

# Austin Energy Fiscal Year 2020 Forecast and Budget Planning

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Chief Financial Officer



March 11, 2019

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# Disclaimer

This report contains unaudited information and should be read in conjunction with the audited Comprehensive Annual Financial Reports for the City of Austin, when published on:

<http://austintexas.gov/service/current-comprehensive-annual-financial-report>



# Fiscal Year 2020 Forecast and Budget Planning Agenda

- Budget Schedule
- Forecast Inputs, Assumptions and Process
- Forecast Summary
- Budget Planning
- Strategic Direction 2023



# Austin Energy Fiscal Year 2020 Forecast and Budget Planning

## Budget Schedule



# City of Austin and Austin Energy Financial and Performance Data Sources

## Austin Finance Online

<https://www.austintexas.gov/financeonline/finance/index.cfm>

## City of Austin Budget Documents

[https://www.austintexas.gov/financeonline/afo\\_content.cfm?s=1](https://www.austintexas.gov/financeonline/afo_content.cfm?s=1)

## City of Austin Strategic Direction 2023

[https://www.austintexas.gov/financeonline/afo\\_content.cfm?s=73](https://www.austintexas.gov/financeonline/afo_content.cfm?s=73)

## Performance Austin

<https://cityofaustin.github.io/PerformanceATX/>

## Data Austin: Austin Energy

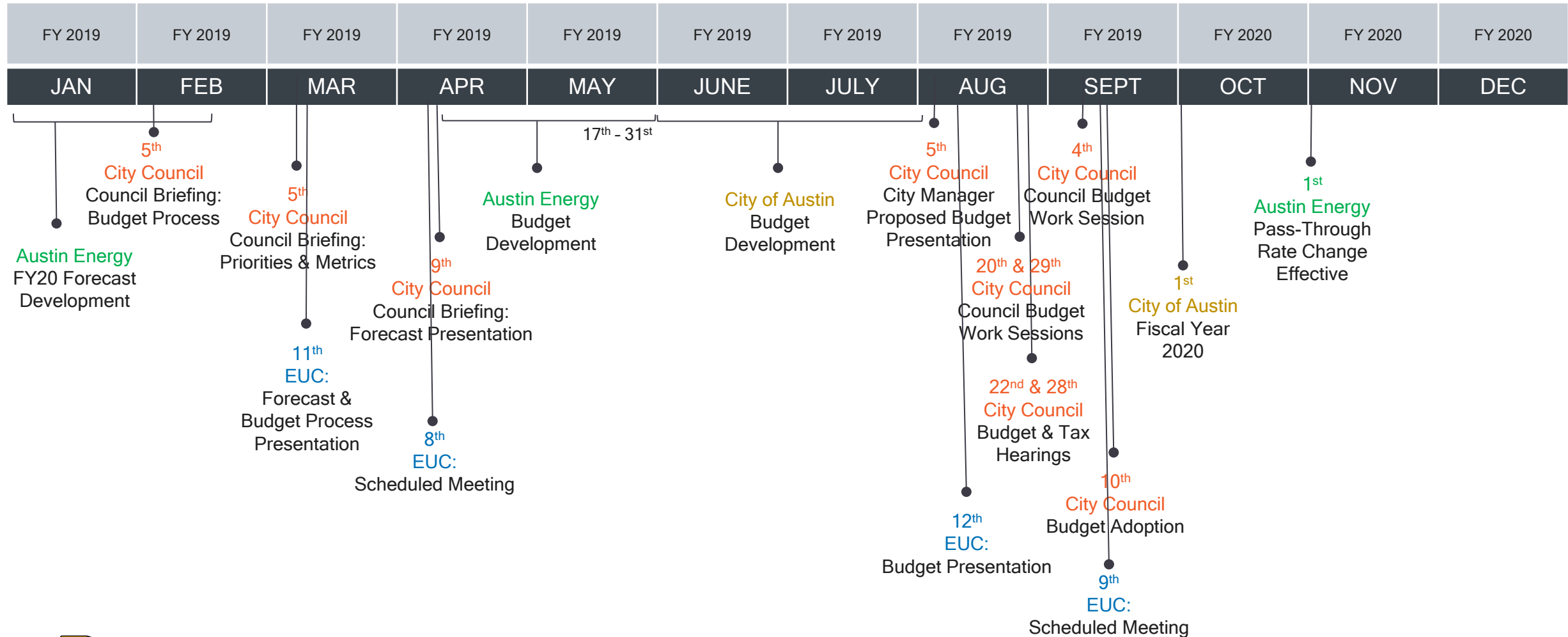
[https://data.austintexas.gov/browse?Additional-Information\\_Department=Austin+Energy](https://data.austintexas.gov/browse?Additional-Information_Department=Austin+Energy)

## Austin Energy Corporate Reports and Data Library

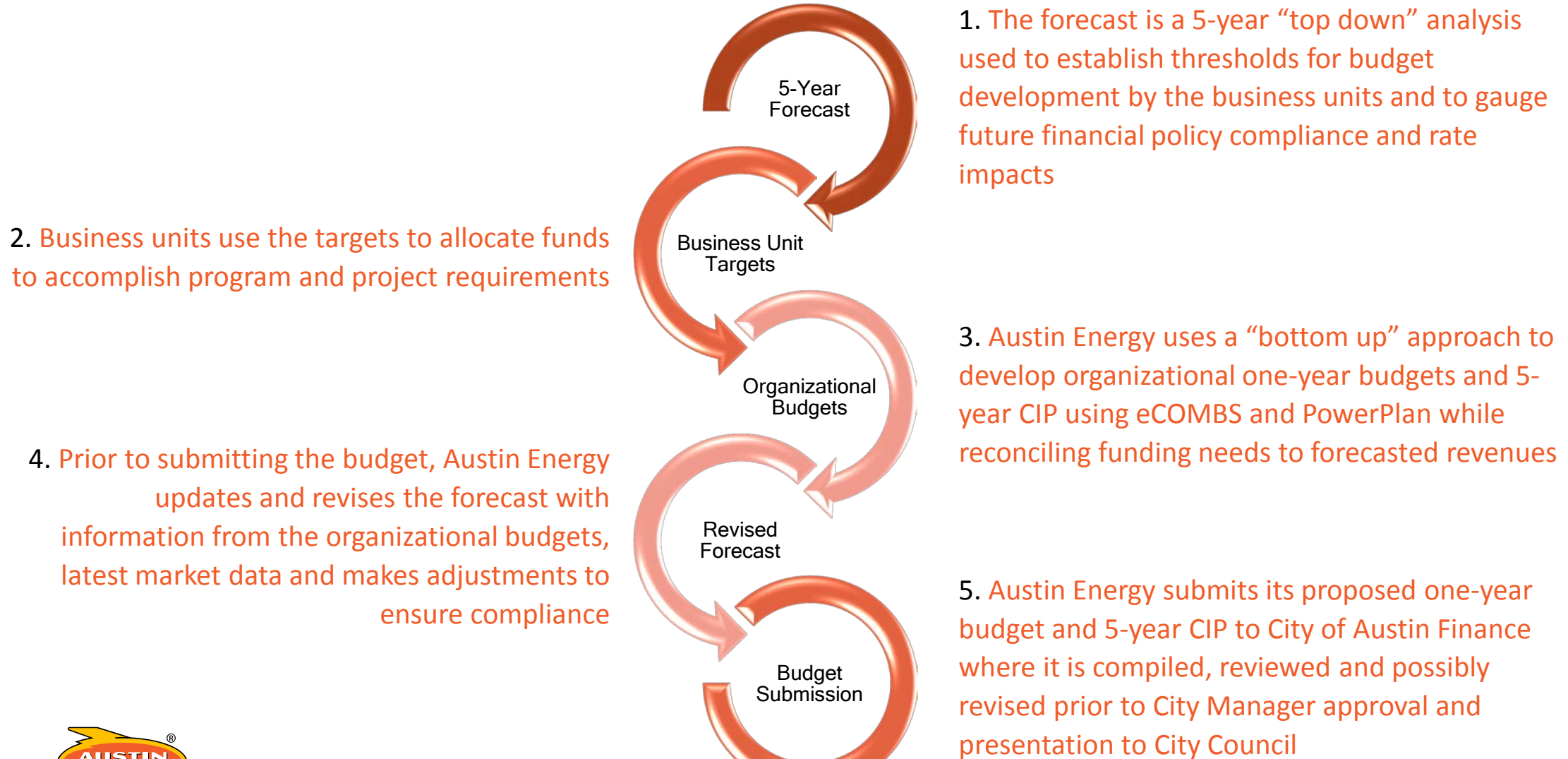
<https://austinenergy.com/ae/about/reports-and-data-library/reports-and-data-library>



# City of Austin Fiscal Year 2020 Budget Timeline



# Forecast to Budget 5-Step Process



# Austin Energy Fiscal Year 2020 Forecast and Budget Planning

Forecast Inputs, Assumptions and Process





# Austin Energy Forecast Inputs

- Load Forecast
- UPLAN Forecast (ERCOT Market Forecast)
- Amended Budget (*Current Year Estimate*)
- Adopted 5-Year CIP Forecast (*with revisions*)
- Existing Debt Schedules (Bonds and CP)
- Approved Program Changes
- Historical Financial Trends
- Existing Contractual Obligations
- Adopted City of Austin Financial Policies
- Adopted City of Austin Fees and Tariffs
- City of Austin Forecasting Assumptions
- Austin Energy Forecasting Assumptions
- Approved Public Utility Commission of Texas Transmission (PUCT) Rates (*what we charge*)
- Approved PUCT Postage Stamp Rate (*what we pay*)
- On-Site Energy Resources Customer Growth and Consumption
- Joint Projects Forecast (Fayette and South Texas)
- Resource, Generation and Climate Protection Plan
- Credit Rating Agency Metrics



# Austin Energy Forecast Assumptions

## REVENUE:

- Power Supply cost forecast uses UPLAN and revenue is set to equal expenses for each year
- Regulatory and Community Benefit Charge revenue is set equal to forecasted expense for each year
- Interest income rate is 2.15% for 2020 per City Budget manual
- Base rate increase of 6% in FY 2022 to maintain financial policy compliance

## EXPENSE:

- Labor Escalation Factor is at 3% per year
- Inflation is projected at .75% per year on non-labor costs
- Depreciation rate is 2.95%
- Cost of debt: 5% for taxable and 4% for non-taxable
- New HQ is funded with \$40M cash and \$110M debt in 2021

## Fayette and Decker Assumptions:

- December 2020 – Decker Unit 1 ceases operation
- December 2021 – Decker Unit 2 ceases operation
- January 2023 – Austin Energy ceases operations at Fayette



