

**Water & Wastewater Commission
2015 Budget Committee**

Report to Commission at August 12, 2015 Meeting

1. Budget Committee Members & Meetings

- The Budget Committee included Commissioners Mickey Fishbeck Maia (Chair), Christianne Castleberry, Colin Clark, and J. Michael Ohueri until June 30, 2015. Thereafter, the Budget Committee included continuing Commissioners Maia and Castleberry as well as new members Travis Michel and Susan Turrieta.
- The Committee met April 1, 2015; April 22, 2015; May 18, 2015; August 3, 2015; and August 10, 2015 to review the proposed Austin Water Utility budget and rates for FY2016.
- The Committee scheduled, but did not meet on June 1, 2015; June 15, 2015; and June 29, 2015 because the Budget Office did not release proposed budget and rate information to the Commission prior to public release on July 30, 2015. Scheduled meetings on May 4, 2015 and July 21, 2015 were also canceled due to lack of a quorum.

2. Matters Considered by Budget Committee

- Growth, Inflation and Service Demand Assumptions used by Staff to develop the FY2016 Budget
- Financial Forecast and Preliminary and Proposed FY 2016 Budgets
- Fund Summary Line Item review, including review of Transfers Out
- Capital Improvement Program (CIP), including debt service and cash transfers related to CIP spending and the proposed CIP spending plan
- Existing and Projected Debt Service, including 2015 bond refinancing savings and debt service coverage ratios
- Adequacy of Service Extension Request developer cost participation, impact fees and other service fees in recovering full costs of growth and development
- Potential rate impacts of expanding the Customer Assistance Program (CAP)
- Discussion of possible transfer payments to the Parks and Recreation Department for use of Decker Lake for water supply purposes
- Water Supply Strategy Overview

- Plan for future development of the Reclaimed Water Utility, including potential new commercial customers
- AWU plan for gradual increases in reclaimed water rates toward a targeted rate goal of 40% of potable water rates
- Other matters related to reclaimed water, such as possible dual rate structures for mandatory and non-mandatory reclaimed water customers; the possibility of budgeting for reclaimed water within the Water Utility rather than a stand-alone utility; the possibility of including reclaimed water capital improvements in the next impact fee update
- Proposed 2016 Water and Wastewater Rates and bill impacts for regular and CAP residential customers (no bill impacts for other customer classes were provided to the Committee)
- Reclaimed Water System Rates
- Drought Rates and Structure
- 2012 and 2014 Joint Committee on AWU's Financial Plan recommendations
- Proposed bill inserts to belatedly inform residential customers of FY2015 bill impacts (ultimately sent out in June)
- Changing rating agency considerations relative to operating reserves, times coverage, percent of CIP funded with cash rather than debt
- Potential for changing residential water volumetric rate tiers in response to continuing conservation by residential customers

3. Water & Wastewater Budget and Rates

- Total proposed revenue requirements of the water, sewer and reclaimed water system amount to \$518.67M for FY2016, compared to \$508.93M for FY2015. This is an increase of 1.9%, less than the assumed inflation rate.
- O&M Program Requirements (AWU costs) are projected to increase by \$6.47M or 3.7%.
- Other O&M charged by other City departments represented some of the highest cost increases for AWU, over which AWU Staff has no financial control.
 - Utility Billing Support (charged by AE) increased by \$2.6M, or 16.6%. The increase includes re-instating green energy surcharges which were removed in FY2015 to reduce the very high rate increase last year.

- Accrued payroll (from the Controller) was increased by \$0.4M (135%).
 - Market Study Adjustment and Interdepartmental Charges were added to the AWU budget for FY2016 (\$0.745M combined)
 - CTM Support was increased by \$0.416M, or 12%.
 - Transfer to Wireless Communication increased by \$0.05M, or 23%.
- Non-O&M Transfers that were higher than inflation included
 - Transfer to the General Fund (up by \$2M, or 5.3%, in part due to a basis on assumed FY2015 revenues, although those revenues have been much lower)
 - Transfer to Economic Development Fund (increased by 70%, or \$800,000.
- Total Transfers Out, including both O&M charges from non-AWU departments and non-O&M charges experienced a \$13.5M increase, 13.3%.
- Debt service requirements decreased from \$213.92M in FY2015 to \$199.88M in FY2016, a decrease of over \$14M, or 6.6% reduction. This was achieved by Staff's recent refunding and restructuring of debt, which will also help alleviate rate impacts of non-callable "balloon" debt service payments in FY2018.
- Staff proposed an increase in cash funding of CIP (thereby avoiding some level of debt service). The increase in water CIP cash funding was \$5.3M (+44%) and the increase for sewer was \$2.35M (+11%). According to Staff, cash funding of CIP will amount to approximately 30%, as compared to the City goal of at least 20%.
- Debt service refunding savings were used as follows:
 - 1.1% reduction in proposed water and wastewater rates, as compared to financial forecast levels
 - Improvements in debt service coverage from 1.58 in the financial forecast to 1.69 in the proposed budget (the anticipated coverage for FY2015 is 1.49)
 - To increase operating reserves (cash balances)
- Because of the proposed rate increases and refunding-related debt service reduction, the ending balance is expected to increase by \$45.5M, or 60%. According to Staff, this operating reserve will represent approximately 128 days of O&M.

