WHAT COULD TRIGGER A RATING ACTION

INSUFFICIENT RATE INCREASES: AWU's large capital needs to manage healthy customer growth have contributed to its below-average financial metrics. Consequently, Fitch believes that projected rate increases are critical to the long-term stability of the utility's financial position. Any deviation from AWU's plan to increase rates or other unexpected change that further weakens its financial position could result in downward rating action.

CREDIT PROFILE

Drier weather in fiscal 2011 helped improve AWU's financial margins, and the first half of the current fiscal year shows a positive trend. Debt service coverage improved to 1.65x in fiscal 2011 from 1.15x in fiscal 2010, as AWU's operating margin reached a high 40% (including depreciation). While the rating category median is 2.2x, Fitch recognizes that AWU's debt service coverage and some other financial ratios are held lower by its considerable debt financing of growth-related needs.

AWU's large capital improvement plan through 2017 totals $1.02 billion, the majority of which ($614 million) is for water projects. The completion of Water Treatment Plant No. 4 in 2014 is expected to begin a slowdown in capital spending and corresponding deleveraging that should help improve financial metrics over time. Currently, AWU's debt to customer ratio of approximately $5,250 is more than three times the rating category median.

Other financial metrics including liquidity and rate affordability are also well below rating category medians and a source of potential downward rating pressure. AWU ended fiscal 2011 with just 11 days cash on hand versus the rating category median of 309 days. A timing delay in reimbursing unrestricted cash with proceeds of commercial paper goes some way toward explaining the deficiency, as does the large of amount of capital spending averaging a high 250% of expenses over five years. Nevertheless, an important indicator of AWU's financial strength will be an improved liquidity position that benefits, in part, from projected rate increases over the next several years.

A 6.5% rate increase became effective November 2011, and projected rate increases trend downward from about 5% to 1.5% by 2017 with the gradual decline in capital spending. In addition, a new $4.40/month revenue stability fee implemented in fiscal 2012 is expected to reduce revenue volatility from traditional volumetric charges. AWU expects the fee to raise its proportion of fixed revenues to approximately 17% from 12%.

Combined water and wastewater rates of $82/month (1.9% of median household income) are above the rating category median of $65/month (1.5%), and any practical or other limitations on rate increases could slow AWU's financial recovery. AWU's rate increases are approved by the Austin City Council.

The fiscal 2013 budget process will include several recommendations from a city council-formed Joint Committee on AWU's Financial Plan. The recommendations include building a new revenue stability reserve equal to 120 days of expenses and increasing operating reserves to 60 days of expenses. The recommendations, if incorporated into the budget, would provide indication of the city council and management's commitment to improving the long-term financial strength of the utility.

For more information on AWU, see Fitch's full report dated Dec. 2, 2011.

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Additional information is available at 'www.fitchratings.com'. The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

This action was informed by information identified in Fitch's Revenue-Supported Rating Criteria, U.S. Water and Sewer Revenue Bond Rating Criteria, and U.S. Public Power Rating Criteria.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria' (June 12, 2012);
--'U.S. Water and Sewer Revenue Bond Rating Criteria' (Aug. 10, 2011);
--'2011 Water and Wastewater Medians' (Jan. 18, 2011);
--'U.S. Public Power Rating Criteria' (Jan. 11, 2012).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=681015
U.S. Water and Sewer Revenue Bond Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=647331
2011 Water and Wastewater Medians
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=593285
U.S. Public Power Rating Criteria
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=665815

City of Austin, Texas

Revenue Bonds
New Issue Report

Ratings

New Issues

$457,000,000 Water and Wastewater System Revenue Refunding Bonds, Series 2013A	AA–
$154,000,000 Water and Wastewater System Revenue Refunding Bonds, Series Taxable 2013B	AA–
Outstanding Debt[a]	
$70,679,944 Combined Utility Systems Revenue Bonds (Prior First Lien Obligations)	AA
$168,274,512 Combined Utility Systems Revenue Bonds (Prior Subordinate Obligations)	AA–
$2,137,723 Water and Wastewater System Revenue Bonds	AA–

[a]As of Sept. 30, 2012.

Rating Outlook

Stable

Related Research

2013 Outlook: Water and Sewer Sector (December 2012)

2013 Water and Sewer Medians (December 2012)

Fitch Rates Austin, TX's $404MM Electric Sys Rev Ref Bonds 'AA–'; Outlook Stable (November 2012)

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New Issue Details

Sale Information: Approximately $457,000,000 Water and Wastewater System Revenue Refunding Bonds, Series 2013A and $154,000,000 Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2013B the week of July 8.

Security: Net revenues of Austin Water Utility (AWU), after provision for the prior first lien obligations of the combined utility systems.

Purpose: Series 2013A bonds will, in part, retire AWU's outstanding commercial paper (CP) notes, while the balance of 2013A bonds together with 2013B bonds will refund outstanding water and wastewater system revenue bonds for cost savings.

Final Maturity: Series 2013A bonds to Nov. 15, 2043; series 2013B bonds to Nov. 15, 2030.

Key Rating Drivers

Strong Service Area: AWU provides water and wastewater treatment service to a sizeable service territory that includes the city of Austin, TX, and neighboring areas of the city. AWU's growing service area exhibits a deep and diverse economy, exceptionally low unemployment, above average wealth levels, and a highly diversified customer base.

Weak Financial Performance: Financial metrics are weak for the given rating category. However, the city has demonstrated its commitment to raising and restructuring rates to bring about improved financial results and healthier liquidity over the next few years. AWU ended fiscal 2012 with all-in debt service coverage of 1.4x and 25 days of cash, compared with 'AA–' rating category medians of 1.6x and 425 days, respectively.

Leveraged System: The system's debt levels are high for the rating category, although Fitch Ratings does not expect a meaningful increase in leverage, as scheduled amortization of existing debt will somewhat offset AWU's plans to fund approximately 70% of its nearly $1 billion capital program with additional borrowings.

Sufficient Capacity: Water supply and treatment capacity of the overall system is anticipated to be sufficient for the foreseeable future.

Prior Lien Upgrade: The upgrade to 'AA' on the prior first lien bonds reflects the closed nature of the lien, the very modest portion the bonds make up of AWU's and Austin Energy's (AE, AA–/Stable) overall debt profile, and the strong debt service coverage provided by the pledge of the combined utilities. Coverage of prior first lien obligations should continue to improve given the decreasing annual debt service requirements.

Rating Sensitivities

Improved Financial Metrics: The continuation of AWU's efforts to steadily improve its financial metrics will be critical to maintaining the current rating. Fitch considers AWU's stated financial targets to be positive, and any deviation in achieving its financial forecast over the next few years will result in downward rating action.

Rating History

Rating	Action	Outlook/ Watch	Date
AA	Affirmed	Stable	6/13/13
AA–	Affirmed	Stable	6/15/12
AA–	Affirmed	Stable	10/26/11
AA–	Affirmed	Stable	11/8/10
AA–	Affirmed	Stable	5/21/10
AA–	Affirmed	Stable	10/27/09
AA–	Affirmed	Stable	2/3/09
AA–	Affirmed	Stable	11/25/08
AA–	Affirmed	Stable	7/16/08
AA–	Affirmed	Stable	4/28/08
AA–	Affirmed	Stable	11/2/07
AA–	Affirmed	Stable	10/23/07
AA–	Affirmed	Stable	4/4/07
AA–	Affirmed	Stable	3/19/07
AA–	Affirmed	Stable	11/08/06
AA–	Affirmed	Stable	10/10/06
AA–	Upgrade	Stable	5/5/06
A+	Affirmed	Stable	11/2/05
A+	Affirmed	Stable	10/6/05
A+	Affirmed	Stable	5/11/05
A+	Affirmed	Stable	9/17/04
A+	Watch	Evolving	6/8/04
A+	Affirmed	—	1/29/03
A+	Affirmed	—	7/3/02
A+	Affirmed	—	11/21/01
A+	Upgrade	—	1/4/01
A	Revision	—	5/30/00

Related Criteria

U.S. Public Power Rating Criteria (December 2012)

U.S. Water and Sewer Revenue Bond Rating Criteria (August 2012)

Revenue-Supported Rating Criteria (June 2012)

Credit Profile

AWU operates as an enterprise fund of the city of Austin, providing water treatment and distribution, primarily on a retail basis, to approximately 216,000 customers. Wastewater treatment is also provided to a slightly smaller number of customer accounts. AWU benefits from a strong and stable service area that includes the city of Austin (Public Improvement Bonds rated AAA/Stable by Fitch) and portions of neighboring Travis and Williamson Counties.

The system continues to grow steadily, due in large part to the city's role as the state capital and the service area's strong economy. Water supply and overall treatment capacity are good, and the region's ongoing drought conditions have so far been manageable.

Financial metrics are weak relative to similarly rated systems, but recently adopted rate hikes and planned rate increases programmed into AWU's financial forecast should boost operating margins and restore liquidity over the next few years to a more acceptable level. An Outlook revision and/or a rating downgrade would likely occur absent any measureable improvement in financial performance.

Governance and Management

AWU is owned and operated by the city of Austin. The city is governed by a mayor and six council members elected at large for staggered, three-year terms. The council approves AE's budget, capital plans, rates, and bond transactions. The council also appoints the city manager, who administers the utility systems. Mark Ott, the current city manager, has been in his role since January 2008.

Management's primary goal in recent years has been to improve the water and sewer system's financial metrics, principally its liquidity, through rate adjustments and changes in the rate structure. Positive results have not materialized to date, as declines in consumption in four out of the prior five years have offset management's prudent imposition of annual rate hikes over that span.

Service Area and Customer Profile

AWU provides water and wastewater service to a service area that includes the city of Austin and portions of neighboring Travis and Williamson Counties. The system's customer base is highly diverse, composed mostly of residential users, with the 10 largest customers accounting for a nominal 6% of total revenues in fiscal 2012. The system also provides water and wastewater service on a wholesale basis to five municipal utility districts, one water control and improvement district, six water supply corporations, one private utility, and four neighboring towns.

The city's population, estimated at roughly 811,000 for 2012, has increased more than 20% since 2000. Wealth indicators for the area are comparatively high and the city's March 2013 unemployment rate of 4.6% is exceptionally low relative to the state and national averages. The collection of monthly billings is consistently strong, leading to a notably low number of delinquencies each year.

AWU's service area boasts a strong economy as Austin continues to outperform that of many other large metro areas in the U.S. The city's economy has historically been buffered by the large and stabilizing presence of state government and seven colleges and universities, including the University of Texas (the University of Texas System is rated AAA/Stable by Fitch), one of the largest public universities in the country.

High-technology manufacturing is also a major employer, attracted to the area by a well-educated workforce and the availability of major research facilities. While there was some employment contraction in this sector during the recession, several recent expansions and announcements of new business arrivals bode well for future growth.

AWU Assets

Water System

Water Supply

AWU has an ample, long-term water supply, pursuant to an agreement with the Lower Colorado River Authority (LCRA) (revenue bonds rated A/Stable by Fitch) that is extendable through 2100 at AWU's option. The agreement gives AWU independent rights to impound, divert, and use water from the Colorado River and its tributaries. These rights have been adjudicated before the Texas Commission on Environmental Quality (TCEQ).

The agreement, for which AWU made a $100 million up-front payment, provides the utility with up to 201,000 firm acre-feet of water per year without incurring additional charges. AWU does not anticipate using more than this amount until at least 2021. AWU has reserved access for up to 325,000 acre-feet of water per year for additional charges.

Annual Water Customers and Consumption

Fiscal Year	Customers	Consumption (mgd)	% Change
2005	190,041	120	—
2006	195,042	136	13.3
2007	198,883	112	(17.6)
2008	202,057	131	17 0
2009	208,424	130	(0.8)
2010	210,225	109	(16 2)
2011	211,185	136	24.8
2012	212,466	117	(14 0)

Mgd – Million gallons per day.
Source: Austin Water Utility.

Treatment

AWU's water treatment plants provide ample excess treatment capacity, estimated to be sufficient until 2030 following the addition of a new facility in 2014. The system's two existing facilities, the Davis Plant and the Ullrich Plant, have a combined treatment capacity of 285 million gallons per day (mgd), comfortably above the average peak demand of 218 mgd over the prior five years.

A third plant currently under construction, Water Treatment Plant No. 4, will have an initial capacity of 50 mgd in 2014, expandable to 300 mgd over time. The system should have adequate water treatment capacity for the foreseeable future with this addition.

Conservation Plan

AWU maintains both a water conservation plan and a drought contingency plan, as required in Texas for large municipal water suppliers. The drought contingency plan outlines a year-round ban on water waste and limits watering to twice per week for outdoor irrigation.

The plan also calls for more restrictive stages if combined storage levels fall below certain levels or if daily pumpage exceeds limits established by AWU's utility director. Stage 2 regulations were implemented in September 2012 and remain in effect after combined storage in lakes Travis and Buchanan reached the 900,000 acre-foot trigger outlined in the contingency plan. Ascending block rates based on water usage also promote conservation.

Wastewater System

AWU's two wastewater treatment plants provide 150 mgd of capacity, which was sufficient to meet average daily flows of 104 mgd in fiscal 2012. Existing treatment capacity is reportedly sufficient for the foreseeable future, and discharge permits are current. The TCEQ issued the city five-year discharge permits in 2009 and 2010. The system is not currently operating under any environmental judgments or consent orders.

AWU Operating Statistics

(mgd, Fiscal Years Ended Sept. 30)

	Water				Wastewater	
Fiscal Year	Customers	Total Pumpage (mg)	% Change	Average Daily Consumption	Flows	% Change
2002	181,181	50,883	1.5	122	34,146	(1.9)
2003	183,737	51,111	0.4	119	33,314	(2.4)
2004	186,620	48,469	(5.2)	114	31,762	(4.7)
2005	190,041	51,374	6.0	120	32,638	2.8
2006	195,042	56,603	10.2	136	30,273	(7.2)
2007	198,883	45,868	(19.0)	112	37,142	22.7
2008	202,057	53,066	15.7	131	32,006	(13.8)
2009	208,424	53,331	0.5	130	32,184	0.6
2010	210,225	43,827	(17.8)	109	37,287	15.9
2011	211,185	52,284	19.3	136	32,951	(11.6)
2012	212,466	47,094	(9.0)	117	37,756	15.0
2013F	—	49,454	5.0	—	36,103	(4.0)
2014F	—	51,188	3.5	—	36,436	1.0
2015F	—	51,418	0.4	—	36,775	1.0
2016F	—	51,773	0.7	—	37,111	1.0
2017F	—	52,437	1.3	—	37,447	1.0
2018F	—	53,112	1.3	—	37,783	1.0
2019F	—	53,853	1.4	—	38,118	1.0
2020F	—	54,630	1.4	—	38,454	1.0

F – Forecast. Mgd – Million gallons per day. Mg – Million gallons.
Source: City of Austin, TX.

