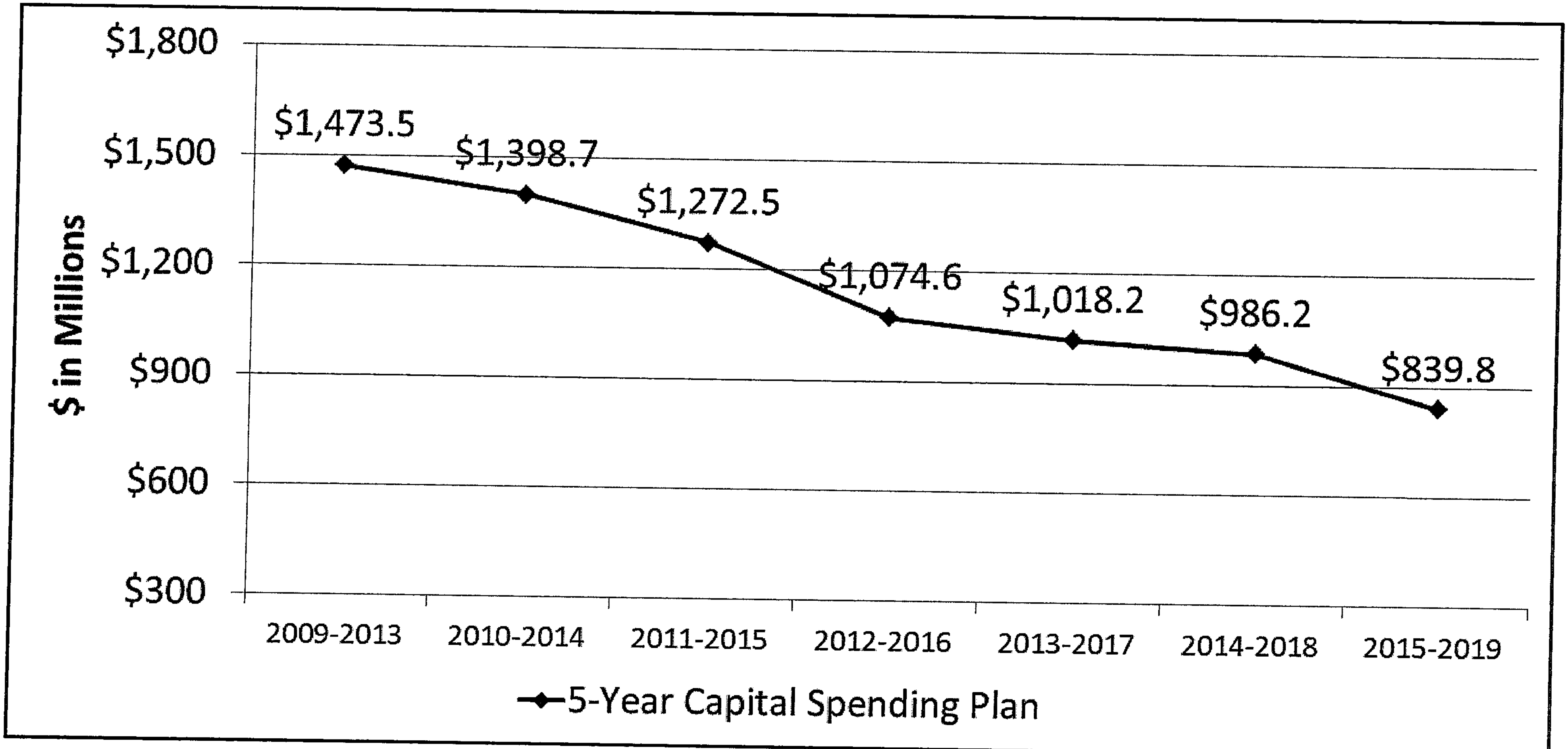
Capital Spending

5-Year Capital Spending Plan

Historical Comparison



Capital Improvement Program

$839.8 Million 5-Year Capital Spending Plan

$ in millions	2015	2016	2017	2018	2019	Total
Water	$ 91.4	$ 79.3	$ 56.9	$ 66.8	$ 71.4	$ 365.8
Wastewater	83.2	79.5	90.9	93.6	91.7	438.9
Reclaimed	7.2	8.7	9.3	3.9	6.0	35.1
Combined	$181.8	$167.5	$157.1	$164.3	$169.1	$ 839.8