- AWU is proposing an average increase in system wide combined rate revenues of approximately 4.9% (water 4.8%, wastewater 4.8% and reclaimed 15%). Rate changes for each customer class will be based on AWU's cost of service model which allocates costs according to each class' usage patterns.
 - The proposed budget and rate structure information was provided to the Budget Committee on July 31, 2015. The Committee had 2 weeks for detailed review. Therefore, the Committee's conclusions and recommendations are primarily related to residential rate impacts.
 - According to Staff, the average residential usage (non-CAP customers) is approximately 5,700 gallons of water service monthly, and 4,000 gallons of sewer service monthly.
 - Based on these consumption figures and the proposed rate increases, a regular residential customer will experience an increase of \$2.54 for water (7%) and \$2.40 for sewer (6%), for a combined bill increase of \$4.94 (6.6%).
 - The average use residential customer (at 5,700 gallons of water) pays 14.7% below cost of service.
 - A CAP customer using 5,700 gallons of water pays 53.5% below cost of service.
 - The breakeven point for cost of service for residential customers is 10,000 gallons (down from 11,100 gallons in FY2015)
 - For retail customers, the Revenue Stability Reserve Fund Surcharge will remain at \$0.19 per 1,000 gallons in FY2016.
 - Respondent to the Joint Committee recommendation for structure of volumetric tier breaks, Staff prepared an analysis of the bill impacts of such changes.
 - Due to the recent wholesale rate case decision, Staff did not increase wholesale water rates, with the exception of rates for the wholesale petitioners in the rate case were proposed to be reduced to FY2012 levels responsive to PUC determinations.
 - Responsive to the Committee's discussion of a two-tier rate structure for reclaimed customers, Staff is proposing one rate for mandatory new reclaimed water customer amounting to 70% of the average potable water rate; and a lower rate (amounting to 39.7% of the average potable rate for FY2016) for non-mandatory customers in acknowledgement of the costs and inconvenience to non-mandatory customers to convert from potable water to reclaimed water use.

- Drought rates (\$1.00 per 1,000 gallons in Stage 3 and \$3.00 per 1,000 gallons in Stage 4) are unchanged in the proposed budget. (The Joint Committee had requested the \$3.00 charge at Stage 4 be reconsidered for CAP customers)

4. Conclusions and Recommendations of the Budget Committee

The Budget Committee supports the following aspects of the FY2016 Proposed Budget:

- Financial assumptions (growth, usage per customer, etc.) seem to be appropriately conservative for revenue projections
- The AWU Program Requirements increase of 3.7%
- Transfers to CIP at 30% of total CIP spending
- Times coverage level at 1.69 & ending balance increase to 128 days of O&M
- Structure of residential rate increases (definition of volumetric rate tiers)
- Dual-structure for reclaimed water rates, with a higher rate for mandatory connection (code requirements for new development) & a lower rate for non-mandatory (converting from potable to reclaimed)
- Overall FY2016 Proposed Budget with total requirements increase of 1.9%

The Budget Committee recommends further review and analysis on the following:

- Magnitude of rate increases as impacted by “Other Requirements” & “Transfers Out” (charges from other Departments to Austin Water for support services)
- Reconsideration of Stage 4 Drought Rates as applied to CAP Customers
- Further consideration of budget structure relative to the reclaimed water system and recovery of reclaimed water costs.

The only way to reduce rates is (a) cut actual O&M costs, including those from other city departments; (b) lower times coverage; (c) both. (ie; reducing amount of transfers to the general fund increases operating reserves, but does not reduce rates.)