



**WATER AND WASTEWATER COMMISSION RECOMMENDATION
20210804-D2**

Date: August 4, 2021

Subject: Budget Committee Report

Motioned By: Commissioner Michel

Seconded By: Commissioner Penn

Recommendation

See Attached Report

Description of Recommendation to Council

See Attached Report

Rationale:

The Committee appreciates the opportunity to review Austin Water Utility's FY 2018-19 (FY19) budget and provide recommendations for the Water and Wastewater Commission. The following review and recommendations are based on budget information provided by Staff and not the "official" budget document. This is due to City Management policy which restricts the release of the budget until it has been presented to Council. This delayed release does not allow the Committee sufficient time to thoroughly review the "official" document, and have recommendations posted for the Commission's regularly scheduled August meeting. The Committee is confident that the information provided by Staff was thorough and representative of the official FY19 budget.

Vote 7-0

For: Lee, Penn, Michel, Musgrove, Fisher, Turrieta, Moriarty

Against: 0

Abstain: 0

Absent: 2

Attest: Liaison

Blanca Madriz

Blanca Madriz, W&WW Commission Liaison

**WATER & WASTEWATER COMMISSION
BUDGET COMMITTEE REPORT**

APPROVED: August 4, 2021

Overview

The Committee appreciates the opportunity to review Austin Water Utility's FY 2021-2022 (FY22) 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

Austin Water Assistant Director of Financial Services, Joseph Gonzales and staff presented an FY 2020-2021 (FY 21) budget vs. actual update and an overview of 5-year forecast and FY 2021-2022 (FY 22) Proposed Budget, including revenue and rate projections, transfers, program requirements, debt service requirements, Austin Water's 5-year CIP spending plan and update on Winter Storm Uri financial impact.

As a recap of the FY21 budget, the planned FY 21 debt defeasance was postponed until early FY 22 due to market conditions. As a result, related capital recovery transfers to cover the debt defeasance were also postponed. In addition, there was a one-time \$5,000,000 transfer to the customer assistance program (CAP), and a 10% CAP rate reduction approved in April 2020 continued in FY 21 and will be maintained in FY22.

Austin Water has not proposed water or wastewater rate increase for FY22. The total requirements for FY22 have an increase over FY21 of \$32.7M and is driven primarily by a \$29.8M increase in transfers out for debt defeasance due to the deferral of the planned FY21 debt defeasance due to current market conditions.

Although the effects of COVID-19 continue to impact the revenue stream of the AW for the second budget cycle, the utility expects has maintained its strong financial condition throughout the pandemic and has forecasted \$15M revenue growth (2.7%) in FY22 driven by increased customer account growth and a modest economic recovery. With this growth and proposed modifications to the financial policy the utility is projected to maintain adequate reserves and maintain a debt service coverage ratio of 1.82x, well within the industry standard.

The proposed budget includes funding for 62 Full Time Employees (FTEs) supporting four Effective Utility Management (EUM) initiatives, water forward, customer service programs, strengthening physical security and administrative services. Under the EUM Infrastructure Strategy & performance initiative a \$2M net increase will be used to create the Austin Water Restoration Services Division to support this initiative. A more detailed look at the budget is included on the following pages.

Enterprise Resiliency has been an on-going strategic initiative at Austin Water, focused on enhancing emergency preparedness and responsiveness, developing operational resiliency for a range of emergent condition, and identifying and addressing natural hazards resulting from climate change. AW proactively identify, assess, and establish tolerance levels for a full range of operational risks that include interdependencies with other utility services; legal, regulatory, and financial considerations; vulnerability to environmental and natural disasters; cybersecurity threats; and the safety, capability, and knowledge transfer of key staff. This work is consistent with industry trends and system reliability goals.

While AW's winter storm after-action review process is on-going, the proposed FY2022 budget includes \$2.3 million of new operating funding and \$18.8 million of new capital program expenditures to support Austin Water's winter storm resiliency efforts. In addition, the proposed FY 22 budget includes \$9.7 million of ongoing operating funding and \$331.5 million of ongoing capital project funding to support AW's resiliency efforts. Austin Water anticipates the inclusion of additional winter storm resiliency recommendations either as FY 2021-22 budget amendments or as FY 2022-23 budget requests.

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 6th 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 FY22 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).

Overall Budget Summary

1. Projected \$15M revenue growth (2.7% increase) in FY22 driven by customer account growth and modest economic recovery.
2. Total budget increase over prior year of \$32.7M driven primarily by a \$29.8M increase in transfers out for defeasance. This includes the deferral of the planned FY21 debt defeasance due to market conditions.
3. Debt Management
 - a. The Utility continues to use capital recovery fees for debt defeasance.
 - b. Debt Service Coverage Ratio for FY22 is forecasted to be 1.82x.
 - c. Estimated reduction in debt service requirements for FY22 is \$29.8M.
4. 62 new FTEs - \$6.4M
 - a. Under the Effective Utility Management (EUM) initiative the proposed budget includes additional employees and funding for the following
 - i. Enterprise Resiliency (18 FTEs)
 - ii. Infrastructure Strategy and Performance (14 FTEs & \$2.8K)
 - iii. Customer Satisfaction (3 FTEs)
 - iv. Employee Leadership and Development (2 FTEs)
 - b. Additional initiatives and programs
 - i. Affordability/Finance (1 FTE & \$29.8M transfer to debt defeasance)
 - ii. My ATX Water (8 FTEs & \$250K customer portal)
 - iii. Water Forward (5 FTEs)
 - iv. Reducing Contracted Security Services (10 FTEs)
 - v. Administration/Support Services (1 FTEs)
5. Operations
 - a. \$1.4M increase in chemical costs
 - b. \$780K increase in computer hardware and software
 - c. \$305K increase in facilities HVAC services
6. Inter-departmental Transfers (\$3.8 M)
 - a. \$1.2M increase - Administration Support Transfer (8.5% increase)
 - b. \$1.1M increase - Capital Project Management Transfer (42% increase)
 - c. \$621K increase - Economic development transfer (23% increase)
 - d. \$581K increase - CTM Support Transfer (15% increase)
 - e. \$136K increase – Regional radio transfer (27% increase)

7. CIP Spending Plan FY2021-26

- a. The Utility continues to manage debt by increasing cash funding of capital projects
- b. 5-year capital spending plan is \$1.1B, 34% water, 63% wastewater, 3% reclaimed water

Water and Wastewater Rates

Water and Wastewater Rates and Bill Impacts FY22 - no rate increase

1. FY23 – no rate increase
2. FY24 – 3.2% rate increase
3. FY25 – no rate increase
4. FY26 - 3.0% rate increase

Financial Policy Update

AW continues to use capital recovery fees for debt defiance and has maintained an AA credit rating for the past five years. As AW continues to maintain its financial stability it has proposed the following financial policy revisions:

- a. AW proposed debt service coverage for FY 22 is 1.75x (current 1.50x)
- b. AW proposed days cash on hand for FY 22 is minimum of 180 days (current 60 days)
- c. Proposed cash financing of capital projects 35% min to 50% max (current minimum of 20%)
- d. Drinking Water Protection Zone revised to three public input opportunities at board and commission meetings (currently required to receive input from 5 boards and commissions and hold a City Council public hearing)