Capital Plan

AWU remains in the midst of a sizeable capital program, estimated to cost $986 million over the next five years. Capital needs are split almost evenly between water and wastewater projects with the majority of spending aimed at repairing and improving each of the system's treatment facilities. Repair and replacement of existing lines also accounts for a sizeable portion of planned spending.

The city expects to fund about 70% of its five-year capital program with annual borrowings through 2018. Excess cash flow is projected to cover the balance of planned expenditures The city's financial projections through 2018 appear reasonable, showing sufficient surplus operating funds needed to meet planned spending.

COA Resp to PUC RFI-1225

Debt Profile

Debt levels are high as total debt outstanding, including prior first and subordinate lien obligations allocated to the water and wastewater system, increased by nearly 37% since fiscal 2008, principally due to growth-related needs. Consequently, both debt to equity and debt to funds available for debt service (FADS) grew to 4.8x and 9.5x, respectively, in fiscal 2012, compared with Fitch's 'AA–' median ratios of 3.8x and 8.0x, respectively.

Fitch expects debt levels to remain high for the foreseeable future as the scheduled payout of existing principal will be supplanted by a similar amount of additional debt currently programmed into AWU's capital plan. As a result, annual debt service obligations should continue to compose about 40% of total operating revenues, almost twice the median percentage for similarly rated systems.

The prior first and subordinate lien bonds outstanding totaled $70.1 million and $168.3 million, respectively, at the close of fiscal 2012. Outstanding debt allocated to the water and wastewater system accounts for about 48% of the total amounts borrowed under both liens combined. The prior first lien obligations accounted for a modest 15% of AWU's total debt outstanding, although this will continue to diminish as the lien is essentially closed and scheduled amortization occurs.

AWU had just $154 million of variable-rate bonds outstanding at the close of fiscal 2012, equal to a nominal 6.5% of total debt obligations. The variable-rate bonds are backed by a letter of credit agreement provided by Sumitomo Mitsui Banking Corporation (rated A–/F1/Stable by Fitch) and Bank of Tokyo-Mitsubishi UFJ, Ltd. (A/F1 by Fitch) that extends to 2015. All additional debt is fixed rate, and the system is not currently party to any swap agreements.

The city is authorized by ordinance to issue and have outstanding at any one time a maximum of $350 million in CP notes for interim financing for capital projects of the electric and water and wastewater systems. AWU had approximately $79.8 million outstanding at the close of fiscal 2012, while Austin Energy had about $181 million. Outstanding notes are backed by letter of credit agreements with three different providers.

Cost Structure

The establishment of AWU's rates and fees requires only the approval of the city council. However, the TCEQ maintains oversight on rates charged to customers residing outside the city's boundaries. Both the city council and the TCEQ reportedly have a history of being generally supportive of AWU's rate adjustment requests. The system's rate structure is composed of a fixed monthly account charge of $10, a monthly tiered minimum charge, and a volumetric rate.

Fitch considers AWU's combined water and wastewater rates somewhat high relative to income levels of city residents, and in comparison to other large urban systems. Despite implementing only modest rate hikes in recent years, the city's combined monthly residential bill (based on approximately 8,000 gallons/month) currently totals slightly more than $83, equal to an above average 2.0% of median household income.

Despite the system's above average rates, recent changes made to AWU's rate structure are viewed favorably by Fitch given the wide variability in consumption in recent years and the system's constrained financial position. Rates were increased by a combined 5.5% in both fiscals 2012 and 2013 to boost revenues, and a tiered fixed fee for residential users was implemented to fix a greater percentage of system revenues. The city also implemented a surcharge of 12 cents/1,000 gallons, aimed at funding a newly created water revenue stability reserve fund, which can only be utilized if consumption declines by 10% or greater and the city council grants approval.

Fitch notes that the combined rate increase put into effect for fiscal 2013 was somewhat delayed. Wastewater and water rate hikes were implemented at different times, beginning one month and four months, respectively, into the fiscal year. Nevertheless, year-end debt service coverage is currently projected to be 1.5x, consistent with AWU's 2012 forecast.

Combined Annual Rate Increases

Fiscal Year	% Increase
2007	7.1
2008	9.8
2009	7.0
2010	4.5
2011	4.5
2012	5.1
2013	5.5

Source: Austin Water Utility

While the deviation in the timing is not material, the delay is a concern given the system's weak cash position. Future divergences from currently planned rate increases would be viewed negatively if financial performance weakened as a result. The system's current financial forecast incorporates modest additional annual increases through 2018, ranging from 2.3% to 3.8%.

Financial Performance

AWU's financial performance has been largely uneven in recent years, driven by variable weather conditions and an ongoing drought. Water restrictions invoked early in 2010 due to drought conditions were followed by heavy rainfalls that limited customers' demand requirements. Drier weather in fiscal 2011 led to a nearly 25% increase in water consumption, although the positive growth was followed by a 13% reduction in demand in fiscal 2012.

The drop in demand in fiscal 2012 prompted all-in debt service coverage to decline to 1.4x, compared with 1.7x in the prior year and Fitch's median ratio of 1.6x. A marginal improvement in liquidity in fiscal 2012 resulted in 25 days of cash on hand, still far below the rating category median of 425 days.

Forecast

Current financial projections through fiscal 2018 are consistent with AWU's 2012 multiyear plan. The forecast shows debt service coverage remaining within an acceptable range of 1.5x–1.6x, assuming AWU's plans for modest annual rate hikes and additional debt issuance in each year.

Financial Forecast

	Projected					
($000, Fiscal Years Ended June 30)	2013	2014	2015	2016	2017	2018
Operating Statement						
Total Operating Revenues	513,919	544,264	572,742	602,792	624,758	638,501
Operating Expenses (Excluding Depreciation)	207,155	218,970	232,757	245,363	258,070	271,352
Net Revenues Available for Debt Service[a]	306,764	325,293	339,985	357,429	366,689	367,149
Senior Lien Debt Service Requirements	403,600	452,400	524,400	478,100	529,000	529,000
Total Debt Service Requirements	204,300	216,200	216,800	227,000	237,500	245,000
Financial Statistics						
Total Debt Service Coverage (x)	1.50	1.50	1.57	1.57	1.54	1.50

[a]Equals gross revenues less operating expenses. Note. Numbers may not add due to rounding.
Source. AWU.

AWU's assumptions for water and wastewater demand included in the forecast are somewhat aggressive in Fitch's view given the more recent trend and the region's susceptibility to drought conditions. However, the service area continues to exhibit steady population growth, which could help increase sales as currently projected.

The forecast also shows a positive build-up of total cash to a level more consistent with the 'AA–' rating category. Management is targeting a minimum operating and maintenance reserve of 60 days cash by the close of 2014, and with the recent implementation of a 12-cent surcharge that will be raised to 15 cents by fiscal 2014, a water revenue stability reserve fund is expected to grow to $50 million by 2018, equal to 120 days cash. Fitch will continue to monitor AWU's ability to achieve its stated financial goals and respond accordingly.

Legal Provisions

The series 2013A and 2013B bonds are secured by net revenues of AWU, after provision for the prior first lien obligations of the combined utility systems. The series 2013A and 2013B are on parity with the prior subordinate lien obligations of the combined utility systems, and all outstanding water and wastewater revenue bonds. The 2013 series A and B bonds will not carry a debt service reserve.

The prior first- and subordinate-lien obligations are secured by a joint and several pledge of net revenues of the combined utility systems, consisting of AWU and AE. The issuance of additional bonds secured by a joint and several pledge of net revenues of AWU and AE is no longer permitted by the master bond ordinance, making both liens effectively closed. A default on the prior subordinate lien obligations and water and wastewater bonds would not trigger a default on the prior first lien bonds.

CP is secured by a joint and several pledge of AWU and AE net revenues. Unlike the prior first- and subordinate-lien obligations, the city may continue to issue CP with a joint and several pledge of both systems' net revenues. CP is payable after provision for all outstanding long-term debt.

Rate Covenant

Pursuant to the prior lien ordinance, gross revenues of the respective systems must be sufficient to fund operations and maintenance costs, amounts owed to all reserve funds, and produce net revenues equal to 1.25x annual debt service (ADS) for the prior first-lien obligations and separate-lien obligations, plus 1.10x ADS for the prior subordinate-lien obligations.

Pursuant to the master lien ordinance, AWU gross revenues must be sufficient to fund operations and maintenance and produce net revenues, after provision for prior first- and subordinate-lien obligations, equal to the greater of ADS on all outstanding parity bonds, or 1.25x ADS on all outstanding parity bonds, including available water and wastewater revenues.

Additional Bonds Test

Additional bonds can be issued if net revenues in any 12 consecutive months of the 15 months immediately preceding the issuance of additional parity water/wastewater obligations, after deductions for the prior first and subordinate lien bonds and together with other available revenues, equal at least 125% average ADS of the parity water/wastewater obligations then outstanding and proposed.

Financial Summary

($000, Fiscal Years Ended Sept. 30)	2009	2010	2011	2012
Balance Sheet				
Unrestricted Cash and Investments	42,990	27,684	5,403	13,168
Accounts Receivable	52,814	52,526	69,086	70,094
Other Current Unrestricted Assets	18,374	25,193	26,257	26,466
Current Liabilities Payable from Unrestricted Assets	(53,720)	(64,386)	(76,662)	(76,720)
Net Working Capital	60,458	41,017	24,084	33,008
Net Fixed Assets	2,444,177	2,530,961	3,036,372	3,230,035
Net Long-Term Debt Outstanding	1,943,057	2,026,539	2,184,840	2,395,827
Operating Statement				
Operating Revenues	391,896	360,649	448,048	442,707
Non-Operating Revenues	1,875	287	271	313
Gross Revenues	393,771	360,936	448,319	443,020
Operating Expenses (Excluding Depreciation)	(172,438)	(171,171)	(177,474)	(190,987)
Depreciation	(81,031)	(85,705)	(91,398)	(95,392)
Operating Income	140,302	104,060	179,447	156,641
Net Revenues Available for Debt Service[a]	221,333	189,765	270,845	252,033
Senior Lien Debt Service Requirements	33,215	46,160	46,016	44,386
Total Debt Service Requirements	147,840	156,387	163,471	178,167
Financial Statistics				
Senior Lien Debt Service Coverage (x)	6.66	4 11	5.89	5 68
Total Debt Service Coverage (x)	1.50	1.21	1 66	1.41
Days Cash on Hand	91	59	11	25
Days Working Capital	128	88	50	63
Debt to Net Plant (%)	79.5	80 1	72.0	74 2
Outstanding Long-Term Debt per Customer ($)	4,801	4,970	5,326	5,774
Outstanding Long-Term Debt per Capita ($)	2,522	2,603	2,712	2,918
Operating Margin (%)	56.0	52.5	60.4	56.9

[a]Equals gross revenues less operating expenses. Note: Numbers may not add due to rounding.
Source: Austin, TX audited financial statements

The ratings above were solicited by, or on behalf of, the issuer, and therefore, Fitch has been compensated for the provision of the ratings.

FitchRatings

Fitch Rates Austin's (TX) $271MM Water and Wastewater Rev Rfdg Bonds 'AA-'; Outlook Revised

Ratings Endorsement Policy

19 May 2014 3:48 PM (EDT)

Fitch Ratings-New York-19 May 2014: Fitch Ratings assigns an 'AA-' rating to the following Austin, Texas (the city) revenue bonds:

--Approximately $271,171,000 million water and wastewater system revenue refunding bonds, series 2014.

The series 2014 bonds are scheduled for negotiated sale the week of June 3. A portion of the 2014 bonds will retire Austin Water Utility's (AWU, or the system) outstanding commercial paper notes, while the balance of the 2014 bonds will refund outstanding water and wastewater system revenue bonds for cost savings with no extension of bond maturity dates.

In addition, Fitch affirms the following rating for the city's remaining revenue bonds:

--$30.5 million combined utility systems (prior first lien) revenue bonds at 'AA';
--$148.1 million combined utility systems (prior subordinate lien) revenue bonds at 'AA-';
--$2.3 billion water and wastewater system revenue bonds at 'AA-'.
The Rating Outlook for the series 2014 bonds and outstanding parity water and wastewater revenue bonds is revised to Negative from Stable.

The Rating Outlook remains Stable for outstanding combined utility system prior and subordinate lien bonds based on the strength of the joint and several pledge of net revenues of the combined utility systems, consisting of AWU and Austin Energy (AE).

SECURITY

The series 2014 bonds are secured by net revenues of AWU, after provision for the prior first lien obligations of the combined utility systems. The series 2014 bonds are on parity with the prior subordinate lien obligations of the combined utility systems and all outstanding water and wastewater revenue bonds. The 2014 bonds will not carry a debt service reserve.

The prior first- and subordinate-lien obligations are secured by a joint and several pledge of net revenues of the combined utility systems, consisting of AWU and AE (electric revenue bonds rated 'AA-' with a Stable Outlook by Fitch). The issuance of additional bonds secured by a joint and several pledge of net revenues of AWU and AE is no longer permitted by the master bond ordinance, making both liens effectively closed. A default on the prior subordinate lien obligations and water and wastewater bonds would not trigger a default on the prior first lien bonds.

KEY RATING DRIVERS

FINANCIAL RESULTS EXPECTED TO WEAKEN: The revision in Outlook to Negative from Stable on the water and wastewater bonds reflects the diminishing prospect of any material improvement in AWU's financial profile over the near term, due in part to ongoing drought conditions. Financial metrics remain weak for the rating category and further erosion in both debt service coverage (DSC) and liquidity is expected by the close of the current fiscal year based on year-to-date results.

LIMITED FLEXIBILITY: AWU's low cash levels, high rates, narrow operating margins after making transfers to the city's general fund, and susceptibility to sizeable declines in consumption limit the system's overall flexibility.