Capital Improvement Program

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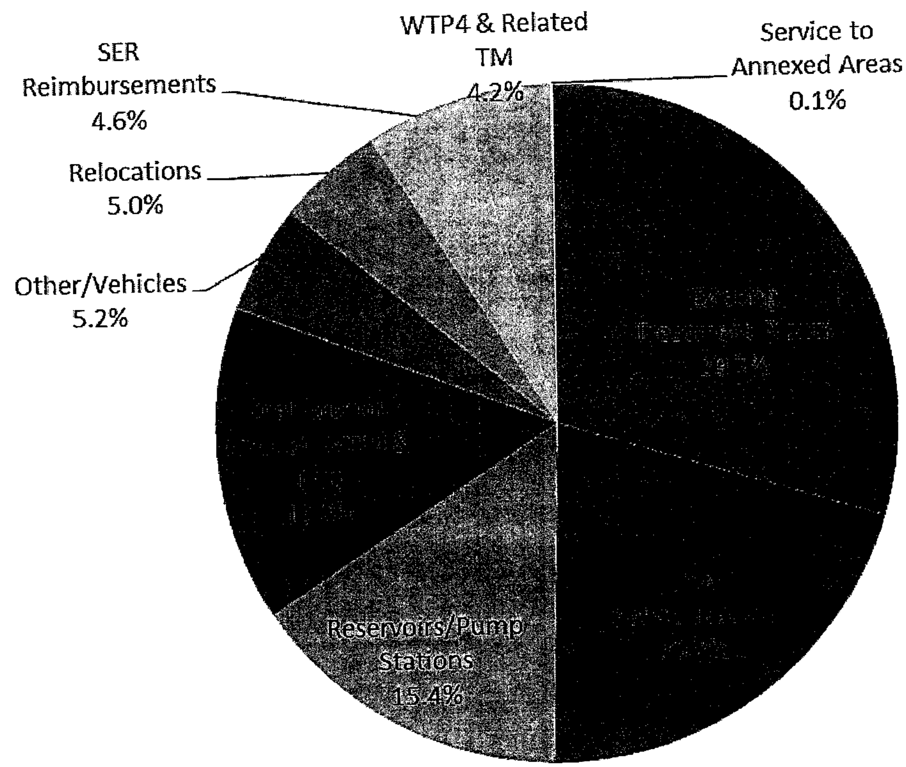
Major Capital Projects for FY 2015-19 (Millions)

• WTP4 and associated transmission mains	$15.5
• Existing treatment plant improvements	$333.6
• Water & wastewater system rehabilitation	$137.9
• Other distribution & collection system improvements	$135.3
• Pump stations, reservoirs, and lift stations	$ 82.2
• Annexed areas, vehicles, equipment, and other projects	$ 42.7
• Service extension requests	$ 32.3
• System relocations	$ 26.5
• Reclaimed water projects	$ 33.8

