

**AUSTIN WATER COST OF SERVICE RATE STUDY  
WHOLESALE INVOLVEMENT COMMITTEE  
OCTOBER 5, 2016 – 9:30 A.M.  
WALLER CREEK CENTER – ROOM #104  
625 E. 10<sup>TH</sup> STREET, AUSTIN, TEXAS**



## **AGENDA**

For more information, please visit <http://www.austintexas.gov/department/2016-cost-service-rate-study>

**MISSION:** The purpose of the Wholesale Involvement Committee (WIC) is to examine the methodology being developed to determine cost of service for all customer classes with a primary focus on the wholesale customer classes, discuss the impacts of key cost of service factors, and advise the Austin Water Executive Team in their decision-making process.

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**MEETING GOAL:** Introduction to Austin Water's revenue requirements and discussion of retail and wholesale cost of service methodologies.

### **CALL TO ORDER**

#### **1. CITIZEN COMMUNICATION**

The first 10 speakers signed up prior to the meeting being called to order will each be allowed a three-minute allotment to address their concerns regarding items not posted on the agenda.

#### **2. DISCUSSION ITEMS**

- a. WIC Meeting 1 Review
- b. Austin Water's Revenue Requirements

#### **3. STAFF BRIEFINGS, PRESENTATIONS, AND OR REPORTS**

- a. Introduction to Austin Water's Revenue Requirements
- b. Cost of Service Methodologies

#### **4. SCHEDULE DISCUSSION**

- a. Meeting Schedule

#### **5. COMMITTEE DISCUSSION**

- a. WIC Member Questions and Discussion

#### **6. PUBLIC COMMENT**

#### **7. FUTURE AGENDA ITEMS**

#### **8. ADJOURN**



# PRESENTATION



# PRESENTATION



# PRESENTATION



# PRESENTATION

# CITY OF AUSTIN

## Revenue Requirements WIC Meeting #2 / October 5, 2016



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## TODAY'S WIC MEETING

1. Welcome
2. Citizen Comment (Standard Format – 3 Min)
3. Executive Team Recap
4. WIC comments from the last meeting
5. Revenue requirement presentation
6. Summary of today's meeting and look ahead
7. WIC and Public Comments
8. Adjourn

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# CITIZEN COMMENT

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# EXECUTIVE TEAM RECAP

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# WIC COMMENTS FROM LAST MEETING

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# REVENUE REQUIREMENTS PRESENTATION

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# REVENUE REQUIREMENTS

- Revenue Requirements = Costs
  - The **revenue** that must be generated from utility rates
  - The **costs** that must be paid by utility rates

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# GROSS REVENUE REQUIREMENT

- Total utility costs **before** subtracting miscellaneous sources of non-rate revenue:
  - Interest income
  - System Development Charges
  - Miscellaneous fees and charges

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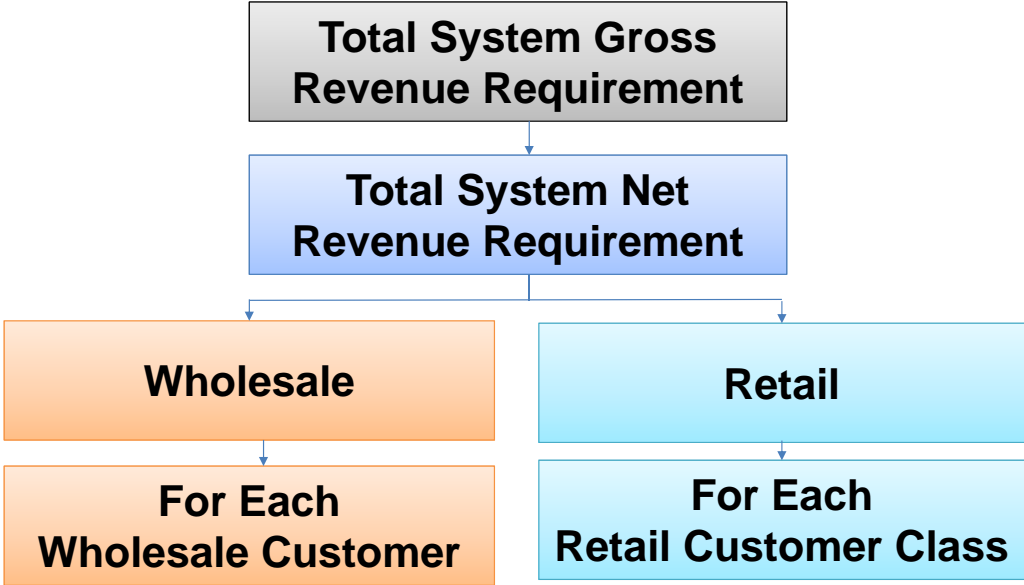
# NET REVENUE REQUIREMENT

- Net utility costs ***after*** subtracting miscellaneous sources of non-rate revenue

Gross Revenue Requirement
- Miscellaneous Non-Rate Revenue
= Net Revenue Requirement

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# OUTCOME OF THE COST OF SERVICE PROCESS



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# REVENUE REQUIREMENT METHODS

Component	Cash Basis	Utility Basis
<b>Operating Expenses</b>	+ O&M Expenses	+ O&M Expenses
<b>Capital Costs</b>	+ Debt Service Payments + Cash Funded Capital Expenditures +/- Change in Cash Reserve Balances	+ Depreciation Expense on Rate Base Assets  + Rate of Return on Rate Base
<b>Revenue Requirement</b>	<b>= Revenue Requirement</b>	<b>= Revenue Requirement</b>

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# CASH BASIS OVERVIEW

Cash Basis	Comments
+ O&M Expense	Traditionally used by local government utilities  Direct reflection of actual cash outflows for both operating and capital costs  When a municipal utility services outside city customers, can complicate the allocation of capital costs
+ Debt Service Payments	
+ Cash Funded Capital Expenditures	
+/- Change in Cash Reserve Balances	
<b>= Revenue Requirement</b>	

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# UTILITY BASIS OVERVIEW

Utility Basis	Comments
+ O&M Expense	Used by state public utility commissions for investor owned utilities (IOUs)
+ Depreciation Expense on Rate Base	
+ Rate of Return on Rate Base	
<b>= Revenue Requirement</b>	Explicit recognition of the “return of” and “return on” invested capital  Often used by municipal utilities that provide outside city service. Allows inside city customers to earn a rate of return

## UTILITY BASIS: DEFINITION OF RATE BASE ASSETS

- Utility assets that are “used and useful”
- Construction work-in-progress (CWIP) may be included in rate base
- Cash working capital allowance included in rate base
- Net book value: original cost less accumulated depreciation

## UTILITY BASIS: RATE BASE DETERMINATION

+ Gross Book Value of “Used and Useful” Assets  
- Accumulated Depreciation

= Net Book Value of “Used and Useful” Assets

+ Allowance for Cash Working Capital

= Rate Base

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## UTILITY BASIS: RECOVERY OF INVESTED CAPITAL

- **Return of** Invested Capital
  - Depreciation expense on “Used and Useful” assets
- **Return on** Invested Capital
  - Rate Base x Rate of Return = Return on Rate Base

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## UTILITY BASIS: RATE OF RETURN ON RATE BASE

- The rate of return is frequently, ***but not always***, based on a utility's weighted average cost of capital

Hypothetical Example				
Capital	\$M	%	Capital Cost	Weighted Cost
Debt	\$120	60%	4.0%	2.4%
Equity	\$80	40%	8.0%	<u>3.2%</u>
Return on Rate Base				5.6%

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## UTILITY BASIS: COST OF EQUITY

- Hotly debated in IOU rate cases before state PUCs
- Can be estimated using traditional corporate finance techniques:
  - Discounted Cash Flow Analysis (Gordon's Model)
  - Capital Asset Pricing Model
  - Arbitrage Pricing Theory
  - Cost of Debt + Risk Premiums

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## UTILITY BASIS: FOR MUNICIPAL UTILITIES

- Conceptual justification for outside city service:
  - Inside city customers, are the “owners” of the utility system – similar shareholders of an IOU
  - Inside city customers “front the money” for the cost of outside city assets
  - Inside city customers do not earn a return on, or recovery of, outside city assets until they are placed in service

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## UTILITY BASIS FOR MUNICIPAL UTILITIES

- Conceptual justification for outside city service:
  - Utility basis allows for explicit recognition of inside city customer opportunity costs and risk of stranded assets
  - Determining the appropriate return on equity (ROE) remains a challenge

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# REVENUE REQUIREMENT DETERMINATION

## **Step #1:** Net Total System Revenue Requirement

### **Step #2:** Costs Assigned to Functions

- Supply
- Treatment
- Storage
- Pumping
- Transmission
- Distribution
- Collection
- Conveyance
- Pumping
- Treatment
- Biosolids Handling