STRONG SERVICE AREA: AWU provides water and wastewater treatment service to a sizeable service territory that includes the city (general obligation bonds rated 'AAA', Stable Outlook) and neighboring areas beyond the city limits.

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AWU's growing service area exhibits a deep and diverse economy, exceptionally low unemployment, above average wealth levels, and a highly diversified customer base.

LEVERAGED SYSTEM: The system's debt levels are high for the rating category, although capital needs have begun declining to a more manageable level and borrowing plans are not expected to result in a meaningful increase in current leverage.

AMPLE CAPACITY: Water supply and treatment capacity of the overall system are anticipated to be sufficient for the foreseeable future.

HIGHER RATING ON PRIOR LIEN DEBT: The 'AA' rating on the prior first lien bonds reflects the closed nature of the lien, the very modest proportion the bonds that make up AWU's and AE's (AE, 'AA-'/Stable) overall debt profile, and the strong debt service coverage provided by the pledge of the combined utilities. Coverage of prior first lien obligations should continue to strengthen given the decreasing annual debt service requirements.

RATING SENSITIVITIES

IMPROVED FINANCIAL METRICS: Additional negative rating action is likely absent a measured near-term improvement in AWU's financial profile, particularly its unrestricted cash balances, to a level more consistent with the current rating category.

CREDIT PROFILE

WEAK FINANCIAL RESULTS EXPECTED TO CONTINUE

Financial performance for fiscal 2013 resulted in a slight decline in DSC to 1.4x compared to the prior year and a modest increase in unrestricted cash to a still narrow 50 days cash on hand. Operating results fell short of healthier financial targets included in the prior year forecast, continuing AWU's trend of underperformance relative to forecasted expectations. The city continues to implement rate increases, although revenue growth has failed to materialize as forecasted due primarily to sizeable water consumption declines in four out of the prior five years. The trend in declining sales has reportedly continued into the current fiscal year, which is expected to further erode AWU's already weak financial metrics. Financial projections show DSC coverage dropping to 1.3x with a modest decline in unrestricted cash.

Similar to prior years, AWU forecasts improved DSC beginning in fiscal 2015 to about 1.6x and a meaningful increase in liquidity to a level more consistent with the current rating. AWU's forecast reasonably assumes continued growth in debt service, a sizeable rate hike in fiscal 2015 followed by more manageable rate adjustments of 3% per year. Fitch considers the assumed 1.4% rate of growth in sales incorporated into the forecast to be aggressive, particularly given the more recent trend in demand and the potential for drought conditions to remain. Fitch will continue to monitor AWU's ability to achieve its stated financial goals and respond accordingly.

STRONG SERVICE AREA

AWU provides water and wastewater service on a retail basis to a particularly strong service territory that includes the city of Austin and neighboring portions of Travis and Williamson Counties. The system's customer base is highly diverse, composed mostly of residential users, with the 10 largest customers accounting for a nominal 6% of total revenues in fiscal 2013.

Austin's economy continues to outperform that of many other large metro areas in the U.S. The city is the state capital and is home to seven colleges and universities, including the University of Texas (the University of Texas System rated revenue bonds rated 'AAA', Stable Outlook by Fitch), one of the largest public universities in the country. Wealth indicators for the area are comparatively high and the city's March 2014 unemployment rate of 3.9% is exceptionally low relative to state and national averages. Consequently, customer delinquencies are minimal and revenue collection is near perfect.

AMPLE SUPPLY AND TREATMENT CAPACITY

AWU has an ample, long-term water supply, pursuant to an agreement with the Lower Colorado River Authority (LCRA, revenue bonds rated 'A', Stable Outlook by Fitch) that runs through 2050 and is extendable through 2100 at AWU's option. The agreement, for which AWU made a $100 million up-front payment, provides the utility with up to 201,000 firm acre-feet of water per year, equal to about 55% more than AWU's average daily demand recorded in fiscal 2013. AWU does not anticipate exceeding its current allocation until at least 2050.

AWU's water treatment plants provide significant excess treatment capacity estimated to be sufficient until at least 2030 following the addition of a new facility in 2014. AWU's two wastewater treatment plants provide 150 million gallons per day (mgd) of capacity, which was sufficient to meet average daily flows of 104 mgd in fiscal 2012. Existing treatment capacity is reportedly sufficient for the foreseeable future, and discharge permits are current.

DECLINING RATE AFFORDABILITY

Fitch considers AWU's combined water and wastewater rates somewhat high relative to income levels of city residents, and in comparison to other large urban systems. Although rate hikes on a combined percentage basis have been fairly modest over the last several years, the city's total monthly residential bill currently amounts to about $88, equal to an above average 2 1% of median household income.

MANAGEABLE CAPITAL NEEDS

For the sixth consecutive year, AWU's capital needs have continued to decline to a more manageable level. Projected spending through fiscal 2019 totals $839.8 million, down nearly 18% from the prior five-year plan as larger scale projects have neared completion. The city expects to fund about two-thirds of its five-year capital program with annual borrowings through 2019. Excess cash flow is projected to cover the balance of planned expenditures. AWU's financial forecast through 2019 exhibits sufficient excess cash flow needed to meet annual pay-go targets.

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In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

Applicable Criteria and Related Research:
--'Revenue-Supported Rating Criteria'(June 2013);
--'U.S. Water and Sewer Revenue Bond Rating Criteria' (July 2013);
--'U.S. Public Power Rating Criteria' (Dec. 2012);
--'2014 Water and Sewer Medians'(Dec. 2013);
--'2014 Outlook: Water and Sewer Sector' (Dec. 2013).

Applicable Criteria and Related Research:
Revenue-Supported Rating Criteria
U.S. Water and Sewer Revenue Bond Rating Criteria
U.S Public Power Rating Criteria
2014 Water and Sewer Medians
2014 Outlook: Water and Sewer Sector

Additional Disclosure
Solicitation Status

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2014 Water and Sewer Medians

Special Report

Sector Strength Continues

The 2014 medians continue Fitch Ratings' effort to provide transparency to market participants by giving a clear understanding of certain statistical ratios used in its review of sector revenue bond credits and quantitative results, particularly as they pertain to retail systems. For the most part, the key findings for 2014 continue trends Fitch has observed over the past several years and that contribute to key issues discussed in Fitch Research titled "2014 Outlook: Water and Sewer Sector," dated Dec. 12, 2013, available on Fitch's website at www.fitchratings.com.

The medians continue to point to ongoing capital and debt pressures, but also spotlight the sector's overall financial strength. With the latest round of medians, financial results continued to post incremental gains while there was a corresponding decrease in debt ratios.

Related Research

2014 Outlook: Water and Sewer Sector (December 2013)

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Key Findings

National Medians

Solid Revenue Performance: Despite flat water usage and near-flat wastewater flows during the median period, revenues continued to increase a healthy 6% on rising user charges.

Controlled Expenditures: Operating expense growth remained controlled but crept up 2% with the 2014 medians from 1% the year prior. Debt service carrying costs relative to gross revenues remained flat from the prior year.

Improved Coverage: Debt service coverage (DSC) remained strong on both a senior lien and all-in basis (2.4x and 2.0x, respectively) and even rose slightly, marking the second consecutive year of modest improvement.

Cash Flows Up but Insufficient: Surplus cash flows, like DSC, continued to show some improvement. But at 91%, excess revenues remained insufficient to fully cover annual depreciation expense (i.e. renewal and replacement [R&R]) on a pay-as-you-go basis.

Liquidity a Highlight: Despite continued subpar cash flows, liquidity levels remained significant and even increased overall as DSC rose, capital spending relative to depreciation decreased, and surplus balances hit the bottom line.

Planned Capital Spending Down: Planned annual capital spending per customer fell 10% from the 2013 medians. The drop raises concerns about an expected increase in deferred maintenance in the coming years. However, recent spending was sufficient to maintain the age of facilities at 13 years.

Lower Debt Profile: Debt ratios fell modestly from the prior year medians as new issuances lagged principal being amortized. Nevertheless, debt ratios are forecasted to return to their upward trajectory over the upcoming five-year period even with expectations of decreased spending and declines in borrowable capital sources.

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Regional Medians

Far West: The Far West's financial performance continued to exceed the national medians from a DSC, liquidity, and cash flow perspective, although the margin by which the region surpassed the national level diminished with the current medians. Positively, current, and projected regional debt ratios are down considerably from last year's medians and now are lower or more in line with the national medians.

Midwest: The Midwest saw virtually flat operating performance between the 2013 and 2014 medians. Total DSC was unchanged, liquidity levels were mixed, and free cash was only 1% lower. Current debt levels within the region remain the lowest of any other region. However, over the next five years the region's debt profile is expected to balloon and be higher than any other region. The rising debt expectation is driven at least in part to fund R&R to address the region's aged infrastructure, which at 17 years is older than any other region.

Northeast: The Northeast posted sound financial gains for the year but remain below national medians in almost all areas. The Northeast continued to have the greatest leverage relative to other regions, but debt levels are expected to moderate over the next five years and be more in line with national norms despite the dismal amortization rate of existing debt (just 57% of principal is retired in 20 years).

Southeast: Southeast financial results were in line or better than the national medians at almost every level, with liquidity benefiting the most from the favorable results for the year: days cash was up 15% from the prior year (to 479 days) while days of working capital was up 46% (to 521 days). With the improved financial margins there was less reliance on borrowable resources, allowing current debt ratios to improve slightly from the 2013 medians. Also, over the next few years, projected debt ratios are expected to fall slightly as well, given planned capital spending with the 2014 medians was relatively flat from the prior year.

Southwest: The Southwest continued to produce financial and debt profiles in the midrange of all the regions. For the year, total DSC was unchanged, but as operating expenses were cut for the year, free cash jumped 23% from last year's medians — the second highest jump in free cash behind the Southeast region's 24% increase. Unfavorably, the region saw the largest growth in debt levels for the year of any region, which may be expected to erode financial performance somewhat in the coming years. However, the region continued to project falling debt ratios over the five-year horizon and the fastest payout rate, which should allow for a quick improvement to the region's debt profile over the next few years.

Medians Relative to System Size

Large Systems: Large systems (defined as utilities serving 500,000 or more persons) continued in general to have the greatest amount of debt and produce the lowest financial margins. With the 2014 medians, debt levels for large systems were virtually unchanged from the prior year (net issuance equaled the amount of principal being amortized), but DSC was down on rising operating expenditures. Nevertheless, as utilities scaled back on spending liquidity levels posted solid gains for the year.

Midsize Systems: Midsize systems (defined as utilities serving between 100,000 and 499,999 persons) continue to generate stronger financial performance than other utilities on balance while having the lowest debt burden and some of the lowest rates. For the 2014 medians, midsize utilities adopted rate adjustments to offset additional fixed costs from new debt issuances to the extent that DSC actually improved somewhat from the prior year. Surplus

Related Criteria

Revenue-Supported Rating Criteria (June 2013)

U.S. Water and Sewer Revenue Bond Rating Criteria (July 2013) revenues exceeded the depreciation expense for the 2014 medians, but these monies were diverted to capital spending keeping liquidity balances relatively unchanged.

Small Systems: Small systems (defined as utilities serving less than 100,000 persons) continued to produce financial and debt metrics in the midrange relative to other utilities. But for the 2014 medians, these systems saw a 9% drop in total DSC to 2.1x even as the national median improved slightly. Positively, reserve levels and surplus revenues improved over the prior year, affording some additional financial flexibility. Also favorably, debt levels dropped from the 2013 medians on reduced issuances and outyear estimates anticipate continued reductions in outstanding debt. While the drop in debt is a credit positive, it comes at the expense of planned capital outlays that could ultimately lead to rising deferred maintenance and aging facilities.

Limitations of Medians Analysis in the Rating Process

While the medians serve as a useful tool for market participants by allowing for broad assessments and comparisons of credit quality, Fitch maintains that the data complement the rating process rather than act as a substitute. Thus, when evaluating the medians in relation to the rating process, certain distinctions between them should be noted, as follows:

Point in Time: Medians largely provide a point-in-time snapshot of the rating category, region, class size, or sector as a whole, whereas the rating process focuses more on trends at the issuer and specific rating level.

Exclusion of Rating Factors: Only a portion of the factors covered in Fitch's rating process are reflected in the medians — in particular, qualitative aspects such as management, policies, and legal provisions are excluded, although other quantitative ratios are also omitted.

Individual Credit Characteristics Excluded: The medians present a composite of the range of credits and do not delineate offsetting strengths or weaknesses at the individual credit level that may affect a rating.

Methodology and Data

Fitch first published its water and sewer medians in 2004 to provide issuers, consultants, analysts, investors, and others with a quantitative framework of ratios used in Fitch's water and sewer rating process. To this end, Fitch historically has grouped the medians according to their respective area within the criteria review process and the 2014 medians continue this practice.

This report also continues Fitch's presentation of key ratios used in the rating process to give the market a better understanding of the priority in weighting certain ratios. To allow a comparison with prior statistics, Fitch also has included historical information from the 2007—2013 medians (see Appendix E, page 14); the 2004 medians were excluded, given that the methodology for a selection of credits was revised following its release. Fitch expects to add subsequent information annually to Appendix E as ensuing medians are published to allow readers to follow long-term trends.

As with Fitch's prior medians, those for 2014 cover only wholly or predominantly retail systems for which Fitch has taken rating actions on senior lien debt or debt that effectively acts as senior lien obligations. The data include water and sewer revenue bond credits rated between September 2012 and August 2013. Certain credits have been excluded for various reasons, as outlined below (for a complete list of issuers included in the 2014 medians, see Appendix B, pages 8–11). In cases where the same issuer was rated multiple times over the median selection period, only data from the most recent rating were incorporated into the medians.

In the 2014 medians, combined water and sewer utilities accounted for 92 credits (56% of the total), individual water systems numbered 41 (25%), and individual sewer systems were 30 (18%). Excluded for median-reporting purposes from the 2014 data set are certain credits with ratings of 'BBB+' or below, because Fitch traditionally has viewed these issuers as outliers with extenuating circumstances. Also excluded were issuers for which the majority of system revenues were derived from other utility (e.g. electric power) revenues. In both cases, the data have a tendency to skew median results.