# City of Austin Forecast Assumptions

## LABOR AND BENEFITS:

- Wage increase – 2.5%
- Health insurance contribution increase – 0%

## DIRECT EXPENSES:

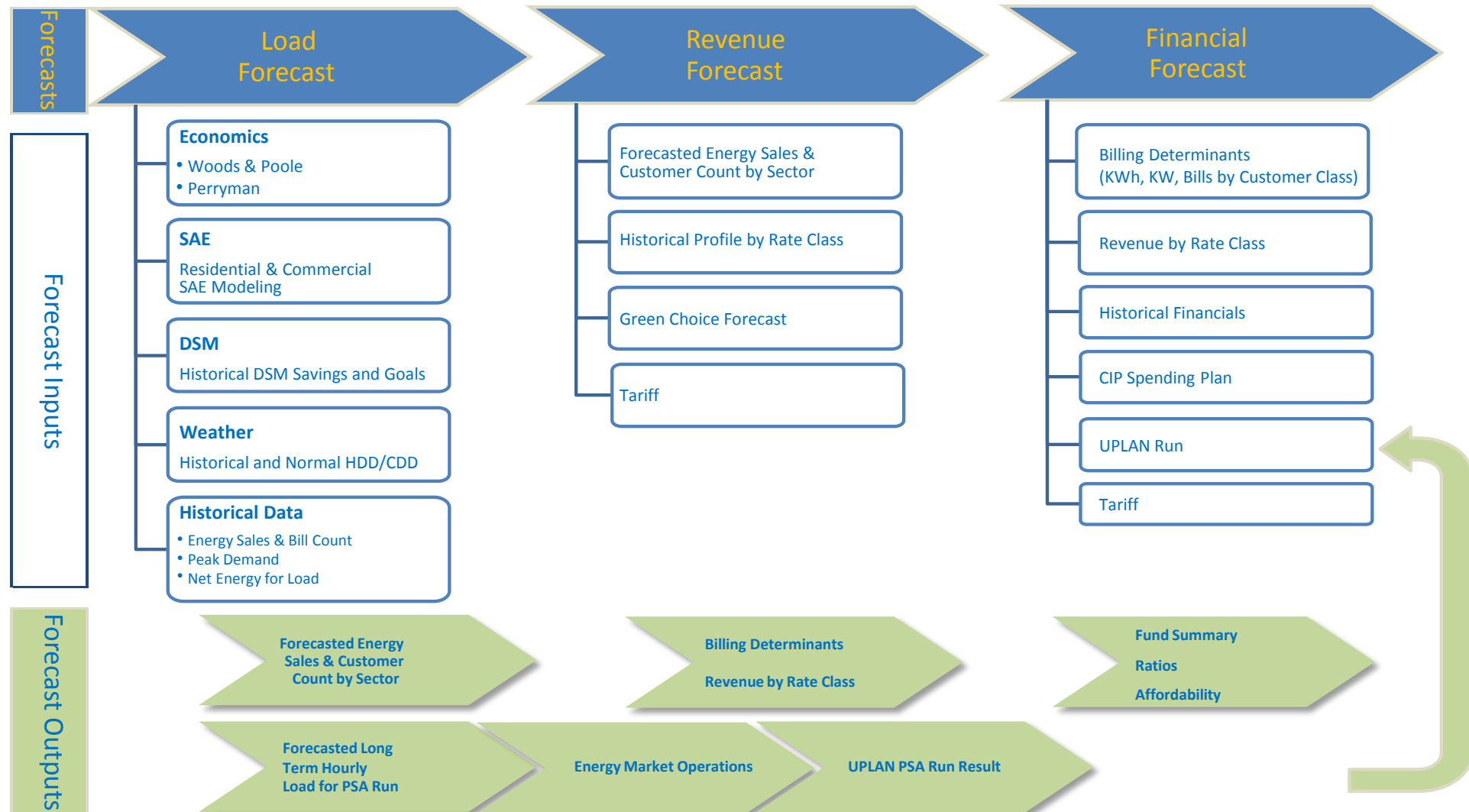
- Fuel – 4%
- Fleet Maintenance – 5%

## CITY ALLOCATIONS:

- Administrative Services – 5%
- Communications and Technology Management (CTM) – 10%
- Combined Transportation, Emergency & Communications Center (CTECC) & Wireless – 5%



# Austin Energy's Forecasting Process



# Austin Energy Fiscal Year 2020 Forecast and Budget Planning

## Forecast Summary



# Austin Energy Forecast Fund Summary

Millions of \$	FY 2019 Budget	FY 2019 CYE	FY 2020 Forecast	FY 2021 Forecast	FY 2022 Forecast	FY 2023 Forecast	FY 2024 Forecast
Beginning Balance	\$403.7	\$422.6	\$416.1	\$420.9	\$404.8	\$404.3	\$356.9
Revenues/Transfers In	1,392.3	1,361.4	1,385.9	1,396.3	1,453.7	1,586.4	1,610.9
Requirements:							
Operating Expenses	604.1	604.1	619.1	616.0	622.9	621.1	618.6
Power Supply Expenses	413.0	389.7	402.9	399.9	404.4	499.6	508.7
Debt Service	103.5	103.5	107.1	132.2	144.0	134.7	141.6
CIP	66.6	66.6	79.1	90.1	89.4	51.2	76.9
General Fund Transfer	110.0	110.0	111.0	114.0	115.0	118.0	121.0
Support Transfers	54.0	54.0	56.9	60.1	63.5	67.1	71.0
AE Reserve Transfers	40.0	40.0	5.0	0	15.0	0	50.0
Transfer to Defeasance	0	0	0	0	0	142.1	0
<b>Total Requirements</b>	<b>\$1,391.2</b>	<b>\$1,367.8</b>	<b>\$1,381.2</b>	<b>\$1,412.3</b>	<b>\$1,454.2</b>	<b>\$1,633.8</b>	<b>\$1,587.8</b>
Excess (Deficiency)	1.2	(6.5)	4.7	(16.0)	(0.5)	(47.5)	23.2
Ending Balance	\$404.9	\$416.1	\$420.9	\$404.8	\$404.3	\$354.9	\$380.1
FTEs	1,774	1,774	1,784	1,794	1,804	1,814	1,824



# Austin Energy Forecast CIP Summary

Millions of \$	Budget FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024	Total 2020-2024
Distribution	\$90.5	\$94.8	\$96.3	\$94.8	\$91.0	\$92.8	\$469.7
Distribution Substation	13.3	19.4	12.6	4.9	8.2	8.4	53.5
Transmission	53.9	60.2	102.8	81.7	47.7	48.4	340.8
Electric Service Delivery	\$157.7	\$174.4	\$211.7	\$181.4	\$146.9	\$149.6	\$864.0
Power Production	\$13.3	\$15.3	\$8.7	\$9.1	\$12.5	\$12.5	\$58.1
Joint Projects	9.9	11.0	11.3	11.1	10.9	11.1	55.4
On-Site Energy Resources	52.2	42.9	25.0	6.6	0.8	0.8	76.1
General	17.6	10.9	157.3	5.5	5.5	5.6	184.8
<b>Total</b>	<b>\$250.7</b>	<b>\$254.5</b>	<b>\$414.0</b>	<b>\$213.7</b>	<b>\$176.6</b>	<b>\$179.6</b>	<b>\$1,238.4</b>



# Forecasted Key Financial Metrics Summary

	Minimum or Target	Forecast FY 2019	Forecast FY 2020	Forecast FY 2021	Forecast FY 2022	Forecast FY 2023	Forecast FY 2024
Operating Margin	10%	16%	15%	18%	16%	7%	19%
Net Income (Millions of \$)	> \$0	\$16.3	\$6.4	\$28.9	\$5.7	(\$90.5)	\$59.5
Quick Ratio	> 1.5	3.7	3.8	3.9	3.9	3.6	3.7
Days Cash on Hand	150 Days	258 Days	265 Days	264 Days	274 Days	234 Days	252 Days
Debt Service Coverage	> 2.0	3.6	3.4	2.9	3.0	3.5	3.4
Debt to Capital	< 50%	46%	46%	48%	49%	48%	47%





