General Fund Transfer Policy

Financial Services,

Austin Energy, Austin Water

May 25, 2016 | City of Austin, Texas

AUSTIN FINANCE ONLINE

General Fund Transfer Policy

Agenda

- ➢ Utility – Value to the Community
- ➢ Austin's General Fund Transfer
- ➢ Council Resolutions 20160225-055 and 20160324-018: *Financial impact of reducing Utility transfers to General Fund and Economic Development Fund*
- ➢ Economic Development Fund

Definitions

- o Utility = Austin Energy and Austin Water
- o AE = Austin Energy
- o AW = Austin Water
- o GFT = General Fund Transfer

General Fund Transfer

Utility – Value to the Community

- Local control and decision making
  - Citizen owners have direct voice on Utility via elected officials
  - Council has authority to approve resolution to "*opt-in*" to competitive electric market; **decision is irrevocable once made**
- Achieve community goals through policies and programs
  - Utility operations (service levels, service extensions, water quality, reliability, outage response, conservation, utility bill collection policies, low-income customer assistance)
  - Decisions on plant investments and power supply
  - Authority to set utility rates (process, schedule, bill impact)
  - General Fund Transfer Policy - transfer dollars stay in local community, unlike a privately-owned utility's dividends

General Fund Transfer

Utility – Value to the Community

- City's risk of Utility ownership
  - Reasonable to receive fair rate of return for city's ownership risk related to Utility operations

- Utility provides a direct benefit through transfers and payments to its local government
  - Cash transfer from Utility funds to General Fund are a common, accepted practice

- Austin's General Fund Transfer in place 70 years (1946)

General Fund Transfer Policy

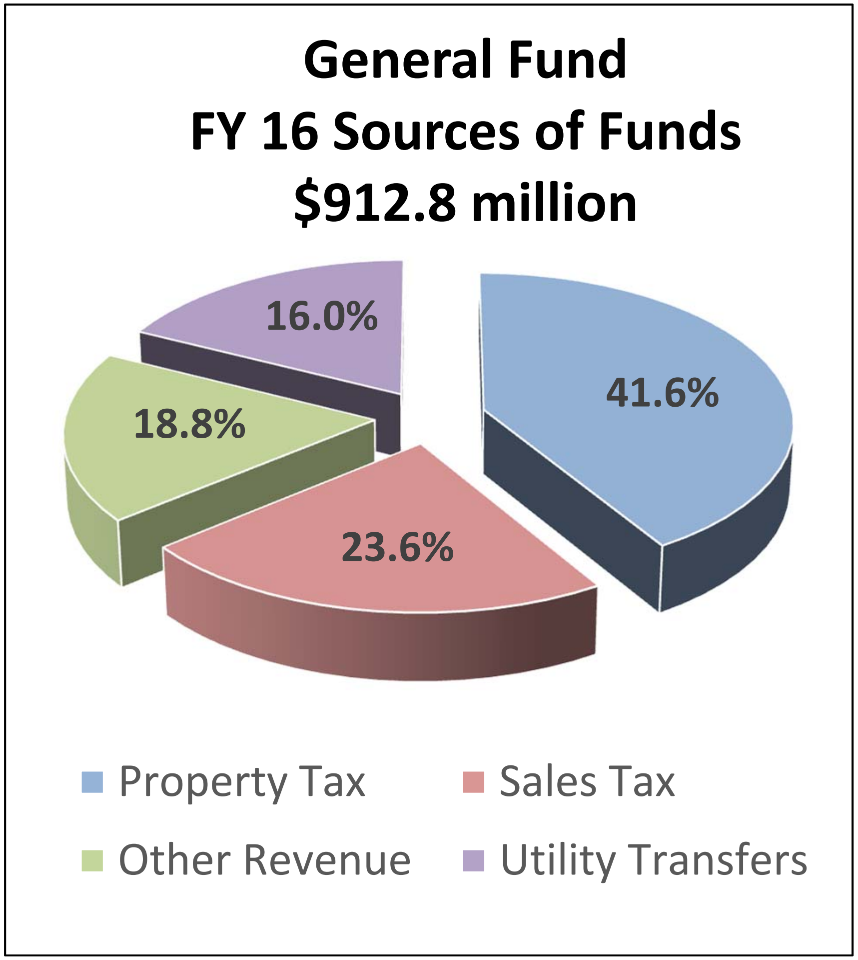
Utility General Fund Transfer Policy

- Written policy statement with formula or method to determine General Fund Transfer
  - Provides certainty to City and Utility for planning
  - Most common method is percentage of revenue

