

WATER & WASTEWATER COMMISSION BUDGET COMMITTEE REPORT

Overview

The Committee appreciates the opportunity to review Austin Water's FY 2024-2025 (FY25) budget material and provide the following summary to the Water and Wastewater Commission.

Budget Committee Members: Susan Turrieta, Chair
Judy Musgrove, Vice Chair
Marcela Tunon Sion

Budget Review Executive Summary

Austin Water Assistant Director of Financial Services, Joseph Gonzales and staff presented an update on Austin Water's five-year financial forecast and gave an update on the FY 2023-2024 (FY 24) budget vs. actual, and presented the FY 2024-2025 (FY 25) Proposed Budget. Staff also covered the recent cost of service study including revenue and rate projections, debt service management, and Austin Water's 5-year CIP spending plan. These items are highlighted below:

- 1) Enterprise Resiliency - Austin Water (AW) continues to focus on enhancing emergency preparedness and responsiveness, developing operational resiliency for a range of emergency conditions, and identifying and addressing natural hazards resulting from climate change. This is reflected in additional FTE's to cover various EUM attributes, and new funding for an infrastructure academy to address work force challenges.
- 2) Key financial performance indicators
 - a) Operating Budget – FY 2024 estimated budget is \$741.1 M, FY 2025 proposed budget is \$768.6 M.
 - b) Debt Coverage – FY 2024 estimated to be 1.88, FY 2025 is forecasted to be 1.91, well above AW's goal of 1.75.
 - c) Days Cash on Hand - FY 2024 estimated to be 313 days, FY 2025 is forecasted to be 312 days, above AW's goal of 245 days.
 - d) % Cash for CIP Spending – FY 2024 estimated to be 29.7%, FY 2025 is forecasted to be 27.8%, slightly under AW's goals of 35%.
- 3) Debt Management
 - a) The Utility continues to use capital recovery fees (CRF) for debt defeasance with \$60 M debt defeasance FY 2024.
 - b) CRFs are declining, net revenue FY 23 was \$30.7 M, net revenue as of March 2024 was \$15.4 M.
 - c) Other funding opportunities currently being utilized by AW include:
 - i) TWDB Low-interest loans to date of \$267 M.
 - ii) \$25 M SWIFT AMI new loan in fall of FY2025
 - iii) EPA WIFIA for Walnut Creek WWTP \$447 M; AW has been invited to apply for funding
 - d) AW's estimate of debt savings for FY 2024 is \$81.5M. includes \$20M in CRF cash and \$40M in Operating cash for a defeasance transaction in late fall or early winter of FY 2024.
 - e) AW's proposed budget for debt defeasance in FY 2025 is \$33M.
- 4) 29 new FTEs - \$3.4 M
 - a) The proposed budget includes additional employees. Seven of these positions will replace temporary or contract employees. The positions cover the following EUM categories:
 - i) Operational Optimization (10 FTEs)
 - ii) Infrastructure Performance (5 FTEs)
 - iii) Enterprise Resiliency (5 FTEs)

- iv) Customer Satisfaction (3 FTEs)
 - v) Employee Leadership and Development (3 FTEs)
 - vi) Facility Improvements (2 FTEs)
 - vii) Affordability (1 FTE)
- 5) Capital Plan – AW’s 5-year (FY 2025 – FY 2029) 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 \$2.3 billion.
- 6) Cost of Service – AWU has recently completed a Cost of Service study. The study included recommendations that focused on affordability for basic services, water conservation, and system resiliency. For water rates this included lower percent increases for the first two tiers and higher rate increases for tiers 3-5. For wastewater maintaining 30% cash financing on CIP except for 20% for Walnut Creek WWTP upgrades.
- 7) Go Purple – Community Benefit Charge (CBC) increase from \$0.15 to \$0.30.
- 8) Rate Increase – AW had a rate reduction in FY 2018 followed by 5 years of zero rate increases. AW’s FY 2025 proposed budget includes a combined water and wastewater rate increase of 9.6% for residential customers. The proposed average monthly residential bill increases by \$8.14 per month. AW maintained a 48.9% rate reduction for the Customer Assistance Program (CAP) customers. To align the rate structure with maintenance and capital improvement costs by 2029 the following system-wide rate increases averaging 6% annual rate increase over a 5 year period are proposed.
- a) FY 2025 9.5%
 - b) FY 2026 9.8%
 - c) FY 2027 6.9%
 - d) FY 2028 5.3%
 - e) FY 2029 0%
- 9) Economy - The utility continues to maintain strong financial metrics. FY 2023 ended with \$644.8 M in total revenue. As of March 2024, revenues are \$5.1 M above budget. AW’s proposed revenue budget of \$705M for FY25 includes rate increases based on Cost of Service results and modest increases customer account growth and consumption, and increased interest income due to higher interest rates.

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 9th 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 2025 budget.