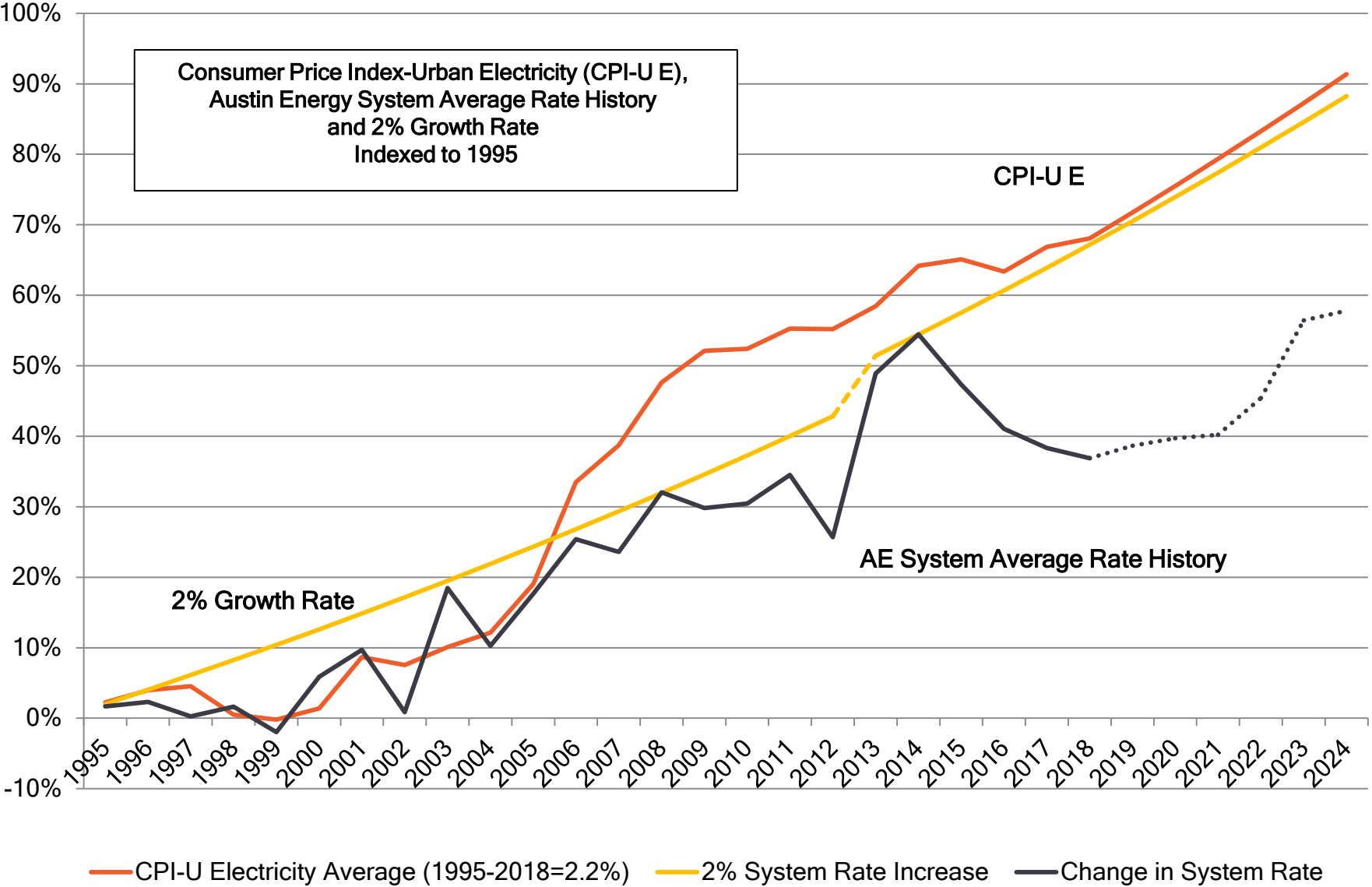
# Retail Revenue Summary

	Use of Funds	12% GFT Applied	Basis for Rate	When Adjusted	Last Adjustment	% of Residential Bill <sup>(1)</sup>
Base Rates	Includes Customer, Energy and Demand Charges: Recovers O&M, G&A and debt service for generation/power supply, distribution, customer services and corporate services	Yes	Cost of Service for Test Year	Rate review performed every 5-years	Jan 2017, reduced 6.7%	52%
Power Supply Adjustment	Recovers ERCOT settlements, fuel, hedging, PPA's, GreenChoice and VoS	No	Actual Expenses	Annually during Budget or if Recovery is $\pm 10\%$	Nov 2018, reduced 2.2%	29%
Regulatory Charge	Recovers ERCOT transmission and related administrative charges/credits and NERC/TRE regulatory fees	Yes	Actual Expenses	Annually during Budget	Nov 2018, reduced 1.5%	13%
Community Benefit Charge: Service Area Lighting	Recovers cost of street lighting, operations of traffic signals and certain Park lighting	Yes	Actual Expenses	Annually during Budget	Nov 2018, reduced 10.1%	1%
Community Benefit Charge: Energy Efficiency Services	Funds the cost of energy efficiency rebates and related costs, weatherization, solar incentives, and the Green Building program	Yes	Actual Expenses	Annually during Budget	Nov 2018, increased 33.3%	3%
Community Benefit Charge: Customer Assistance Program	Funds projects that help qualifying low-income and other disadvantaged residential customers through bill discounts, payment assistance (Plus 1), arrearage management, and weatherization services	Yes	Actual Expenses	Annually during Budget	Nov 2018, reduced 10.8%	2%

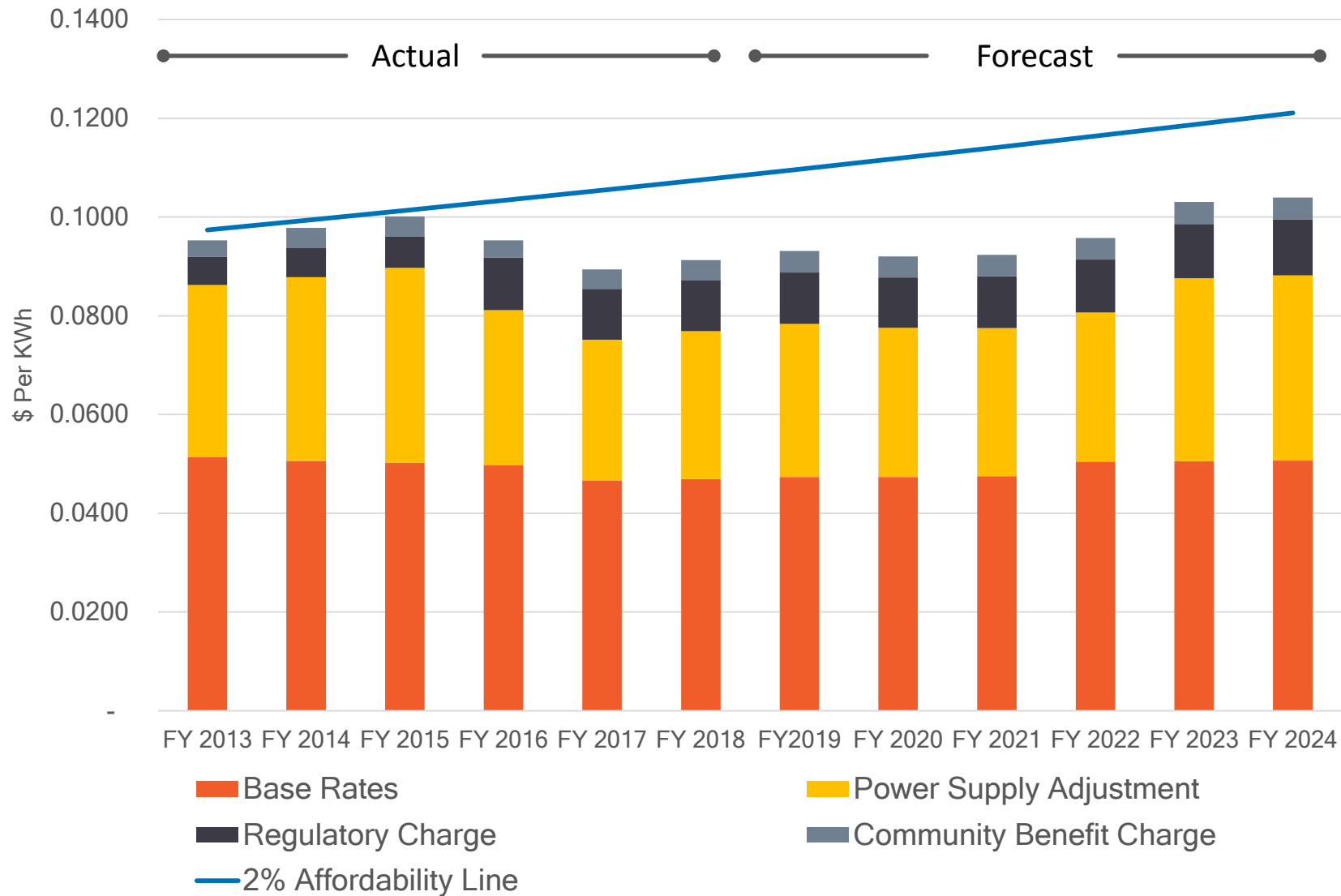


<sup>(1)</sup> City of Austin Residential Non-CAP Customer using 860 KWh (2018 Average Monthly Consumption)

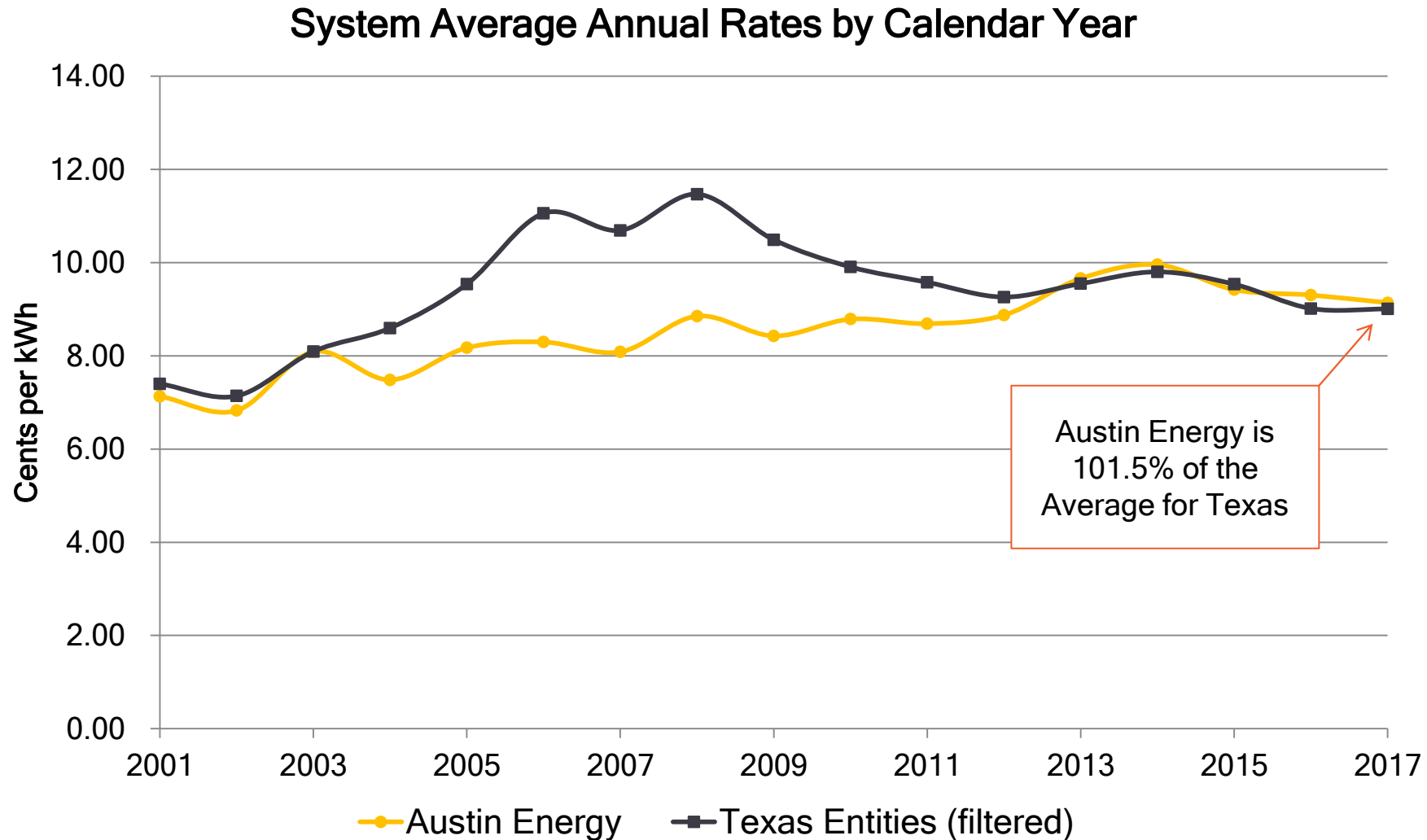
# Austin Energy System Average Rate History