- Transfer Policy characteristics that rating agency looks for
  - Consistent, predictable policy with infrequent changes
  - Balances financial needs of City and Utility
  - Compliance with established written policy rather than looking annually to Utility to help balance City budget needs

General Fund Transfer

Austin - FY 2016 General Fund Sources of Funds



- Utility Transfers total $145.8 million in FY 2016, 16% of General Fund sources
  - o $105.0 million Austin Energy
  - o $ 40.8 million Austin Water

- Utility Transfers based on Council approved policy

General Fund Transfer (GFT)

Austin Energy (AE) – Council Approved Transfer Policy

- Austin Energy – Policy change FY 2012 to 12% of three-year average of **non-power supply revenue**; $105 million minimum
  - Three-year average of two prior years' actual and current year estimate
  - Result - savings to Austin Energy; lower transfers to General Fund
    - FY 2012-2016 Forecast projected FY 2016 GFT at $116 M vs. $105 M actual; $11 M single year impact
  - Met Utility business model needs (allow AE 100% fuel cost recovery) **and** Financial Policy 12% maximum transfer rate
  - $105 million minimum to ease immediate impact on General Fund
  - Future Transfer amounts driven by # of customers, usage levels, rate changes not related to power supply
- Prior Policy for FY 1999 - FY 2012, transfer rate at 9.1% of three-year average of **total revenue**, except 8.9% in FY 2002

General Fund Transfer

Austin Water – Council Approved Transfer Policy

- Austin Water – Transfer rate at 8.2% of three-year average of **total revenue** since FY 2000
  - Three-year average of two prior years' actual and current year estimate

- Prior Policy for FY 1992 - FY 1999, transfer rate at 8.0% of three-year average of **total revenue**

General Fund Transfer

History based upon Council Approved Transfer Policy

Fiscal Year	AE Transfer	AW Transfer	Total Increase over Prior Year
FY 2010	$ 101.0 m	$ 29.0 m	$ 8.0 m
FY 2011	$ 103.0 m	$ 31.3 m	$ 4.3 m
FY 2012	$ 105.0 m	$ 31.9 m	$ 2.6 m
FY 2013	$ 105.0 m	$ 34.5 m	$ 2.6 m
FY 2014	$ 105.0 m	$ 37.9 m	$ 3.4 m
FY 2015	$ 105.0 m	$ 38.8 m	$ 0.8 m
FY 2016 Estimate	$ 105.0 m	$ 40.8 m	$ 2.0 m

- Austin Energy – Transfer rate set in FY 2012 at 12% of three-year average of **non-power supply revenue**; $105 million minimum
- Austin Water - Transfer rate at 8.2% of three-year average of **total revenue** since FY 2000