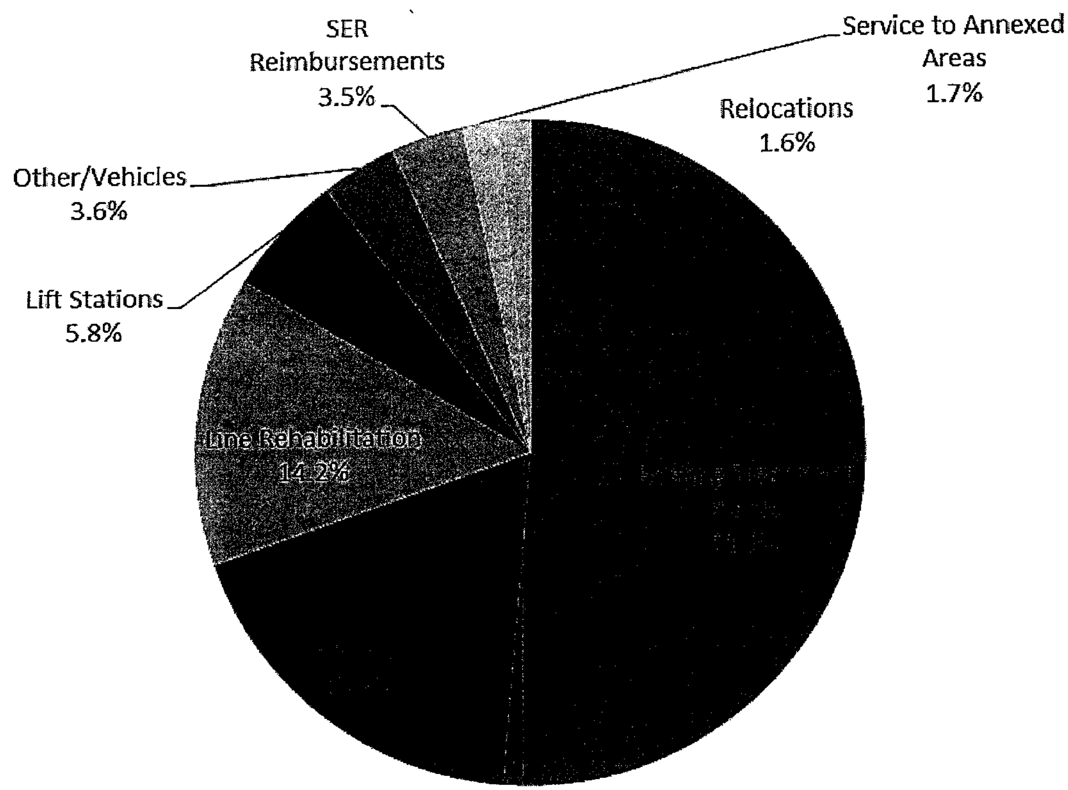
Proposed 5-Year CIP Spending Plan
Water Utility - $365.8 Million

	($ in Millions)
Existing Treatment Plants	$ 108.5
Line Rehabilitation	75.7
Reservoirs/Pump Stations	56.5
Distribution (except WTP4 TM)	54.9
Other/Vehicles	19.0
Relocations	18.4
SER Reimbursements	17.0
WTP4 & Related TM	15.5
Service to Annexed Areas	0.3
Total FY 2015-19 Plan:	$365.8



Proposed 5-Year CIP Spending Plan
Wastewater Utility - $438.9 Million

	($ in Millions)
Existing Treatment Plants	$225.1
Collection	80.4
Line Rehabilitation	62.2
Lift Stations	25.7
Other/Vehicles	16.0
SER Reimbursements	15.3
Service to Annexed Areas	7.4
Relocations	6.8
Total FY 2015-19 Plan:	$438.9



Large Water Customers
Five Year Comparative Data (2009 - 2013)

Fiscal Year Ended September 30 (gallons in thousands)

	2013		2012		2011		2010		2009	
	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue	Gallons	Revenue
		$		$		$		$		$
Samsung	1,436,772	7,034,420	1,614,098	7,607,925	1,212,413	5,346,020	749,103	3,149,516	1,024,144	4,116,189
Water District 10	850,565	3,431,754	856,658	3,350,028	977,849	3,426,564	739,907	2,424,130	1,057,082	3,275,635
University of Texas	849,204	4,867,441	821,457	4,395,152	1,147,002	4,424,279	979,972	3,679,384	1,170,061	4,147,422
Freescale, Inc. (1)	648,085 (1)	3,115,976	599,530 (1)	2,767,091	690,252 (1)	3,043,737	675,872 (1)	2,854,551	698,391 (1)	2,816,300
Wells Branch MUD	469,564	1,797,656	518,536	1,777,179	554,683	1,697,212	454,483	1,311,508	565,819	1,580,161
North Austin MUD	389,113	1,918,616	384,288	1,823,112	578,465	1,883,538	614,897	2,004,520	555,174	1,937,302
Spansion	387,759	1,405,486	402,928	1,489,635	479,142	1,883,899	367,776	1,187,214	484,918	1,501,971
Northtown MUD	289,610	1,116,929	304,387	1,086,166	310,965	1,028,871	254,986	791,040	286,030	818,519
Lost Creek MUD	233,886	1,049,595	283,405	1,111,234	318,805	1,075,298	242,833	767,657	320,820	963,514
Shady Hollow MUD	194,496	886,757	226,256	921,167	268,087	963,357	201,922	684,625	242,315	773,893
	5,749,054	$26,624,630	6,011,543	$26,328,689	6,537,663	$24,772,775	5,281,750	$18,854,144	6,404,754	$21,930,908

