



# General Fund Transfer Policy

*Financial Services,  
Austin Energy, Austin Water*



May 25, 2016 | City of Austin, Texas



# 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

- Utility = Austin Energy and Austin Water
- AE = Austin Energy
- AW = Austin Water
- 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*

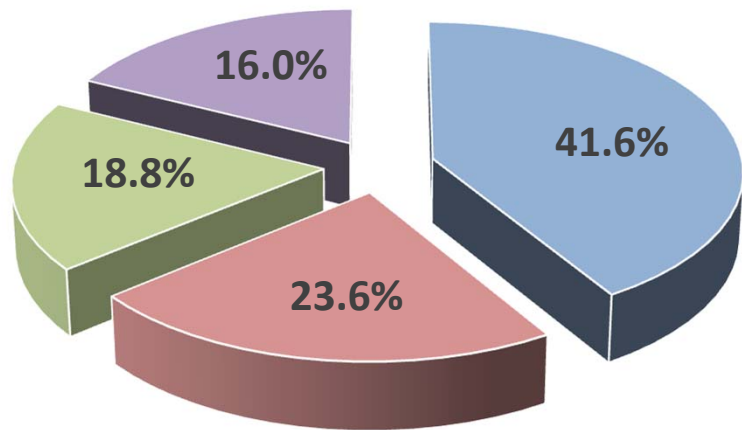
- Written policy statement with formula or method to determine General Fund Transfer
  - Provides certainty to City and Utility for planning
  - Most common method is percentage of revenue
  
- Transfer Policy characteristics that rating agency looks for
  - Consistent, predictable policy with infrequent 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

### General Fund FY 16 Sources of Funds \$912.8 million



■ Property Tax      ■ Sales Tax  
■ Other Revenue    ■ Utility Transfers

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

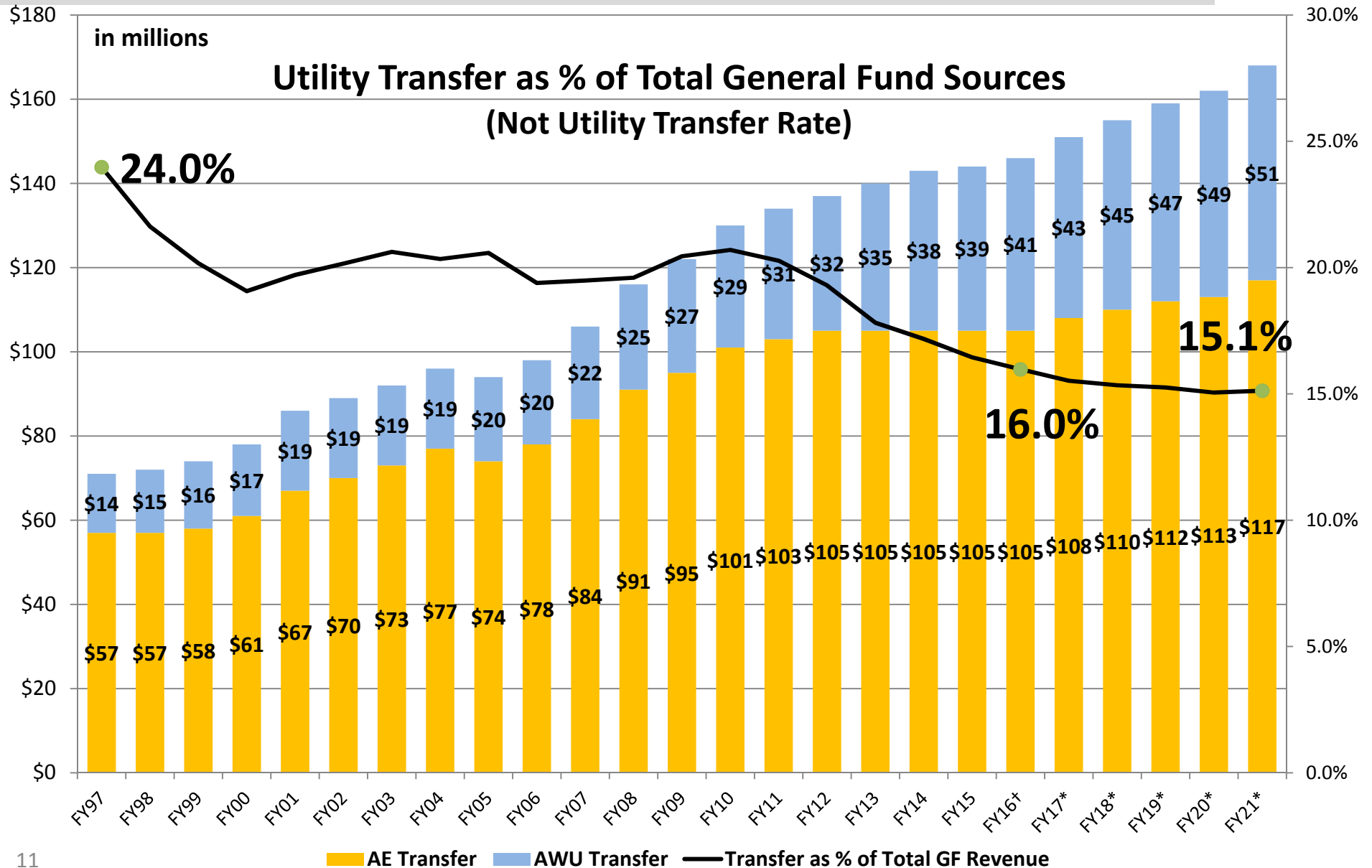
*Forecast based upon current Council Approved Transfer Policy*