General Fund Transfer

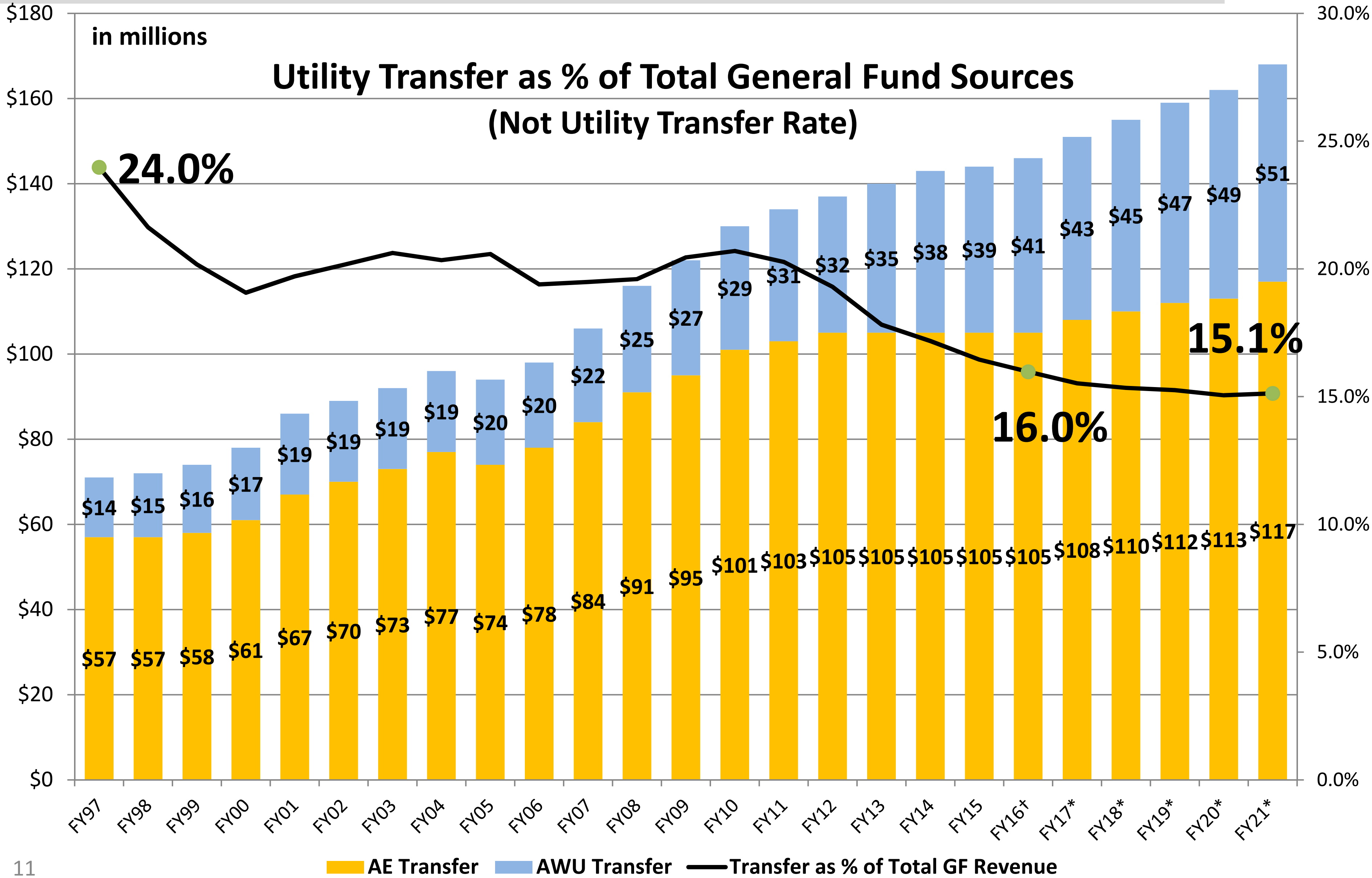
Forecast based upon current Council Approved Transfer Policy

Fiscal Year	AE Transfer	AW Transfer	Total Increase Over Prior Year
FY 2016 Estimate	$ 105.0 m	$ 40.8 m	$ 2.0 m
FY 2017	$ 108.0 m	$ 42.7 m	$ 4.9 m
FY 2018	$ 110.0 m	$ 45.2 m	$ 4.5 m
FY 2019	$ 112.0 m	$ 47.4 m	$ 4.2 m
FY 2020	$ 113.0 m	$ 49.0 m	$ 2.6 m
FY 2021	$ 117.0 m	$ 50.7 m	$ 5.7 m

- Austin Energy – Transfer rate set in FY 2012 at 12% of three-year average of **non-power supply revenue**; $105 million minimum
- Austin Water - Transfer rate at 8.2% of three-year average of **total revenue** since FY 2000

General Fund Transfer

Reliance on Utility Transfer decreased significantly over time



General Fund Transfer

Council Resolutions 20160225-055 and 20160324-018

- Financial impact of reducing Utility transfers to General Fund and Economic Development Fund
- Report no later than May 31, 2016
- Austin Water General Fund Transfer Resolution 20160225-055
  - Report on *"…financial implications on General Fund and Economic Development transfers at 1% incremental reductions over a period of time or for other changes to the transfer policy…"*
- Austin Energy General Fund Transfer Resolution 20160324-018
  - Report on *"…how the General Fund, Economic Development Fund, utility rates and fees would be financially impacted by reducing General Fund and Economic Development transfers at increments of 1% of total Austin Energy revenues over a period of time, or by other changes to the transfer policy…"*