### **Step #3:** Functionalized Costs Identified as Specific or Joint

- Retail Only
- Wholesale Only
- Common-to-All

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# REVENUE REQUIREMENT DETERMINATION

## **Step #4:** Functionalized Costs Assigned to Demand Parameters

- Base
- MD
- MH
- Volume
- BOD
- TSS

## **Step #5:** Calculate System Unit Cost for Each Demand Parameter

- Base Cost / Base Units = Base Unit Cost
- MD Cost / MD Units = MD Unit Cost
- MH Costs / MH Units = MH Unit Cost

## **Step #6:** Calculate Customer Class Revenue Requirement

- Base Unit Cost x Customer Base Units = Base Revenue Requirement
- MD Unit Cost x Customer MD Units = MD Revenue Requirement
- MH Unit Cost x Customer MH Units = MH Revenue Requirement
- **Total Customer Revenue Requirement**

# REVENUE REQUIREMENT DETERMINATION

## Cash Basis Revenue Requirement Outcome

Sum of Wholesale Customer and Retail Customer Class Revenue Requirements

*Equals*

Total System Revenue Requirement (Retail & Wholesale)

## Utility Basis Revenue Requirement Outcome

Total System Revenue Requirement (Retail & Wholesale)

*Less*

Sum of Wholesale Customer Revenue Requirements

*Equals*

Net Residual Retail Revenue Requirement

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## Austin Water Budget/Finance Overview

Joseph Gonzales, Utility Budget & Finance Manager





## AUSTIN WATER BUDGET – COMBINED OPERATING FUNDS

### Combined Operating Budget Fund Summary

	Budget 2012-13	Budget 2013-14	Budget 2014-15	Budget 2015-16	Budget 2016-17
BEGINNING BALANCE:	\$72,644,788	\$51,961,386	\$43,912,225	\$77,405,715	\$134,661,011
REVENUES:					
Water Services	\$254,546,799	\$270,680,736	\$276,728,685	\$277,632,006	\$291,381,890
Wastewater Services	\$231,798,910	\$244,539,902	\$237,271,961	\$255,115,283	\$271,521,805
Reclaimed Services	\$1,431,331	\$869,197	\$1,180,228	\$1,770,107	\$2,505,414
Revenue Stability Fee	\$5,666,667	\$0	\$0	\$0	\$0
Reserve Fund Surcharge	\$3,809,300	\$6,551,876	\$7,304,753	\$7,204,421	\$7,295,119
Other Revenue	\$9,645,533	\$8,607,055	\$7,003,200	\$7,085,398	\$7,439,455
Transfers In	\$7,020,582	\$13,660,582	\$11,660,582	\$22,031,013	\$23,995,013
TOTAL REVENUES & TRANSFERS:	\$513,919,122	\$544,909,348	\$541,149,409	\$570,838,228	\$604,138,696
REVENUE REQUIREMENTS					
Operating Requirements	\$172,902,876	\$189,661,593	\$177,114,412	\$182,798,111	\$197,147,218
Other Requirements	\$19,896,098	\$17,735,379	\$16,101,278	\$19,437,433	\$22,459,831
Debt Service	\$204,265,787	\$214,295,903	\$213,921,776	\$199,878,795	\$205,123,180
Transfers Out	\$124,087,816	\$117,064,329	\$102,592,069	\$134,394,625	\$146,840,134
TOTAL REVENUE REQUIREMENTS:	\$521,152,577	\$538,757,204	\$509,729,535	\$536,508,964	\$571,570,363
NET REVENUES AND REQUIREMENTS:	(\$7,233,455)	\$6,152,144	\$31,419,874	\$34,329,264	\$32,568,333
ENDING BALANCE:	\$65,411,333	\$58,113,530	\$75,332,099	\$111,734,979	\$167,229,344

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## AUSTIN WATER BUDGET – WATER OPERATING FUND

### Water Operating Budget Fund Summary

	Budget 2012-13	Budget 2013-14	Budget 2014-15	Budget 2015-16	Budget 2016-17
BEGINNING BALANCE:	\$55,132,595	\$23,988,351	\$14,652,369	\$29,748,765	\$62,508,631
REVENUES:					
Water Services	\$254,546,799	\$270,680,736	\$276,728,685	\$277,632,006	\$291,381,890
Revenue Stability Fee	\$5,666,667	\$0	\$0	\$0	\$0
Reserve Fund Surcharge	\$3,809,300	\$6,551,876	\$7,304,753	\$7,204,421	\$7,295,119
Other Revenue	4,621,473	4,329,173	3,075,400	3,242,536	3,309,994
Transfers In	3,150,291	6,150,291	6,450,291	11,063,291	15,064,291
TOTAL REVENUES & TRANSFERS:	\$271,794,530	\$287,712,076	\$293,559,129	\$299,142,254	\$317,051,294
REVENUE REQUIREMENTS					
Operating Requirements	\$92,742,600	\$102,349,149	\$94,776,887	\$96,412,317	\$103,663,501
Other Requirements	\$13,067,895	\$13,287,187	\$11,814,596	\$14,044,869	\$14,146,227
Debt Service	98,640,591	108,492,572	112,509,716	103,466,252	109,112,808
Transfers Out	85,499,161	54,717,296	51,473,222	71,798,441	78,385,055
TOTAL REVENUE REQUIREMENTS:	\$289,950,247	\$278,846,204	\$270,574,421	\$285,721,879	\$305,307,591
NET REVENUES AND REQUIREMENTS:	(\$18,155,717)	\$8,865,872	\$22,984,708	\$13,420,375	\$11,743,703
ENDING BALANCE:	\$36,976,878	\$32,854,223	\$37,637,077	\$43,169,140	\$74,252,334

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## AUSTIN WATER BUDGET – WASTEWATER OPERATING FUND

### Wastewater Operating Budget Fund Summary

	Budget 2012-13	Budget 2013-14	Budget 2014-15	Budget 2015-16	Budget 2016-17
BEGINNING BALANCE:	\$17,030,178	\$28,436,905	\$27,939,941	\$47,094,966	\$71,459,834
REVENUES:					
Wastewater Services	\$231,798,910	\$244,539,902	\$237,271,961	\$255,115,283	\$271,521,805
Other Revenue	5,020,296	4,277,328	3,927,000	3,841,488	4,124,390
Transfers In	1,950,291	3,750,291	3,150,291	7,567,722	5,530,722
TOTAL REVENUES & TRANSFERS:	\$238,769,497	\$252,567,521	\$244,349,252	\$266,524,493	\$281,176,917
REVENUE REQUIREMENTS					
Operating Requirements	\$79,884,625	\$86,944,135	\$81,961,528	\$85,975,872	\$93,043,160
Other Requirements	\$6,827,261	\$4,446,663	\$4,285,387	\$5,388,251	\$8,312,658
Debt Service	102,652,048	101,941,711	98,815,606	93,650,448	93,805,347
Transfers Out	38,151,036	61,402,498	49,749,542	60,516,796	66,191,970
TOTAL REVENUE REQUIREMENTS:	\$227,514,970	\$254,735,007	\$234,812,063	\$245,531,367	\$261,353,135
NET REVENUES AND REQUIREMENTS:	\$11,254,527	(\$2,167,486)	\$9,537,189	\$20,993,126	\$19,823,782
ENDING BALANCE:	\$28,284,705	\$26,269,419	\$37,477,130	\$68,088,092	\$91,283,616

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## AUSTIN WATER BUDGET – RECLAIMED OPERATING FUND

### Reclaimed Operating Budget Fund Summary

	Budget 2012-13	Budget 2013-14	Budget 2014-15	Budget 2015-16	Budget 2016-17
BEGINNING BALANCE:	\$482,015	(\$463,870)	\$1,319,915	\$561,984	\$692,546
REVENUES:					
Reclaimed Services	\$1,431,331	\$869,197	\$1,180,228	\$1,770,107	\$2,505,414
Other Revenue	3,764	554	800	1,374	5,071
Transfers In	1,920,000	3,760,000	2,060,000	3,400,000	3,400,000
TOTAL REVENUES & TRANSFERS:	\$3,355,095	\$4,629,751	\$3,241,028	\$5,171,481	\$5,910,485
REVENUE REQUIREMENTS					
Operating Requirements	\$275,651	\$368,309	\$375,997	\$409,922	\$440,557
Other Requirements	\$942	\$1,529	\$1,295	\$4,313	\$946
Debt Service	2,973,148	3,861,620	2,596,454	2,762,095	2,205,025
Transfers Out	437,619	944,535	1,369,305	2,079,388	2,263,109
TOTAL REVENUE REQUIREMENTS:	\$3,687,360	\$5,175,993	\$4,343,051	\$5,255,718	\$4,909,637
NET REVENUES AND REQUIREMENTS:	(\$332,265)	(\$546,242)	(\$1,102,023)	(\$84,237)	\$1,000,848
ENDING BALANCE:	\$149,750	(\$1,010,112)	\$217,892	\$477,747	\$1,693,394