Appendix A: Water and Sewer Median Definitions

Median	Definition	Significance
Population	Estimated population of the service area	Provides an overview of the scope of operations in the service area
MHI ($)	Median household income for the primary municipal entity served by the utility based on the most recent year as reported by the U.S. Census Bureau	Indicates the overall wealth of average residential customers and their ability to pay for services
Total Water Customers	Most recent water customer accounts total, if applicable	Provides an overview of the scope of operations in the service area
Water Customer Annual Growth (%)	Percentage of historical average annual customer accounts growth rates over the prior five-year period	Indicates the pressures a utility may be facing to meet customer demands
Total Sewer Customers	Most recent sewer customer accounts total, if applicable	Provides an overview of the scope of operations in the service area
Sewer Customer Annual Growth (%)	Percentage of historical average annual customer accounts growth rates over the prior five-year period	Indicates the pressures a utility may be facing to meet customer demands
Top 10 Customers as % of Revenues	Total annual receipts from the 10 largest customers divided by total operating system revenues for the year	Indicates revenue concentration levels
Age of Plant (Years)	Total accumulated depreciation divided by annual depreciation	Indicates age of facilities and potential deferred plant maintenance
Water Treatment Capacity Remaining (%)	Percentage of average permitted treatment capacity remaining above most recent production level	Indicates the pressures a utility may be facing to meet customer demands
Sewer Treatment Capacity Remaining (%)	Percentage of average permitted treatment capacity remaining above most recent production level	Indicates the pressures a utility may be facing to meet customer demands
Average Annual CIP Costs per Customer ($)	Total projected capital needs in the CIP divided by the number of years of the CIP, divided by total number of customers (for a combined utility, the aggregate number of water and sewer accounts are used)	Indicates effect of the CIP on ratepayers (principal only)
CIP Debt Financed (%)	Percentage of issuer's total CIP expected to be debt financed	Indicates future debt leverage of capital assets
Total Outstanding Debt to Net Plant Assets (%)	Total amount of utility long-term debt divided by the net asset value of the plant	Indicates existing debt leverage of capital assets
Debt to FADS (x)	Total amount of utility long-term debt divided by the total funds available for debt service	Indicates existing debt leverage relative to existing funds available for debt service
Debt to Equity (x)	Total amount of utility long-term debt divided by unrestricted net assets	Indicates existing debt leverage relative to system equity
Total Outstanding Long-Term Debt Per Customer ($)[a]	Total amount of utility long-term debt divided by the total number of utility customers (for a combined utility, the aggregate number of water and sewer accounts are used)	Indicates the existing debt burden attributable to ratepayers (principal only)
Total Outstanding Long-Term Debt Per Capita ($)[a]	Total amount of utility long-term debt divided by total population served by the utility	Indicates the existing debt burden of an utility attributable to each person served by the utility (principal only)
Ten-Year Principal Payout (%)	Percentage of principal amortizing within 10 years	Indicates longevity of system debt
Twenty-Year Principal Payout (%)	Percentage of principal amortizing within 20 years	Indicates longevity of system debt
Projected Debt Per Customer – Year Five ($)[a]	Total projected outstanding system debt (existing debt less scheduled amortization plus planned issuances) divided by total outstanding projected customers five years from the date of the rating (for a combined utility, the aggregate number of water and sewer accounts are used and are inflated by anticipated growth)	Indicates the total debt burden to ratepayers five years from the date of the rating (principal only)
Projected Debt Per Capita – Year Five ($)[a]	Total projected outstanding system debt (existing debt less scheduled amortization plus planned issuances) divided by total projected population served by the utility (population is inflated based on anticipated growth)	Indicates the total debt burden of an utility to each person served by the utility five years from the date of the rating (principal only)
Individual Water/Sewer Utility Average Monthly Residential Bill ($)	Average monthly residential bill for individual utilities; when billing was not calculated on a monthly basis, it was converted to a monthly amount for standardization	Indicates the monthly cost of service to residential customers
Individual Water/Sewer Utility Average Annual Bill as % of MHI	Average monthly residential bill for individual utilities times 12, divided by the most recent yearly MHI as reported by the U.S. Census Bureau	Indicates the annual burden for cost of service to ratepayers
Combined Water/Sewer Utility Average Monthly Residential Bill ($)	Average monthly residential bill for combined utilities; when billing was not calculated on a monthly basis, it was converted to a monthly amount for standardization	Indicates the monthly cost of service to residential customers
Combined Water/Sewer Utility Average Annual Bill as % of MHI	Average monthly residential bill for combined utilities times 12, divided by the most recent yearly MHI as reported by the U S. Census Bureau	Indicates the annual burden for cost of service to ratepayers

[a]Indicates key ratio. MHI – Median household income. CIP – Capital improvement program. FADS – Funds available for debt service

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Appendix A: Water and Sewer Median Definitions (continued)

Median	Definition	Significance
Average Annual Projected Water Rate Increases (%)	Sum of planned annual rate increases divided by the number of years over which increases are forecast	Indicates the future expected burden for cost of service to ratepayers
Average Annual Projected Sewer Rate Increases (%)	Sum of planned annual rate increases divided by the number of years over which increases are forecast	Indicates the future expected burden for cost of service to ratepayers
Three-Year Historical Average Senior Lien ADS Coverage (x)[a]	Most recent three-year historical average of annual revenues available for debt service divided by respective senior lien debt service for the year	Indicates the historical trend in senior lien ADS coverage
Senior Lien ADS Coverage (x)[a]	Current-year revenues available for debt service divided by current-year senior lien debt service	Indicates the financial margin to meet current senior lien ADS with current revenues available for debt service
Senior Lien ADS Coverage Excluding Connection Fees (x)	Current-year revenues available for debt service, excluding one-time revenues such as connection fees, divided by current-year senior lien debt service	Indicates the financial margin to meet current senior lien ADS with current revenues available for debt service, excluding one-time revenues such as connection fees
Senior Lien ADS Coverage Net of Transfers Out (x)	Current-year revenues available for debt service, excluding operating transfers out, divided by current-year senior lien debt service	Indicates the financial margin to meet current senior lien ADS with current revenues available for debt service, excluding transfers out
Minimum Projected Senior Lien ADS Coverage (x)[a]	Minimum debt service coverage projected typically over the ensuing five-year period, based on revenues available for debt service in any given fiscal year, divided by the respective senior lien debt service amount for that fiscal year	Indicates the financial margin during the year in which future senior lien ADS coverage is projected to be the lowest
Senior Lien MADS Coverage (x)	Current-year revenues available for debt service divided by projected senior lien MADS	Indicates the financial margin to meet projected senior lien MADS with current revenues available for debt service
Senior Lien Debt Service as % of Gross Revenues	Current-year senior lien debt service divided by current-year gross revenues	Indicates the level of annual senior lien debt service burden on system operations
Three-Year Historical Average All-In ADS Coverage (x)[a]	Most recent three-year historical average of annual revenues available for debt service divided by respective total debt service for the year	Indicates the historical trend in total ADS coverage
All-In ADS Coverage (x)[a]	Current-year revenues available for debt service divided by current-year total debt service	Indicates the financial margin to meet current total ADS with current revenues available for debt service
All-In ADS Coverage Excluding Connection Fees (x)	Current-year revenues available for debt service, excluding one-time revenues such as connection fees, divided by current-year total debt service	Indicates the financial margin to meet current total ADS with current revenues available for debt service, excluding one-time revenues such as connection fees
All-In ADS Coverage Net of Transfers Out (x)	Current-year revenues available for debt service, excluding operating transfers out, divided by current-year total debt service	Indicates the financial margin to meet current total ADS with current revenues available for debt service, excluding transfers out
Minimum Projected All-In ADS Coverage (x)[a]	Minimum debt service coverage projected typically over the ensuing five-year period, based on revenues available for debt service in any given fiscal year, divided by the respective total debt service amount for that fiscal year	Indicates the financial margin during the year in which future total ADS coverage is projected to be the lowest
All-In MADS Coverage (x)	Current-year revenues available for debt service divided by projected total MADS	Indicates the financial margin to meet projected total MADS with current revenues available for debt service
All-In Debt Service as % of Gross Revenues	Current-year total debt service divided by current-year gross revenues	Indicates the level of annual total debt service burden on system operations
Operating Margin (%)	Operating revenues minus operating expenditures plus depreciation, divided by operating revenues	Indicates financial margin to pay operating expenses
Operating Cash Flow Ratio (x)	Cash flows from current operations divided by current liabilities	Indicates the strength of existing cash flows to meet near-term obligations
Operating Revenue Growth – Current Year (%)	Most recent audited operating revenues divided by the immediately prior year operating revenues minus one	Indicates revenue gains
Operating Revenue Growth – Three Year Average (%)	Average of operating revenues divided by the immediately prior year operating revenues minus one for the three most recent audited fiscal years	Indicates revenue gains
Operating Expenditure Growth – Current Year (%)	Most recent audited operating expenses divided by the immediately prior year operating expenses minus one	Indicates expenditure pressures

[a]Indicates key ratio. ADS – Annual debt service. MADS – Maximum annual debt service.

Appendix A: Water and Sewer Median Definitions (continued)

Median	Definition	Significance
Operating Expenditure Growth – Three-Year Average (%)	Average of operating expenses divided by the immediately prior year operating expenses minus 1 for the three most recent audited fiscal years	Indicates expenditure pressures
Days of Operating Revenues in Accounts Receivable	Current unrestricted accounts receivable divided by operating revenues, divided by 365	Indicates rate at which customer revenues are received
Days Cash on Hand[a]	Current unrestricted cash and investments plus any restricted cash and investments (if available for general system purposes), divided by operating expenditures minus depreciation, divided by 365	Indicates financial flexibility to pay near-term obligations
Days of Working Capital[a]	Current unrestricted assets plus any restricted cash and investments (if available for general system purposes), minus current liabilities payable from unrestricted assets, divided by operating expenditures minus depreciation, divided by 365	Indicates financial flexibility to pay near-term obligations
Quick Ratio	Current cash plus current receivables divided by current liabilities	Indicates financial flexibility to pay near-term obligations
Current Ratio	Current assets divided by current liabilities	Indicates financial flexibility to pay near-term obligations
Free Cash as % of Depreciation[a]	Current surplus revenues after payment of operating expenses, debt service, and operating transfers out divided by current year depreciation	Indicates annual financial capacity to maintain facilities at current level of service from existing cash flows
Capital Spending as % of Depreciation	Current year additions to property, plant, and equipment divided by current year depreciation	Indicates annual improvements made to system facilities relative to level of annual depreciation to effectively determine if facilities are being maintained

[a]Indicates key ratio

Appendix B: Utility Obligors Included in 2014 Water and Sewer Medians

	Date of Senior-Most Lien Rating	Long-Term Rating	Rating Outlook
Arkansas			
Pine Bluff	11/2/12	AA–	Stable
Arizona			
Lake Havasu City	7/19/13	A	Stable
Pima County	11/1/12	AA	Stable
Pima County Metropolitan Domestic Water Improvement District	11/13/12	AA–	Stable
Surprise (Sewer)	3/13/13	A–	Stable
Tucson	5/22/13	AA	Stable
Yuma	5/22/13	AA–	Stable
California			
Anaheim (Water)	9/19/12	AAA	Stable
Burbank	10/16/12	AAA	Stable
Contra Costa Water District	6/14/13	AA+	Negative
Cucamonga Valley Water District	10/9/12	AA	Stable
Dublin San Ramon Services District	12/10/12	AA	Stable
East Bay Municipal Utility District (Water)	11/2/12	AA+	Stable
East Bay Municipal Utility District (Sewer)	12/19/12	AA+	Stable
East Valley Water District	5/22/13	AA–	Stable
Eastern Municipal Water District	3/7/13	AA+	Stable
Elsinore Valley Municipal Water District	5/3/13	AA–	Positive
Fresno (Water)	11/9/12	AA	Negative
Fresno (Sewer)	11/9/12	AA	Negative
Glendale Water & Power	11/28/12	A+	Negative
Helix Water District	8/21/13	AA+	Stable
Hillsborough	7/9/13	AA+	Stable
Indian Wells Valley Water District	6/3/13	AA–	Stable
Irvine Ranch Water District	3/13/13	AAA	Stable
Lake Arrowhead Community Services District	8/21/13	AA	Positive
Lomita	7/11/13	A	Negative
Los Angeles	4/18/13	AA+	Stable
Los Angeles Department of Water & Power	7/17/13	AA	Stable
Lynwood Utility Authority	7/9/13	A	Stable
Manteca	6/7/13	AA–	Stable
Mesa Consolidated Water District	10/22/12	AAA	Stable
Oakland	8/16/13	AA–	Positive
Orange County Sanitation District	10/10/12	AAA	Stable
Padre Dam Municipal Water District	7/15/13	AA	Stable
Palmdale Water District	4/29/13	A+	Stable
Rancho California Water District	12/20/12	AA+	Stable
Riverside	4/16/13	AA+	Stable
Sacramento (Water)	3/8/13	AA–	Stable
Sacramento (Sewer)	6/13/13	AA	Stable
San Jose	3/22/13	AAA	Stable
San Juan Capistrano	4/22/13	A	Stable
Sonoma Valley County Sanitation District	12/3/12	AA–	Stable
South Coast Water District	4/1/13	AA+	Stable
Vallecitos Water District	7/24/13	AA+	Stable
Yuba City	4/24/13	AA–	Stable
Colorado			
Arvada	3/1/13	AAA	Stable
Fort Collins	1/29/13	AA+	Stable
District of Columbia			
District of Columbia Water & Sewer	6/25/13	AA	Stable
Delaware			
Dover	7/24/13	AA	Positive
Florida			
Boca Raton	1/17/13	AAA	Stable
Cape Coral	5/9/13	A	Stable
Citrus County	1/3/13	AA–	Stable
Clearwater	5/20/13	AA–	Stable

COA Resp to PUC RFI-1242

Appendix B: Utility Obligors Included in 2014 Water and Sewer Medians (continued)

