



MEMORANDUM

To: Robert Goode, Assistant City Manager
Ed Van Eenoo, Deputy Chief Financial Officer

From: David Anders, Assistant Director, Austin Water

Date: March 11, 2016

Subject: 5-Year Financial Forecast: Fiscal Years 2016-17 through 2020-21

This memorandum submits Austin Water's (AW) 5-Year Financial Forecast for the period covering Fiscal Years 2017 through 2021. Included in this submittal is the following information:

- A. Financial Forecast Summary
- B. Revenue Forecast
- C. Rate Increase Forecast
- D. Water Revenue Stability Reserve Fund
- E. Operating Costs
- F. Staffing Plan
- G. Debt Service
- H. Capital Spending Program
- I. Transfers

The following pages provide detailed forecasts for revenue and requirements over the forecast period.

A. Financial Forecast Summary FY 2017-21:

Austin Water's 5-Year Financial forecast has been developed based on all financial assumptions provided by the Budget Office. The forecast is in compliance with all Council approved financial policies. Highlights of the major revenue and requirement assumptions and forecast results are detailed below.

B. Revenue Forecast:

The water service revenue projections are based on the assumptions that we will remain in Stage 2 Water restrictions throughout the 5-year forecast period.

Over the 5-year financial forecast period, the Utility is forecasting revenue and transfers in to increase by \$108.6 million or 18.7 percent, from \$581.1 million in the FY 2016 estimate to \$689.7 million in FY 2021.

For FY 2017, the Utility is projecting an increase in revenue and transfers in of \$18.2 million or 3.1 percent, from \$581.1 million in the current year FY 2016 estimate to \$599.3 million. The increase is the result of the projected growth in customers, projected system-wide rate increase and increases in collections of capital recovery fees.

C. Rate Increase Forecast:

Projected combined utility rate increases over the financial forecast period totaling 14.1 percent, with 16.2 percent for water service, 11.7 percent for wastewater service, and 51.1 percent for reclaimed water service, will be necessary to fund the total requirements of the Utility. The projected rate increases for water, wastewater, and reclaimed water services over the 5-year financial forecast period are as follows:

Projected Rate Increase	Amended 2016	Projected				
		2017	2018	2019	2020	2021
Combined	4.9%	3.9%	2.7%	2.6%	2.6%	2.3%
Water	4.8%	4.8%	3.1%	3.0%	2.9%	2.4%
Wastewater	4.8%	3.0%	2.3%	2.2%	2.2%	2.0%
Reclaimed Water	15.0%	5.8%	5.9%	5.1%	15.3%	19.0%

D. Water Revenue Stability Reserve Fund:

In FY 2013, a Water Revenue Stability Reserve Fund was created and established for the purpose of offsetting current year water service revenue shortfalls below budgeted revenue levels. Upon creation of the Reserve Fund, the goal is to reach the target funding level of 120 days of budgeted water operating requirements within 5 years. Funding for the Reserve Fund includes a volumetric surcharge charged to all customer classes.

In FY 2017, the Reserve Fund volumetric surcharge is projected to remain at \$0.19 per 1,000 gallons. By the end of FY 2017, AW anticipates a reserve fund balance of \$35.8 million.

E. Operating Costs: FY 2017-21:

Over the 5-year financial forecast period, the Utility is forecasting operations and maintenance requirements to increase by \$66.5 million or 32.9 percent, from \$202.2 million in the FY 2016 estimate to \$268.7 million in FY 2021.

For FY 2017, the Utility is projecting a \$15.2 million or 7.5 percent increase in operations and maintenance requirements from \$202.2 million in the current year FY 2016 estimate to \$217.4 million. Highlights of the operations and maintenance cost increases from the FY 2016 current year estimate budget to the FY 2017 forecast include:

- \$2.1 million increase for health insurance costs
- \$3.4 million increase for compensation adjustment and market study
- \$2.0 million increase for interdepartmental charges for street cuts
- \$2.0 million in staffing plan increases for 20.5 positions
- \$1.8 million increase in AE & Customer Care & Billing costs

F. Staffing Plan: FY 2017-21

In the 2013 financial forecast development, AW identified a need to increase staffing by 200 positions over a five year period. In FY 2014, AW implemented the first year of the plan with the addition of 63 new positions. For 2015, AW planned to add 60 new positions; however, only 3 new positions for the final phase of Water Treatment Plant #4 hiring were added due to AW's cost containment efforts. For FY 2016, AW continued to focus on cost containment efforts and added 1.15 positions. AW plans to add 110.25 positions to meet service demands and organization needs during the forecast period, including 20.5 positions in FY 2017.