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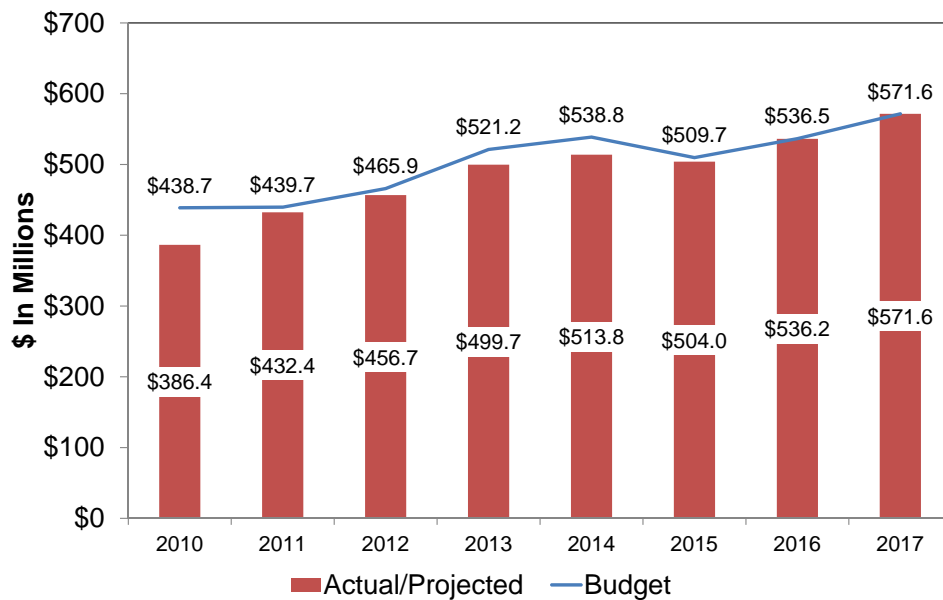
## BUDGET SUMMARY

- Reference: Fund Summary
  - By Utility Fund
- Reference: Line Item Description

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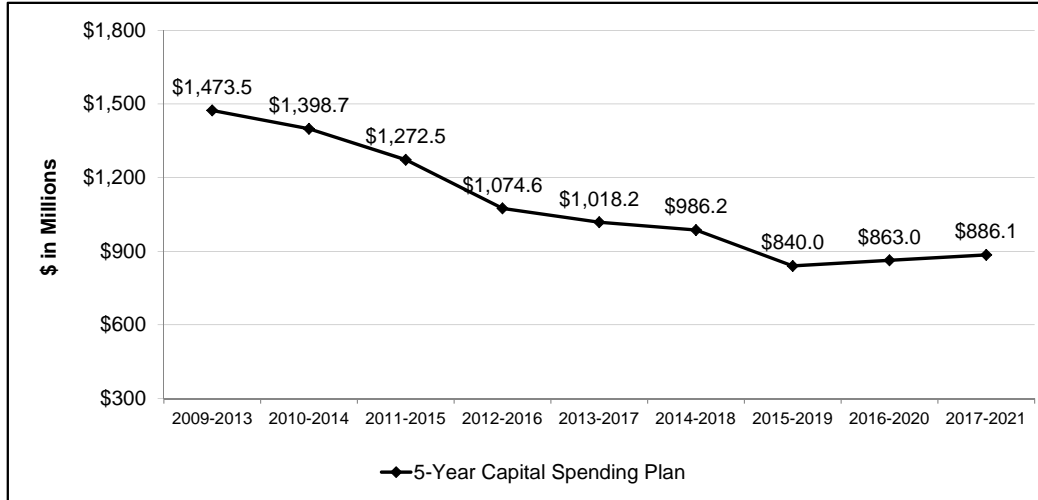
## BUDGETED REQUIREMENTS HISTORICAL COMPARISON



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## 5-YEAR CAPITAL SPENDING PLAN HISTORICAL COMPARISON

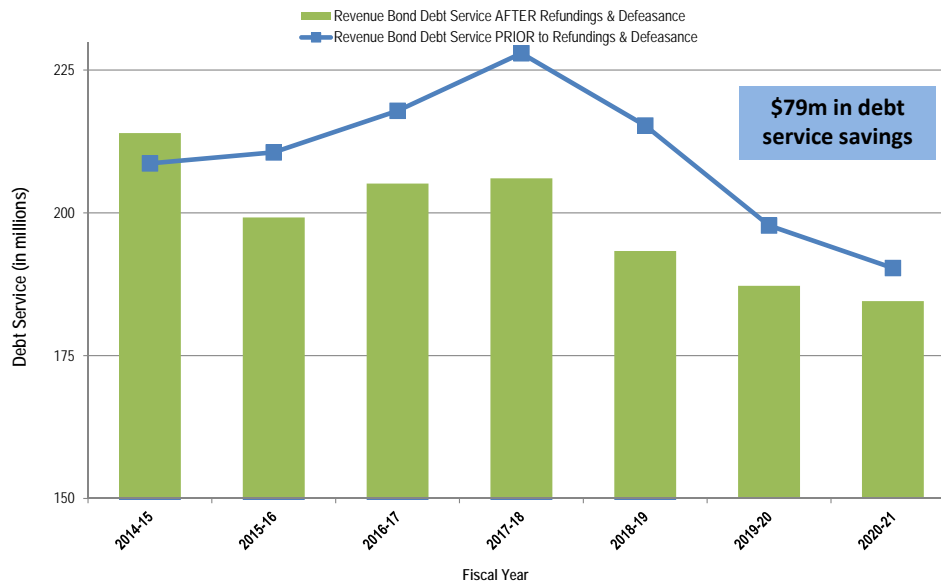


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## DEBT SERVICE MANAGEMENT

### Debt Service Requirements, After and Prior to Refundings & Defeasance (existing debt only)



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## AUSTIN WATER FINANCIAL POLICIES

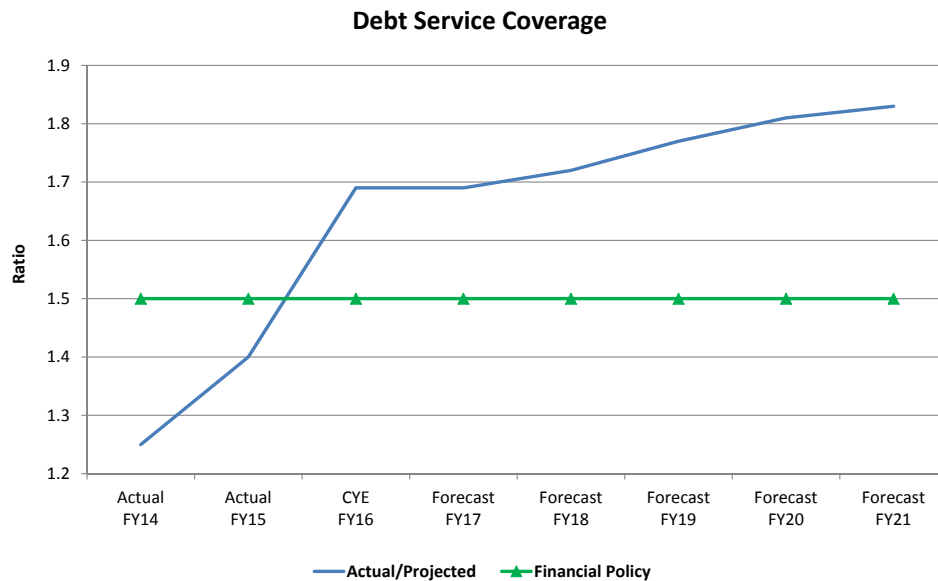
- Debt Service Coverage
  - DSC of at least 1.50 should be targeted
- Operating Cash Reserves
  - Minimum of 60 days of budget O&M
- Capital Project Cash Funding
  - Pay-as-you-go cash funding of at least 20%
- General Fund Transfer
  - 8.2% of three year average of total revenue
- Revenue Stability Reserve Fund
  - Surcharge to build reserve of 120 days of O&M

Reference: Fitch Ratings report for 2014 and 2016

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## DEBT SERVICE COVERAGE



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## OPERATING CASH/RESERVES

OPERATING CASH/RESERVES (In Millions)	Actual	Actual	CYE	Forecast				
	2014	2015	2016	2017	2018	2019	2020	2021
Operating Cash – Combined	\$ 21.8	\$ 51.8	\$ 101.5	\$ 111.2	\$ 146.6	\$ 190.4	\$ 239.1	\$ 290.1
Water Reserve Fund (Cumulative)	\$ 11.3	\$ 18.3	\$ 26.6	\$ 35.9	\$ 45.2	\$ 48.7	\$ 51.1	\$ 53.2

