

Budget Conversation for Budget Concept Item UT2.03

Submitted by Gallo (originally proposed to Concept Menu by CM Troxclair)

ITEM	Description	GF	Other Funds
UT2.03	Austin Water		16.4 million
UT2.03	ARR		3 million
UT2.03	TUF		3 million
UT2.03	DUF		7 million

A budget conversation to find ways to reduce total expenditures for Austin Water, ARR, TUF, DUF and so there is no increase to customer bills from FY16 to FY17

Reference: Budget Q&A # 116

Background:

Austin Water's proposed budget for FY 2017 includes a system-wide 3.0% rate revenue increase. Eliminating the rate revenue increase and maintaining FY 2016 service rates for FY 2017 would reduce forecasted revenues by \$16.4 million and would reduce the planned FY 2017 debt service coverage from 1.70 to 1.62. A corresponding \$16.4 million or 8.3%

Current COA debt service financial policy is 1.5.

AWU will be undergoing a rate case review this fall with recommendations coming early spring.

Staff is to find the 16.4 million dollars in reductions from a combination of the following to contain water rates at the same level as 2015-16:

- Reduce debt service from current proposed level that is substantially higher than COA financial policy.
- Reduce the cash reserve position. AWU recently doubled their cash reserves from 50 million to 100 million.
- Reduce operations and maintenance via open unfilled FTE's. AWU currently has 53 vacant positions. (see Table B)

For example (see Table A) , if COA was to reduce debt service to the 1.5 financial policy amount: (we respect that this is not acceptable for the bond rating agencies for the COA to revert back from our current position all the way to 1.5 without having an impact on our borrowing rate. However, the discussion needs to include some consideration to reduce the debt service slightly below 1.7 in conjunction with O&M reductions and adjusting cash reserves to achieve a 16.4 million reduction.

Table A

	2015-16	2016-17	Rev Reduction
Total Proposed Rev	\$ 582,593,972.00	\$ 514,321,588.50	\$ 68,272,383.50
Net	\$ 342,881,059.00	\$ 342,881,059.00	
debt service ratio	1.70	1.5	
* financial policy is 1.5 for debt service			

Table B

Other items for O&M consideration/discussions:

Austin Water - reduce unused legal services	\$800,000	**FY15/16 - \$854,000
Austin Water - reduce environmental marketing/advertising	\$98,666	**FY15/16 - \$198,666
Austin Water - reduce commercial incentives program	\$410,000	**FY15/16 - \$820k budgeted
Austin Water - reduce conservation marketing budget	\$419,925	**FY15/16 - \$839,840 budgeted

Austin Resource Recovery

Austin Resource Recovery would need to reduce their expenditures by \$3.0 million to return to FY 2016 levels.

Transportation User Fee

The Public Works Department would need to decrease expenditures by \$7.0M to maintain the FY 2016 Transportation User Fee (TUF) rate in FY 2017. The Austin Transportation Department would need to reduce expenditures by \$3.0 million to return the TUF to the FY 2016 level.

Drainage Utility Fee

Reduce the DUF by 7 million to maintaining the drainage utility charge for the median single family customer at its FY 2015-16 level of \$10.82 would require a Base Rate reduction to \$0.00457 from the proposed rate of \$0.00498. Adoption of this rate reduction would require expenditure reductions of approximately \$7M, or 9.4% of WPD's operating and capital budget.