# Affordability Goal: Affordability Metric

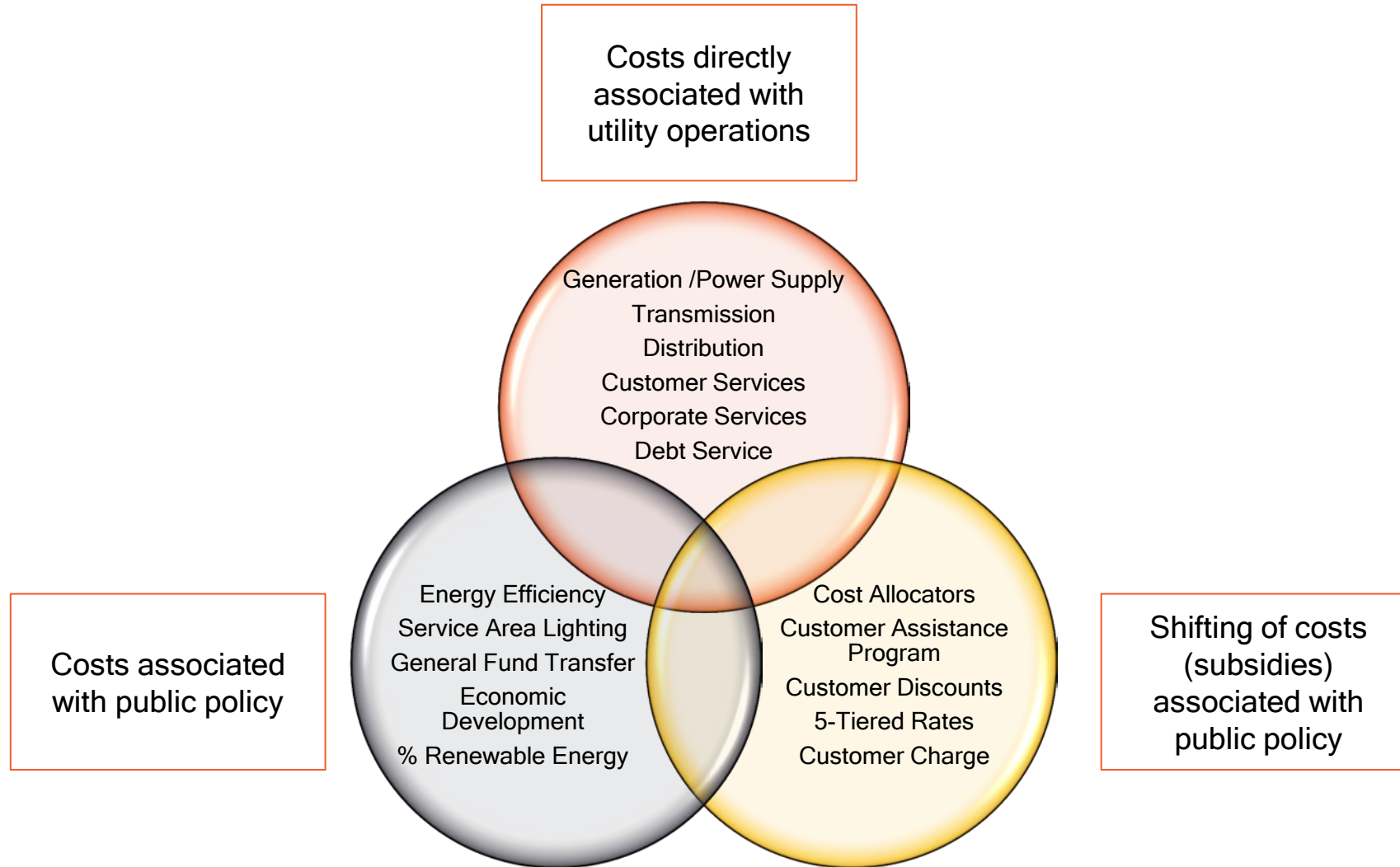


# Affordability Goal: Competitiveness Metric



Source: U.S. Energy Information Administration Form 861, October 2018

# Austin Energy Costs, Subsidies and Policy

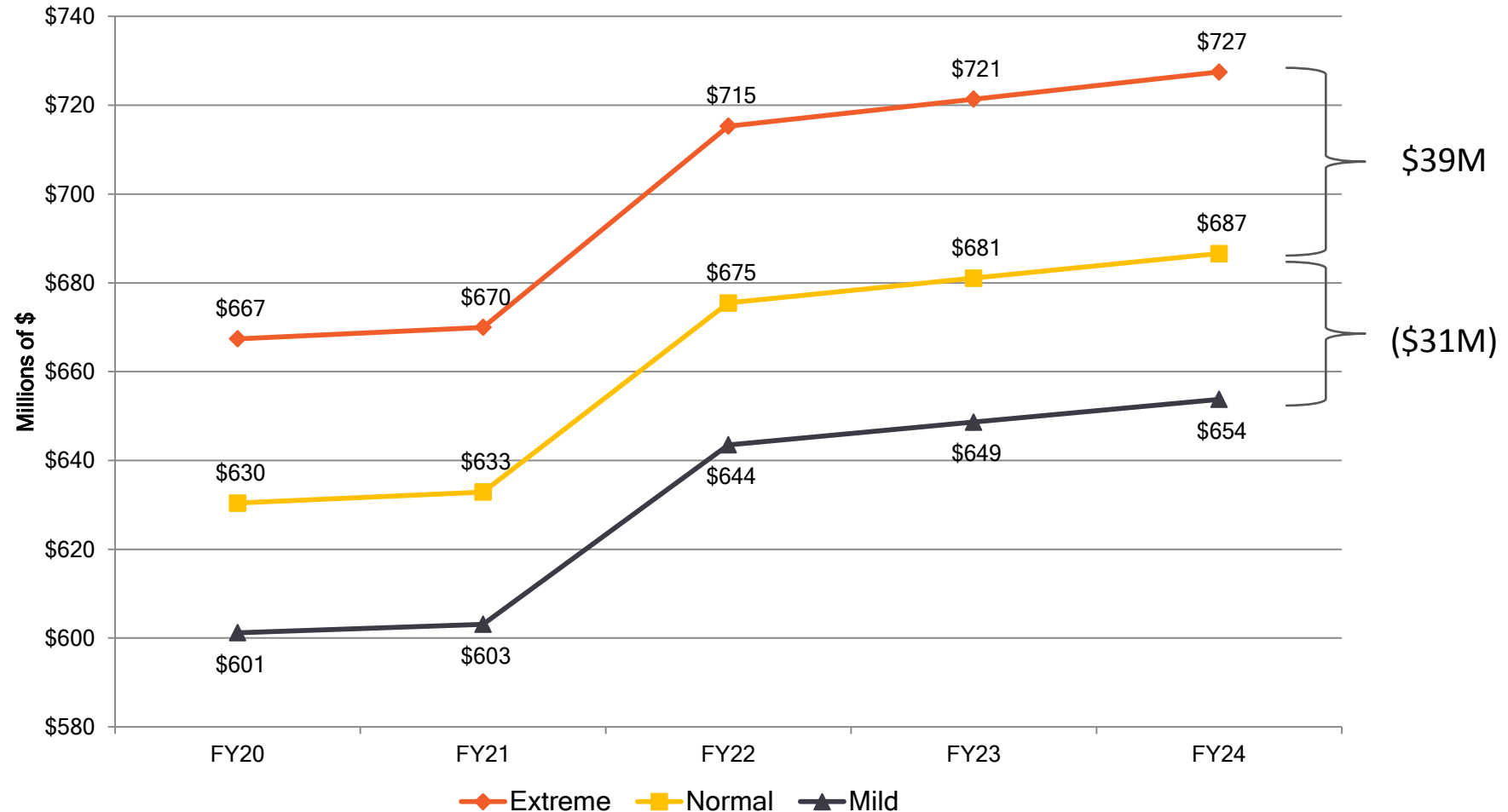


Costs identified are not inclusive of all Austin Energy costs

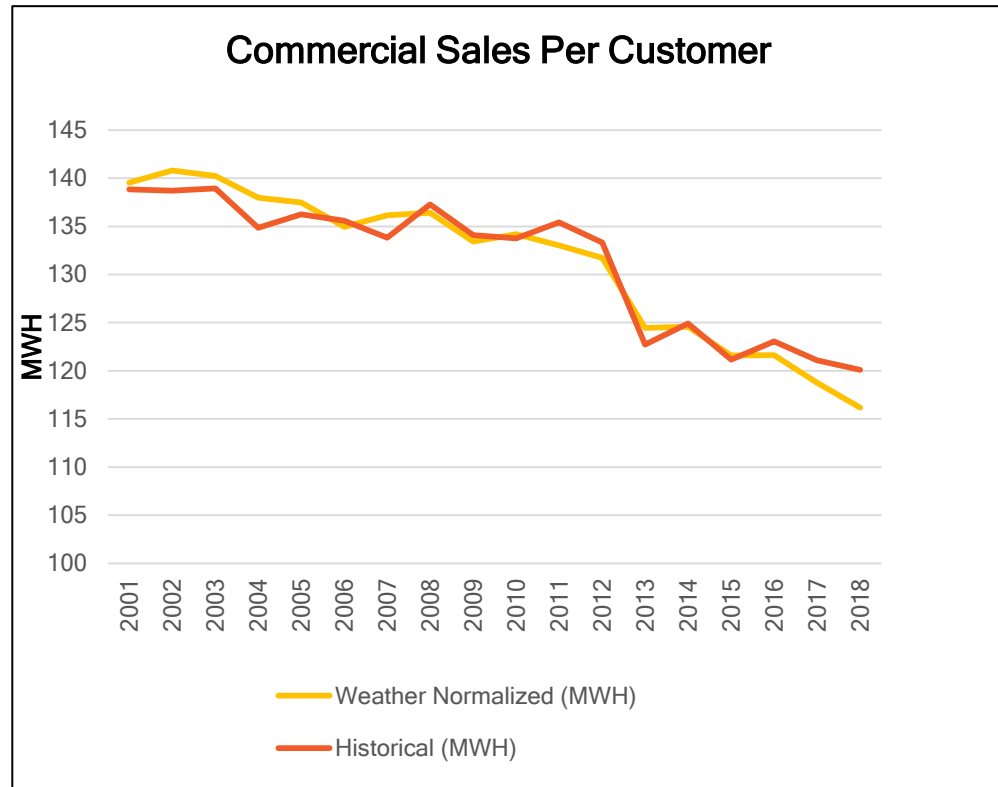
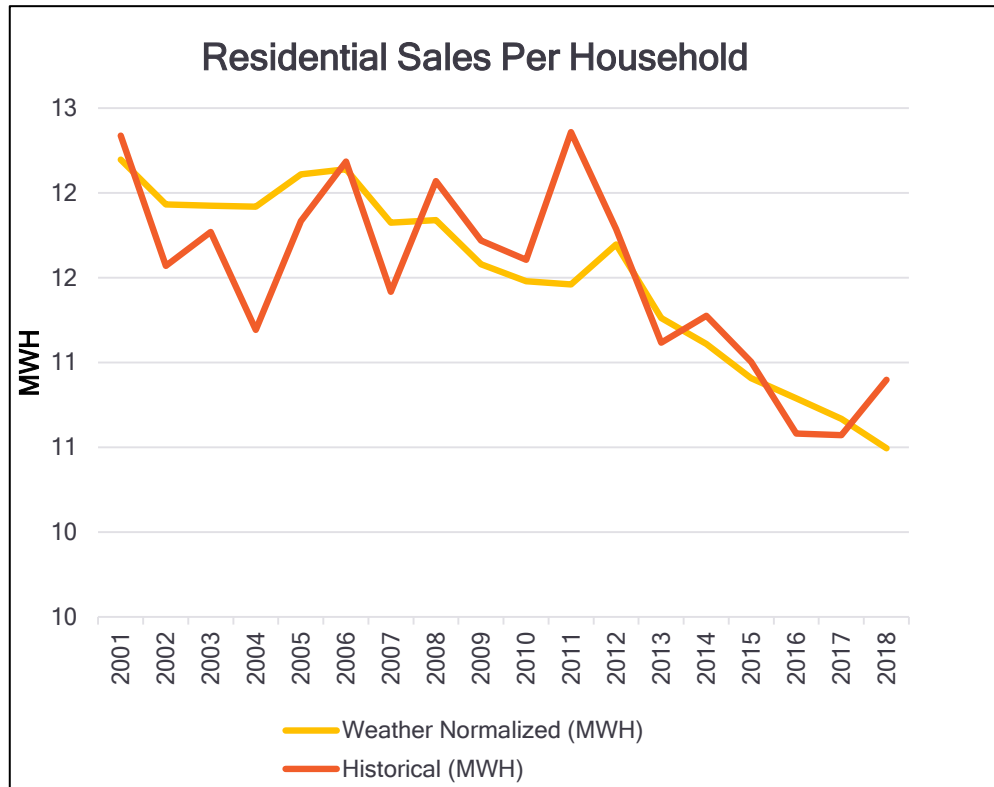


# Austin Energy Forecast Fund Summary

## Impact of Weather Assumption on Base Revenue Forecast



# Declining Consumption per Customer



# Customer Growth and Energy Sales

Austin Energy has been experiencing the same trend as other electric providers in the country, stagnated growth in energy sales. However, our consistent growth in customers has masked the effects.

The traditional business model of periodic rate cases with fixed costs recovered in KWh's must be evaluated in the context of our new reality: Distributed generation, energy efficiency and conservation, new housing stock, aggressive inclined block rates, software as a service, technology-driven customer interface and demand for energy services. All of this leads to higher fixed costs with few KWh being sold and inflation outpacing sales growth.



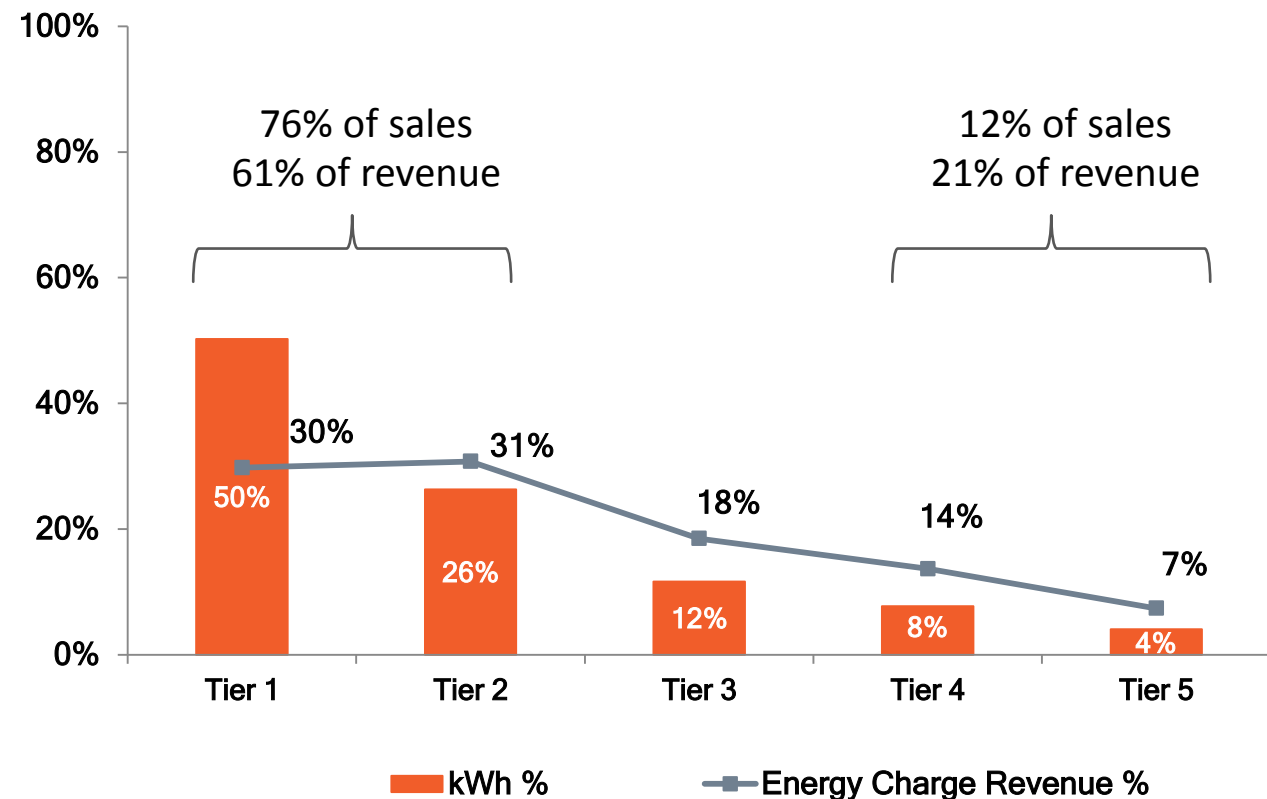