### Days of O&M

Operating Cash (Combined)	35	85	168	172	214	260	312	363
Reserve Fund Cash (Water)	32	56	80	101	120	121	122	121
<b>Total</b>	<b>67</b>	<b>141</b>	<b>248</b>	<b>273</b>	<b>334</b>	<b>381</b>	<b>434</b>	<b>484</b>

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# PUBLIC UTILITY COMMISSION

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# AUSTIN WATER AGREEMENT WITH PUBLIC UTILITY COMMISSION OF TEXAS

DESCRIPTION	STATUS/RESULT
Sustainability Fund Transfer	Budget Reduction
Economics Incentives Reserve Fund	Budget Reduction
PARD CIP	Budget Reduction
Environmental Remediation Fund Transfer	Budget Reduction
Land Management Division	100% Retail Allocation
Balcones Canyonland Preserve	Budget Reduction
Reicher Ranch (O&M)	100% Retail Allocation
Bad Debt Expense	100% Retail Allocation
Accounts Receivable Leak Adjustment	100% Retail Allocation
Revenue Stability Reserve Fund	100% Retail Allocation
Public Improvement District	100% Retail Allocation

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# AUSTIN WATER AGREEMENT WITH PUBLIC UTILITY COMMISSION OF TEXAS

DESCRIPTION	STATUS/RESULT
Eliminate Chief Sustainability Officer	100% Retail Allocation
311 System Support	Budget Reduction
Radio Communication Fund	100% Retail Allocation
AFD Transfer for hazmat prevention	Budget Reduction
APD Transfer for Homeland Security	Budget Reduction
Lobbyist - Legislature	100% Retail Allocation
One-Stop Shop	100% Retail Allocation
City Hall Water Feature	100% Retail Allocation
Reicher Ranch (Capital)	100% Retail Allocation
Development of Allocation Factor T&D Costs	Change in Allocation percentage
Austin Youth River Watch	Budget Reduction

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## PUBLIC UTILITY COMMISSION OF TEXAS

### PUCT WHOLESALE REVENUE REQUIRMENT DISALLOWANCES (PUC Docket No. 42857)

1. General fund transfer
2. Rate case expenses
3. Reclaimed water system (capital & O&M costs)
4. Drainage fees
5. Reclassification of SWAP and commercial paper costs from capital to operating expense
6. Allocation of O&M expenses to reclaimed water
7. Depreciation

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## PUBLIC UTILITY COMMISSION OF TEXAS

### PUCT WHOLESALE REVENUE REQUIRMENT DISALLOWANCES (PUC Docket No. 42857)

8. Green Water treatment plant capital costs
9. Revenue Stability Reserve Funds
10. Barton Springs/Edwards Aquifer Conservation District
11. Govalle Wastewater Treatment Plant (capital & O&M costs)
12. Utility-wide contingency
13. Water Treatment Plant No. 4
14. Green Choice electricity

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## MOVING FORWARD – KEY REVENUE REQUIREMENT ISSUES

- Cash Basis vs. Utility Basis Revenue Requirement Methodology
  - Seeking PUCT Input
- Development of a revised cost allocation approach
  - Comparison of FY 2017 rates using current cost allocations vs. revised cost allocations

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## SUMMARY AND LOOK AHEAD

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# RECAP OF TODAY'S DISCUSSION

I. Executive Team Recap

II. Comments from Last WIC Meeting

III. Revenue Requirements

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## WIC MEETINGS – SCHEDULE & TOPICS

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<u>Meeting</u>	<u>Day</u>	<u>Date</u>	<u>Objective</u>
1	Tues	27-Sep	Orientation
2	Wed	5-Oct	Revenue requirements
3	Tues	8-Nov	Revenue requirements - Cont'd
4	Tues	13-Dec	Wholesale Cost Allocation and Impacts
5	Tues	17-Jan	Overview of Results and Wrap-up
6	Tues	21-Feb	Overview of Results and Wrap-up (If needed)

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# **PUBLIC COMMENT**

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# **ADJOURN**

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**THANK  
YOU**



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[www.raftelis.com](http://www.raftelis.com)



# Fund Summary | WIC



# Fund Summary | WIC



# Fund Summary | WIC



# Fund Summary | WIC

# All Funds

	2012-13 ACTUAL	2013-14 ACTUAL	2014-15 ACTUAL	2015-16 ESTIMATED	2016-17 APPROVED
<b>BEGINNING BALANCE</b>	72,928,463	58,187,038	52,261,960	81,483,019	134,661,011
<b>REVENUE</b>					
Water/Wastewater Revenue	470,279,070	472,467,659	505,421,788	559,404,125	572,704,228
Other Revenue	6,682,914	7,269,839	12,360,671	5,594,672	5,471,824
Interest	227,270	116,059	234,735	850,667	656,731
Public Health Licenses, Permits, Inspections	495,263	566,397	679,764	546,058	556,300
Other Fines	1,050	335,555	790,675	561,025	371,200
Miscellaneous Franchise Fees	149,025	167,506	189,803	145,144	147,300
Building Rental/Lease	214,200	251,963	135,770	127,670	127,700
Land & Infrastructure Rental/Lease	60,500	71,500	60,500	68,462	68,500
Scrap Sales	76,745	52,310	35,486	39,116	39,900
Development Fees	0	0	2,090	2,016	0
Property Sales	57,302	38,642	37,951	0	0
<b>Total Revenue</b>	<b>478,243,338</b>	<b>481,337,430</b>	<b>519,949,234</b>	<b>567,338,955</b>	<b>580,143,683</b>
<b>TRANSFERS IN</b>					
CIP	4,800,000	9,600,000	9,300,000	18,200,000	20,164,000
Austin Water Utility	1,920,000	3,760,000	2,060,000	3,400,000	3,400,000
Support Services/Infrastructure Funds	300,582	300,582	300,582	300,582	300,582
Austin Resource Recovery Fund	0	0	0	130,431	130,431
General Fund	0	11,199,856	0	0	0
Other Funds	139,892	0	0	0	0
<b>Total Transfers In</b>	<b>7,160,474</b>	<b>24,860,438</b>	<b>11,660,582</b>	<b>22,031,013</b>	<b>23,995,013</b>
<b>TOTAL AVAILABLE FUNDS</b>	<b>485,403,812</b>	<b>506,197,868</b>	<b>531,609,816</b>	<b>589,369,968</b>	<b>604,138,696</b>
<b>PROGRAM REQUIREMENTS</b>					
Treatment	75,471,948	74,446,695	71,972,224	78,636,294	77,716,518
Pipeline Operations	38,220,351	40,681,224	40,123,773	41,415,705	44,566,176
Support Services	20,752,598	22,230,549	21,827,588	23,503,109	25,836,064
Other Utility Program Requirements	27,366,197	14,300,061	9,771,500	11,156,073	15,485,000
Environmental Affairs & Conservation	10,917,591	11,721,102	10,302,354	10,888,086	12,009,453
Engineering Services	9,141,844	13,445,506	11,678,093	10,102,151	11,864,771
Water Resources Management	6,929,672	4,719,487	4,634,621	7,258,614	8,591,611
One Stop Shop	653,503	558,093	599,703	652,537	723,634
Reclaimed Water Services	299,280	314,442	339,436	375,185	416,789
<b>Total Program Requirements</b>	<b>189,752,982</b>	<b>182,417,158</b>	<b>171,249,292</b>	<b>183,987,754</b>	<b>197,210,016</b>
<b>OTHER REQUIREMENTS</b>					
Utility Billing System Support	18,496,148	17,209,766	15,709,766	18,317,220	20,401,455
Market Study Adjustment	0	0	0	133,117	1,495,639
Accrued Payroll	242,891	177,578	475,829	764,853	318,547
Interdepartmental Charges	0	0	0	166,242	169,190
Trf to PID Fund	0	0	0	0	75,000
Services-PID contract expense	37,500	75,000	75,000	75,000	0
<b>Total Other Requirements</b>	<b>18,776,539</b>	<b>17,462,344</b>	<b>16,260,595</b>	<b>19,456,432</b>	<b>22,459,831</b>
<b>DEBT SERVICE REQUIREMENTS</b>					
Trf to Util D/S Separate Lien	174,698,472	196,655,400	186,882,443	180,244,309	152,966,772