(1) Totals for Freescale, Inc. include their East Austin plant site and their West Austin plant site.

Summary

- Economically strong and growing customer base with firm water supply
- Solid 2013 financial results
- Financial forecast reflects steady strengthening of debt service coverage and cash reserves balance into the future
- Council approved strengthening financial plan for Austin Water

Bond Sale Detail

- $200M commercial paper take-out (tax-exempt)
- Refund $101.67M Series 1998A and Series 2005A bonds for savings (tax-exempt)

Timetable

May 16th	Receive Rating
May 22nd	Council Action
May 23rd	Post POS
June 3rd	Bond Sale
June 24th	Closing

FitchRatings

FITCH RATES AUSTIN, TEXAS' 2012 WATER AND WASTEWATER REVS 'AA-'; OUTLOOK STABLE

Fitch Ratings-New York-15 June 2012: Fitch Ratings assigns an 'AA-' rating to the city of Austin, Texas' $336 million of water and wastewater system revenue refunding bonds, series 2012, to be sold via negotiation on or about July 10, 2012.

In addition, Fitch affirms the 'AA-' rating on the city's following revenue bonds, outstanding in amounts as of June 1, 2012:

--$70.7 million combined utility systems (prior first lien) revenue bonds;
--$168.3 million combined utility systems (prior subordinate lien) revenue bonds;
--$2.1 billion water and wastewater system revenue bonds.

The Rating Outlook is Stable.

SECURITY

The series 2012 bonds are secured by net revenues of Austin Water Utility (AWU), after provision for the prior first lien obligations. The series 2012 bonds are on parity with the prior subordinate lien obligations and outstanding water and wastewater revenue bonds.

KEY RATING DRIVERS

LARGE SERVICE TERRITORY: Austin provides water and wastewater services to over 200,000 customers in the city and portions of Travis and Williamson counties.

PLANNED RATE INCREASES: Projected rate increases through the 2017 planning period are intended to bolster AWU's improved operating margin, stabilize its debt service coverage ratios at near 1.6x annually, and build the utility's currently weak liquidity position. However, above-average rates relative to Fitch's 'AA' rating category medians and other large utilities might limit AWU's practical ability to implement the plan.

BELOW-AVERAGE FINANCIAL METRICS: Fiscal 2011 financial metrics rebounded from their fiscal 2010 lows, and midyear 2012 results indicate a positive trend. However, key fiscal 2011 ratios including debt service coverage (1.65x) and days cash on hand (11) remain well below rating category medians and could ultimately be a source of rating pressure.

LARGE CAPITAL PLAN: AWU's large capital plan ($1 billion) to manage customer growth has caused an increase in leverage to well above average levels, thereby depressing certain cash flow metrics. Fiscal 2011 debt to customers of approximately $5,250 was several times the rating category median.

SUFFICIENT WATER SUPPLY AND INFRASTRUCTURE: AWU's long-term water supply agreement with the Lower Colorado River Authority runs through 2050, with the option to extend through 2100. In addition, its water and wastewater treatment capacity will be sufficient for the foreseeable future, after completion of a new water treatment plant in 2014. A gradual deleveraging is expected to ensue thereafter.

STRONG SERVICE AREA: Austin's deep and diverse economy, which performed relatively well during the recent economic recession, limits customer concentration. Unemployment rates are well below national averages, and customer growth rates have averaged a healthy 2% annually since 2006.