# 76% of Residential Sales are Below Cost of Service

## Inclined Block Rates

Austin Energy adopted a 5-tiered residential block structure in 2013 and set the rates for tiers 1 and 2 below cost of service while tiers 4 and 5 are significantly above cost. This was done to send a price signal to customers to consume less energy: It worked. Consumption in tiers 4 and 5 have decreased 14% since 2012. The result jeopardizes Austin Energy's ability to recover costs making us more reliant upon warmer summers and colder winters.

FY2020 Residential Tier Distribution



# Exiting Fayette and Forward ERCOT Prices Impact Forecast

## Power Supply Costs

The forecast uses a UPLAN output that assumes all wholesale revenue and costs associated with Fayette ceases in January 2023. About 80% of the increase is associated with this assumption.

The UPLAN run also contains an assumption that ERCOT prices will increase in FY 2023 due to low reserve margins. A change in this assumption would also change the impact of Fayette. The price forecast is being analyzing by Austin Energy.



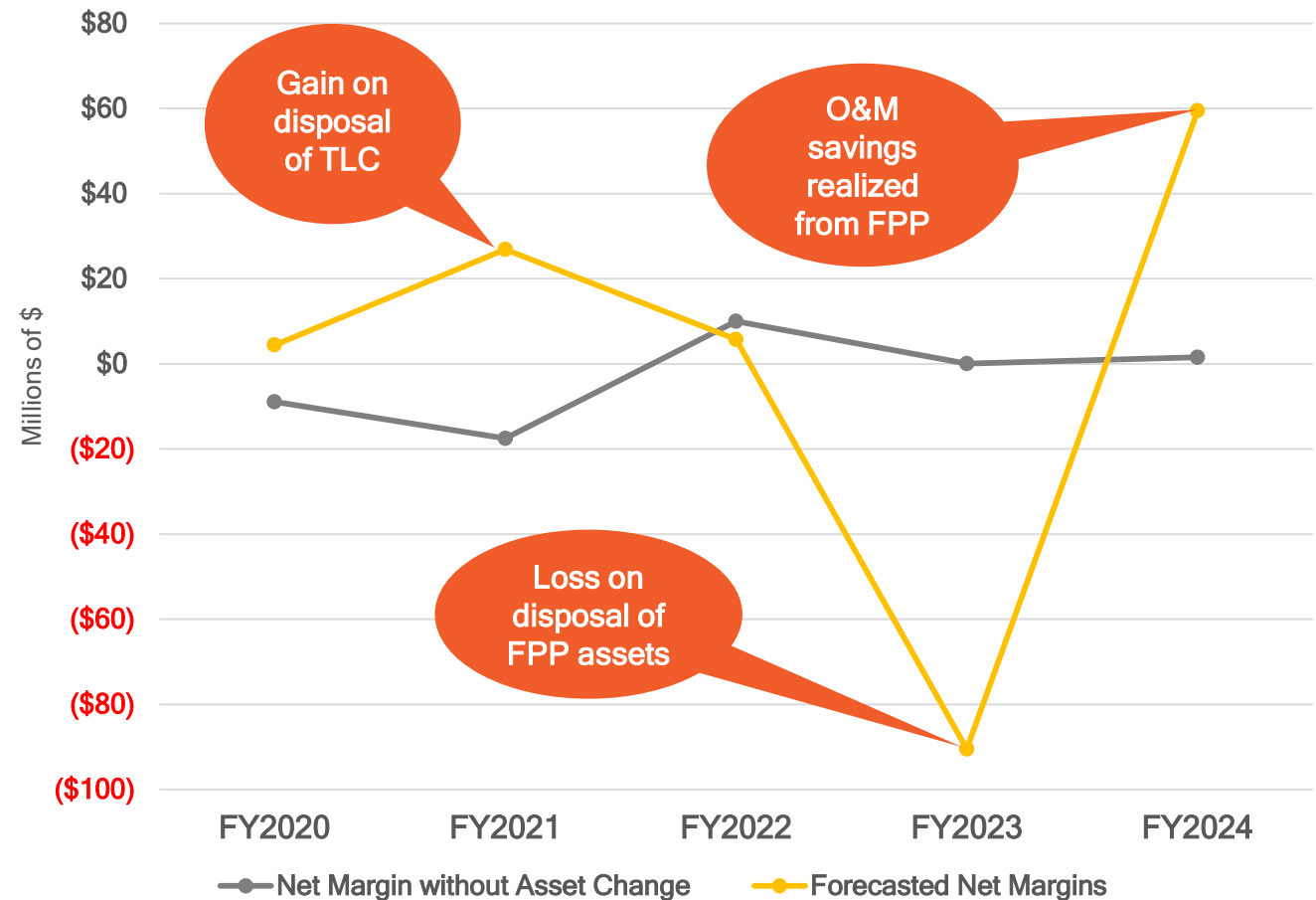
# Gains and Losses On Assets Impact Forecasted Net Income

## Net Income

The forecast uses the current 5-year CIP that assumes Austin Energy relocates from Town Lake Center (TLC) to Mueller Development in FY 2021 and that Austin Energy receives \$50M for TLC in that same year. This assumption increases the net income forecasted for FY 2021.