## All Funds

	2012-13 ACTUAL	2013-14 ACTUAL	2014-15 ACTUAL	2015-16 ESTIMATED	2016-17 APPROVED
Tfr to Utility D/S Prior Lien	8,918,571	2,073,137	2,701,381	2,700,906	38,802,555
Tfr to Utility D/S Sub Lien	7,872,030	8,110,646	19,649,422	11,345,846	8,807,516
Tfr to GO Debt Service	5,340,505	4,799,398	3,973,920	4,001,520	3,620,142
Tfr to Util D/S Tax/Rev Bonds	715,334	717,086	714,463	727,005	645,526
Commercial paper interest	217,432	125,513	51,533	169,344	280,669
<b>Total Debt Service Requirements</b>	<b>197,762,343</b>	<b>212,481,181</b>	<b>213,973,161</b>	<b>199,188,930</b>	<b>205,123,180</b>
<b>TRANSFERS OUT</b>					
Services-PID contract expense	37,500	0	0	0	0
Tfr to General Fund	34,548,359	37,909,193	38,755,435	40,793,280	42,876,568
Tfr to Wastewater CIP Fund	9,111,000	25,459,000	20,900,000	22,250,000	29,200,000
Tfr to Water CIP Fund	34,901,334	2,482,000	11,920,000	17,300,000	22,000,000
TRF CRF to Debt Defeasance	0	0	0	18,200,000	15,000,000
Administrative Support	0	0	0	12,384,793	12,485,620
Tfr to Water Revenue Stab Rsv	5,515,444	5,835,880	7,304,753	9,368,656	9,295,119
CTM Support	0	3,546,544	3,455,342	3,871,271	4,127,580
Tfr to Reclaimed Water Fund	1,920,000	3,760,000	2,060,000	3,400,000	3,400,000
Tfr to Economic Development	0	614,875	1,148,827	2,011,254	2,928,899
Tfr to Reclaimed Water CIP Fnd	400,000	900,000	1,300,000	2,000,000	2,000,000
Tfr to CIP Mgm - CPM (5460)	0	0	0	0	1,813,549
Workers' Compensation	1,195,033	1,443,027	1,618,251	1,286,209	1,213,237
Regional Radio System	0	0	0	283,472	253,605
CTECC Support	0	0	0	9,925	10,622
Liability Reserve	500,000	400,000	400,000	400,000	0
Tfr to CTECC Fund	0	8,826	10,860	0	0
Tfr to Econ Incentive Rsv Fund	333,333	333,333	0	0	0
Tfr to PARD CIP Fund	100,000	100,000	0	0	0
Tfr to Support Services Fund	0	13,126,585	13,325,654	0	0
Tfr to Wireless Communication	384,939	279,120	229,697	0	0
Tfr to Environmental Rmdn Fund	651,191	447,524	83,250	0	0
Tfr to Sustainability Fund	4,802,247	4,843,426	0	0	0
<b>Total Transfers Out</b>	<b>94,400,379</b>	<b>101,489,333</b>	<b>102,512,069</b>	<b>133,558,860</b>	<b>146,604,799</b>
<b>TOTAL REQUIREMENTS</b>	<b>500,692,243</b>	<b>513,850,016</b>	<b>503,995,118</b>	<b>536,191,976</b>	<b>571,397,826</b>
<b>EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS</b>	<b>(15,288,432)</b>	<b>(7,652,148)</b>	<b>27,614,698</b>	<b>53,177,992</b>	<b>32,740,870</b>
<b>ADJUSTMENT TO GAAP</b>	<b>547,007</b>	<b>1,727,070</b>	<b>1,606,361</b>	<b>0</b>	<b>0</b>
<b>ENDING BALANCE</b>	<b>58,187,038</b>	<b>52,261,960</b>	<b>81,483,019</b>	<b>134,661,011</b>	<b>167,401,881</b>

Note: Numbers may not add due to rounding.

# Water Utility Operating Fund

	2012-13 ACTUAL	2013-14 ACTUAL	2014-15 ACTUAL	2015-16 ESTIMATED	2016-17 APPROVED
<b>BEGINNING BALANCE</b>	50,463,845	15,880,830	13,249,715	30,432,529	62,508,631
<b>REVENUE</b>					
Water/Wastewater Revenue	236,893,160	239,663,319	268,112,126	302,569,949	298,677,009
Other Revenue	2,829,414	3,367,085	6,801,171	2,509,647	2,344,036
Other Fines	1,050	335,555	790,675	561,025	371,200
Interest	54,130	25,622	57,751	384,561	305,258
Miscellaneous Franchise Fees	91,276	167,506	131,048	105,168	107,300
Land & Infrastructure Rental/Lease	60,500	71,500	60,500	68,462	68,500
Building Rental/Lease	116,700	136,081	75,435	63,368	63,400
Public Health Licenses, Permits, Inspections	0	23,498	37,895	26,750	26,800
Scrap Sales	38,506	26,155	21,240	23,073	23,500
Property Sales	30,145	19,511	6,580	0	0
<b>Total Revenue</b>	<b>240,114,881</b>	<b>243,835,832</b>	<b>276,094,422</b>	<b>306,312,003</b>	<b>301,987,003</b>
<b>TRANSFERS IN</b>					
CIP	3,000,000	6,000,000	6,300,000	10,913,000	14,914,000
Support Services/Infrastructure Funds	150,291	150,291	150,291	150,291	150,291
Other Funds	139,892	0	0	0	0
General Fund	0	11,199,856	0	0	0
<b>Total Transfers In</b>	<b>3,290,183</b>	<b>17,350,147</b>	<b>6,450,291</b>	<b>11,063,291</b>	<b>15,064,291</b>
<b>TOTAL AVAILABLE FUNDS</b>	<b>243,405,064</b>	<b>261,185,979</b>	<b>282,544,713</b>	<b>317,375,294</b>	<b>317,051,294</b>
<b>PROGRAM REQUIREMENTS</b>					
Treatment	36,172,589	36,290,816	35,640,832	38,549,967	38,063,429
Pipeline Operations	22,446,187	24,012,343	23,155,446	23,798,821	25,877,347
Support Services	10,591,033	11,499,852	10,955,674	11,813,288	13,002,785
Environmental Affairs & Conservation	8,342,960	8,910,376	7,400,639	7,989,518	9,022,829
Other Utility Program Requirements	16,283,000	8,828,522	5,462,993	5,875,017	8,548,898
Engineering Services	5,430,332	6,273,385	5,097,166	4,084,972	4,912,562
Water Resources Management	2,209,500	2,169,190	2,181,345	3,482,048	4,031,644
One Stop Shop	240,614	264,477	259,002	243,430	250,758
<b>Total Program Requirements</b>	<b>101,716,215</b>	<b>98,248,962</b>	<b>90,153,097</b>	<b>95,837,061</b>	<b>103,710,252</b>
<b>OTHER REQUIREMENTS</b>					
Utility Billing System Support	12,366,897	13,024,145	11,620,374	13,466,330	12,854,313
Market Study Adjustment	0	0	0	80,249	987,309
Accrued Payroll	137,006	98,570	233,252	381,688	182,510
Interdepartmental Charges	0	0	0	83,121	84,595
Trf to PID Fund	0	0	0	0	37,500
Services-PID contract expense	37,500	37,500	37,500	37,500	0
<b>Total Other Requirements</b>	<b>12,541,403</b>	<b>13,160,215</b>	<b>11,891,126</b>	<b>14,048,888</b>	<b>14,146,227</b>
<b>DEBT SERVICE REQUIREMENTS</b>					
Trf to Util D/S Separate Lien	89,430,102	100,672,447	98,162,041	94,362,446	84,097,430
Trf to Utility D/S Prior Lien	3,813,005	475,033	609,097	608,244	18,082,574
Trf to Utility D/S Sub Lien	4,528,202	4,571,360	11,492,415	6,154,137	4,912,497
Trf to GO Debt Service	2,460,184	2,305,160	1,915,140	1,919,224	1,643,406
Trf to Util D/S Tax/Rev Bonds	264,703	265,351	264,380	269,021	238,871



## Water Utility Operating Fund

	2012-13 ACTUAL	2013-14 ACTUAL	2014-15 ACTUAL	2015-16 ESTIMATED	2016-17 APPROVED
Commercial paper interest	167,829	117,255	45,737	137,495	138,030
<b>Total Debt Service Requirements</b>	<b>100,664,026</b>	<b>108,406,606</b>	<b>112,488,809</b>	<b>103,450,567</b>	<b>109,112,808</b>
<b>TRANSFERS OUT</b>					
Trf to General Fund	17,722,306	20,006,684	19,869,923	21,157,159	22,587,681
Trf to Water CIP Fund	34,901,334	2,482,000	11,920,000	17,300,000	22,000,000
TRF CRF to Debt Defeasance	0	0	0	10,913,000	9,750,000
Trf to Water Revenue Stab Rsv	5,515,444	5,835,880	7,304,753	9,368,656	9,295,119
Administrative Support	0	0	0	7,369,386	7,264,361
CTM Support	0	1,773,272	1,727,671	1,935,635	2,071,106
Trf to Reclaimed Water Fund	960,000	1,880,000	630,000	1,700,000	1,700,000
Trf to Economic Development	0	324,362	621,064	1,087,301	1,549,387
Trf to CIP Mgm - CPM (5460)	0	0	0	0	1,173,937
Workers' Compensation	597,517	721,514	809,126	643,105	606,619
Regional Radio System	0	0	0	283,472	253,605
CTECC Support	0	0	0	4,962	5,311
Liability Reserve	250,000	200,000	200,000	200,000	0
Trf to CTECC Fund	0	4,413	5,430	0	0
Trf to Econ Incentive Rsv Fund	166,666	166,667	0	0	0
Trf to PARD CIP Fund	100,000	100,000	0	0	0
Trf to Support Services Fund	0	8,063,474	8,148,781	0	0
Trf to Wireless Communication	192,470	139,560	114,849	0	0
Trf to Environmental Rmdn Fund	325,595	223,762	41,625	0	0
Trf to Sustainability Fund	2,545,077	2,561,713	0	0	0
<b>Total Transfers Out</b>	<b>63,276,408</b>	<b>44,483,301</b>	<b>51,393,222</b>	<b>71,962,676</b>	<b>78,257,126</b>
<b>TOTAL REQUIREMENTS</b>	<b>278,198,052</b>	<b>264,299,084</b>	<b>265,926,255</b>	<b>285,299,192</b>	<b>305,226,413</b>
<b>EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS</b>	(34,792,988)	(3,113,105)	16,618,458	32,076,102	11,824,881
<b>ADJUSTMENT TO GAAP</b>	209,973	481,990	564,356	0	0
<b>ENDING BALANCE</b>	<b>15,880,830</b>	<b>13,249,715</b>	<b>30,432,529</b>	<b>62,508,631</b>	<b>74,333,512</b>