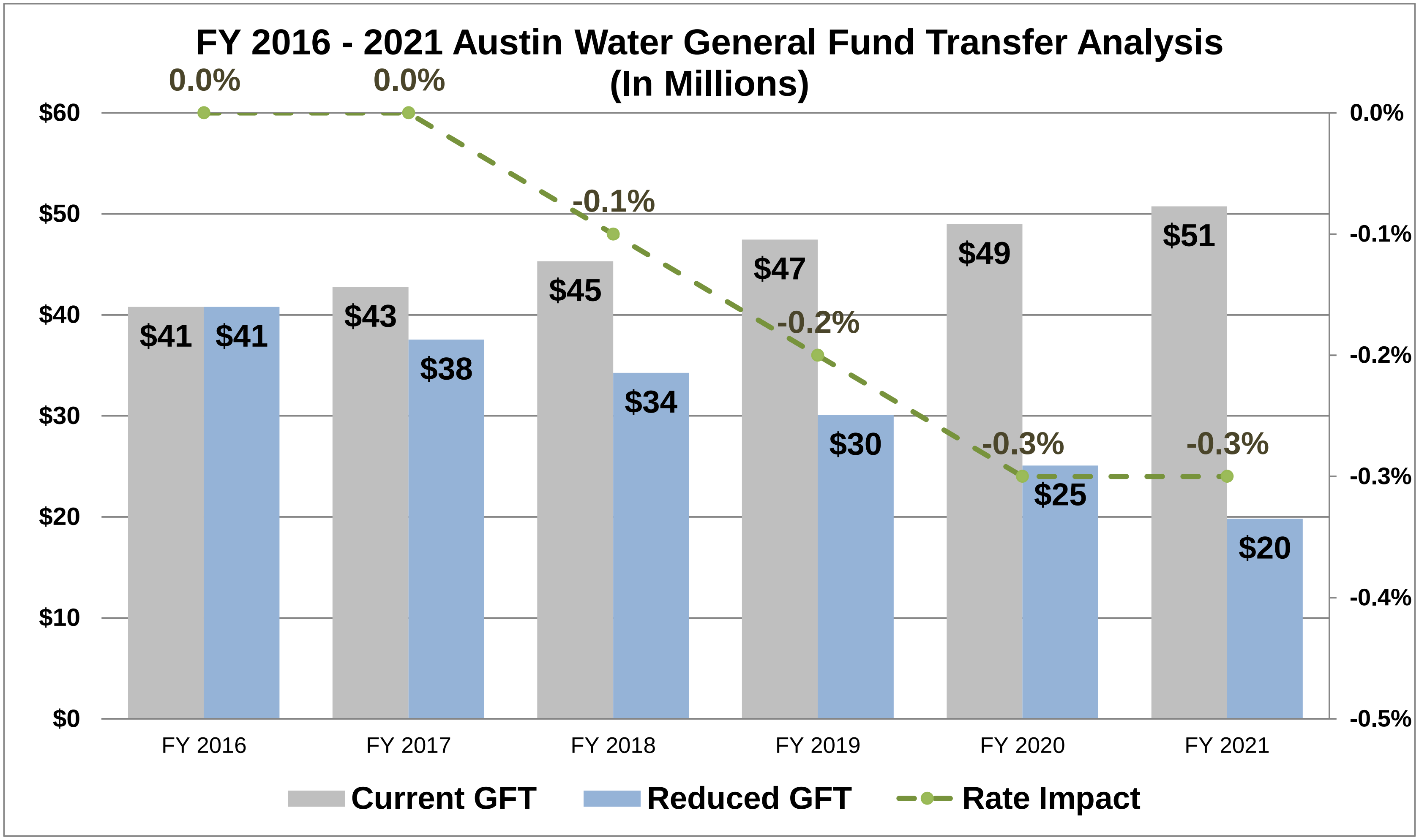
Utility – Potential Impact

If Utility Transfer reduced

- Bond ordinance rate covenant requires revenues sufficient to maintain adequate debt service coverage
  - Limits ability to significantly reduce rates if Utility's General Fund Transfer is reduced or eliminated
- Utility rate impact if General Fund Transfer reduced
  - Debt service coverage requirements may limit timing of rate reduction for reduced Transfer
  - Utility overall cash and reserves increase; more cash available to fund capital infrastructure and avoid debt issuance
  - Less debt issued over time reduces debt service requirements; allows for subsequent rate reductions while still meeting lower debt service coverage requirements

General Fund Transfer (GFT)

