

**WATER & WASTEWATER COMMISSION
BUDGET COMMITTEE REPORT**

May 31, 2019

Overview

The Committee appreciates the opportunity to review Austin Water Utility's FY 2019-20 (FY20) budget material and provide the following summary to the Water and Wastewater Commission.

City Management restricts the release of the official budget prior to being presented to Council which is scheduled for August 2019. Therefore the following review and recommendations are based on budget information provided by Staff and not the "official" budget document that will be presented to City Council.

The Committee is confident that the information provided by Staff was thorough and representative of the official FY20 budget.

Budget Committee Members: Susan Turrieta, Chair
Travis Michel, Vice Chair
Jesse Penn
Christy Williams
Mia Parton

Budget Review

The Budget Committee reviewed the Utility's revenue and expenditure history and forecasts through FY24. The Committee also reviewed a draft of proposed modifications to the FY20 budget. All of this information is based on actuals as of May 15, 2019 and is subject to change with more current projections updates and possible directives from the Budget Office. The following items represent the key items reviewed and highlights of each.

1. FY 2018-19 (FY19) Budget
 - a. Budget vs Actual
 - i. Water revenues for FY19 are currently estimated to be 2.9% less than budgeted
 - ii. Water consumption FY19 (40B GAL) is estimated to be 3.6% less than budgeted.
 - b. FY19 is the first full year to reflect the 4.8% retail rate reduction implemented in June 2018.
 - c. The Community Benefit Charge which funds the discount for the Customer Assistance Program implemented in January of 2018 is showing sustainable results for funding the program.
2. Water and Wastewater Rates and Bill Impacts
 - a. FY20 - no rate increase
 - b. FY21 – no rate increase
 - c. FY22 - slight rate increase 2.4%
 - d. FY23 - no rate increase
 - e. FY24 – slight rate increase 2.1%
 - f. Reclaimed water rates will increase by 7.9% in FY20 to reduce burden on water operating fund
3. Reclaimed Water
 - a. FY19 is the first year reclaimed water funding support is provided solely by the water fund
4. Financial Forecast FY2020-24
 - a. Customer growth rates for single family customer class for FY20 are projected to increase by 1.2%. FY21-FY24 growth rate is expected to increase by 1.2% annually
 - b. Customer growth rates for multifamily are projected to increase 1.3% 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 FY20

- a. Taste and odor challenges have increased the budget for chemicals, equipment and services
- b. Flood mitigation has increased the budget for parts and equipment
- c. CIP reimbursement charges for AW employees working on CIP projects has decreased from prior years, which results in an increase in operating costs
- d. Wage enhancement costs (provided by budget office) have increased
- e. The Utility currently budgets for a vacancy rate of 5.6%. Due to a directive from the Budget Office the Utility is budgeting for 7.1% this year which is more representative of actual savings.
- f. Bio-solids Reuse fees are projected to decrease with new long term contract
- g. Electrical fees are projected to decrease due to better efficiencies with system operation
- h. Utility billing system support fees are projected to decrease

6. Debt Management

- a. The Utility continues to use capital recovery fees for debt defeasance
- b. Estimated reduction in debt service for FY19 is \$49.9M, which is a direct result of multi-year debt defeasance transactions that have occurred from 2016 to 2019.

7. 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 \$975.2M, 43% water, 53% wastewater, 4% reclaimed water

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 4th 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 FY20 budget and continued monitoring of the following throughout FY20.

- Continue to monitor the financial status of the Utility on a quarterly basis (through quarterly briefing and status reports).
- Evaluate the expansion of the reclaimed water system and rate structure, including any potential impacts on water and wastewater rates and water supplies.