The forecast also assumes that Austin Energy uses cash to retire the debt associated with Fayette in 2023, ceases operations and impairs the assets causing a reduction in net income for FY 2023.

Net income is improved in FY 2024 as a result of the reduced operating costs associated with Fayette.



# Austin Energy FY 2020 Forecast Summary

## Challenges and Opportunities

- Year 4 of 5-year base rates
- Flat energy sales with increasing customers
- Declining consumption threatens cost recovery
- Over-collection in PSA being eliminated will cause upward rate pressure
- Loss of dispatchable generation reduces wholesale market revenues
- Aggressive CIP spending impacts debt service forecast
- Margins are sustained only with planned asset disposals
- Balance sheet and ratios remain healthy but net income is challenged
- Forecasted rates remain well-below 2% affordability metric and currently within 1.5% of competitiveness metric
- Adequate cash balance to meet Fayette debt requirements at exit in 2023 based on forecast
- Future reductions in operating expenses from Fayette improve operating margins
- Zero Based Budgeting conducted in Operations during 2017 and currently underway in Customer Care, CES and Facilities



# Austin Energy Fiscal Year 2020 Forecast and Budget Planning

## Budget Planning



# Austin Energy FY 2020 Budget Planning

## Summary

- Much of Austin Energy's \$1.4B budget is comprised of costs that cannot be significantly changed in the short run
- Program costs are inputs to the budget (*e.g. Resource Plan and Customer Assistance Program*)
- Relatively flat base rate revenues with assumed cost escalators limit new initiatives without trade-offs
- Power supply costs and the Power Supply Adjustment tariff structure present that greatest volatility in the budget
- Capital spending is increasing but concentrated in transmission and on-site energy resources, which do not directly impact retail electric rates
- The FY 2020 budget will look very similar to the FY 2019 budget



# Austin Energy Financial Reports

Austin Energy is required to report its financial performance in two separate and distinct formats, the Fund Summary and Financial Statements. These two reports will not necessarily match and are used for different purposes.

## Fund Summary <sup>(1)</sup>

- Reports the approved budget and actual revenues and expenditures
- Funds are structured to reflect the operating activities of the utility
- Represents cash received and payments expected to be paid during the fiscal year
- Encumbrances recognized in the year committed
- Relied upon by City of Austin stakeholders to ensure compliance with approved budget

## GAAP Financial Statements <sup>(2)</sup>

- Reports the Statement of Revenues, Expenses and Fund Net Position, Statement of Net Position and Statement of Cash Flows (Comprehensive Annual Financial Report)
- Used to account for services for which the utility charges its customers
- Must comply with Generally Accepted Accounting Principles (GAAP) and subject to an annual audit
- Revenue is recognized when earned and expenses recorded when a liability is incurred
- Includes non-cash items such as depreciation and amortization
- Relied upon by City of Austin stakeholders, joint project partners, credit rating agencies, external bond holders and vendors to gauge financial health and integrity

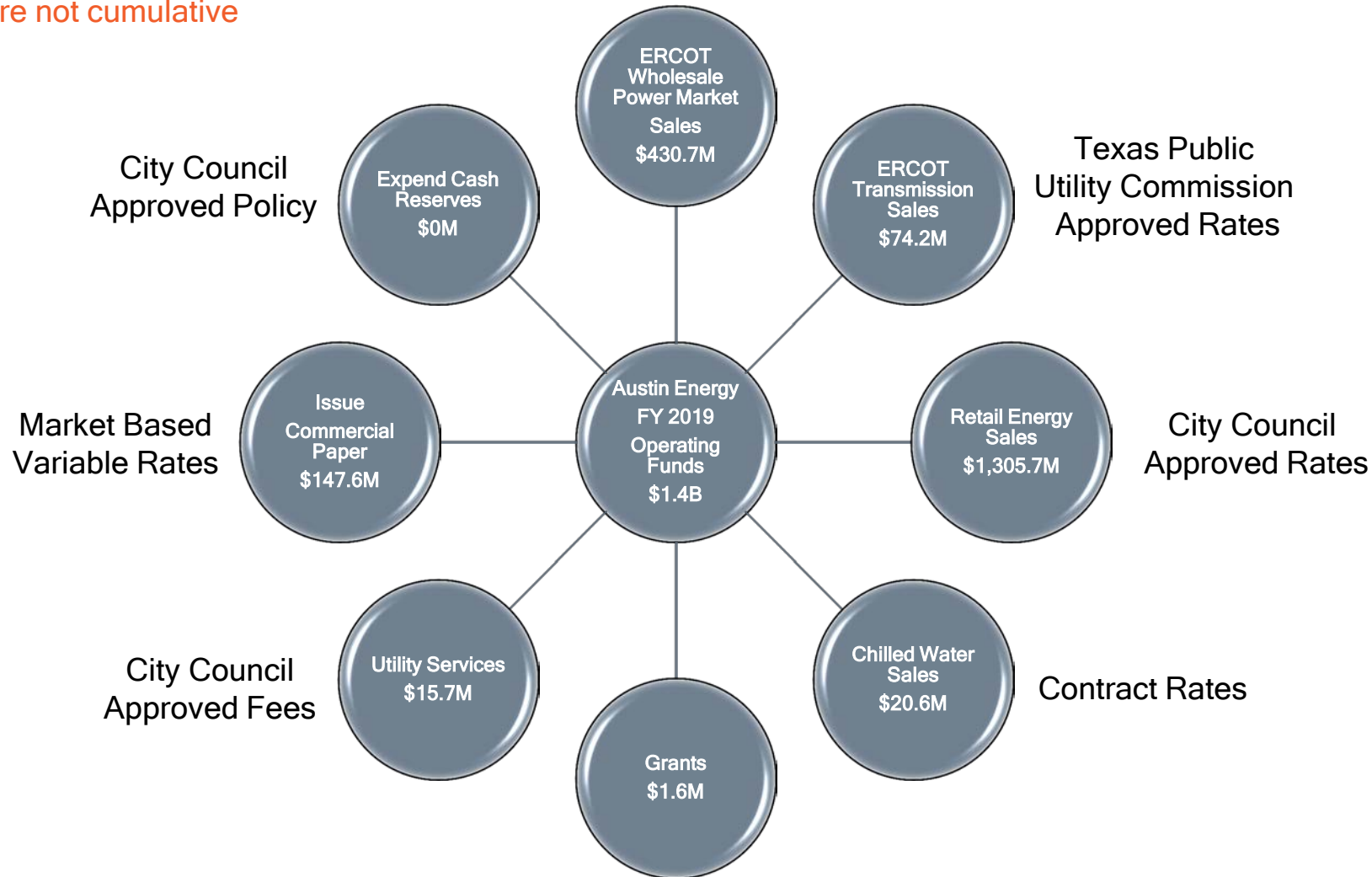


*(1) (2) Provided in separate handout*

# Austin Energy's Major Funding Sources FY 2019

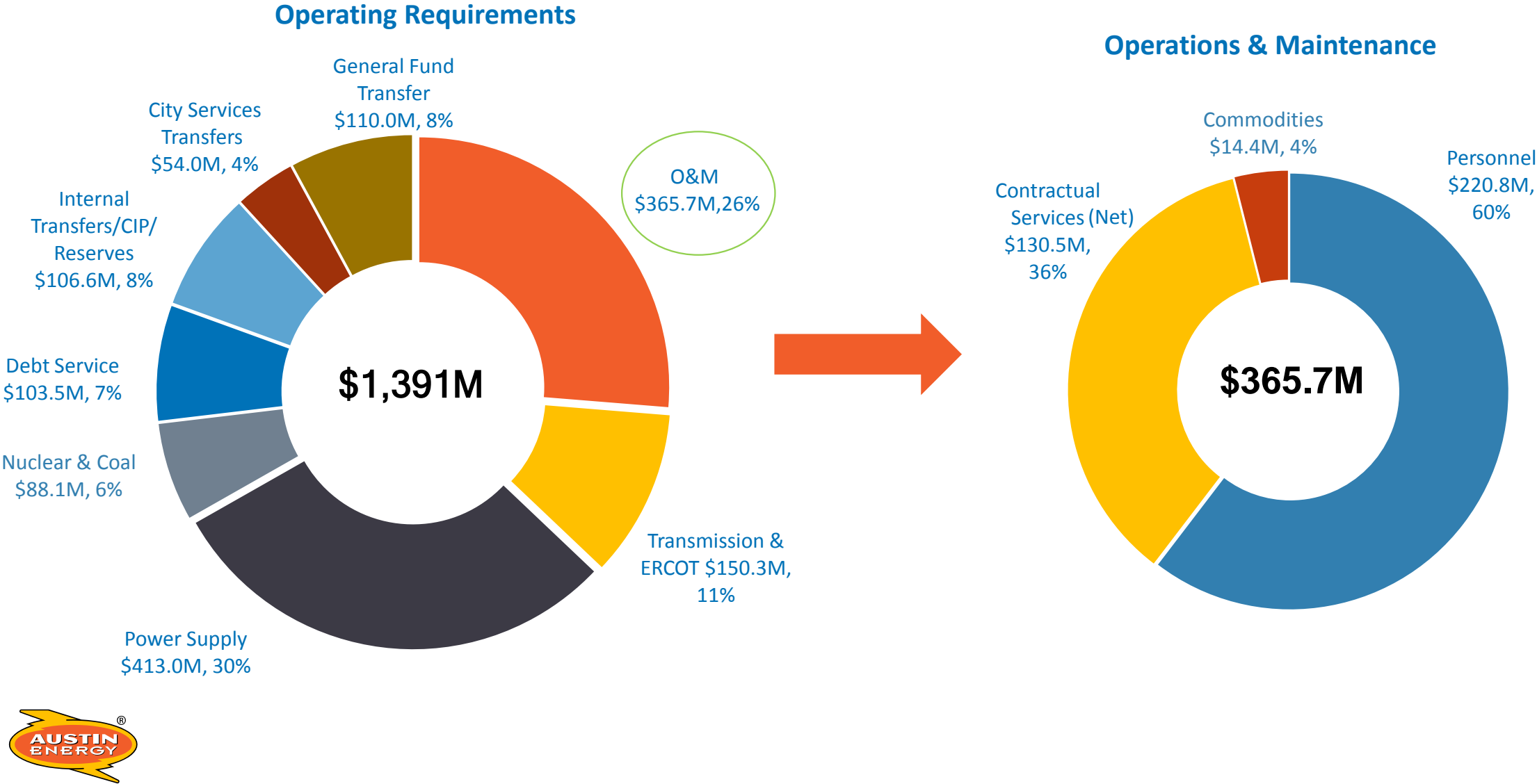
Competitive Market Pricing

Funding amounts are not cumulative





# Resources that Austin Energy Uses for its Operations FY 2019



# Non-Discretionary Requirements FY 2019

Austin Energy's budget includes spending which is non-discretionary in nature. Austin Energy has little or no control over the required spending levels in the short or mid-range time horizon.