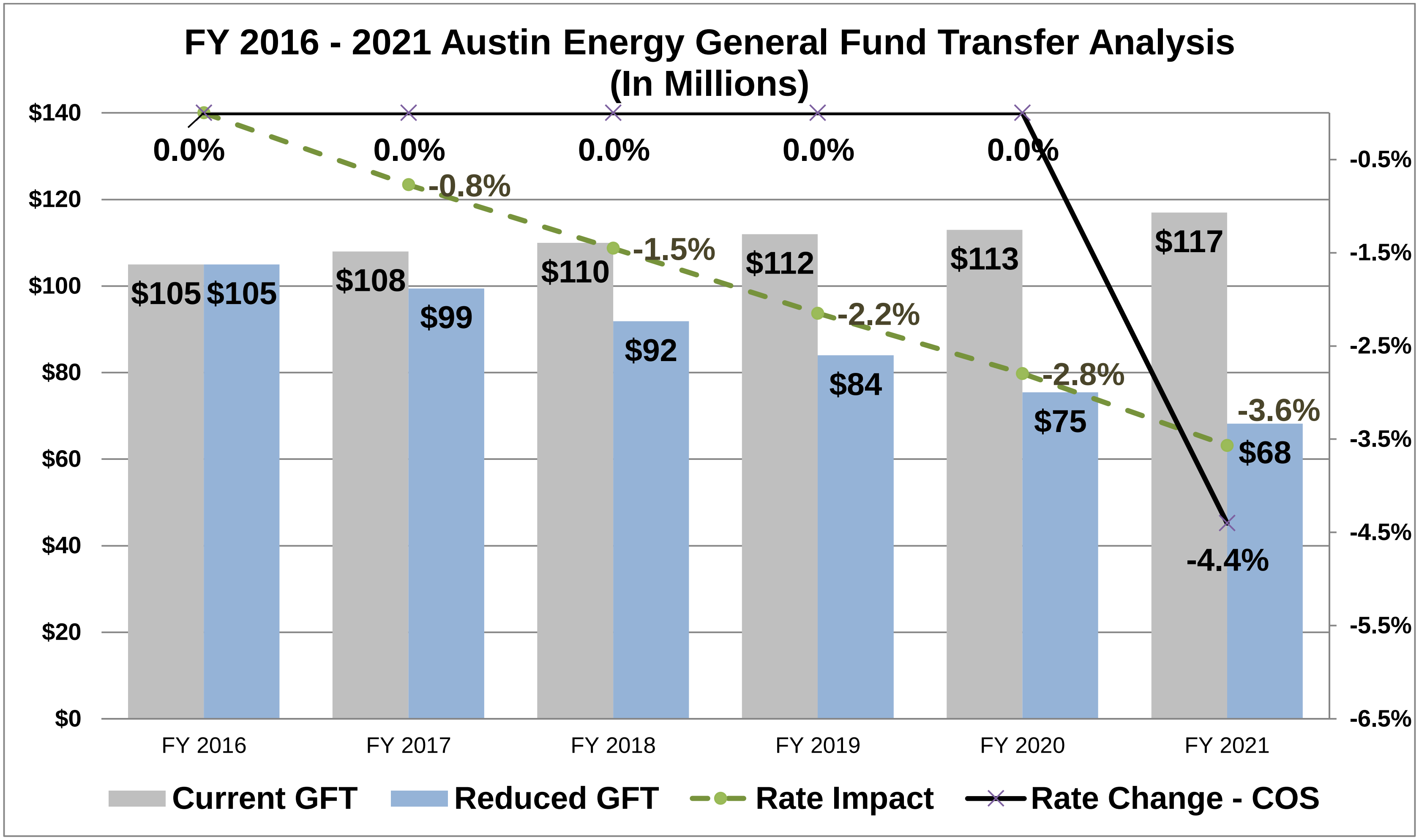
Austin Water – Response to Resolution 20160225-055



- Rate changes annually; cost of service updated periodically

General Fund Transfer (GFT)

Austin Energy – Response to Resolution 20160324-018



- Rate change in FY 2021 for next cost of service/rate review; adjust rates -4.4% if transfer reduced 1% annually from FY 2017 forward

