ate Backup

Mayor Pro Tem Tovo,

On September 11, Council will have on its agenda an update of water and wastewater impact fees (capital recovery fees). As you know, in 2013 Council adopted new impact fees that, for the first time, recovered full costs for water and sewer capital improvements for new development. There is a lot of good news associated with that 2013 update, especially as opposed to the considerably lower, below-cost fees prior to that date. Those benefits to the community will continue with the current State-mandated update coming before you next month.

I was an impact fee professional for over 30 years. In fact, my first impact fee was for the City of Austin in 1984. I am well aware of the benefits of these fees, but I have never seen such a remarkable effect as has happened in Austin in only five years.

Quadrupling of Impact Fee Revenues. In the past, impact fee revenues were approximately $8M-$10M per year. In FY19, full-cost impact fees will result in approximately$35M in impact fee revenues, and will rise to $40M in the near future, ultimately amounting to roughly $300M in their first decade at full-cost levels.

Reduction of Annual Debt Service. Austin Water has used these revenues to defease debt. As a result, we had almost $45M less in our FY18 budget requirements than we would have had if we had not raised impact fees to full cost. (See attached "Total Debt Service Requirements Comparison 2016 to Current").

Avoiding Rate Increases. Staff uses a rule of thumb that every $5M in the budget is equivalent to a 1% change in rates. So FY18 rates would have been about 9% higher without the current impact fee program and the $45M reduction in debt service. That is an incredible amount of impact, especially after the difficult days of $100M losses and double digit rate increases during the drought.

Moreover, we have to charge much more in our rates than just the debt service itself. Because of bond covenants for revenue bonds, we have to recover "times coverage" in addition to debt service. Staff currently targets about 1.7 times coverage, meaning we included about 70% of debt service as anadditional amount in the rates in FY18. With the defeasances in place, AW saved customers another $31M (70% x $45M) in unnecessary times coverage, amounting to another 6% in rates for the current year.

So overall, AW residential rates would have been about 15% higher in FY18 if we had not been able to collect full-cost impact fees.

In fact, the recent mid-year decreases in rates were the direct result of growth paying for itself through full-cost impact fees.

Reduction in Debt as a Percentage of Budgeted Costs. Additionally, Austin Water has long been criticized for high levels of debt, amounting to 40%-42% of total budget requirements in recent years (not counting the additional times coverage requirements). As you can see in the attached chart "AW Debt Service Requirements as Percent of Total Requirements", impact fees are allowing debt service to drop to close to 25% of total requirements by FY23.

New Impact Fees; Conservation Effects. The new proposed impact fees will decrease for water (13%, to $4700 per living unit equivalent), andincrease for sewer (14%, to $2500), for an overall decrease of 5% for the two combined utilities.

One of the reasons for the lower water fee, according to Staff, is that years of customer conservation have resulted in fewer gallons needed for each living unit equivalent (LUE). That means that each LUE, or typical household, requires less water than in the past -- which makes the water impact fee smaller since it pays for fewer gallons per LUE than previously, and makes our facilities last longer before additional capacity will be needed.

I know Council Members have to deal with so many difficult policy choices, but I wanted to make sure that you knew that the Council decision back in 2013 has resulted in hugely beneficial effects for our customers -- now and in the future.