*Note: Numbers may not add due to rounding.*

# Wastewater Utility Operating Fund

	2012-13 ACTUAL	2013-14 ACTUAL	2014-15 ACTUAL	2015-16 ESTIMATED	2016-17 APPROVED
<b>BEGINNING BALANCE</b>	22,112,745	39,923,859	37,180,906	50,516,192	71,459,834
<b>REVENUE</b>					
Water/Wastewater Revenue	232,522,051	231,984,375	236,365,807	255,118,591	271,521,805
Other Revenue	3,853,500	3,875,426	5,559,500	3,085,025	3,127,788
Public Health Licenses, Permits, Inspns	495,263	542,900	641,869	519,308	529,500
Interest	173,084	90,251	175,750	459,057	346,402
Building Rental/Lease	97,500	115,881	60,335	64,302	64,300
Miscellaneous Franchise Fees	57,749	0	58,755	39,976	40,000
Scrap Sales	38,239	26,155	14,246	16,043	16,400
Development Fees	0	0	2,090	2,016	0
Property Sales	27,156	19,132	31,370	0	0
<b>Total Revenue</b>	<b>237,264,541</b>	<b>236,654,120</b>	<b>242,909,723</b>	<b>259,304,318</b>	<b>275,646,195</b>
<b>TRANSFERS IN</b>					
CIP	1,800,000	3,600,000	3,000,000	7,287,000	5,250,000
Support Services/Infrastructure Funds	150,291	150,291	150,291	150,291	150,291
Austin Resource Recovery Fund	0	0	0	130,431	130,431
<b>Total Transfers In</b>	<b>1,950,291</b>	<b>3,750,291</b>	<b>3,150,291</b>	<b>7,567,722</b>	<b>5,530,722</b>
<b>TOTAL AVAILABLE FUNDS</b>	<b>239,214,832</b>	<b>240,404,411</b>	<b>246,060,014</b>	<b>266,872,040</b>	<b>281,176,917</b>
<b>PROGRAM REQUIREMENTS</b>					
Treatment	39,299,359	38,155,878	36,331,392	40,086,327	39,653,089
Pipeline Operations	15,774,163	16,668,881	16,968,327	17,616,884	18,688,829
Support Services	10,161,565	10,730,697	10,871,915	11,689,821	12,833,279
Engineering Services	6,179,660	7,172,121	6,580,926	6,017,179	6,952,209
Other Utility Program Requirements	11,069,304	5,448,233	4,281,256	5,259,548	6,912,334
Water Resources Management	2,252,023	2,550,297	2,453,276	3,776,566	4,559,967
Environmental Affairs & Conservation	2,574,630	2,810,726	2,901,716	2,898,568	2,986,624
One Stop Shop	412,888	293,616	340,700	409,107	472,876
<b>Total Program Requirements</b>	<b>87,723,593</b>	<b>83,830,450</b>	<b>80,729,509</b>	<b>87,754,000</b>	<b>93,059,207</b>
<b>OTHER REQUIREMENTS</b>					
Utility Billing System Support	6,129,251	4,185,621	4,089,392	4,850,890	7,547,142
Market Study Adjustment	0	0	0	51,284	508,330
Accrued Payroll	103,603	77,833	243,122	378,985	135,091
Interdepartmental Charges	0	0	0	83,121	84,595
Trf to PID Fund	0	0	0	0	37,500
Services-PID contract expense	0	37,500	37,500	37,500	0
<b>Total Other Requirements</b>	<b>6,232,854</b>	<b>4,300,954</b>	<b>4,370,014</b>	<b>5,401,780</b>	<b>8,312,658</b>
<b>DEBT SERVICE REQUIREMENTS</b>					
Trf to Util D/S Separate Lien	85,268,369	92,108,760	86,152,064	83,404,876	66,691,606
Trf to Utility D/S Prior Lien	5,105,565	1,598,105	2,092,285	2,092,662	20,719,981
Trf to Utility D/S Sub Lien	3,343,828	3,539,286	8,157,007	5,191,709	3,895,019
Trf to GO Debt Service	2,880,321	2,494,238	2,058,780	2,082,296	1,976,736
Trf to Util D/S Tax/Rev Bonds	450,631	451,735	450,083	457,984	406,655

## Wastewater Utility Operating Fund

	2012-13 ACTUAL	2013-14 ACTUAL	2014-15 ACTUAL	2015-16 ESTIMATED	2016-17 APPROVED
Commercial paper interest	49,237	7,409	4,944	26,295	115,350
<b>Total Debt Service Requirements</b>	<b>97,097,952</b>	<b>100,199,534</b>	<b>98,915,162</b>	<b>93,255,822</b>	<b>93,805,347</b>
<b>TRANSFERS OUT</b>					
Services-PID contract expense	37,500	0	0	0	0
Trf to Wastewater CIP Fund	9,111,000	25,459,000	20,900,000	22,250,000	29,200,000
Trf to General Fund	16,802,030	17,867,731	18,818,610	19,560,937	20,192,004
TRF CRF to Debt Defeasance	0	0	0	7,287,000	5,250,000
Administrative Support	0	0	0	5,015,407	5,107,753
CTM Support	0	1,773,272	1,727,671	1,935,636	2,053,685
Trf to Reclaimed Water Fund	960,000	1,880,000	1,430,000	1,700,000	1,700,000
Trf to Economic Development	0	289,497	525,360	919,749	1,367,796
Workers' Compensation	597,516	721,513	809,125	643,104	606,618
Trf to CIP Mgm - CPM (5460)	0	0	0	0	602,536
CTECC Support	0	0	0	4,963	5,311
Liability Reserve	250,000	200,000	200,000	200,000	0
Trf to CTECC Fund	0	4,413	5,430	0	0
Trf to Econ Incentive Rsv Fund	166,667	166,666	0	0	0
Trf to Support Services Fund	0	5,063,111	5,176,873	0	0
Trf to Environmental Rmdn Fund	325,596	223,762	41,625	0	0
Trf to Sustainability Fund	2,243,574	2,272,972	0	0	0
Trf to Wireless Communication	192,469	139,560	114,848	0	0
<b>Total Transfers Out</b>	<b>30,686,352</b>	<b>56,061,497</b>	<b>49,749,542</b>	<b>59,516,796</b>	<b>66,085,703</b>
<b>TOTAL REQUIREMENTS</b>	<b>221,740,752</b>	<b>244,392,435</b>	<b>233,764,227</b>	<b>245,928,398</b>	<b>261,262,915</b>
<b>EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS</b>	17,474,081	(3,988,024)	12,295,787	20,943,642	19,914,002
<b>ADJUSTMENT TO GAAP</b>	337,034	1,245,071	1,039,499	0	0
<b>ENDING BALANCE</b>	<b>39,923,860</b>	<b>37,180,906</b>	<b>50,516,192</b>	<b>71,459,834</b>	<b>91,373,836</b>

Note: Numbers may not add due to rounding.

