

<b>Policy Type</b>		<b>Approval Authority</b>		<b>Adopted</b>	<b>Effective</b>		
Board Approved		NBU Board of Trustees					
<b>Responsible Executive</b>		<b>Responsible Department</b>		<b>Contact</b>			
Dawn Schriewer		Finance		John Warren			
<b>Reviewed/Approved by Executive Director</b>		<b>Reviewed/Approved by General Counsel &amp; Chief Ethics Officer</b>		<b>Reviewed/Approved by Interim CEO</b>		<b>Approved by NBU Board President</b>	
<b>Name</b>	<b>Date Signed</b>	<b>Name</b>	<b>Date Signed</b>	<b>Name</b>	<b>Date Signed</b>	<b>Name</b>	<b>Date Signed</b>
Dawn Schriewer		Connie Lock		<del>Ian Taylor</del> Ryan Kelso		Judith Dykes-Hoffmann	
<b>Signature</b>		<b>Signature</b>		<b>Signature</b>		<b>Signature</b>	

## I. General Policy Statement

New Braunfels Utilities (NBU) recognizes the importance of having a sound financial condition in order to meet its customer and public service responsibilities. It is NBU’s financial policy to strive to provide its electric, water and wastewater services at the lowest possible costs, consistent with high standards of reliability and innovative essential service. This financial policy is intended to form the framework within which NBU will preserve its financial integrity in order to meet its long-term goals. This policy has been developed in consideration of short- and long-term plans for construction and system additions. A periodic review of this financial policy with necessary revisions may be required to ensure that NBU maintains a high level of financial integrity in order to accomplish these plans. Since NBU’s Investment Policy also addresses NBU’s financial objectives, NBU’s Investment Policy should be used in concert with the Financial Policy.

The objectives of the financial policy are as follows:

1. Financial Stability: In seeking to fulfill its customer and public service objectives, NBU will maintain a high level of financial stability and will not compromise its long-term financial integrity to achieve short-term benefits.
2. Funds from Operations: NBU will establish rates and charges for services that are sufficient to support the conduct of its activities in an efficient and reliable manner. Funds from operations should provide the necessary funds to support its capital improvements program and maintain a debt service coverage ratio sufficiently in excess of the 1.40x Bond Indenture requirement for the issuance of additional indebtedness. By providing an ample cushion in its debt service coverage ratio, NBU should be in a position to issue additional indebtedness in the market at favorable terms and conditions.

**II. Funds from Operations**

Each year, NBU staff will develop projected revenue levels and the projected reserve requirements for the upcoming fiscal year and estimate its projected impact on the financial condition of the utility. These projections will be developed after consideration for bond ratings, construction requirements, current business conditions, economic projections, load growth assumptions, and the projected size and frequency of rate adjustments. Specifically, the electric, water, and wastewater systems shall be managed individually to allow for financial self-sufficiency to the extent practicable with regard to their respective cash inflows and outflows, including, but not limited to revenue, general operating expenses, and capital expenditures.

General Fund expenditures will have the following priorities of obligation:

- A. Payment of all necessary and reasonable ~~expenses for the operation and maintenance~~ and operation expenses of the electric, water, and wastewater systems.
- B. ~~Payments~~ Payment of the amounts required to meet all debt service requirements of outstanding bond indebtedness including all be deposited in the Interest and Sinking Funds and Bond Reserve Funds for the payment and security of the priority lien bonds.
- C. ~~Payments to any and all Restricted Funds including the System Contingency Fund, Power Stabilization Fund, and other specific funds as directed~~ Payment of other obligations or indebtedness payable from and secured by a lien that is junior and subordinate to the priority lien bonds.
- D. Any net revenues remaining after satisfying the foregoing payments, or making adequate and sufficient provision for the payment thereof, may be appropriated and used by the Board of Trustees. See for any purpose now or hereafter permitted by law, including a transfer to the City's general fund as permitted by Texas Government Code, Section 1502.058, as amended.