Component of the Non-Discretionary Requirements	Fiscal Year 2019 Amended Amount
<b>Transmission &amp; ERCOT:</b> Austin Energy purchases the power it needs from ERCOT to serve its customers. This represents the cost to transmit that power to the Austin Energy load zone which is equivalent to 4% of ERCOT's total cost for transmission.	\$150.3M
<b>Debt Service:</b> Austin Energy has approximately \$1.4 Billion in commercial paper and bonds. This represents the principal and interest payment on that debt.	\$103.5M
<b>General Fund Transfer:</b> By policy, Austin Energy transfers 12% of its non-power supply revenue less OSER revenue (3-year average is used) to the City's General Fund.	\$110.0M
<b>Internal Transfers/Capital Spending/Reserves:</b> By policy, Austin Energy funds approximately 35-60% of capital projects with cash. Austin Energy also funds and maintains certain Reserves with this cash. This represents the transfer of cash to those accounts.	\$106.7M
<b>Joint Projects:</b> Austin Energy is partner's with CPS Energy and NRG Energy at South Texas Nuclear Project and the Lower Colorado River Authority at Fayette Power Plant. This represents Austin Energy's share of the operating cost for those joint projects.	\$88.1M
<b>City Services:</b> Austin Energy uses the services of other City departments such as fleets, technology, legal, City Manager's Office and City Council. This represents Austin Energy's direct and allocated costs from the City.	\$45.5M
<b>Economic Development Fund Transfer:</b> Austin Energy, Austin Water and Austin Resource Recovery provide funding for the City's Economic Development Fund. This represents Austin Energy's allocation of costs from the City.	\$8.5M
<b>Total Non-Discretionary Requirements</b>	<b>\$612.6M</b>



# Power Supply Cost FY2019

Austin Energy's budget includes the recovery of power supply costs. This presents the net cost of the electricity needed to serve our retail customers. These cost are largely non-discretionary as they are driven by market pricing, response to customer load and the requirements of the Resource Plan. Positive wholesale revenue reduces retail customers' costs. Properly managed, generation acts as a physical hedge for serving our load.

Components of Power Supply Cost	Fiscal Year 2019 Forecasted Amount
Estimated revenue earned by selling power to ERCOT from our generation facilities and our renewable energy Purchase Power Agreements (wholesale market). The price is based upon competitive market pricing. Actual revenues can fluctuate significantly.	(\$430.7M)
Less: Estimated cost of the fuel and Purchase Power Agreements used to generate power (wholesale market). Fuel cost are based upon competitive market pricing and Purchase Power Agreements are based on contract rates. Actual cost can fluctuate significantly.	\$407.6M
Less: Estimated cost of power purchased from ERCOT to serve retail customers (retail market). The amount of power required to serve our customers is fairly predictable, but the cost is market based and can fluctuate significantly. Austin Energy hedges energy prices as a way to protect the utility from price spikes.	\$432.1M
Less: ERCOT cost associated with serving Austin Energy's load (retail market). Austin Energy incurs certain costs associated with its need to serve retail customers.	\$4.0M
<b>Net Power Supply Cost</b>	<b>\$413.0M</b>



# Operations & Maintenance FY 2019

Austin Energy's budget includes expenditures for Operations & Maintenance. This spending represents Contractuals, Commodities and Personnel. Portions of this budget are controllable or discretionary, but much is necessary to support efficient

Component of the Operations & Maintenance	Fiscal Year 2019 Amended Amount
Personnel: Austin Energy is authorized 1,774 employees and 101 temporary employees. An assumption is made that 6% of the positions will be vacant at any one time. This represents 94% of the cost for salaries, payroll taxes, benefits and 100% of the cost of health insurance.	\$220.8M
Contractuals: Austin Energy requires support of contractors, consultants and support services to provide for safe, efficient and clean electricity. Austin Energy also requires support to meet certain policy requirements, such as energy efficiency and demand reduction. This represents expenses and payments for those contractual items. <i>(Discussed in more detail later)</i>	\$130.5M
Commodities: Austin Energy requires software, tools, chemicals, safety equipment, replacement materials and parts to operate and maintain the utility. This represents expenses and payments for those commodities. <i>(Discussed in more detail later)</i>	\$14.4M
<b>Total Operations &amp; Maintenance Requirements</b>	<b>\$365.7M</b>



# Contractuals: Top Ten Items FY 2019

Austin Energy's Contractuals budget for 2019 is \$215.7 Million. It is offset with \$85.7 Million of interdepartmental reimbursements and refunds. The top ten items within the Contractuals budget represent \$116.7 Million, or 54% of the entire Contractuals budget.

Total Value in Contractual Expense Category for Fiscal Year 2019	\$215,694,726
Conservation and Solar Rebates	\$24,778,200
Maintenance - Computer Hardware/Software	\$23,427,789
Information Technology Consulting Services	\$13,564,031
Line Clearance Services, Distribution & Transmission	\$12,344,295
Maintenance - Generation Plant Equipment	\$10,506,625
Information Technology Contract Employees	\$9,423,357
Temporary Contract Employees in Customer Care	\$7,999,816
Bad Debt Expenses	\$6,046,713
Real Estate Leasing for Office Space	\$5,313,549
Liability Insurance Premiums on Assets	\$3,314,475
<b>Total Value of Top Ten Items in Contractuals</b>	<b>\$116,718,850</b>



# Commodities: Top Ten Items FY 2019

Austin Energy's Commodities budget for 2019 is \$14.4 Million. The top ten items within the Commodities budget represent \$8.9 Million, or 62% of the entire Commodities budget.

Total Value in Commodities Expense Category for Fiscal Year 2019	\$14,355,832
Inventory Purchase	\$1,575,000
Small Tools/Minor Equipment	\$1,172,323
Safety Equipment	\$1,035,614
Chemicals at Decker/Sand Hill	\$983,935
Software	\$942,710
Office Furnishings	\$899,916
Minor Computer Hardware	\$701,658
Clothing/Clothing Material	\$698,273
Electrical Conductors - Hardware	\$566,147
Electrical Lighting	\$372,656
<b>Total Value of Top Ten Items in Commodities</b>	<b>\$8,948,232</b>

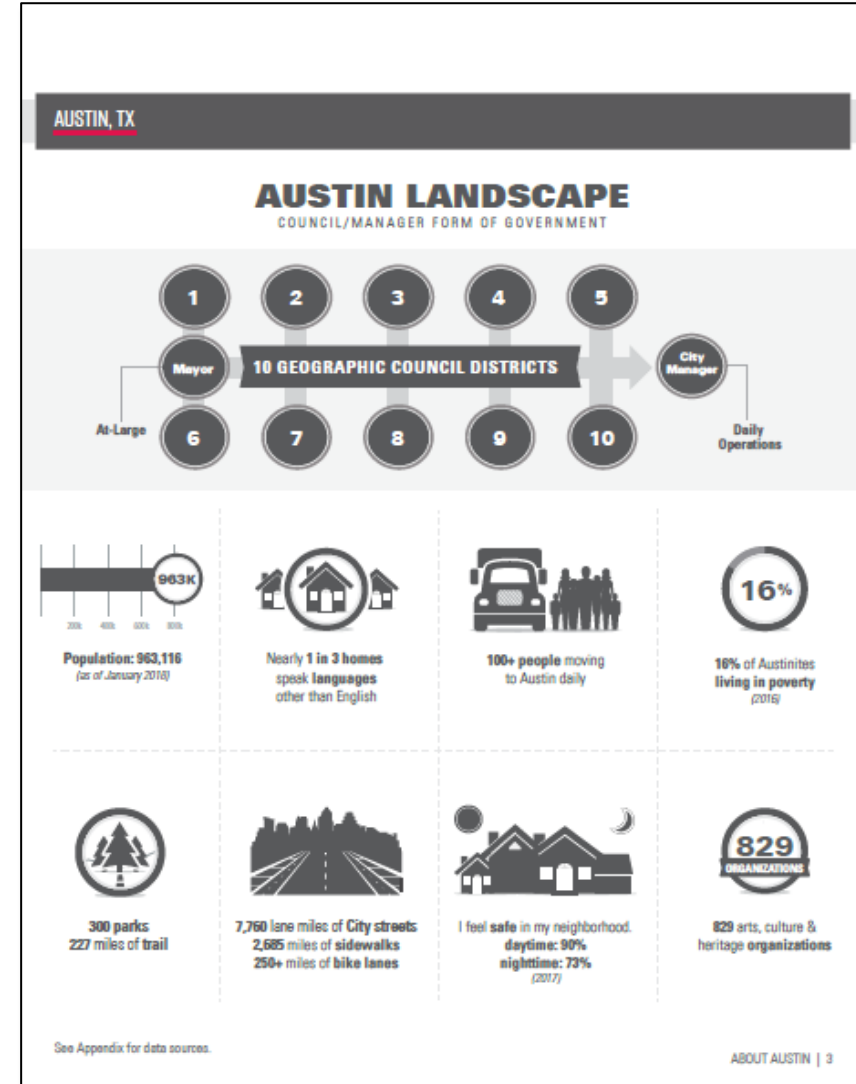


# Austin Energy Fiscal Year 2020 Forecast and Budget Planning

Austin Strategic Direction 2023



# City of Austin Strategic Direction 2023



[https://www.austintexas.gov/financeonline/afo\\_content.cfm?s=73](https://www.austintexas.gov/financeonline/afo_content.cfm?s=73)



# City of Austin Strategic Direction 2023

## OUR VISION:

Austin is a beacon of sustainability, social equity, and economic opportunity; where diversity and creativity are celebrated; where community needs and values are recognized; where leadership comes from its community members and where the necessities of life are affordable and accessible to all.

