

**WATER & WASTEWATER COMMISSION
BUDGET COMMITTEE REPORT AND RECOMMENDATION TO COUNCIL**

August 8, 2018

Overview

The Committee appreciates the opportunity to review Austin Water Utility's FY 2018-19 (FY19) budget and provide recommendations for the Water and Wastewater Commission. The following review and recommendations are based on budget information provided by Staff and not the "official" budget document. This is due to City Management policy which restricts the release of the budget until it has been presented to Council. This delayed release does not allow the Committee sufficient time to thoroughly review the "official" document, and have recommendations posted for the Commission's regularly scheduled August meeting. The Committee is confident that the information provided by Staff was thorough and representative of the official FY19 budget.

Budget Committee Members: Susan Turrieta, Chair
Travis Michel, Vice Chair
Mia Parton
Mickey Fishbeck Maia (served through 5/9/2018)

Budget Review

The Budget Committee reviewed the Utility's revenue and expenditure history and forecast through FY23. Revenue review included the study of rate and billing impacts, the expenditure review included a detailed review of the capital spending program. The following items represent the key items reviewed and highlights of each.

1. FY 2017-18 (FY18) Budget
 - a. Budget vs Actual
 - i. Water revenues FY18 (\$292M) are estimated to be 1.7% less than budgeted
 - ii. Water consumption FY18 (41B GAL) is estimated to be 0.96% more than budgeted.
 - b. Amended budget reflects the 4.8% retail rate reduction implemented June 2018. This reduction in rates was offset by an unexpected increase in wholesale customer use.
 - c. FY19 will be the first full year performing at the reduced rates
2. Water and Wastewater Rates and Bill Impacts
 - a. FY19 will have no billing revisions or rate increase
 - b. The Utility's cost of service study has determined no need for a water and wastewater rate increase for FY19 or FY20
 - c. Reclaimed water rates are currently 30% lower than water rates for mandatory customers and even lower for other reclaimed customers. Reclaimed rates will be increased 14% in FY19 to reduce burden on water revenue fund
 - d. Revenue stability reserve fund surcharge reduced from \$0.19 to \$0.05 per 1,000 gallons in FY18
3. Reclaimed Water
 - a. Reclaimed water funding support will be only from the water fund in FY19
 - b. Mandatory connections are beginning to be reflected by increased consumption
4. Financial Forecast FY2019-23
 - a. Customer growth rates for single family customer class are projected to increase by 1.2% annually with the exception of FY20 with the annexation of Shady Hollow which will increase by 1.9%

- b. Customer growth rates for multifamily are projected to increase 0.7% annually
 - c. Customer growth rates for commercial are projected to increase by 1% annually
 - d. Revenue summary (assumes residential w/ww consumption per account to remain constant and an account growth of 1.3% per year)
 - e. Requirements summary (operating costs. debt service, transfers out) (variation each FY is related to debt service management and transfers out, operating budget)
5. Expenditure Assumptions FY2018-19
- a. Wage enhancement and insurance costs (provided by budget office) have increased
 - b. The addition of 15 new FTE to address service levels. The Utility currently has 76 vacancies with a vacancy rate of 6.41%, FY19 target is 5%.
 - i. Admin (1)
 - ii. Business consultant (1)
 - iii. IT PM (1)
 - iv. Meter Tech (4)
 - v. Pipeline (4)
 - vi. Program Manager (3)
 - vii. Utility Account Analysis (1)
6. Fund Summary (operating budget) FY19
- a. FY18 will end in a deficiency of revenues over requirements of \$35M due primarily to larger than budgeted debt defeasance which increased requirements FY19 operating costs, debt service and transfers out are forecasted to be lower than previous year resulting in a budgeted excess of revenues over requirements of \$8.3M
7. Debt Management
- a. The Utility continues to use capital recovery fees for debt defeasance
 - b. Estimated reduction in debt service for FY18 \$44.6M, FY19 \$43.4M
8. CIP Spending Plan FY2019-23
- a. The Utility continues to manage debt by increasing cash funding of capital projects
 - b. 5 year capital spending plan is \$912.6M, 43% water, 53% wastewater, 4% reclaimed water
 - c. Key projects include AMI \$62M, SARWW \$93M, Davis \$28M, Williamson Creek WW Interceptor \$26M

Conclusions and Recommendation

The Utility continues to maintain a stable financial outlook with balance of debt service to CIP spending. The status of Austin Water with bond rating agencies is stable for the 3rd consecutive year. The proposed forecast complies with all Council approved financial policies and is in alignment with growth projections and mandated water conservation measures. The Budget Committee recommends the approval of the proposed Austin Water Utility FY19 budget and continued monitoring of the following throughout FY19.

- Continue to monitor the financial status of the Utility on a quarterly basis (through quarterly briefing and status reports).
- Continue to monitor the affordability of the services provided by the Austin Water through the Customer Assistance Program.

- Evaluate the expansion of the reclaimed water system and rate structure, including any potential impacts on water and wastewater rates and water supplies.
- Review the overall capital improvement plan and how the plan meshes with the goals of the Imagine Austin Comprehensive Plan, CodeNext, including areas within the CCN, Service Area, and annexation areas.
- Review multifamily accounts and growth to ensure they are being accounted for correctly
- Work towards rate resolution for wholesale rates
- Monitor review and implementation of Austin Energy's customer care allocation methodology to ensure costs and allocation among all departments are reasonable and fair.