~~The City transfer is described in more detail in Appendix A for the System Contingency Fund Policy. B attached hereto.~~

- C. ~~Payment to the City of New Braunfels of an amount based upon a formula approved by a Board of Trustees Resolution or other directive.~~
- D. ~~All net surplus after payment of A through D above may be used to fund necessary capital equipment purchases, system expansion and renovations. All remaining funds will be applied toward targeting a budgeted ending cash balance of 1/4th or more of the upcoming fiscal year's budgeted operating costs (including purchased power cost and purchased water cost).~~

**III. Revenue**

In general, NBU shall rely on individual electric, water, and wastewater service rates for all revenue, however, other sources of revenue will be developed within each of the respective lines of businesses' operation and connection policies. Specific policies regarding Water and Wastewater Capital Recovery Fees (e.g., impact fees) will be maintained with receipts separately accounted for and applied to capital system expansions or extensions.

NBU will develop and design rates to recover its costs of specific services and provide a predictable flow of revenues.

**IV. Pricing, Rates, and Reserves**

NBU will determine revenue requirements for its electric, water, and wastewater services based upon an equitable allocation of costs. All rates will be cost and/or market based with specific cost-of-service allocations to all necessary areas of required revenues. Cost-of-service updates will be prepared on a periodic basis for comparisons to actual and projected revenue and expenses. Proper and accurate coordination of budget requirements, unusual revenue requirements, and changes in capital requirements will be addressed in each cost-of-service update. NBU will evaluate the proper reserve fund requirements annually to mitigate NBU's risk. Such funds include the System Contingency Fund, Power Stabilization Fund, and any other specific funds as directed by the Board of Trustees.

Please see Appendix A, attached hereto, for the System Contingency Fund Policy.

**V. Financing**

Since its founding in 1942, NBU has utilized a combination of equity, or revenue surplus, and long-term revenue bonds to finance additions to its electric, water, and wastewater systems infrastructure. Long-term revenue bonds are particularly appropriate in situations where it is desirable to spread the financing cost of the capital assets over their useful lives. Using this approach results in both current and future ratepayers being allocated an equitable portion of the cost of the facilities used to provide their service. In order to have an effective financing source of funds, NBU's capital structure must be such that it has a sufficient equity capital base (i.e., a low to moderate debt leverage in NBU's capitalization) to support long-term debt financing.

NBU will selectively utilize sourcing of funds through long-term debt financing by maximizing the use of funds from operations in order to protect NBU's financial soundness and to preserve NBU's access to the long-term debt market. This market access should provide NBU with adequate sources of capital for the growing needs of its customers at a reasonable overall cost of capital.

It is important to generally establish appropriate levels of debt and equity financing. However, substantial changes in the financial markets may arise due to changing political, economic, global, or other significant factors. As a result, it may be necessary at times to

alter NBU's guidelines which could impact NBU's interest rates on new issuances of debt and its overall capital structure. Under current conditions, the following financial policy is adopted:

- A. NBU will use long-term debt financing for capital assets having long useful lives and will attempt to establish amortization and debt service payment schedules which coincide with the lives of the related assets.
- B. NBU will establish rates and debt financing structures, terms, and repayment schedules sufficient to generally maintain a system wide debt to capitalization ratio of 55% or less and a debt service coverage ratio of at least 2.4x.
- C. NBU will maintain a minimum of unrestricted days cash on hand of at least 140 days.
- D. For establishing cost of service and for rate setting purposes, NBU will target a debt service coverage ratio of at least 2.4x however, under extraordinary circumstances (unusual and infrequent) the debt service requirement, for the fiscal year the impact of the event occurs, must at least meet the minimum requirements for the additional bonds test.
- E. NBU has established and maintains a Board-approved Investment Policy which establishes permitted investments and allowable allocation parameters for the various approved investment vehicles. The primary driver is focused on preservation of principal.
- F. In conjunction with the overall financial policy, NBU has established and maintains an Energy Risk Management Policy, a Credit Risk Management Policy, and a Power Stabilization Fund Policy.
  - 1. The Energy Risk Management Policy has been approved by the NBU Board of Trustees and provides the framework for the Power Supply Team to identify and measure risk exposure to the wholesale energy markets and to develop and implement strategies to manage, monitor, measure and report on those risks.
  - 2. The Credit Risk Management Policy has been approved by the NBU Board of Trustees and provides the framework for the Energy Risk Team to monitor and report on the management of energy credit risk, primarily in the areas of reviewing and approving counterparties, monitoring their creditworthiness, and establishing credit limits based on guidelines approved by NBU's Board of Trustees.
  - 3. The Power Stabilization Fund Policy has been approved by the NBU Board of Trustees and provides the framework for the administration of a Power Stabilization Fund, which is utilized to protect customers from higher than

anticipated power costs.