	Date of Senior-Most Lien Rating	Long-Term Rating	Rating Outlook
Florida (continued)			
Collier County Water-Sewer District	6/19/13	AA+	Positive
Deltona	8/15/13	A+	Stable
Florida Community Services Corp	8/22/13	AA	Stable
Florida Governmental Utility Authority (Lehigh System)	11/27/12	A	Stable
Florida Governmental Utility Authority (Lake Aqua Utility System)	3/8/13	A–	Stable
Florida Governmental Utility Authority (Unified Utility System)	3/8/13	A–	Stable
Florida Keys Aqueduct Authority	3/8/13	AA–	Stable
Fort Walton Beach	8/1/13	AA	Stable
Hernando County	5/20/13	AA–	Stable
Hialeah	4/16/13	A+	Stable
Hillsborough County	9/6/12	AAA	Stable
Indian River County	2/28/13	AAA	Stable
JEA	7/18/13	AA	Stable
Jupiter	2/1/13	AAA	Stable
Lee County	6/24/13	AA	Stable
Leesburg	4/2/13	AA–	Stable
Marco Island	8/21/13	AA–	Stable
Melbourne	1/10/13	AA–	Stable
North Miami Beach	11/27/12	A+	Stable
North Sumter County Utility Dependent District	11/7/12	A	Stable
Orlando	12/21/12	AAA	Stable
Palm Beach County	1/18/13	AAA	Stable
Palm Coast	5/21/13	A+	Stable
Pasco County	7/1/13	AA	Stable
Pinellas Park	5/16/13	AA	Stable
Polk County	11/16/12	AA–	Stable
Sanford	3/4/13	A+	Stable
Sarasota	6/19/13	AA	Stable
St. Augustine	1/28/13	AA–	Stable
St. Petersburg	12/5/12	AA	Stable
Tamarac	5/31/13	AA	Stable
Tampa	7/22/13	AA+	Positive
Tohopekaliga Water Authority	5/22/13	AA+	Stable
Venice	12/6/12	AA	Stable
Wellington Village	6/26/13	AA+	Stable
West Palm Beach	5/1/13	AA–	Stable
Winter Park	2/27/13	AA–	Stable
Georgia			
Athens-Clarke County Unified Government	2/6/13	AA+	Stable
Atlanta	8/19/13	A+	Stable
Cobb County	6/24/13	AAA	Stable
Columbia County	7/25/13	AAA	Stable
Fulton County	2/27/13	AA–	Stable
Hawaii			
Honolulu (City & County)	9/14/12	AA	Stable
Illinois			
Chicago (Sewer – Second Lien)	4/23/13	AA	Positive
Chicago (Water)	4/23/13	AA+	Positive
DuPage County	1/23/13	AAA	Stable
Melrose Park	3/4/13	A+	Stable
Springfield Metro Sanitary District	7/1/13	AA–	Stable
Indiana			
Indianapolis (Water)	7/23/13	A	Stable
Kentucky			
Louisville & Jefferson County Metropolitan Sewer District	4/11/13	AA–	Stable
Louisiana			
East Baton Rouge Sewerage Commission	4/17/13	AA	Stable

COA Resp to PUC RFI-1243

Appendix B: Utility Obligors Included in 2014 Water and Sewer Medians (continued)

	Date of Senior-Most Lien Rating	Long-Term Rating	Rating Outlook
Michigan			
Battle Creek	12/19/12	AA–	Stable
Missouri			
Metropolitan St. Louis Sewer District	10/12/12	AA+	Stable
North Carolina			
Buncombe County Metropolitan Sewerage District	3/26/13	AA+	Stable
Cary	12/21/12	AAA	Stable
Charlotte	6/27/13	AAA	Stable
Dare County	5/13/13	AA–	Stable
Durham	4/8/13	AAA	Stable
Gastonia	4/4/13	AA–	Stable
Raleigh	4/23/13	AAA	Stable
Salisbury	10/1/12	AA–	Stable
Sanford	11/20/12	AA–	Stable
Union County	7/18/13	AA	Stable
Wilson	5/13/13	AA	Stable
Winston-Salem	9/28/12	AA+	Negative Watch
New Mexico			
Albuquerque Bernalillo County Water Utility Authority	6/6/13	AA	Stable
Rio Rancho	7/1/13	A+	Stable
New York			
New York City Municipal Water Finance Authority	6/12/13	AA+	Stable
Suffolk County Water Authority	1/15/13	AAA	Stable
Ohio			
Canal Winchester	12/14/12	A+	Stable
Columbus	4/4/13	AA+	Stable
Oregon			
Eugene	5/22/13	AA+	Stable
Pennsylvania			
Philadelphia	6/27/13	A+	Stable
South Carolina			
Greenville	7/17/13	AAA	Stable
Tennessee			
Clarksville	6/7/13	AA–	Stable
Memphis	10/29/12	AA–	Stable
Texas			
Arlington	6/3/13	AAA	Stable
Burleson	9/14/12	AA–	Stable
Cleburne	12/4/12	AA–	Stable
Corpus Christi	12/11/12	AA–	Stable
Eagle Pass	5/10/13	A	Stable
El Paso	11/15/12	AA+	Stable
Fort Worth	4/10/13	AA	Stable
Garland	4/25/13	AA+	Negative
Grand Prairie	3/8/13	AA+	Stable
Killeen	3/15/13	AA	Stable
Laredo	4/1/13	AA–	Negative
Lewisville	5/3/13	AAA	Stable
North Texas Municipal Water District – Panther Creek (Frisco)	3/8/13	A+	Stable
Pasadena	9/14/12	AA–	Stable
Pearland	2/11/13	AA–	Stable
San Antonio	3/7/13	AA+	Stable
San Antonio – Special Purpose District	5/24/13	A+	Stable
Sugar Land	9/27/12	AA+	Stable

Appendix B: Utility Obligors Included in 2014 Water and Sewer Medians (continued)

	Date of Senior-Most Lien Rating	Long-Term Rating	Rating Outlook
Utah			
Cedar Hills	11/28/12	AA–	Stable
Clearfield City	11/30/12	AA–	Positive
North Salt Lake	11/12/12	A–	Negative
South Jordan	4/15/13	AA	Stable
South Valley Sewer District	5/28/13	AA	Stable
St. George (Utah Water Finance Agency)	2/25/13	AA–	Stable
West Bountiful	1/25/13	A+	Stable
Virginia			
Chesterfield County	3/14/13	AAA	Stable
Fairfax County Water Authority	2/8/13	AAA	Stable
Hampton Roads Sanitation District	12/5/12	AA+	Stable
Henrico County	2/5/13	AAA	Negative
Loudoun County Sanitation Authority	6/6/13	AAA	Stable
Richmond	4/8/13	AA	Stable
Spotsylvania County	7/1/13	AA–	Stable
Washington			
Douglas County Sewer District No. 1	12/17/12	A+	Stable
Tacoma	8/30/13	AA+	Stable

Appendix C: 2014 Regional Medians

	Far West	Midwest	Northeast	Southeast	Southwest	All Credits
Community Characteristics/Customer Growth and Concentration						
Population	145,000	916,924	2,200,000	155,082	138,390	149,025
MHI ($)	59,830	46,877	50,285	47,282	45,850	49,655
Total Water Customers	23,253	28,905	389,724	42,195	41,422	40,431
Annual Growth (%)	0.1	0.5	0.4	0.7	1.3	0.6
Total Sewer Customers	32,255	58,326	723,042	33,035	36,688	35,210
Annual Growth (%)	0.4	0.3	0.2	0.6	1.1	0.6
Top 10 Customers as % of Revenues	7	8	10	9	8	8
Capacity						
Age of Plant (Years)	13	17	14	13	12	13
Water Treatment Capacity Remaining (%)	59	50	59	55	58	58
Sewer Treatment Capacity Remaining (%)	40	16	25	49	47	47
Capital Demands and Debt Policies						
Average Annual CIP Costs Per Customer ($)	238	306	260	210	219	226
CIP Debt Financed (%)	11	42	69	28	63	32
Total Outstanding Debt to Net Plant Assets (%)	39	72	70	40	47	43
Debt to FADS (x)	5.6	10.0	9.8	5.4	6.6	6.1
Debt to Equity (x)	2.7	2.3	3.6	3.1	5.1	3.3
Total Outstanding Long-Term Debt Per Customer ($)[a]	1,721	1,566	1,903	1,383	1,745	1,581
Total Outstanding Long-Term Debt Per Capita ($)[a]	571	474	394	395	571	459
Ten-Year Principal Payout (%)	34	39	14	38	59	39
Twenty-Year Principal Payout (%)	74	70	57	82	99	80
Projected Debt Per Customer –Year Five ($)[a]	2,010	2,496	1,853	1,704	1,536	1,868
Projected Debt Per Capita – Year Five ($)[a]	496	711	771	480	558	519
Charges and Rate Affordability						
Individual Water/Sewer Utility Average Monthly Residential Bill ($)	42	27	28	37	33	36
Individual Water/Sewer Utility Average Annual Bill as % of MHI	0.9	0.5	0.4	1.0	0.8	0.9
Combined Water/Sewer Utility Average Monthly Residential Bill ($)	82	60	58	70	56	68
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.5	1.7	1.5	1.8	1.4	1.6
Average Annual Projected Water Rate Increases (%)	5.1	6.2	4.8	3.0	4.3	4.0
Average Annual Projected Sewer Rate Increases (%)	4.0	6.5	5.7	3.5	3.6	3.7
Coverage and Financial Performance/Cash and Balance Sheet Considerations						
Three-Year Historical Average Senior Lien ADS Coverage (x)[a]	2.5	3.4	3.3	2.6	2.3	2.5
Senior Lien ADS Coverage (x)[a]	2.6	3.3	3.9	2.6	2.3	2.7
Senior Lien ADS Coverage Excluding Connection Fees (x)	2.4	3.3	3.9	2.4	2.2	2.5
Senior Lien ADS Coverage Net of Transfers Out (x)	2.5	3.1	3.4	2.4	2.1	2.4
Minimum Projected Senior Lien ADS Coverage (x)[a]	2.2	3.2	2.5	2.0	1.8	2.1
Senior Lien MADS Coverage (x)	2.7	2.0	N.A.	2.9	2.0	2.1
Senior Lien Debt Service as % of Gross Revenues	16	9	13	17	21	16
Three-Year Historical Average All-In ADS Coverage (x)[a]	2.2	1.5	1.6	2.0	1.9	2.0
All-In ADS Coverage (x)[a]	2.2	1.6	1.8	2.1	1.9	2.1
All-In ADS Coverage Excluding Connection Fees (x)	2.1	1.5	1.8	2.0	1.8	1.9
All-In ADS Coverage Net of Transfers Out (x)	1.9	1.6	1.8	2.1	1.7	1.9
Minimum Projected All-In ADS Coverage (x)[a]	1.9	1.5	1.6	1.7	1.4	1.7
All-In MADS Coverage (x)	2.0	1.3	1.1	2.0	1.6	1.7
All-In Debt Service as % of Gross Revenues	19	26	22	21	26	21
Operating Margin (%)	29	39	39	39	43	39
Operating Cash Flow Ratio (x)	1.0	0.6	1.3	1.6	1.3	1.3
Operating Revenue Growth – Current Year (%)	5.8	3.7	5.5	5.6	5.5	5.5
Operating Revenue Growth – Three-Year Average (%)	5.5	5.5	7.2	5.0	6.1	5.5
Operating Expenditure Growth – Current Year (%)	2.4	2.7	0.5	2.0	1.3	2.0
Operating Expenditure Growth – Three-Year Average (%)	2.5	4.1	1.2	0.7	3.3	1.9
Days of Operating Revenues in Accounts Receivable	46	71	35	42	47	46
Days Cash on Hand[a]	426	165	299	479	330	404
Days of Working Capital[a]	414	180	241	521	366	414
Quick Ratio	2.9	2.3	1.9	4.4	2.8	3.4
Current Ratio	3.4	3.1	2.0	5.9	3.7	4.1
Free Cash as % of Depreciation[a]	102	78	91	89	81	91
Capital Spending as % of Depreciation	170	243	257	102	146	134

[a]Indicates key ratio. ADS – Annual debt service. CIP – Capital improvement program. FADS – Funds available for debt service. MADS – Maximum annual debt service. MHI – Median household income. N.A. – Not available.

Appendix D: 2014 Medians Relative to System Size

	System Size Classification			All
	Large	Medium	Small	Credits
Community Characteristics/Customer Growth and Concentration				
Population	983,641	200,000	52,760	149,025
MHI ($)	49,457	51,144	48,042	49,655
Total Water Customers	226,916	55,628	17,387	40,431
Annual Growth (%)	0.7	0 8	0.3	0.6
Total Sewer Customers	234,071	55,211	14,900	35,210
Annual Growth (%)	0.5	0.9	0 4	0.6
Top 10 Customers as % of Revenues	8	6	12	8
Capacity				
Age of Plant (Years)	14	13	13	13
Water Treatment Capacity Remaining (%)	60	55	58	58
Sewer Treatment Capacity Remaining (%)	37	51	49	47
Capital Demands and Debt Policies				
Average Annual CIP Costs Per Customer ($)	241	234	199	226
CIP Debt Financed (%)	52	38	11	32
Total Outstanding Debt to Net Plant Assets (%)	57	37	42	43
Debt to FADS (x)	8.3	5.6	5 3	6.1
Debt to Equity (x)	5.8	2 9	2.8	3.3
Total Outstanding Long-Term Debt Per Customer ($)[a]	1,951	1,550	1,592	1,581
Total Outstanding Long-Term Debt Per Capita ($)[a]	494	388	518	459
Ten-Year Principal Payout (%)	34	38	42	39
Twenty-Year Principal Payout (%)	75	76	92	80
Projected Debt Per Customer Capita – Year Five ($)[a]	2,486	1,919	1,477	1,868
Projected Debt Per Capita – Year Five ($)[a]	761	496	454	519
Charges and Rate Affordability				
Individual Water/Sewer Utility Average Monthly Residential Bill ($)	30	35	46	36
Individual Water/Sewer Utility Average Annual Bill as % of MHI	0 7	0.9	0 9	0.9
Combined Water/Sewer Utility Average Monthly Residential Bill ($)	64	67	72	68
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.5	1 6	1.7	1.6
Average Annual Projected Water Rate Increases (%)	4.5	4.5	3.1	4 0
Average Annual Projected Sewer Rate Increases (%)	5 4	4 2	3 0	3.7
Coverage and Financial Performance/Cash and Balance Sheet Considerations				
Three-Year Historical Average Senior Lien ADS Coverage (x)[a]	2.3	2.8	2.5	2 5
Senior Lien ADS Coverage (x)[a]	2.4	2 9	2 7	2.7
Senior Lien ADS Coverage Excluding Connection Fees (x)	2.4	2.4	2.5	2 5
Senior Lien ADS Coverage Net of Transfers Out (x)	2 3	2 5	2.4	2 4
Minimum Projected Senior Lien ADS Coverage (x)[a]	2.1	2 1	2 1	2.1
Senior Lien MADS Coverage (x)	1.8	2.6	2 2	2 1
Senior Lien Debt Service as % of Gross Revenues	19	14	18	16
Three-Year Historical Average All-In ADS Coverage (x)[a]	1 6	2.1	2 0	2 0
All-In ADS Coverage (x)[a]	1.6	2.2	2.1	2.1
All-In ADS Coverage Excluding Connection Fees (x)	1.6	2.0	2.0	1.9
All-In ADS Coverage Net of Transfers Out (x)	1.6	2.1	1.9	1.9
Minimum Projected All-In ADS Coverage (x)[a]	1 6	1.8	1 8	1 7
All-In MADS Coverage (x)	1.4	2.0	2.0	1 7
All-In Debt Service as % of Gross Revenues	27	20	21	21
Operating Margin (%)	43	38	39	39
Operating Cash Flow Ratio (x)	1 2	1.3	1.5	1 3
Operating Revenue Growth – Current Year (%)	5.8	5.8	4.7	5 5
Operating Revenue Growth – Three-Year Average (%)	6.3	5.1	5.5	5.5
Operating Expenditure Growth – Current Year (%)	2.4	2.7	1.7	2.0
Operating Expenditure Growth –Three-Year Average (%)	2 6	2.4	1.2	1 9
Days of Operating Revenues in Accounts Receivable	40	48	42	46
Days Cash on Hand[a]	373	458	404	404
Days of Working Capital[a]	292	510	400	414
Quick Ratio	2 5	4 5	3 5	3.4
Current Ratio	2.8	5.8	4.2	4.1
Free Cash as % of Depreciation[a]	81	101	95	91
Capital Spending as % of Depreciation	182	146	100	134