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...*”

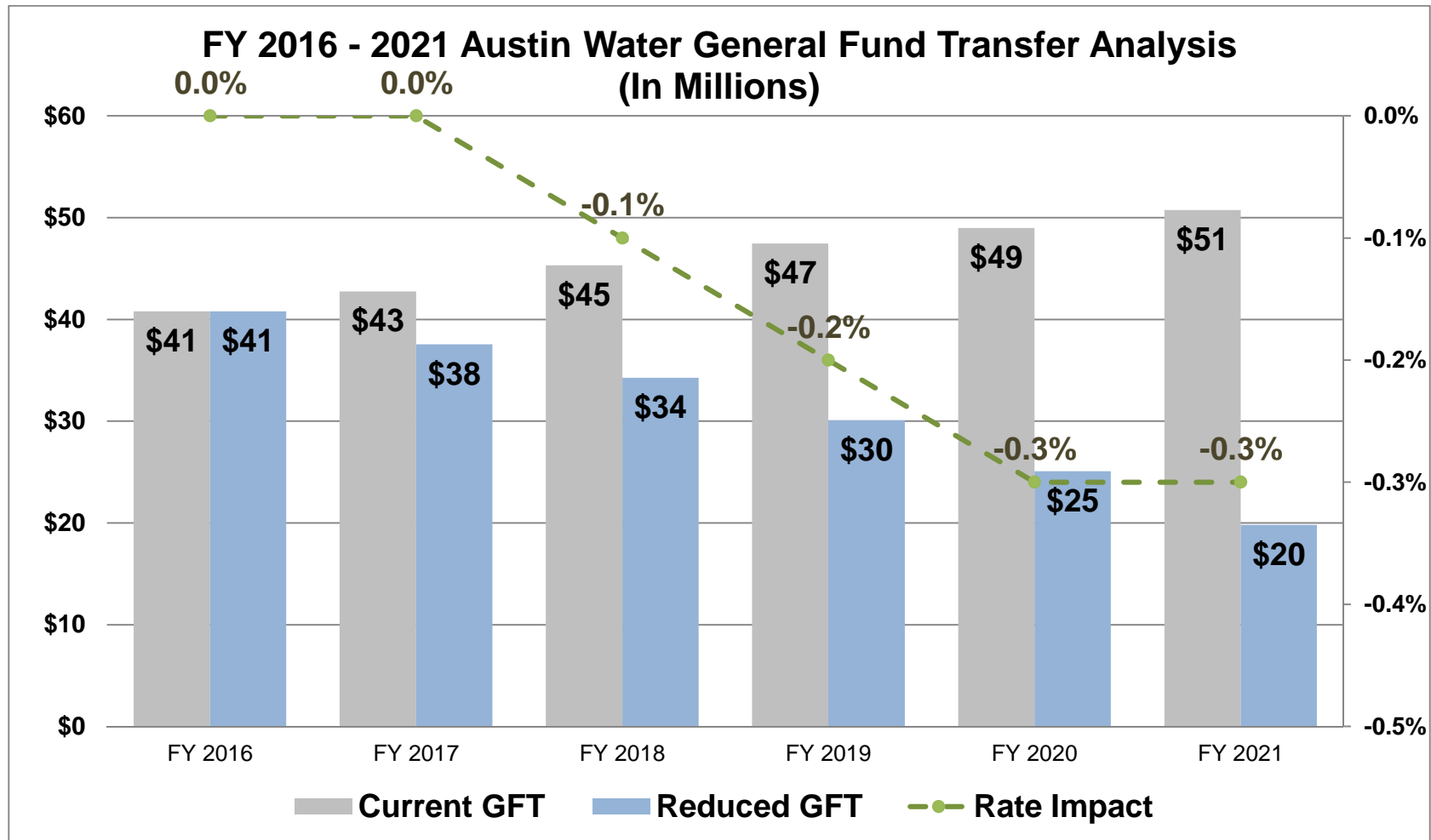
# Utility – Potential Impact

*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*

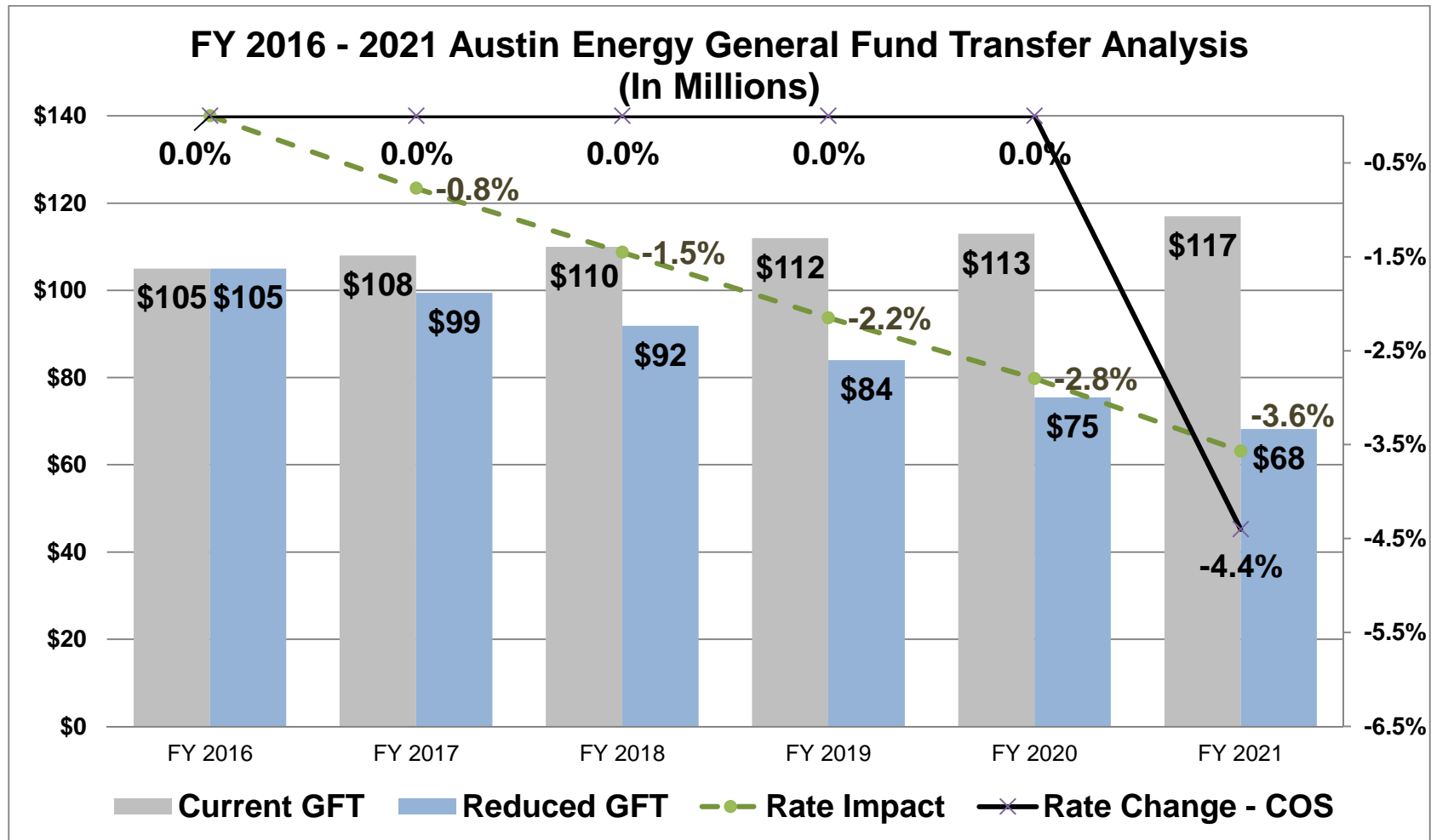


➤ Rate changes annually; cost of service updated periodically



# 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	Forecast				
		FY 2016	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
<b>Total GFT</b>	<b>A</b>	<b>\$ 145.8</b>	<b>\$ 150.7</b>	<b>\$ 155.2</b>	<b>\$ 159.4</b>	<b>\$ 162.0</b>	<b>\$ 167.7</b>

		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
<b>Total GFT</b>	<b>B</b>	<b>\$ 145.8</b>	<b>\$ 137.0</b>	<b>\$ 126.1</b>	<b>\$ 114.1</b>	<b>\$ 100.5</b>	<b>\$ 88.0</b>