**VI. Capitalized Interest**

In order to partially defer the rate impact of debt service requirements until the asset being financed is placed in service, NBU may opt to capitalize interest proceeds from bonds for an appropriate period (generally, not to exceed 3 years). Accountability of capital associated interest shall be kept separate with capital fund requirements recognizing anticipated interest proceeds.

**VII. Alternative Financing**

As market conditions evolve, NBU will evaluate alternatives to conventional long-term revenue bond financing to determine the feasibility of such financings based on their terms and conditions and their impact on NBU's overall cost of capital.

- A. Commercial Paper – If market conditions are favorable, the use of commercial paper as a short-term financing vehicle can help offset some of the interest rate risk. NBU may use tax-exempt and/or taxable commercial paper as needed to meet business requirements.

The parameters of the program are as follows:

1. 10% of assets program limit
  2. At least \$50 million in size
  3. Roll program into long-term debt if:
    - a. authorized amount is fully utilized
    - b. determined that market conditions are no longer favorable or
    - c. the program is at the end of the program term
- B. Short-Term Financing – If market or business conditions exist that require an additional infusion of cash for NBU to meet its stated financial objectives and continue to meet its customer and public service responsibilities, NBU may secure other short-term tax-exempt and/or taxable financing alternatives.

**VIII. Documentation and Reports**

NBU will comply with all statutory and bond and debt reporting requirements on a timely basis. In this regard, NBU will provide the following:

- A. A monthly operating and financial report, requiring review by the Board of Trustees, in such detail as the Board deems necessary.

- B. An annual budget and financial operating plan detailing revenues, expenses, and capital expenditures presented to the Board of Trustees for approval prior to the start of the new fiscal year. In the event a midyear revision to the fiscal year budget is requested, then an analysis and update shall be presented to the Board of Trustees for approval.
  
- C. An annual audit by an outside professional auditing firm will include necessary details in reconciling all of the year's financial operation. The audit will be submitted for review and approval to the Board of Trustees shortly after the end of the NBU's fiscal year.

Copies of the approved audit will be provided to the City Council of New Braunfels and arrangements made for the presentation and discussion of the audit to City Council, if requested. Compliance with internal audit procedures will be reviewed with the Audit Committee of the Board of Trustees in conjunction with the external auditor's report.

#### **IX. Summary**

This policy establishes management guidelines for NBU's financial accountability in order to provide a financial structure conducive to controlling service rates and optimizing service reliability to NBU's customers. It is understood that this policy is a guide and that financial objectives may change over time. This financial policy is intended to be used as a vehicle to preserve NBU's financial integrity in order to meet NBU's long-term goals.

**Appendix A – System Contingency Fund Policy****I. Purpose**

- This policy is designed to serve as a guideline for the administration of a System Contingency Fund (SCF) for New Braunfels Utilities (NBU) by the individuals designated by the Chief Executive Officer (CEO) as having the authority and responsibility for making such decisions.
- The SCF is utilized according to guidelines, set forth herein, for emergencies and/or disaster declarations that reduce revenue or increase obligations.
- The management of collected monies in the SCF will be governed by NBU's Investment Policy and can only be used to cover funding shortfalls encountered by NBU as in the case of a disaster or catastrophe.
- In the event of conflict between the SCF Policy and the NBU Investment Policy, the provisions of the Investment Policy shall govern. In the event of an inconsistency between SCF Policy and the NBU Investment Policy, the terms and provisions of the Investment Policy shall govern.

**II. Roles, Responsibilities, & Policy Review****Chief Financial Officer (CFO)**

- The CFO is responsible for overseeing the SCF and how it is invested.
- Once an emergency or local disaster declaration has been issued, the CFO is responsible for determining the length of time for which the SCF can be used to transfer monies to the NBU General Fund in order to meet liquidity needs under these criteria.
- Once a transfer from the SCF has been initiated under emergency or disaster criteria, the CFO is responsible for monitoring all SCF activity on at least a monthly basis until the situation returns to normal or is otherwise resolved.
- The CFO has the right to revoke authority for use of the SCF monies for emergency or disaster declaration purposes at any time.

**III. Funding Requirements & Evaluation****Calculation of Funding Requirements**

- The SCF amount is calculated based on projected gross annual Operating and Maintenance (O&M) expenses in the range of 90-120 days.