Projected Staffing Additions	Amended 2016	Projected				
		2017	2018	2019	2020	2021
New Positions	1.15	20.5	22.0	21.0	23.75	23.0

G. Debt Service: FY 2017-21

Based on the Utility's existing debt balance of \$2.8 billion plus \$884.4 million in planned capital spending, annual debt service payments are projected to increase by \$6.7 million or 3.3 percent over the five years from \$200.2 million in the current year FY 2016 estimate to \$206.9 million in FY 2021.

The Utility expects to issue approximately \$593.2 million in revenue and general obligation bonds over the 5-year forecast period. Interest rates on interim financing and long-term revenue bonds are projected to rise slightly over the forecast period.

In FY 2015, AW issued \$289 million in revenue bonds to refinance existing debt which reduced debt service costs by \$73 million over the current forecast period. For FY 2016, the debt service savings resulting from the FY 2015 refinancing is \$14 million.

AW's goal is to maintain our current level of debt service coverage in FY 2017 and to improve debt service coverage over the next 10 years to 2.0.

Projected Debt Coverage Rating	Amended 2016	Projected				
		2017	2018	2019	2020	2021
Debt Coverage	1.69	1.69	1.71	1.77	1.80	1.82

In addition the Utility is planning to use \$18 million of Capital Recovery Fee collections in FY 2016 to defease (pay off) existing debt in an effort to maintain level debt service costs and improve AW's debt coverage ratio. Based on current projections, \$20.8 million in savings could be realized over the 5-year forecast period.

H. Capital Spending Program:

The Utility has recommended an \$884.4 million 5-year Capital Spending Plan which supports capital projects that are necessary to meet growth in service demands; system reliability standards; compliance with regulatory requirements; annexations; and utility relocations due to street reconstruction in the Austin area. Highlights of highest value projects representing 30% of the spending plan are:

- \$65.6 million for Davis Water Treatment Plant improvements including treated water discharge and power distribution upgrade;
- \$54.3 million in collection system improvements including the Parmer Lane and Williamson Creek wastewater interceptors;
- \$35.0 million in transmission/distribution improvements for advanced metering infrastructure;
\$19.6 million for improvements at Walnut Creek Wastewater Treatment Plant and \$71.2 million of improvements at the South Austin Regional (SAR) Wastewater Treatment Plant;
- \$19.5 million in pump station improvements for the North Austin reservoir and pump station.

I. Transfers:

Annual cash contributions to the capital improvements program will increase by \$21.4 million or 50.2 percent from \$42.6 million in the FY 2016 estimate to \$64.0 million in FY 2021. AW plans to increase cash transfers for capital spending or "pay as you go" from 36 percent of annual capital spending in FY 2017 to 46 percent in FY 2021 with an ultimate goal of 50 percent to reduce debt service requirements in future years. For FY 2017, the Utility is projecting a \$10.6 million or 24.9 percent increase in cash contributions.

Over the forecast period, the Utility has projected contributions to the General Fund to increase by \$10.0 million or 24.4 percent from \$40.8 million in the FY 2016 estimate to \$50.8 million in FY 2021. For FY 2017, the General Fund contribution is projected to increase \$1.9 million or 4.6 percent. Transfers to the General Fund are projected at 8.2 percent of 3-year average total revenue as provided in the approved financial policies.

Over the forecast period, the Utility has projected contributions to Administrative Support to increase by \$3.8 million or 30.7 percent from \$12.4 million in the FY 2016 estimate to \$16.2 million in FY 2021. For FY 2017, the Administrative Support contribution is projected to increase \$0.9 million or 7.5 percent.

Utility contributions to other funds including the Wireless Communications Fund, Economic Development Fund, CTM Fund, CTECC Emergency Operation Center, Liability Reserve Fund, and the Worker's Compensation Fund are forecasted to increase by \$3.4 million or 43.6 percent from \$7.8 million in the FY 2016 estimate to \$11.2 million in FY 2021.

As requested by the Budget Office, the Utility's 5-Year Financial Forecast submittal includes the following items:

1. Executive Summary
2. Fund Summary (Detailed and Rounded to Millions)
3. Expenditure Worksheets
4. New FTE Backup Forms
5. Forecast checklist

Please note that the forecast checklist requires ACM signature and submittal to the Budget Office. Let me know if you need additional information concerning our 5-Year Financial Forecast submittal.

In closing, the Utility will continue working with the corporate management team to develop strategies and solutions to continue to improve Austin Water's financial position, while maintaining an affordable rate structure for our customers.

cc: Greg Meszaros, Director, Austin Water