



**WATER AND WASTEWATER COMMISSION RECOMMENDATION
20230807 – 010**

Date: August 7, 2023

Subject: Budget Committee Report

Motioned By: Commissioner Chris Maxwell-Gaines Seconded By: Commissioner Jesse Penn

Recommendation

The Water and Wastewater Commission approved the attached Budget Committee Report. The Budget Committee Report recommends approval of the proposed Austin Water Fiscal Year 2023-2024 budget.

Description of Recommendation to Council

See Attached Report from the Water and Wastewater Commission's Budget Committee

Rationale:

The attached report outlines the Committee's review and recommendations, based on budget information provided by Austin Water staff and not the "official" budget document. Austin Water staff provided the information that was available at the time that the Budget Committee meetings were held.

Vote:

For: Vice-Chair Judy Musgrove, Commissioner Moriarty, Commissioner Alex Navarro, Commissioner Sam Angoori

Against: None

Abstain: None

Absent: Chair Susan Turrieta

Attest: Blanca Madriz, Water & Wastewater Commission Liaison

Blanca Madriz

WATER & WASTEWATER COMMISSION BUDGET COMMITTEE REPORT

Overview

The Committee appreciates the opportunity to review Austin Water's FY 2023-2024 (FY24) budget material and provide the following summary to the Water and Wastewater Commission.

Budget Committee Members: Susan Turrieta, Chair
Sam Angoori, Vice-Chair
Judy Musgrove
Christopher Maxwell- Gaines

Budget Review Executive Summary

Austin Water Assistant Director of Financial Services, Joseph Gonzales and staff presented an FY 2022-2023 (FY 23) budget vs. actual update and an overview of the 5-year forecast and the FY 2023-2024 (FY 24) Proposed Budget, including revenue and rate projections, transfers, program requirements, debt service requirements, and Austin Water's 5-year CIP spending plan. These items are highlighted below:

- Enterprise Resiliency - Austin Water (AW) continues to focus 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. The proposed FY 2024 budget includes \$22.2 million of operating funding, including \$4.0 million of funding to address External Review recommendations and \$426.2 million of ongoing capital project funding, including \$93.5 million in support of AW's resiliency efforts.
- Capital Plan – AW's 5-year (FY 2024 – FY 2028) capital plan is growing and has several large-range projects on the horizon. AW continues to focus on investments to build a resilient water future and customer value. The proposed budget includes a 5-year capital plan of \$1.86 billion with \$297.6 million in planned spending for FY 2024.
- Defeasance – In December 2022 (FY 2023) Austin Water conducted a bond debt defeasance transaction for a total of \$46.9M. The proposed FY 2024 budget includes a \$44 million debt defeasance transaction as part of AW's continued debt management efforts. Capital recovery fee (CRF) revenue is used for AW debt defeasance transactions.
- Rate Increase – AW's FY 2024 proposed budget includes a combined water and wastewater rate increase of 3.3% for residential customers. The proposed average monthly residential bill increases to \$2.65 per month or less than 9 cents per day and brings the average monthly bill impact to \$0.25 higher than the FY 2017 average monthly bill. AW proposed no rate increase for Customer Assistance Program (CAP) customers. Currently, the average monthly CAP bill is \$14.57 lower than the FY 2017 average monthly CAP bill.
- Economy - The utility has maintained its strong financial condition throughout the pandemic and current drought. AW has proposed \$31.8M in service revenue growth (5.2%) for FY 2024 driven by modest increases in customer rates, customer account growth and consumption, and increased interest income due to higher interest rates.
- Drought Preparedness – Austin's Drought Contingency Plan sets a trigger at certain storage levels at which the City Manager may order the implementation of different stages of conservation measures. Currently, Austin Water is at Stage 1 that was in effect as of June 6, 2022. This comes after a 3-year stretch at Conservation Stage, the lowest stage of Austin's Water Conservation Code. Drought Stage 2 restrictions are triggered when water storage levels reach 900,000 acre-feet. Customer water demand has been fairly stable since the 2010's drought, consequently AW does not expect a significant revenue impact for FY 2024 but continues to monitor the drought situation.

- Staffing - The proposed budget includes funding for 20 Full Time Employees (FTEs) to keep pace with customer growth while supporting Effective Utility Management (EUM) initiatives.

Conclusions and Recommendation

The Utility continues to maintain a stable financial outlook with the balance of debt service to CIP spending. The status of Austin Water with bond rating agencies is stable for the 8th consecutive year. The forecast and proposed budget 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 FY 2024 budget.

Overall Budget Summary

1. Projected \$31.8M revenue growth (5.2% increase) in FY24 driven by customer account growth and consumption.
2. \$64.0M increase in total requirements (9.3% increase) over prior year
3. Debt Management
 - a. The Utility continues to use capital recovery fees (CRF) for debt defeasance. AW's proposed budget includes \$39M in CRF cash and \$5M in Operating cash for a defeasance transaction in late fall or early winter of FY 2024.
 - b. Debt Service Coverage Ratio for FY24 is forecasted to be 1.8 times coverage.
4. 20 new FTEs - \$2.3M
 - a. The proposed budget includes additional employees and funding for the following initiatives:
 - i. Customer Satisfaction (1 FTEs)
 - ii. Enterprise Resiliency (9 FTEs)
 - iii. Reducing contracted services (5 FTEs)
 - iv. Infrastructure Strategy and Performance (1 FTEs)
 - v. My ATX Water (1 FTEs)
 - vi. Expedited Development Review (1 FTEs)
 - vii. Water Forward (1 FTE)
5. Operations
 - a. \$1.4M decrease in financial consultant services to support the upcoming rate filing
 - b. \$7.7M increase for employee recruiting and retention initiatives
 - c. \$6.6M increase in chemical costs
 - d. \$1.7M increase for janitorial services
6. Inter-departmental Transfers
 - a. \$4.2M increase – Utility Billing System Support (22.2% increase)
 - b. \$1.9M increase – General Fund Transfer (4.1% increase)
 - c. \$1.8M increase – CTM Support (45.1% increase)
 - d. \$0.5M increase – Capital Project Management transfer (11.5% increase)
7. CIP Spending Plan FY2024-28
 - a. 5-year capital spending plan is \$1.86B, 28% water, 69% wastewater, 3% reclaimed water
 - b. The Utility continues to manage debt by increasing cash funding of capital projects