General Fund Transfer

Council Resolutions 20160225-055 and 20160324-018: Analysis

	Calc	No GFT Policy Change					
		Budget FY 2016	Forecast FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Austin Energy GFT		$ 105.0	$ 108.0	$ 110.0	$ 112.0	$ 113.0	$ 117.0
Austin Water GFT		$ 40.8	$ 42.7	$ 45.2	$ 47.4	$ 49.0	$ 50.7
Total GFT	**A**	**$ 145.8**	**$ 150.7**	**$ 155.2**	**$ 159.4**	**$ 162.0**	**$ 167.7**

			Policy Change - Transfer Rate Reduced 1% each Year				
		Budget FY 2016	***FY 2017***	***FY 2018***	***FY 2019***	***FY 2020***	***FY 2021***
Austin Energy GFT		$ 105.0	$ 99.4	$ 91.8	$ 84.0	$ 75.4	$ 68.2
Austin Water GFT		$ 40.8	$ 37.5	$ 34.3	$ 30.1	$ 25.1	$ 19.8
Total GFT	**B**	**$ 145.8**	**$ 137.0**	**$ 126.1**	**$ 114.1**	**$ 100.5**	**$ 88.0**

AE and AW GFT Reduced 1% per Year - Annual Impact						
General Fund	**B-A**	**$ (13.7)**	**$ (29.1)**	**$ (45.3)**	**$ (61.5)**	**$ (79.7)**
Austin Energy		**$ (8.6)**	**$ (18.2)**	**$ (28.0)**	**$ (37.6)**	**$ (48.8)**
Austin Water		**$ (5.2)**	**$ (10.9)**	**$ (17.3)**	**$ (23.9)**	**$ (30.9)**

General Fund – Potential Impact

Balancing General Fund

- Reliance on Utility Transfer reduced from 24% to 16% of General Fund sources (FY 1997 to FY 2016)
  - Property tax and sales tax revenue increased as % of General Fund sources over time to replace lower Utility Transfers
- FY 2017 budget will be challenging to balance per Forecast
- Budget gap challenges successfully addressed in the past
  - Most recent in 2010 Forecast - $29.6 million General Fund deficit
  - FY 2010 Budget balanced via reduction plan; substantial public input; no significant detriment to current service levels
  - Budget reduction menu to offset potential FY 2016 20% homestead property tax exemption ($22 million); service level reductions not viewed favorably by Council

General Fund – Potential Impact

Balancing General Fund

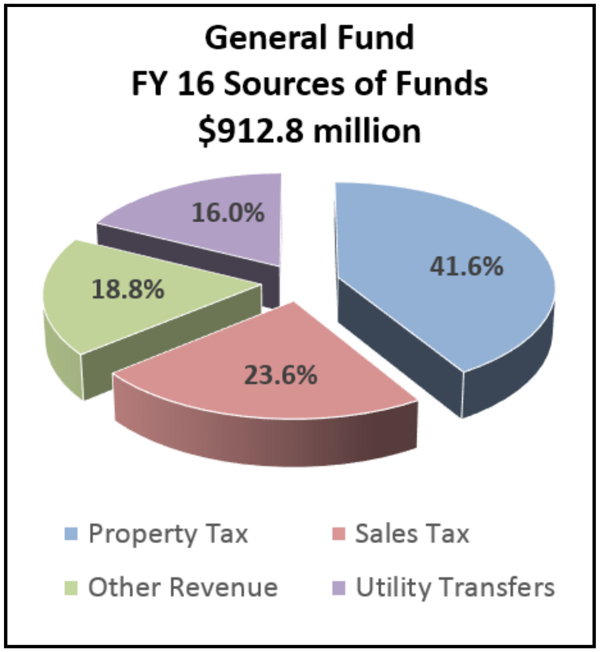
- General Fund has limited ability to add revenue sources to replace Utility transfer if reduced or eliminated
  - Most controllable revenue source is property tax; rollback limit
- Property tax rate over rollback rate likely needed to offset General Fund revenue loss if reduce Utility transfer
  - Forecast FY 2017 tax rate slightly under rollback rate
  - 1 cent on tax rate produces $12.2 million revenue in FY 2017
- Ways to balance General Fund if reduce Utility transfer
  - Additional revenue sources
  - Expenditure savings through program/service level reductions
  - Combination of these options