# Reclaimed Water Utility Operating Fund

	2012-13 ACTUAL	2013-14 ACTUAL	2014-15 ACTUAL	2015-16 ESTIMATED	2016-17 APPROVED
<b>BEGINNING BALANCE</b>	351,873	2,382,349	1,831,339	534,298	692,546
<b>REVENUE</b>					
Water/Wastewater Revenue	863,859	819,965	943,855	1,715,585	2,505,414
Interest	57	186	1,234	7,049	5,071
Other Revenue	0	27,328	0	0	0
<b>Total Revenue</b>	<b>863,915</b>	<b>847,478</b>	<b>945,089</b>	<b>1,722,634</b>	<b>2,510,485</b>
<b>TRANSFERS IN</b>					
Austin Water Utility	1,920,000	3,760,000	2,060,000	3,400,000	3,400,000
<b>Total Transfers In</b>	<b>1,920,000</b>	<b>3,760,000</b>	<b>2,060,000</b>	<b>3,400,000</b>	<b>3,400,000</b>
<b>TOTAL AVAILABLE FUNDS</b>	<b>2,783,915</b>	<b>4,607,478</b>	<b>3,005,089</b>	<b>5,122,634</b>	<b>5,910,485</b>
<b>PROGRAM REQUIREMENTS</b>					
Reclaimed Water Services	299,280	314,442	339,436	375,185	416,789
Other Utility Program Requirements	13,893	23,305	27,251	21,508	23,768
<b>Total Program Requirements</b>	<b>313,174</b>	<b>337,747</b>	<b>366,686</b>	<b>396,693</b>	<b>440,557</b>
<b>OTHER REQUIREMENTS</b>					
Accrued Payroll	2,282	1,175	(545)	4,180	946
Market Study Adjustment	0	0	0	1,584	0
<b>Total Other Requirements</b>	<b>2,282</b>	<b>1,175</b>	<b>(545)</b>	<b>5,764</b>	<b>946</b>
<b>DEBT SERVICE REQUIREMENTS</b>					
Trf to Util D/S Separate Lien	0	3,874,193	2,568,338	2,476,987	2,177,736
Commercial paper interest	365	848	852	5,554	27,289
<b>Total Debt Service Requirements</b>	<b>365</b>	<b>3,875,041</b>	<b>2,569,189</b>	<b>2,482,541</b>	<b>2,205,025</b>
<b>TRANSFERS OUT</b>					
Trf to Reclaimed Water CIP Fnd	400,000	900,000	1,300,000	2,000,000	2,000,000
Administrative Support	0	0	0	0	113,506
Trf to General Fund	24,023	34,778	66,902	75,184	96,883
Trf to CIP Mgm - CPM (5460)	0	0	0	0	37,076
Trf to Economic Development	0	1,016	2,403	4,204	11,716
CTM Support	0	0	0	0	2,789
Trf to Sustainability Fund	13,596	8,741	0	0	0
<b>Total Transfers Out</b>	<b>437,619</b>	<b>944,535</b>	<b>1,369,305</b>	<b>2,079,388</b>	<b>2,261,970</b>
<b>TOTAL REQUIREMENTS</b>	<b>753,440</b>	<b>5,158,498</b>	<b>4,304,636</b>	<b>4,964,386</b>	<b>4,908,498</b>
<b>EXCESS (DEFICIENCY) OF TOTAL AVAILABLE FUNDS OVER TOTAL REQUIREMENTS</b>	2,030,476	(551,019)	(1,299,547)	158,248	1,001,987
<b>ADJUSTMENT TO GAAP</b>	0	9	2,506	0	0
<b>ENDING BALANCE</b>	<b>2,382,349</b>	<b>1,831,339</b>	<b>534,298</b>	<b>692,546</b>	<b>1,694,533</b>

Note: Numbers may not add due to rounding.



# Line Item Description | WIC



# Line Item Description | WIC



# Line Item Description | WIC



# Line Item Description | WIC

## Austin Water

### Fund Summary Line Item Description

#### **Fund Summary General Description:**

Each of our water, wastewater and reclaimed water utilities' finances are accounted for in separate funds. The fund summary for each of these utilities provides historical actual and projected revenue and expenses. These fund summaries show 3 years of actual, the current fiscal year estimate (CYE), and the approved FY 2017 budget. The combined fund summary provides a roll-up total of all of the three utilities of water, wastewater and reclaimed funds.

#### **Fund Summary Line Item Description:**

Descriptions of the fund summary line items of revenue and expenses are detailed below.

#### **Beginning Balance:**

The beginning fund balance is the working capital balance of each fund. This balance is the ending balance from the prior year. The beginning balance of the current year estimate is the audited ending balance from the prior fiscal year. For enterprise funds, this includes current assets (cash and accounts receivable) less current liabilities (accounts payable) and reserve for encumbrances.

#### **Revenues:**

These line items detail the revenue received by AW.

##### **Service Revenues**

Water Services includes revenue from the sale of water to AW water customers based on historical, current, and projected water rates.

Wastewater Services includes revenue from the sale of wastewater services to AW wastewater customers based on historical, current, and projected wastewater rates.

Reclaimed Water Services includes revenue from the sale of reclaimed water to AW reclaimed water customers based on historical, current, and projected reclaimed water rates.

Reserve Fund Surcharge includes revenue from the reserve fund surcharge to build the Water Revenue Stability Reserve Fund approved by the Joint Committee. Each customer pays a surcharge based on their water consumption and the current rate. This was implemented in February 2013. Revenue collected from the surcharge is transferred into a separate reserve fund that is restricted by Council approved financial policies.

##### **Other Revenue**

Includes revenue from miscellaneous fees and charges for various services provided by AW. These revenue sources include late payment penalties, new services connections, private fire hydrant fees, backflow prevention compliance fees, Dillo Dirt sales, and numerous other small revenue sources.

##### **Public Health Licenses, Permits, Inspec.**

Includes revenue from industrial waste permits and liquid waste/septic tank hauler fees.

**Miscellaneous Franchise Fees**

Includes revenue from various telecommunication companies to lease ground space owned by AW. Several telecommunication companies have contractual agreements with the City of Austin to lease ground space for their cellular network towers.

**Interest**

Includes income earned from interest paid by financial institutions on AW cash balances held in City's investment pool. Projections of interest income include assumptions for the cash balances and interest rates paid by financial institutions.

**Building Rental/Lease**

Includes revenue from other city departments to rent/lease space at AW sites or facilities.

**Land & Infrastructure Rental/Lease**

Includes revenue from outside agencies to rent/lease space at AW sites or facilities.

**Property Sales**

Includes revenue from the sale related to the disposal of equipment and other assets.

**Scrap Sales**

Includes revenue from the sale of scrap metal.

**Development Fees**

Includes water/wastewater plat fees and private lateral fees.

**Other Fines**

Includes collection of water use enforcement fines.

**Total Revenue:**

The total revenue line item represents the total of all revenue line items above.

**Transfers – In:**

These line items detail the transfers in to the AW from other revenue sources or departments.

**CIP Recovery Fees**

This transfer in is for capital recovery fees (CRF) or impact fees which are collected from developers, businesses, or homeowners that want to connect to our water and wastewater system. These fees are collected and accounted for in a separate fund which must be transferred to the appropriate water or wastewater fund and are therefore shown as a transfer in. No fees are currently collected for the reclaimed water system.

**Austin Water - Reclaimed**

The water and wastewater utilities must transfer funds to the reclaimed water utility to offset costs not covered by the reclaimed water revenue. This line item is shown in the transfer in section of the reclaimed water utility and the combined summary only. A corresponding transfer out is shown in the water and wastewater utilities.

**Support Services/Infrastructure Funds**



This transfer in to AW is from Public Works related to the allocated portion of their costs of debt service related to the past partial construction of the joint use Braker Lane Service Center. The construction of this facility was being fully paid by AW during the early construction phases of the project when explosive material was found on the site that exploded and stopped construction. This transfer in to the AW will continue until the bond funding for those construction costs are retired.

**Austin Resource Recovery Fund**

This transfer in is to cover their departmental portion of costs to extend a wastewater line including land/easement, labor, fee, design, and construction to serve ARR's new eco-industrial park development. ARR is developing a 100 acre tract of land that was previously set aside for development of future landfill capacity that is located along Farm-to-Market (FM) 812. ARR is utilizing undeveloped land around the City's closed landfill for the Austin [re]Manufacturing Hub for the purpose of attracting new, green industry, investment and jobs in the reuse and recycling sectors, that can build local markets for materials being collected and diverted under Austin's Zero Waste Master Plan (page 105, adopted by City Council on December 15, 2011).

**Total Transfers In:**

The total transfers in line item represents the total of all transfer in line items above.

**Total Available Funds:**

The total available funds line item represents the total of total revenue and total transfers in.

**Program Requirements:**

These line items detail the expenditure for AW.

**Operations and Maintenance:**

These line items detail the operations and maintenance costs of AW programs.

**Treatment**

Includes all operations and maintenance costs associated with producing and distributing water and collecting and treating wastewater. Costs include personnel, contractual services, commodities, and non-CIP capitals for the Treatment Program which is comprised of water treatment plants, wastewater treatment plants, pump stations and reservoirs, lift stations and remote facilities, process engineering, laboratory services, electrical services, instrumentation and control, and administrative support.

**Pipeline Operations**

Includes all operations and maintenance costs associated with the maintenance and repair of water and wastewater pipeline infrastructure. These costs include distribution system maintenance, water meter operations, construction and rehab services, collection system services, and management services. Costs include personnel, contracts and services, commodities, and Non-CIP Capitals.