		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*

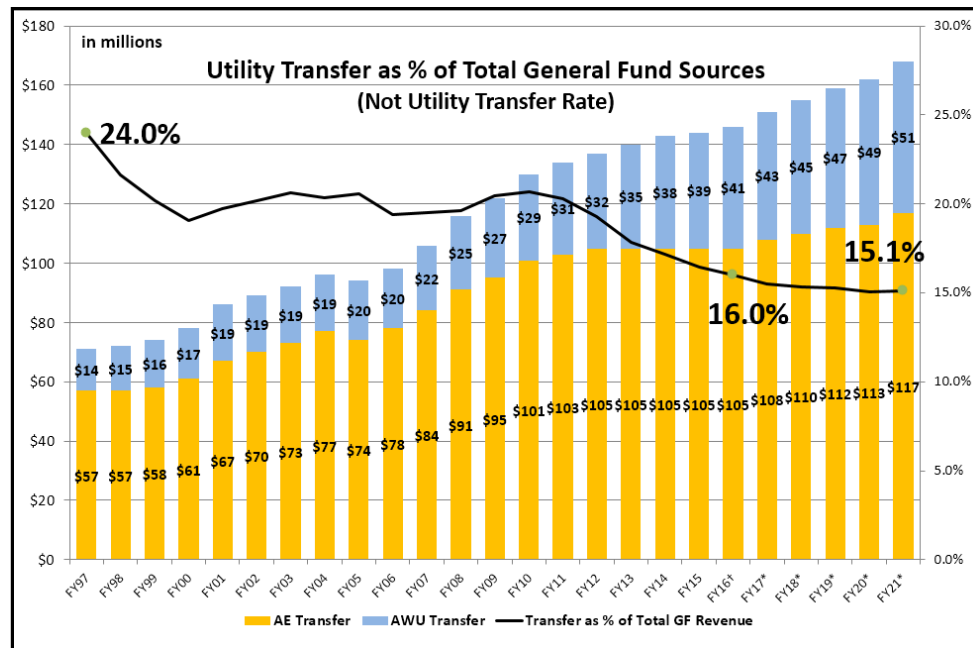
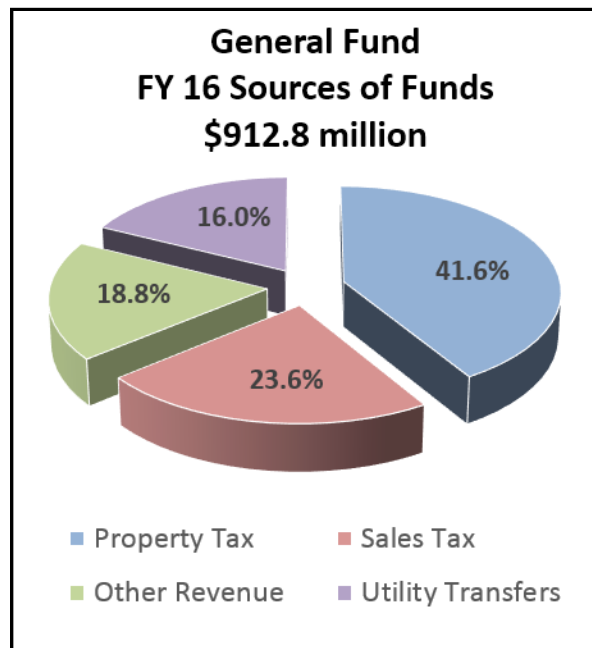
- General Fund has limited ability to add revenue sources to replace Utility transfer if reduced or eliminated
  - Most controllable revenue source is property tax; rollback limit
- Property tax rate over rollback rate likely needed to offset General Fund revenue loss if reduce Utility transfer
  - Forecast 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)**

	<b>FY 2013</b>	<b>FY 2014</b>	<b>FY 2015</b>	<b>Budget FY 2016</b>	<b>Forecast Allocation FY 2017</b>
<b>General Fund</b>	\$ -	\$ 1.280	\$ 2.099	\$ 3.397	\$ 4.670
<b>Austin Energy</b>	\$ 11.294	\$ 11.438	\$ 8.770	\$ 9.090	\$ 7.196
<b>Austin Water</b>	\$ -	\$ 0.615	\$ 1.149	\$ 2.011	\$ 2.813
<b>Austin Resource Recovery</b>	\$ -	\$ 0.088	\$ 0.160	\$ 0.306	\$ 0.453
<b>One Time Critical</b>	\$ -	\$ -	\$ 0.191	\$ -	\$ -
<b>TOTAL</b>	<b>\$ 11.294</b>	<b>\$ 13.421</b>	<b>\$ 12.368</b>	<b>\$ 14.804</b>	<b>\$ 15.131</b>

# 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

