

**WATER & WASTEWATER COMMISSION
BUDGET COMMITTEE REPORT**

APPROVED: JULY 15, 2020

Overview

The Committee appreciates the opportunity to review Austin Water Utility's FY 2020-2021 (FY21) budget material and provide the following summary to the Water and Wastewater Commission.**

Budget Committee Members: Susan Turrieta, Chair
Travis Michel, Vice Chair
Grant Fisher
William Moriarty
Jesse Penn

Budget Review Executive Summary

The ramifications of COVID 19 has and continues to impact the revenue stream of the water utility. The financial services program area is monitoring the situation and has adjusted the budget for the remainder of FY20 and the proposed FY21 to adapt to these unprecedented circumstances.

The stay at home and social distancing practices has caused an increase in residential revenue, and a decrease in multifamily and commercial revenue. With the most current available data (April and May of 2020), the financial staff has used a programmatic yet conservative approach to forecast revenue for the remainder of FY20 and adjust the proposed budget for FY21.

The FY20 forecast and FY21 budget also considers the additional onetime \$5,925,000 transfer to the customer assistance program that took place in FY20, and the 10% utility bill rate reduction that has been implemented from April-October 2020. However, Austin Water has proposed the extension of the CAP customer 10% rate reduction to blocks 1-3 for water and 1-2 for wastewater throughout FY21.

With the recent adjustments made to the revenue stream the utility is projected to still maintain adequate reserves and maintain a debt service coverage ratio that is within the industry standard.

As the COVID 19 situation is extremely dynamic and unpredictable it will be important for the Utility to consistently review, forecast and adjust and budget as we move forward in FY 2021.

Budget Review

The Budget Committee reviewed the Utility's revenue and expenditure history and forecasts through FY25. The Committee also reviewed a draft of proposed modifications to the FY21 budget. All of this information is based on actuals as of May, 2020 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 2019-20 (FY120) Budget

a. Budget vs Actual

- i. Water revenues for FY20 are currently estimated to be 0.38% less than budgeted
- ii. Water consumption FY20 (42.9B GAL) is estimated to be 0.08% less than budgeted.

Commercial class has been considerably impacted with revenue losses in April and May due to COVID-19, and CYE takes into consideration a percentage reduction step down approach that continues throughout FY21.

Currently utility has strong reserves above set goals. Debt service coverage is somewhat lower than anticipated but still acceptable for CYE at 1.72 and FY21 at 1.74.

2. Water and Wastewater Rates and Bill Impacts

- a. FY21 – no rate increase
- b. FY22 - no rate increase
- c. FY23 – 3.0% rate increase
- d. FY24 – no rate increase
- e. FY25 – 3.3% rate increase

3. Reclaimed Water

- a. Reclaimed water funding support continues to be provided by the water fund

4. Financial Forecast FY2021-25

- a. Customer growth rates for single family customer class for FY21 are projected to increase by 1.8%. FY21-FY24 growth rate is expected to increase by 1.2% annually
- b. Customer growth rates for multifamily are projected to increase 0.6% 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 FY21

- a. Increase in cash transfers for pay as you go CIP financing.
- b. Eighteen new full-time positions were included.
- c. 2% wage enhancement costs (provided by the budget office) were proposed.
- d. Balcones Canyon Preserve and Longhorn Dam operating costs are no longer being reimbursed by the General Fund.
- e. The AMI metering contract warranty and annual maintenance costs increased from FY20.
- f. The new On-site Reuse Incentive Grant was added.
- g. Increase in funding for building inspections, maintenance, and repairs.
- h. The General Fund transfer decreased
- i. City Administrative Support costs increased
- j. Decrease for debt service requirements was also included.

6. Debt Management

- a. The Utility continues to use capital recovery fees for debt defeasance
- b. Debt Service Coverage Ratio for FY 20 is estimated to be 1.72
- c. Debt Service Coverage Ratio for FY21 is forecasted to be 1.74
- d. Estimated reduction in debt service for FY20 is \$40.1M, which is a direct result of multi-year debt defeasance transactions that have occurred from 2016 to 2019.

7. CIP Spending Plan FY2021-25

- a. The Utility continues to manage debt by increasing cash funding of capital projects
- b. 5-year capital spending plan is \$970.9M, 39% water, 58% wastewater, 3% 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 5th 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 FY21 budget and continued monitoring of the following throughout FY21.

- 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.

****** *City Management restricts the release of the official budget prior to being presented to Council which is scheduled for July 2020. 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 FY21 budget.