## OUR STRATEGIC OUTCOMES:

### Economic Opportunity & Affordability

Having economic opportunities and resources that enable us to thrive in our community.

### Safety

Being safe in our home, at work, and in our community.

### Culture & Lifelong Learning

Being enriched by Austin's unique civic, cultural, ethnic, and learning opportunities.

### Mobility

Getting us where we want to go, when we want to get there, safely and cost-effectively.

### Health & Environment

Enjoying a sustainable environment and a healthy life, physically and mentally.

### Government That Works for All

Believing that city government works effectively and collaboratively for all of us—that it is equitable, ethical and innovative.



# City of Austin Strategic Direction 2023

## Austin Outcomes Dashboard



AUSTIN STRATEGIC  
DIRECTION | 2023

Learn about our 6 strategic outcomes in [Austin Strategic Direction 2023](#).



### Economic Opportunity & Affordability

- Employment
- Income equality
- Cost of living compared to income
- [Housing](#)
- Homelessness
- Training for jobs
- Economic mobility



### Mobility

- System efficiency and congestion
- Transportation cost
- [Access to multi-modal transportation](#)
- Safety
- Transportation-related infrastructure



### Safety

- Success of emergency response
- Compliance with laws
- Emergency preparedness
- [Fair administration of justice](#)
- Critical infrastructure



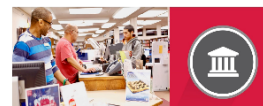
### Health & Environment

- Healthy conditions
- [Access to quality health care services](#)
- [Access to parks](#)
- Environmental quality
- [Climate change and resilience](#)
- Food security and nutrition



### Culture & Lifelong Learning

- Cultural venues and events
- [Vibrancy and sustainability](#)
- Welcoming to all people and cultures
- Preservation of heritage
- Lifelong learning opportunities



### Government that Works for All

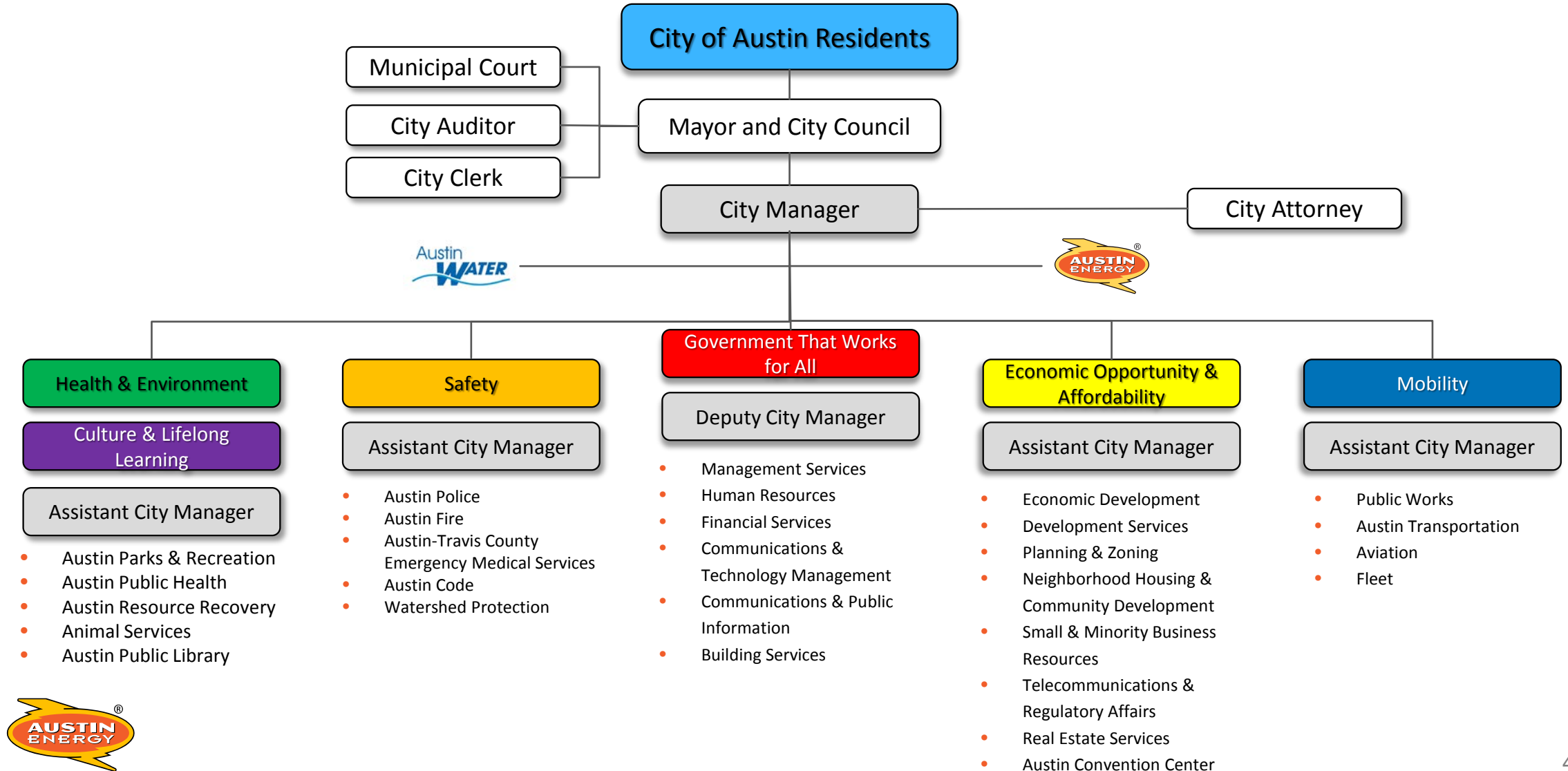
- Financial cost
- [Condition/quality of City infrastructure](#)
- Satisfaction with City services
- Employee engagement
- Stakeholder engagement
- Equity of City programs
- Transparency and ethical practices



<https://cityofaustin.github.io/SD2023-Dashboard/>

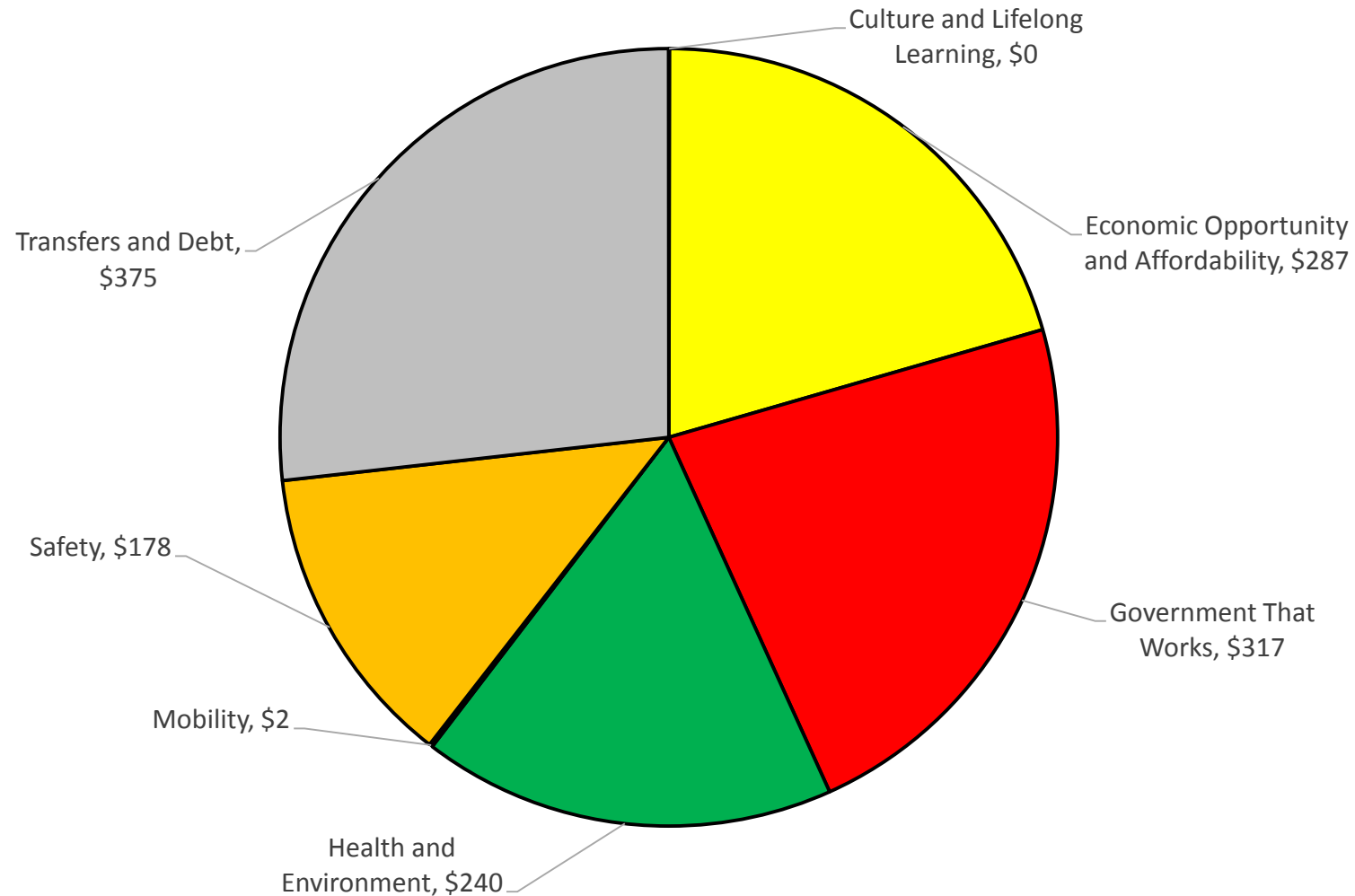
# City of Austin

## Organizational Alignment with Strategic Outcomes



# FY 2019 Proposed O&M Budget by Strategic Outcome

FY2019 Austin Energy Proposed Budget by Strategic Outcome, \$1.4B  
Millions of \$





**Customer Driven.  
Community Focused.**



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