[a]Indicates key ratio ADS – Annual debt service. CIP – Capital improvement program. FADS – Funds available for debt service. MADS – Maximum annual debt service. MHI – Median household income

Appendix E: Year-Over-Year Sectorwide Medians Comparison

	2007	2008	2009	2010	2011	2012	2013	2014
Community Characteristics/Customer Growth and Concentration								
Population	119,037	234,103	162,338	144,162	150,142	153,272	172,778	149,025
MHI ($)	40,656	45,733	45,820	47,179	50,146	50,294	51,518	49,655
Total Water Customers	37,299	61,076	50,410	37,264	40,755	39,441	48,169	40,431
Annual Growth (%)	2.5	2.4	1.6	1.7	1.4	0.5	0.4	0.6
Total Sewer Customers	32,903	64,039	48,000	40,306	48,949	34,984	50,296	35,210
Annual Growth (%)	2.8	2.5	1.9	1.5	1.7	0.6	0.8	0.6
Top 10 Customers as % of Revenues	9	8	8	7	7	8	8	8
Capacity								
Age of Plant (Years)	13	13	12	13	12	13	13	13
Water Treatment Capacity Remaining (%)	53	50	50	54	53	58	58	58
Sewer Treatment Capacity Remaining (%)	32	35	35	38	42	41	47	47
Capital Demands and Debt Policies								
Average Annual CIP Costs Per Customer ($)	266	348	356	273	297	248	251	226
CIP Debt Financed (%)	62	63	66	60	49	45	39	32
Total Outstanding Debt to Net Plant Assets (%)	40	39	39	43	44	45	47	43
Debt to FADS (x)	—	—	4.9	5.5	6.4	6.7	6.8	6.1
Debt to Equity (x)	—	—	—	—	3.2	3.5	3.8	3.3
Total Outstanding Long-Term Debt Per Customer ($)[a]	1,012	1,185	1,454	1,297	1,527	1,611	1,650	1,581
Total Outstanding Long-Term Debt Per Capita ($)[a]	—	—	379	375	425	458	460	459
Ten-Year Principal Payout (%)	40	30	40	39	38	39	38	39
Twenty-Year Principal Payout (%)	87	70	82	80	79	80	78	80
Projected Debt Per Customer – Year Five ($)[a]	1,599	1,808	2,036	1,774	1,877	1,803	2,024	1,868
Projected Debt Per Capita – Year Five ($)[a]	—	—	607	446	531	532	566	519
Charges and Rate Affordability								
Individual Water/Sewer Utility Average Monthly Residential Bill ($)	23	29	28	28	35	33	37	36
Individual Water/Sewer Utility Average Annual Bill as % of MHI	0.6	0.7	0.8	0.7	0.8	0.7	0.8	0.9
Combined Water/Sewer Utility Average Monthly Residential Bill ($)	47	56	56	59	61	61	65	68
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.4	1.4	1.3	1.5	1.4	1.5	1.5	1.6
Average Annual Projected Water Rate Increases (%)	4.1	4.4	4.9	5.3	5.0	4.8	4.4	4.0
Average Annual Projected Sewer Rate Increases (%)	5.0	5.1	5.9	5.9	5.8	5.1	5.0	3.7
Coverage and Financial Performance/Cash and Balance Sheet Considerations								
Three-Year Historical Average Senior Lien ADS Coverage (x)[a]	—	2.7	3.0	2.9	2.7	2.5	2.4	2.5
Senior Lien ADS Coverage (x)[a]	2.3	2.8	2.9	2.6	2.3	2.2	2.4	2.7
Senior Lien ADS Coverage Excluding Connection Fees (x)	2.0	2.3	2.3	2.4	2.1	2.1	2.3	2.5
Senior Lien ADS Coverage Net of Transfers Out (x)	—	—	—	—	2.1	2.1	2.3	2.4
Minimum Projected Senior Lien ADS Coverage (x)[a]	1.8	1.9	1.9	1.9	1.8	1.9	1.8	2.1
Senior Lien MADS Coverage (x)	1.9	2.0	2.1	2.4	1.9	2.1	2.0	2.1
Senior Lien Debt Service as % of Gross Revenues	18	16	15	16	17	17	17	16
Three-Year Historical Average All-In ADS Coverage (x)[a]	—	—	2.1	2.4	2.3	2.1	2.0	2.0
All-In ADS Coverage (x)[a]	—	2.2	2.3	2.2	1.9	1.8	2.0	2.1
All-In ADS Coverage Excluding Connection Fees (x)	—	—	1.8	1.9	1.7	1.7	1.8	1.9
All-In ADS Coverage Net of Transfers Out (x)	—	—	—	—	1.8	1.7	1.8	1.9
Minimum Projected All-In ADS Coverage (x)[a]	—	—	1.7	1.6	1.5	1.6	1.5	1.7
All-In MADS Coverage (x)	—	—	1.8	2.0	1.7	1.6	1.6	1.7
All-In Debt Service as % of Gross Revenues	—	20	21	18	20	22	21	21
Operating Margin (%)	34	36	33	32	33	36	39	39
Operating Cash Flow Ratio (x)	—	—	1.1	1.0	1.0	1.1	1.3	1.3
Operating Revenue Growth – Current Year (%)	5.4	8.0	7.1	4.5	3.6	3.3	5.8	5.5
Operating Revenue Growth – Three-Year Average (%)	—	—	6.5	6.0	5.3	4.3	4.7	5.5
Operating Expenditure Growth – Current Year (%)	5.0	8.4	7.3	6.2	4.3	1.1	1.0	2.0
Operating Expenditure Growth – Three-Year Average (%)	—	—	7.5	7.7	8.1	4.1	2.7	1.9
Days of Operating Revenues in Accounts Receivable	45	45	47	48	46	47	46	46
Days Cash on Hand[a]	266	313	331	344	328	310	417	404
Days of Working Capital[a]	279	316	345	361	331	343	373	414
Quick Ratio	—	—	2.9	3.3	2.9	2.9	3.1	3.4
Current Ratio	—	—	3.3	3.8	3.3	3.9	3.8	4.1
Free Cash as % of Depreciation[a]	—	—	122	107	83	74	82	91
Capital Spending as % of Depreciation	223	264	240	214	219	187	167	134

[a]Indicates key ratio. ADS – Annual debt service. CIP – Capital improvement program. FADS – Funds available for debt service. MADS – Maximum annual debt service. MHI – Median household income.

Appendix F: 2014 Medians Relative to Rating Category

	Rating Category AAA	AA	A	All Credits
Community Characteristics/Customer Growth and Concentration				
Population	328,169	150,653	76,499	149,025
MHI ($)	65,144	48,266	47,776	49,655
Total Water Customers	79,397	40,431	28,905	40,431
Annual Growth (%)	0.9	0 6	0.2	0.6
Total Sewer Customers	90,068	33,292	18,063	35,210
Annual Growth (%)	0.8	0 6	0.4	0 6
Top 10 Customers as % of Revenues	6	9	6	8
Capacity				
Age of Plant (Years)	14	14	10	13
Water Treatment Capacity Remaining (%)	61	58	52	58
Sewer Treatment Capacity Remaining (%)	49	47	45	47
Capital Demands and Debt Policies				
Average Annual CIP Costs Per Customer ($)	190	243	159	226
CIP Debt Financed (%)	22	40	22	32
Total Outstanding Debt to Net Plant Assets (%)	24	47	54	43
Debt to FADS (x)	4.0	6 4	6 6	6.1
Debt to Equity (x)	1 8	3 4	5.7	3.3
Total Outstanding Long-Term Debt Per Customer ($)[a]	1,165	1,812	1,963	1,581
Total Outstanding Long-Term Debt Per Capita ($)[a]	285	514	558	459
Ten-Year Principal Payout (%)	46	39	32	39
Twenty-Year Principal Payout (%)	90	77	74	80
Projected Debt Per Customer Year Five ($)[a]	1,068	1,973	2,041	1,868
Projected Debt Per Capita Year Five ($)[a]	254	558	584	519
Charges and Rate Affordability				
Individual Water/Sewer Utility Average Monthly Residential Bill ($)	37	35	46	36
Individual Water/Sewer Utility Average Annual Bill as % MHI	0.6	0.9	1.0	0.9
Combined Water/Sewer Utility Average Monthly Residential Bill ($)	62	70	63	68
Combined Water/Sewer Utility Average Annual Bill as % of MHI	1.2	1.6	1.8	1.6
Average Annual Projected Water Rate Increases (%)	3 0	4 3	3.3	4.0
Average Annual Projected Sewer Rate Increases (%)	5.0	3.7	3 1	3.7
Coverage and Financial Performance/Cash and Balance Sheet Considerations				
Three-Year Historical Average Senior Lien ADS Coverage (x)[a]	3.4	2 5	2.1	2 5
Senior Lien ADS Coverage (x)[a]	3 4	2.6	2.1	2.7
Senior Lien ADS Coverage Excluding Connection Fees (x)	3.1	2.4	2 0	2.5
Senior Lien ADS Coverage Net of Transfers Out (x)	3.2	2 4	2 1	2.4
Minimum Projected Senior Lien ADS Coverage (x)[a]	3 2	2.1	1 5	2.1
Senior Lien MADS Coverage (x)	2 7	2 1	2.0	2 1
Senior Lien Debt Service as % of Gross Revenues	12	16	24	16
Three-Year Historical Average All-In ADS Coverage (x)[a]	2 5	2 0	1.6	2 0
All-In ADS Coverage (x)[a]	2 6	2 0	1.7	2.1
All-In ADS Coverage Excluding Connection Fees (x)	2 3	1.8	1 6	1.9
All-In ADS Coverage Net of Transfers Out (x)	2 4	1.8	1.6	1.9
Minimum Projected All-In ADS Coverage (x)[a]	2.2	1 7	1.4	1 7
All-In MADS Coverage (x)	2 3	1 6	1.9	1.7
All-In Debt Service as % of Gross Revenues	18	22	24	21
Operating Margin (%)	38	39	48	39
Operating Cash Flow Ratio (x)	1 2	1.4	1 3	1 3
Operating Revenue Growth Current Year (%)	4.7	5 8	5.2	5.5
Operating Revenue Growth Three-Year Average (%)	5.3	5 0	7.2	5.5
Operating Expenditure Growth Current Year (%)	2.4	2.7	0.0	2.0
Operating Expenditure Growth Three-Year Average (%)	2.4	1.7	2.6	1.9
Days of Operating Revenues in Accounts Receivable	39	45	60	46
Days Cash on Hand[a]	671	398	254	404
Days of Working Capital[a]	621	410	275	414
Quick Ratio	4 2	3.4	1 9	3.4
Current Ratio	5 2	4.1	2 0	4.1
Free Cash as % of Depreciation[a]	114	87	102	91
Capital Spending as % of Depreciation	127	148	122	134

[a]Indicates key ratio. ADS – Annual debt service. CIP – Capital improvement program. FADS – Funds available for debt service. MADS – Maximum annual debt service. MHI – Median household income.

COA Resp to PUC RFI-1249

MOODY'S
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 rating to City of Austin (TX) Water and Wastewater System Revenue Refunding Bonds, Series 2012; Upgrades to Aa1 from A1 Combined Utliity System Prior Lien revenue bonds and to Aa2 from A1 Combined Utility System Prior Subordinate Lien

Global Credit Research - 14 Jun 2012

Aa2 affects $2 billion in water and sewer separate lien debt; Aa1 affects $120 million in prior lien debt; Aa2 affects $175 million in prior subordinate lien debt

AUSTIN (CITY OF) TX
Combined Water & Sewer Enterprise
TX

Moody's Rating

ISSUE	RATING
Water and Wastewater System Revenue Refunding Bonds, Series 2012	Aa2

Sale Amount	$335,885,000
Expected Sale Date	06/22/12
Rating Description	Revenue: Government Enterprise

Moody's Outlook N/A

NOTE: On June 15, 2012, the report was revised as follows: Prior subordinate Lien was upgraded to Aa2 from A1 rather than Aa2 from A2 as stated in the original report. Revised report follow:

Opinion

NEW YORK, June 14, 2012 --Moody's Investors Service has assigned a Aa2 underlying rating to the City of Austin's [TX] approximately $355 million Water and Wastewater System Revenue Refunding Bonds, Series 2012. Concurrently, Moody's has affirmed the Aa2 rating on the system's $1.9 billion in outstanding parity debt obligations. Moody's has also upgraded the rating on the city's Combined Utility System Revenue bonds to Aa1 from A1 on the prior lien affecting $120 million in debt and to Aa2 from A1 on the prior subordinate lien affecting $175 million in debt.