**Targets and Limits**

- Target: 90 days of budgeted O&M expenses
- Limit: 120 days of budgeted O&M expenses

**Evaluation**

- The SCF funding requirements will be reviewed on an annual basis during the budget process to determine if the balance is sufficient.
- If changes are needed for the SCF funding requirement throughout the year, the NBU Investment Officers will meet on an ad-hoc basis.

**IV. Authorized Collection & Use of Funds****Collection from General Fund**

- The recommended time horizon to replenish the SCF will be determined by the CFO as part of the monthly monitoring process. The time horizon will be unique to each instance in which the fund needs replenishment but generally should not exceed two (2) years.
- The replenishment horizon will depend on how much of the SCF was depleted and is outlined as follows:
  - 30% or less of fund = 1 year to fill
  - 30% to 60% of fund = 1.5 years to fill
  - 60% to 100% of fund = 2 years to fill
- The number of years to fill begins on the date of the physical cash drawdown in the SCF account.

**Transfer to/from General Fund**

- All transfers to the SCF will be transferred from the General Fund.
- All transfers from the SCF will be transferred to the General Fund.
- Each transfer will be recorded with an accounting entry.

**Use of Funds**

- The SCF should be used to offset a reduction to revenue or increase in obligations due to unanticipated and/or unforeseen events such as emergencies or disasters.

**V. Investments****Permitted Investments, Maturity Limits, & Targets**

- The maximum notional value of the fund that can be invested longer than on a daily basis, shall not exceed thirty (30%) percent of the fund balance.
- As the SCF is not anticipated to be utilized except in the case of extreme situations, maturities in these funds are generally expected to range from short-term to five years.
- Seventy (70%) percent of the fund shall remain liquid and shall only be invested in cash or cash securities.
- Should the cash portion of the fund fall below 35% of the targeted SCF funding



amount (90-120 days of budgeted O&M expenses), an ad-hoc review by the NBU Investment Officers will occur to determine whether any adjustments to the fund shall be made.

## **VI. Emergencies and Disaster Declarations**

### **Definitions**

- A local disaster declaration is typically issued by an official representative of the City of New Braunfels and/or Comal County.
- An emergency is an unforeseen event, such as a natural disaster, that has indeterminable impacts on NBU's operations as determined by the Chief Financial Officer.

### **Use of Funds**

- Should an emergency or declaration of disaster be issued for the City of New Braunfels and/or Comal County, the SCF can be utilized to cover any liquidity needs of NBU during an emergency or disaster.

### **Permitted Investments, Maturity Limits, & Targets**

- Once an emergency or local disaster declaration has been issued, no additional investment of SCF monies will be permitted to ensure adequate liquidity to respond to emergency situations.

## Appendix B – City Transfer Policy

### I Purpose

- This policy is designed to serve as a guideline for the administration of an annual transfer made to the City of New Braunfels (City) by New Braunfels Utilities (NBU).
- Pursuant to Section 1502.059 of the Texas Government Code and Section 130-33 of the New Braunfels City Code of Ordinances, the NBU Board of Trustees has the discretion to make a payment to the City **after** meeting all former priorities of obligations as stated in Section II of the Financial Policy.

### II Calculation

- The calculation of the transfer is based on a percentage of a rolling three-year average of electric, water, and sewer operating revenues, and will be divided into 12 monthly payments. Transfer percentage amounts for each line of business are as follows:
  - Electric – 7.45%
  - Water – 4.35%
  - Sewer – 4.35%
- For purposes of estimating the General Fund transfer for the budget year, the three-year average of revenues included in the calculation is based on two previous actual fiscal year revenues and an estimate of revenues for the immediately preceding fiscal year.
- Electric revenues included in the calculation are limited to base rate revenues collected from electric customers and will exclude power cost recovery factor (PCRF) revenues and direct charges (pass-through) for transmission revenues.
- Purchased water costs are capped at \$2.5M per year so any purchased water costs above \$2.5M, in any fiscal year, will be excluded from total water operating revenues in the calculation.
- Operating revenues from sewer customers are not limited.

### III Timeline

- A preliminary calculation will be made at the beginning of the fiscal year and will be taken to the Board of Trustees for approval. The first payment will be made after Board approval, with monthly payments thereafter.
- The total City General Fund transfer will be “trued up” after the immediately preceding fiscal year financial statements are audited and approved. As a result, the remaining monthly transfers in the current fiscal year would be adjusted to reflect the average of the actual revenues for the most recent three years.