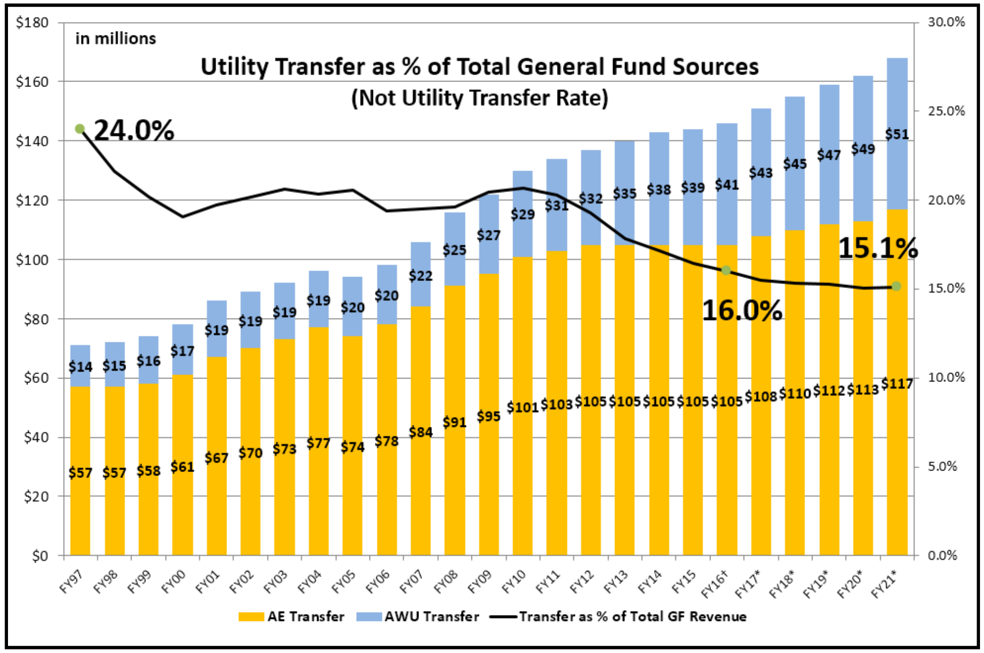
General Fund Transfer

Policy Question

- Does Council support ~15% of total General Fund sources as a reasonable level of reliance on Utility transfers?

	FY 1997	FY 2016	FY 2021 Forecast
Utility Transfers as % of Total General Fund Revenue	**24.0%**	**16.0%**	**15.1%**





General Fund Transfer

Policy Question

- Does Council support maintaining the existing transfer policy and rate for Austin Energy’s General Fund Transfer?

- Does Council support maintaining the existing transfer policy and rate for Austin Water’s General Fund Transfer?

General Fund Transfer

Economic Development Fund

- Guides City's overall economic development strategy
  - Focus on key drivers of economic growth - creativity, workforce reskilling, innovation, redevelopment, entrepreneurship
- Provides a growing customer base over which to spread Utility's fixed costs
  - New recruitments of commercial private sector customers
  - New and expanding small and creative businesses
  - Redevelopments (Mueller and Seaholm projects)
- Necessary to develop a diverse electric system load
  - Benefits all customers by reducing costs due to an improved system load factor

General Fund Transfer

Economic Development Fund

- Economic Development Fund created FY 2014
  - FY 2001-2013 program in Austin Energy with 100% funding level
  - FY 2014 Approved Budget revised cost sharing funding model
- Costs sharing based on % of total revenue
- Four-year transition; FY 2017 last year
  - Austin Energy FY 2013 at $11 M; FY 2017 at $7 M ($4 M lower)

Economic Development Funding Sources (in Millions)	**FY 2013**	**FY 2014**	**FY 2015**	**Budget FY 2016**	**Forecast Allocation FY 2017**
General Fund	$ -	$ 1.280	$ 2.099	$ 3.397	$ 4.670
Austin Energy	$ 11.294	$ 11.438	$ 8.770	$ 9.090	$ 7.196
Austin Water	$ -	$ 0.615	$ 1.149	$ 2.011	$ 2.813
Austin Resource Recovery	$ -	$ 0.088	$ 0.160	$ 0.306	$ 0.453
One Time Critical	$ -	$ -	$ 0.191	$ -	$ -
TOTAL	**$ 11.294**	**$ 13.421**	**$ 12.368**	**$ 14.804**	**$ 15.131**

General Fund Transfer

Policy Question

- Does Council support the current cost sharing funding model for funding Economic Development?

Questions/Comments/Discussion

For more information, please visit:

Austin Finance Online

City of Austin - Financial Services