SUMMARY RATING RATIONALE

The upgrade to Aa1 from A1 on the prior lien reflects the historically strong debt service coverage that will improve going forward with decreasing annual debt service requirements. The prior lien is secured by net revenues of the water and sewer system and the net revenues of the electric system. As this debt service begins to significantly decline in fiscal years 2013 through 2019, historical coverage over 5 times will only get stronger. The upgrade on the prior subordinate lien to the Aa2 places the rating on par with the water and sewer separate lien bonds which is appropriate given that the net revenues available to the two liens are the same on the water and sewer system. Although the prior sub lien also has access to the net revenues of the electric system, the upgrade reflects that the water and sewer net revenues are supporting a majority of 60% of the annual debt service on this lien.

The Aa2 rating takes into consideration the utility's plans to strengthen liquidity with the establishment of a rate stability fund and to increase the net working capital from 45 days to 60 days. Although the utility has significant plans for future debt, the city has a long demonstrated history of using annual rate increases to support debt and growing operating costs. Additionally, the rating reflects adequate legal covenants and ample water supply provided by the Lower Colorado River Authority.

STRENGTHS

State capital with a strong and robust local economy

Ample water supply to meet growing service area

Improved liquidity position

CHALLENGES

Extreme weather conditions pressure financial operations

Ongoing rate increases will be necessary to fund large capital plan

Narrow liquidity compared to other highly rated systems

WATER SUPPLY SECURED FOR LONG-TERM GROWTH

The City of Austin benefits from substantial institutional presence as the capital of the State of Texas (GO rated Aaa) and is home to the University of Texas with 16,500 employees and 50,000 students. Additionally, the high tech sector has developed into leading economic drivers in the area anchored by the headquarters for Dell (A2/stable) and AMD (Ba3/positive). Between the 2007 and 2011 fiscal years, the city's full valuation experienced an average 8.1% growth rate annually including a 3.8% decline in fiscal 2011. In fiscal 2012, the full valuation increased 3.9% over the prior year to a sizable $80.09 billion. The increase was the cumulative impact of increases in existing properties, $3.5 billion in new construction and annexation with residential values holding flat.

Moody's believes the system's water capacity will be sufficient to meet a growing customer demand over the long-term. In 1999, the city executed a 50-year agreement with the Lower Colorado River Authority, with an option to renew for another 50-year period. By securing 100 years of water supply, the system has a significant advantage to expand and accommodate a growing customer base within the city and to serve wholesale customers. Over the next five years, officials project customer accounts to grow by approximately 1.7% annually. In addition, the system will continue to serve wholesale customers within the city's extra territorial jurisdiction and in adjacent communities such as the cities of Rollingwood, Pflugerville (Aa2) and Sunset Valley.

The water System includes two primary treatment plants (Davis and Ullrich) which have a rated capacity of 285 million gallons per day (mgd). The system anticipates construction of a third water treatment plant to be completed in spring 2014. The first phase of the plant will have 50 mgd capacity with the ability to expand to 300 mgd in the future. The wastewater system includes two main wastewater treatment plants (Walnut Creek and South Austin Regional Wastewater) with combined rated capacity of 150 mgd.

DEBT SERVICE COVERAGE HEALTHY FOR ALL SYSTEM DEBT; STRONG ON PRIOR LIENS

Between the 2007 and 2010 fiscal years, debt service coverage averaged 1.45 times including a high of 1.55 times in fiscal 2009 and a low of 1.31 times in fiscal 2010. Weather fluctuations typically influence revenues with a drought in 2009 increasing usage and therefore increasing revenues and with heavy rainfall in 2010 resulting in less usage and lower revenues. With dry weather conditions and a rate increase for fiscal 2011, net revenues of $293 million provided 1.88 times debt service coverage on all debt. When including the below the line transfer out ot the General Fund for indirect costs, coverage is 1.65 times. Total debt service in fiscal 2011, for the water and sewer system, totaled $155 million broken out as follows: $36.3 million for prior lien, $9.6 million for prior subordinate lien, and $109 million for separate lien debt. The prior lien and prior sub lien amounts represent the water and sewer system's allocation of these liens based on a debt service schedule provided by the city. The combined utility system debt is allocated between the water and sewer system and the electric system based on the purpose of the bonds.

Net revenues of the combined system utility provided 5.99 times coverage on prior lien only debt in fiscal 2011. Beginning with fiscal 2011, water and sewer system net revenues alone would cover prior lien, prior subordinate lien, and water and sewer separate lien obligations which is a result of healthy net revenues and declining annual debt service on the prior lien debt. For example, debt service on the prior lien drops from $106 million in fiscal 2012 to $61 million in fiscal 2013 and all debt from this lien will be paid off by 2019. With declining debt service requirements, net revenues will provide over 6 times coverage which is key to the rating upgrade.

OFFICIALS FOCUSED ON IMPROVING SYSTEM LIQUIDITY

Due to heavy rain fall in fiscal 2010, revenues declined nearly $53 million which officials mitigated by utilizing capital recovery funds ($10 million), reducing expenditures ($16 million), and decreasing the system's transfer out by $36 million. The ability to cut expenditures to balance revenues supported maintenance of the improved liquidity position and cash totaled $67 million at 2010 FYE. The cash position for fiscal 2011 was $64.8 million which is 36.5% of the fiscal 2011 operations and maintenance cost. In order to maintain and improve liquidity moving forward, officials will change some current practices beginning with the 2013 fiscal year. The net working capital target will increase from 45 days (approximately $20 million) to 60 days ($26 million). Additionally, the system will change its rate structure to reduce volatility in revenues. Officials have also created a new rate stability reserve fund which will build up to 120 days of operating costs over five years. An initial fee of 18 cents per 1,000 of gallons used could increase after a few years until the 120 days is reached and once established, the fee will drop to a level that keeps the reserve equal to 120 days. Using the reserve requires city council approval, the system must be experiencing a 10% shortfall, and only 50% of the reserve can be tapped in any one year with replenishment required over the following five years. This new rate stability fund will provide the additional liquidity the system needs to be consistent with other highly rated utility systems.

RATE INCREASES SUPPORT LARGE CAPITAL PROGRAM

Additional system debt is expected to be met with planned rate increases and expected customer growth. The system has a history since 2004 of passing annual rate increase which is favorable in the rating assignments. The most recent rate increase for fiscal 2012 averaged 5.1% on water and sewer rates. Future rate increases are currently estimated to average: 5.6% in fiscal 2013, 3.9% in fiscal 2014, 4.2% in fiscal 2015, 4.5% in fiscal 2016, and 1.5% in fiscal 2017.

Due to frequent borrowings and ongoing support of utility debt with system revenues, the 61.4% debt ratio is relatively high. Moody's anticipates the system will remain leveraged with $1.018 billion in planned capital needs over the next five years.

ADEQUATE LEGAL PROVISIONS

The bonds include a satisfactory rate covenant of 1.25 times from a three year rolling coverage for prior lien and separate lien and 1.1 times for prior subordinate and other debt. The debt service reserve fund for the separate lien is funded at one-half average annual debt service, satisfied with a combination of cash and surety bond. The common debt service reserve fund on the prior lien and prior sub lien debt is cash funded equal to average annual debt service. The additional bonds test on the separate lien is 1.25 times the average annual debt service requirements.

INTEREST RATE DERIVATIVES

Following the current sale, the water and sewer system will have one outstanding variable rate series of debt. The Series 2008 variable rate bonds have $160.7 million outstanding, supported by two letters of credit with expiration dates of May 8, 2015. Sumitomo Mitsui Banking Corporation (Aa3) and Bank of Tokyo-Mitsubishi UFJ (Aa3) each support 50% of the outstanding principal. In association with these 2008 bonds, the system entered into a second swap agreement with Goldman Sachs Group, Inc. (A1/possible downgrade). The system pays a fixed rate of 3.6% and receives SIFMA. The mark to market for this swap was a negative $26.6 million as of May 31, 2012.

WHAT COULD MAKE THE RATING GO UP

Trend of stronger debt service coverage levels

Decreasing debt ratio

Significant improvement in liquidity of the system

WHAT COULD MAKE THE RATING GO DOWN

Eroding annual coverage levels

More than expected debt issuance or lack of rate increases to support the debt

Materially weakened liquidity

KEY STATISTICS:

2012 Water Customer Count: 212,098

2012 Wastewater Customer Count: 198,496

FY 2011 Operating Ratio: 39.6%

FY 2011 Debt ratio: 61.4%

FY 2011 annual debt service coverage on all debt: 1.88X

FY 2011 prior lien debt service coverage from all pledged revenues: 5.99X

Principal retirement for all W&S obligations (10 years): 50%

Post-sale separate lien debt outstanding: $2 billion

Total prior lien debt outstanding: $120 million

Total prior subordinate Lien debt outstanding: $175 million

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

The Global Scale Credit Ratings on this press release that are issued by one of Moody's affiliates outside the EU are endorsed by Moody's Investors Service Ltd., One Canada Square, Canary Wharf, London E 14 5FA, UK, in accordance with Art.4 paragraph 3 of the Regulation (EC) No 1060/2009 on Credit Rating Agencies. Further information on the EU endorsement status and on the Moody's office that has issued a particular Credit Rating is available on www.moodys.com.

For ratings issued on a program, series or category/class of debt, this announcement provides relevant regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides relevant regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides relevant regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

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Please see ratings tab on the issuer/entity page on www.moodys.com for the last rating action and the rating history.

The date on which some ratings were first released goes back to a time before Moody's ratings were fully digitized and accurate data may not be available. Consequently, Moody's provides a date that it believes is the most reliable and accurate based on the information that is available to it. Please see the ratings disclosure page on our website www.moodys.com for further information.

Please see www.moodys.com for any updates on changes to the lead rating analyst and to the Moody's legal entity that has issued the rating.

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MOODY'S
INVESTORS SERVICE

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Moody's
INVESTORS SERVICE

New Issue: Moody's assigns Aa2 to City of Austin's $457M Revenue Refunding Bonds, Series 2013A and $154M Revenue Refunding Bonds, Series 2013B

Global Credit Research - 10 Jun 2013

Aa2 rating affects $2 billion in debt; Outlook is stable

AUSTIN (CITY OF) TX
Combined Water & Sewer Enterprise
TX

Moody's Rating

ISSUE		RATING
Water and Wastewater System Revenue Refunding Bonds, Series 2013A		Aa2
Sale Amount	$457,000,000	
Expected Sale Date	06/21/13	
Rating Description	Revenue: Government Enterprise	
Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2013B		Aa2
Sale Amount	$154,000,000	
Expected Sale Date	06/21/13	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook STA

Opinion

NEW YORK, June 10, 2013 --Moody's Investors Service has assigned a Aa2 underlying rating to the City of Austin's [TX] $457 million Water and Wastewater System Revenue Refunding Bonds, Series 2013A and $154 million Water and Wastewater System Revenue Refunding Bonds, Taxable Series 2013B. Concurrently, Moody's has affirmed the Aa2 rating on the system's $2 billion in outstanding parity debt obligations. Moody's has also affirmed the Aa1 on the system's prior lien debt and Aa2 rating on the system's prior subordinate lien debt. The outlook is stable.

SUMMARY RATING RATIONALE

The Aa2 rating on the system's separate lien (the open lien) takes into consideration the utility's plans to strengthen liquidity with the establishment of a rate stability fund and to increase the net working capital from 45 days to 60 days. Although the utility has significant plans for future debt, the city has a long demonstrated history of using annual rate increases to support debt and growing operating costs. Additionally, the rating reflects adequate legal covenants and ample water supply provided by the Lower Colorado River Authority.

The Aa1 rating on the prior lien reflects the strong coverage that will continue given that the lien is closed. The Aa2 rating on the prior subordinate lien, which is also closed, places the rating on par with the water and sewer separate lien bonds which is appropriate given that the net revenues available to the two liens are the same on the water and sewer system.

STRENGTHS

State capitol with a strong and robust local economy

Ample water supply to meet growing service area

Improved liquidity position

CHALLENGES

Extreme weather conditions pressure financial operations

Ongoing rate increases will be necessary to fund large capital plan

Narrow liquidity compared to other highly rated systems

WATER SUPPLY SECURED FOR LONG-TERM GROWTH

The City of Austin benefits from substantial institutional presence as the capital of the State of Texas (GO rated Aaa) and is home to the University of Texas with 16,500 employees and 50,000 students. Between the 2007 and 2011 fiscal years, the city's full valuation experienced an average 8.1% growth rate annually including a 3.8% decline in fiscal 2011. Subsequently, the tax base increased 3.9% yielding a sizable $81 billion full valuation.

The system's water capacity should be sufficient to meet a growing customer demand over the long-term. In 1999, the city executed a 50-year agreement with the Lower Colorado River Authority, with an option to renew for another 50-year period. By securing 100 years of water supply, the system has a significant advantage to expand and accommodate a growing customer base within the city and to serve wholesale customers. Over the next five years, officials project customer accounts to grow by approximately 1.7% annually. In addition, the system will continue to serve wholesale customers within the city's extra territorial jurisdiction and in adjacent communities such as the cities of Rollingwood, Pflugerville (Aa2) and Sunset Valley.

The water System includes two primary treatment plants (Davis and Ullrich) which have a rated capacity of 285 million gallons per day (mgd). The system anticipates construction of a third water treatment plant to be completed in June 2014. The first phase of the plant will have 50 mgd capacity with the ability to expand to 300 mgd in the future. The wastewater system includes two main wastewater treatment plants (Walnut Creek and South Austin Regional Wastewater) with combined rated capacity of 150 mgd.

