Austin Water
General Fund Transfer

Financial Services Department
Public Utilities Committee
February 17, 2016
Utility Transfer

• Utility allowed to earn a reasonable rate of return on its assets

• General Fund Transfer is an authorized transfer of a portion of Utility’s earnings
  • Natural result of City’s ownership and return to taxpayers for risk assumed in operating the Utility
  • Return on investment to its City owner

• Utility General Fund Transfer began in 1946
  • Council approved Ordinance or Financial Policy sets formula
  • Historically calculated based on a percentage of applicable revenue
  • May impact credit rating of General Government and Utility
## Council Approved Transfer Policies

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>AE Transfer</th>
<th>AW Transfer</th>
<th>Total Increase</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY 2010</td>
<td>$101.0 m</td>
<td>$29.0 m</td>
<td>-----</td>
</tr>
<tr>
<td>FY 2011</td>
<td>$103.0 m</td>
<td>$31.3 m</td>
<td>$4.3 m</td>
</tr>
<tr>
<td>FY 2012</td>
<td>$105.0 m</td>
<td>$31.9 m</td>
<td>$2.6 m</td>
</tr>
<tr>
<td>FY 2013</td>
<td>$105.0 m</td>
<td>$34.5 m</td>
<td>$2.6 m</td>
</tr>
<tr>
<td>FY 2014</td>
<td>$105.0 m</td>
<td>$37.9 m</td>
<td>$3.4 m</td>
</tr>
<tr>
<td>FY 2015</td>
<td>$105.0 m</td>
<td>$38.8 m</td>
<td>$0.8 m</td>
</tr>
<tr>
<td>FY 2016</td>
<td>$105.0 m</td>
<td>$40.8 m</td>
<td>$2.0 m</td>
</tr>
</tbody>
</table>

- **Austin Energy** - Set in FY 2012 at 12% of three-year average of **non-fuel** revenue, with a floor of $105 million
  - Fifth consecutive year at $105 million
- **Austin Water** - Continued at 8.2% of three-year average of gross revenue since FY 2000
General Fund Revenue

General Fund FY 2016 Projected Revenue $911.2 Million

- Property Tax 41.6% $379.5 M
- Sales Tax 23.7% $215.7 M
- Utility Transfers 16.0% $145.8 M
- Other 18.7% $170.2 M

General Fund Revenue FY 2015 Estimated and FY 2016 Budget (millions)

<table>
<thead>
<tr>
<th>Source</th>
<th>FY 2015 Est.</th>
<th>FY 2016 Budget</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property Tax</td>
<td>$357.8</td>
<td>$379.5</td>
<td>$21.7</td>
</tr>
<tr>
<td>Sales Tax</td>
<td>$200.4</td>
<td>$215.7</td>
<td>$15.3</td>
</tr>
<tr>
<td>Utility Transfers</td>
<td>$143.8</td>
<td>$145.8</td>
<td>$2.0</td>
</tr>
<tr>
<td>Other Revenue</td>
<td>$164.3</td>
<td>$170.2</td>
<td>$5.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>$866.3</strong></td>
<td><strong>$911.2</strong></td>
<td><strong>$44.9</strong></td>
</tr>
</tbody>
</table>

- Utility transfers total $145.8 million, 16.0% of total General Fund revenue
- General Fund reliance on utility transfers as a revenue source decreased from 24.0% in FY 1997 to 16.0% in FY 2016
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General Fund - Potential Impact

• General Fund has limited ability to generate additional revenue sources to replace a Utility transfer if reduced or eliminated
  • Most controllable revenue source is property tax, but limited

• Property tax rate beyond rollback rate likely needed to offset General Fund revenue loss if Utility transfer substantially reduced or eliminated
  • Utility transfers total $145.8 million, 16.0% of General Fund revenue
  • Voters may petition for an election on the tax increase and a successful election limits taxing unit's current tax rate to the rollback tax rate

• 13.52 cent property tax increase to replace total Utility transfers; $320.25 annual impact on owner of median-value homestead ($251,994)
Utility Fund - Potential Impact

- Utility’s rate increases and revenue driven primarily to achieve debt service coverage
- Rate covenant in bond ordinance requires City to collect revenues sufficient to maintain specified debt service coverage ratios
  - Limits ability to significantly reduce rates if substantially reduced or eliminated its General Fund Transfer
- Utility rate impact if reduction in General Fund Transfer
  - Would not result in immediate reduction in Utility rates for full amount of reduced Transfer
  - Utility overall cash and reserves would increase; then could be used to cash fund capital infrastructure to avoid debt issuance
  - Avoidance of debt issuances will over time reduce rates through reduced debt service and thus higher debt service coverage
Questions