DEBT SERVICE COVERAGE ADEQUATE FOR ALL SYSTEM DEBT; STRONG PRIOR LIEN COVERAGE

Between the 2007 and 2010 fiscal years, debt service coverage averaged 1.45 times including a high of 1.55 times in fiscal 2009 and a low of 1.31 times in fiscal 2010. Weather fluctuations typically influence revenues with a drought in 2009 increasing usage and therefore increasing revenues and with heavy rainfall in 2010 resulting in less usage and lower revenues. With dry weather conditions and a rate increase for fiscal 2011, debt service coverage was 1.88 times on all debt. Wet weather conditions in fiscal 2012 resulted in lower coverage of 1.43 times for all debt. Total debt service in fiscal 2012, for the water and sewer system, totaled $155 million broken out as follows: $35 million for prior lien, $9.5 million for prior subordinate lien, and $133.8 million for separate lien debt. The prior lien and prior sub lien amounts represent the water and sewer system's allocation of these liens based on a debt service schedule provided by the city. The combined utility system debt is allocated between the water and sewer system and the electric system based on the purpose of the bonds. Water and sewer net revenues provided a strong 7.32 times coverage on prior lien debt service.

OFFICIALS FOCUSED ON IMPROVING SYSTEM LIQUIDITY

Due to heavy rain fall in fiscal 2010, revenues declined nearly $53 million which officials mitigated by utilizing capital recovery funds ($10 million), reducing expenditures ($16 million), and decreasing the system's transfer out by $36 million. The ability to cut expenditures to balance revenues supported maintenance of the improved liquidity position and cash totaled $67 million at 2010 FYE. The cash position for fiscal 2011 was $64.8 million which was 36.5% of the fiscal 2011 operations and maintenance (O&M) cost. In fiscal 2012, cash increased to $95 which was equal to 50% of fiscal 2012 O&M costs. In order to maintain and improve liquidity moving forward, officials changed some current practices beginning with the 2013 fiscal year. The net working capital target increased from 45 days (approximately $20 million) to 60 days ($26 million). Additionally, the system changed its rate structure to reduce volatility in revenues. Officials have also created a new rate stability reserve fund which will build up to 120 days of operating costs over five years ending in fiscal 2017. An initial fee of 12 cents per 1,000 of gallons used could increase after a few years until the 120 days is reached and once established, the fee will drop to a level that keeps the reserve equal to 120 days. Using the reserve requires city council approval, the system must be experiencing a 10% shortfall, and only 50% of the reserve can be tapped in any one year with replenishment required over the following five years. This new rate stability fund will provide the additional liquidity the system needs to be consistent with other highly rated utility systems.

RATE INCREASES SUPPORT LARGE CAPITAL PROGRAM

Additional system debt is expected to be met with planned rate increases and expected customer growth. The system has a history since 2004 of passing annual rate increase which is favorable in the rating assignments. The most recent rate increase for fiscal 2013 averaged 5% on water and sewer rates. Future rate increases are currently estimated to average: 5% in fiscal 2013, 3.6% in fiscal 2014, 3.8% in fiscal 2015 and 2016 and 2.3% in 2017 and 2018.

Due to frequent borrowings and ongoing support of utility debt with system revenues, the 64.7% debt ratio is relatively high. Moody's anticipates the system will remain leveraged with $986 billion in planned capital needs over the next five years.

ADEQUATE LEGAL PROVISIONS

The bonds include a satisfactory rate covenant of 1.25 times from a three year rolling coverage for prior lien and separate lien and 1.1 times for prior subordinate and other debt. The debt service reserve fund for the separate lien is funded at one-half average annual debt service, satisfied with a combination of cash and surety bond. The common debt service reserve fund on the prior lien and prior sub lien debt is cash funded equal to average annual debt service. The additional bonds test on the separate lien is 1.25 times the average annual debt service requirements.

INTEREST RATE DERIVATIVES

Following the current sale, the water and sewer system will have one outstanding variable rate series of debt. The Series 2008 variable rate bonds have $154.4 million outstanding, supported by two letters of credit with expiration dates of May 8, 2015. Sumitomo Mitsui Banking Corporation (Aa3/stable) and Bank of Tokyo-Mitsubishi UFJ (Aa3) each support 50% of the outstanding principal. In association with these 2008 bonds, the system entered into a swap agreement with Goldman Sachs Group, Inc. (A3/negative). The system pays a fixed rate of 3.6% and receives SIFMA. The mark to market for this swap was a negative $18.6 million as of May 31, 2013.

STABLE OUTLOOK

The outlook reflects the system's strong service area, stable debt service coverage levels and expectations for improving liquidity with the establishment of certain reserve funds.

WHAT COULD MAKE THE RATING GO UP

Trend of stronger debt service coverage levels

Decreasing debt ratio

Significant improvement in liquidity of the system

WHAT COULD MAKE THE RATING GO DOWN

Eroding annual coverage levels

More than expected debt issuance or lack of rate increases to support the debt

Materially weakened liquidity

KEY STATISTICS:

2013 Water Customer Count: 216,0000

2013 Wastewater Customer Count: 204,000

FY 2012 Operating Ratio: 43.1%

FY 2012 Debt ratio: 64.7%

FY 2012 annual debt service coverage on all debt: 1.43X

FY 2012 prior lien debt service coverage water & sewer portion: 7.32X

Principal retirement for all W&S obligations (10 years): 50%

Post-sale separate lien debt outstanding: $2 billion

Total prior lien debt outstanding: $70.7 million

Total prior subordinate Lien debt outstanding: $168.3 million

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

REGULATORY DISCLOSURES

For ratings issued on a program, series or category/class of debt, this announcement provides certain regulatory disclosures in relation to each rating of a subsequently issued bond or note of the same series or category/class of debt or pursuant to a program for which the ratings are derived exclusively from existing ratings in accordance with Moody's rating practices. For ratings issued on a support provider, this announcement provides certain regulatory disclosures in relation to the rating action on the support provider and in relation to each particular rating action for securities that derive their credit ratings from the support provider's credit rating. For provisional ratings, this announcement provides certain regulatory disclosures in relation to the provisional rating assigned, and in relation to a definitive rating that may be assigned subsequent to the final issuance of the debt, in each case where the transaction structure and terms have not changed prior to the assignment of the definitive rating in a manner that would have affected the rating. For further information please see the ratings tab on the issuer/entity page for the respective issuer on www.moodys.com.

Regulatory disclosures contained in this press release apply to the credit rating and, if applicable, the related rating outlook or rating review.

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New Issue: Moody's affirms City of Austin's, TX Aa1/Aa2 utility rev bonds; outlook revised to negative

Global Credit Research - 15 May 2014

Action affects $2.5 billion in debt

AUSTIN (CITY OF) TX WATER & SEWER ENTERPRISE
Combined Water & Sewer Enterprise
TX

Moody's Rating

ISSUE		RATING
Water and Wastewater System Revenue Refunding Bonds, Series 2014		Aa2
Sale Amount	$271,170,000	
Expected Sale Date	06/03/14	
Rating Description	Revenue: Government Enterprise	

Moody's Outlook NEG

Opinion

NEW YORK, May 15, 2014 --Moody's Investor's Service has assigned a Aa2 rating to the City of Austin's, TX $271.2 million Water and Wastewater System Revenue Refunding Bonds, Series 2014. The outlook has been revised to negative. At the same time, we have affirmed the Aa1 on prior first lien obligations, as well as the Aa2 on parity debt including the prior subordinate lien, and the separate lien obligations. The rating action affects a total of $2.5 billion.

SUMMARY RATING RATIONALE

The negative outlook reflects a historically challenged financial profile that is expected to decrease materially at fiscal year end 2014. Future credit reviews will focus on the system's ability to execute rate increases sufficient to improve the liquidity position, as well as effectively implement the other aspects of its financial plan. Inability to improve the current liquidity levels will likely result in downward rating action.

The Aa2 rating on the system's separate lien (open lien) reflects a historically challenged liquidity position, much weaker than similarly rated credits, which is expected to improve over the near term given planned rate increases, as well as the already established rate stabilization fund. The rating also reflects the utility's strong demand supported by a vibrant and growing service area, ample water supply provided by the Lower Colorado River Authority, and adequate legal provisions. Also incorporated is a manageable capital plan with needs expected to be addressed by future debt issuance, as well as, cash reserves.

The Aa1 rating on the prior lien reflects the relatively small amount of debt outstanding under the prior lien and strong debt service coverage that will continue given that the lien is closed. The Aa2 rating on the prior subordinate lien, which is also closed, is on par with the water and sewer separate liens (working lien) given that the net revenues available to the two lines are the same on the water and sewer system.

STRENGTHS

State capital with a strong and robust economy and service area

Ample water supply to meet demand in growing service area

CHALLENGES

Challenged liquidity position; narrow liquidity compared to other highly rated systems

Need for ongoing rate increases to fund large capital plan, and improve liquidity; rate increases subject to council approval

Extreme weather conditions pressure financial operations

CHALLENGED FINANCIAL POSITION; LIQUIDITY EXPECTED TO DECREASE AT FYE 2014

The system's liquidity position remains challenged and weaker than similarly rated credits. Despite modest growth over the past two years, the liquidity position measured by unrestricted reserves is weak, averaging 12.4% of operating revenues over the past five years. In fiscal year 2013, the unrestricted reserve was a thin 10.8%, with the net working capital slightly higher at 25.6%; both as a measure of operating revenues. Expectations for fiscal year end 2014, are that reserves will be reduced further given a $35 million revenue shortfall, the driver of the outlook.

The system has taken significant steps to increase its liquidity position. In fiscal year 2015, the system expects a significant 15% rate increase, which should generate $50 million in revenues. Additionally, the system expects rate increases will continue past 2015, in line with its long history of raising rates. Also, the system recently increased the net working capital target to 60 days from 45, and changed the rate structure to reduce volatility. Officials also created a rate stabilization reserve (RSR), funded with a surcharge to all customers, which is expected to be built to 120 days of operating costs over five years ending in fiscal year 2017. The RSR can be accessed with council approval if the system experiences a revenue shortfall of 10%. Additionally, the system can only access 50% of reserves in any one year with replenishment required over the following five years. The plan is expected to provide the additional liquidity the system needs to be consistent with other highly rated utility systems.

DEBT SERVICE COVERAGE FLUCTUATES DUE TO NET REVENUES SUSCEPTIBLE TO ERRATIC WEATHER; COVERAGE EXPECTED TO DECREASE BUT REMAIN SATISFACTORY IN FY 2014

The utility's financial profile is challenged, and remains weaker than similarly rated credits across the nation. Due to erratic weather patterns, the system's net revenues and resulting debt service coverage have fluctuated within the past years. Following wet weather conditions in fiscal year 2012, debt service coverage decreased to 1.43 times for all debt, following the 1.88 times reported in the prior year. In fiscal year 2013, the system implemented a rate increase. Despite increased expenditures from increased power and chemical costs, the system reported a total debt service coverage of 1.38 times. Current estimates for fiscal year 2014 reflect a significant ($35 million) decrease in revenues due to decreased consumption attributed to conservation efforts from a stage two water restriction which has been ongoing during the two and a half year drought. At fiscal year end, officials project a reduced total debt service coverage of 1.31 times. The utility has articulated plans to address its coverage with planned rate increases, subject to council approval, over the next five years. Projections starting in fiscal year 2015 reflect an increase in coverage to 1.53 times, and growing to 1.60 times in fiscal year 2019. Inability of the system to improve its financial projection or a subsequent year of decreased, or meager coverage will result in downward rating action.

LARGE CAPITAL PROGRAM; RATE INCREASES EXPECTED TO CONTINUE

The system's capital needs are expected to be met with a combination of debt issuance and cash reserves driven by planned rate increases and continued demand. Over the next five years, the system's capital needs call for a total of $839.8 million over the next five years with $365.8 million for water, $438.9 million for wastewater, and $35.1 million for reclaimed water. The system has a long history of passing annual rate increases to support operations and its capital needs. The most recent increase averaged 5% for both the water and wastewater systems. A significant increase of 14.8% on the average for both systems is expected in fiscal year 2015. After which, planned increases average 3.2% annually through 2019.

ADEQUATE LEGAL PROVISIONS

Bond holder protection is adequate. The bonds include a satisfactory rate covenant of 1.25 times from a three year rolling coverage for prior lien, and 1.1 times for prior subordinate lien and other debt. The debt service reserve fund for the separate lien is funded at one-half average annual debt service, satisfied with a combination of cash and surety bond. Two issues: Series 2013A and the current issue, are not supported by a debt service reserve. The common debt service reserve fund on the prior lien and prior sub lien debt is cash funded, and equal to average annual debt service. The additional bonds test on the separate lien is 1.25 times the average annual debt service requirements.

INTEREST RATE DERIVATIVES

Including the current sale, the system will have one outstanding variable rate issue. The Series 2008 variable rate bonds have $125.1 million outstanding (5.9% of total debt), and are supported by two letters of credit with expiration dates of May 8, 2015. Sumitomo Mitsui Banking Corporation (Aa3/stable), and Bank of Tokyo-Mitsubishi UFJ (Aa3/stable) each support 50% of the outstanding principal. In association with the 2008 bonds, the system entered into a swap agreement with Goldman Sachs Group, Inc. (Baa1/stable). The system pays a fixed rate of 3.6% and receives SIFMA. The mark to market for this swap was a negative $12 million, as of April 30, 2014. The system exposes itself to some interest rate risk. However, we believe this is manageable given the modest debt amount.

NEGATIVE OUTLOOK

The negative outlook reflects a historically challenged financial profile that is expected to decrease materially at fiscal year end 2014. Future credit reviews will focus on the system's ability to execute rate increases sufficient to improve the liquidity position, as well as effectively implement the other aspects of its financial plan. Inability to improve the current liquidity levels will likely result in downward rating action.

WHAT COULD MAKE THE RATING GO UP (revise the outlook to stable)

Significantly improved financial profile; strong growth in liquidity

Improved debt service coverage ratios

WHAT COULD MAKE THE RATING GO DOWN

Financial results that are match or are worse than expected for fiscal year 2014

Further decreases in debt service coverage

Diminished liquidity position

Inability to pass rate increases to improve overall financial profile

KEY STATISTICS

2013 Water Customer Count: 216,000

2014 Wastewater Customer County: 204,000

FY 2013 Operating Ratio: 45.4%

FY 2013 Debt ratio: 66.9%

FY 2013 annual debt service coverage on all debt: 1.52 times

Principal retirement for all W&S obligations (10 years): 28%

Post-sale separate lien debt outstanding: $2.3 billion

Total prior lien debt outstanding: $30.6 million

Total prior subordinate lien debt outstanding: $148.1 million

RATING METHODOLOGY

The principal methodology used in this rating was Analytical Framework For Water And Sewer System Ratings published in August 1999. Please see the Credit Policy page on www.moodys.com for a copy of this methodology.

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