**Support Services**

Includes all operations and maintenance costs associated with operational support to AW. These costs include office of director, information technology, human resources services, safety and technical training, internal audit, facility management, security management, financial

management, budget and accounting, supply chain management, and consumer services. Costs include personnel, contracts and services, commodities, and Non-CIP Capitals.

#### **Environmental Affairs & Conservation**

Includes all operations and maintenance costs associated with engineering, management, administrative, regulatory, and technical support services for water conservation, Wildland preservation, and biosolids management. These costs include environmental and regulatory services, water conservation, Wildland conservation, special services, and public affairs. Costs include personnel, contracts and services, commodities, and Non-CIP Capitals.

#### **Other Utility Program Requirements**

Includes Utility-wide expenses for legal services, bad debt, general liability insurance, contingency funds, and other miscellaneous contractual services.

#### **Engineering Services**

Includes all operations and maintenance costs associated with engineering, project management, and technical support for the Utility's facilities and infrastructure systems. These costs include facility engineering, distribution system engineering, collection system engineering, and engineering design and construction standards. Costs include personnel, contracts and services, commodities, and Non-CIP Capitals.

#### **Water Resources Management**

Includes all operations and maintenance costs associated with engineering, technical, management, and administrative services to infrastructure field operations, maintenance, and support programs and wholesale customers. These costs include systems planning, infrastructure management, and utility development services. Costs include personnel, contracts and services, commodities, and Non-CIP Capitals.

#### **One Stop Shop**

Includes all operations and maintenance costs associated with engineering and regulatory review and services pertaining to water, wastewater, and reclaimed water utility services of site and building plans, subdivisions, planned unit developments, zoning cases, development assessments, and easement release, service verification, and tap permits. These costs include land use review, permit and license center, building plan review for industrial waste, and building plan review for water protection. Costs include personnel, contracts and services, commodities, and Non-CIP Capitals.

#### **Reclaimed Water Services**

Includes all operations and maintenance costs associated with the reclaimed water program. These costs include reclaimed water program management, meter shop reclaimed water support, reclaimed water distribution operations, reclaimed water distribution maintenance, and reclaimed water service miscellaneous. Costs include personnel, contracts and services, commodities, and Non-CIP Capitals.

#### **Total Operations and Maintenance:**

The total operations and maintenance line item represents the total of operations and maintenance line items above.

**Other Requirements:**

These line items detail the other operating costs not within specific AW programs.

**Utility Billing System Support**

This requirement is AW's allocation to fund the AE Billing & Customer Care centers which provide billing and revenue collection services for all City of Austin utilities.

**Accrued Payroll**

This requirement is to allocate funds every year for the City's 27th pay period which occurs every six years. The next occurrence of a 27th payday in the calendar year is 2021-2022.

**Market Study Adjustment**

This requirement is to fund projected salary increases associated with City-wide wage adjustments.

**Services-PID Contract Expense**

On April 15, 1993, Austin City Council created a Public Improvement District (PID) to provide constant and permanent funding to implement downtown initiatives. The PID is a means for the Downtown Austin community to provide adequate and constant funds for quality of life improvements and planning and marketing of Downtown Austin. On October 11, 2012, the Austin City Council reauthorized the Austin Downtown Public Improvement District for ten years. Austin Water transfers \$75,000 per year to the PID due to the Waller Creek Center being within the PID.

**Interdepartmental Charges**

This requirement is AW's allocation to fund the 311 System Support which provides a single point of contact for Austin's citizens and visitors offering information to callers regarding all City departments including Austin Police Department non-emergency requests.

**Compensation Adjustment**

This requirement is for City of Austin employee general wage increase.

**Total Other Requirements:**

This line item represents the total of all other operating line items above.

**Total Operating Requirements:**

This line item represents the total of operations and maintenance and other operating requirements.

**Debt Service:**

These line items detail AW's debt service costs from existing and projected debt issuances.

**Utility D/S Separate Lien**

This line item represents existing and projected revenue bond principal and interest paid historically and projected to be paid by AW. Revenue bonds are payable from identified sources of revenue.

**Utility D/S Sub Lien**

This line item represents existing and projected revenue bond principal and interest paid historically and projected to be paid by AW. Revenue bonds are payable from identified sources of revenue.

**GO Debt Service**

This line item represents existing and projected general obligation bond principal and interest payments paid historically and projected to be paid by AW. AW's General obligation debt includes Public Improvement Bonds (PIBs) and Contractual Obligation Bonds (KOs). PIBs are issued for voter-approved capital projects, usually with a 20-year final maturity. KOs are issued for personal property that does not require voter approval; they usually have a five to seven year final maturity, depending on the useful life of the personal property purchased. These have been used primarily for the purchase of fleet vehicles and equipment.

**D/S Prior Lien**

This line item represents existing and projected revenue bond principal and interest paid historically and projected to be paid by AW. Revenue bonds are payable from identified sources of revenue.

**Utility D/S Tax/Revenue Bonds**

This line item represents existing and projected tax and revenue bond principal and interest payments paid historically and projected to be paid by AW. AW assumed these bonds when various Municipal Utility Districts were annexed by the City of Austin.

**Commercial Paper Interest**

This line item represents existing and projected interest associated with the commercial paper program paid historically and projected to be paid by AW. AW finances capital needs through commercial paper programs because it allows a project to be financed on an ongoing "just-in-time" basis at a lower initial rate. Commercial paper is generally refunded into long-term revenue bonds on an annual basis.

**Total Debt Service:**

This line item represents the total of all debt service line items above.

**Transfers Out:**

These line items detail the transfers out of AW's operating funds to other City funds.

**Sustainability Fund**

The Sustainability Fund provides resources that help the City of Austin build a more sustainable economy, environment, and equitable infrastructure. The fund is entirely funded by transfers in from several City enterprise funds. This line item represents AW's allocation of those city-wide costs. AW's participation in paying for these costs ended in 2014.

**General Fund**

Per City Council policy, The General Fund receives annual transfers of funds from Austin Water at 8.2% of a 3-year average total revenue. These transfers serve as payments in lieu of property taxes, dividends, or return-on-equity-type payments commonly paid to municipal governments by investor-owned utilities. The transfers are calculated based on a rolling average of actual revenue from the last two years and estimated revenue in the current year.

**Wastewater CIP Funds**

The goal of AW is to cash-fund a minimum of 20% of capital projects with cash, so AW budgets annual transfers of cash from the operating fund to the CIP funds accordingly.

**Water CIP Funds**

The financial policy of AW is to cash-fund a minimum of 20% of capital projects with cash, so AW budgets annual transfers of cash from the operating fund to the CIP funds accordingly.

**Support Services Fund**

This requirement is AW's allocation to fund the General Fund Administrative Support Departments and Offices (City Clerk, Mayor & Council, Management Services, Communication & Public Information, Law, Human Resources, City Auditor, Financial Services, Building Services, Small & Minority Business, Contract Management, Office of Real Estate, and Government Relations) for the various support services they provide the Utility.

**Water Revenue Stability Reserve**

A revenue fund surcharge, approved by the Joint Committee and implemented in February 2013, requires each customer to pay a surcharge based on their water consumption and the current rate. Revenue collected from the surcharge is transferred into this separate reserve fund, restricted by Council, which will be used to offset future revenue shortfalls according to AW financial policy.

**CTM Support**

This requirement is AW's allocation to fund the Communications Technology Management Department for the various support services they provide the Utility.

**Debt Service-CRF Defeasance**

This line represents the transfer out of Capital Recovery Fee or Impact Fee revenue to set up an escrow account used to defease outstanding bond issues. A defeasance is a method of paying off outstanding bond issues early.

**Reclaimed Utility Fund**

The water and wastewater utilities must transfer funds to the reclaimed water utility to offset costs not covered by the reclaimed water revenue. This line item is shown in the transfer in section of the reclaimed water utility and the combined summary only. A corresponding transfer out is shown in the water and wastewater utilities.

**Economic Development**

This requirement is AW's allocation to fund the Economic Development Department for cultural arts contracts, Economic Incentive payments, small business loans, and business retention and music venue assistance.

**Reclaimed Water CIP Funds**

The financial policy of AW is to cash-fund a minimum of 20% of capital projects with cash, so AW budgets annual transfers of cash from the operating fund to the CIP funds accordingly.

**Workers' Compensation**

This requirement is AW's allocation to fund the Worker's Compensation Fund which provides payments mandated by State law for City employees' medical expenses associated with job-related injuries and illnesses.

**Liability Reserve**

This requirement is AW's allocation to fund the Liability Reserve Fund which is responsible for paying claims and losses related to third party – liability for bodily injury and property damage, including contractual and professional liability.

**Wireless Communication**

The purpose of the Wireless Communications Services program is to provide cost effective maintenance services in support of customer two-way radio communication and other vehicular equipment needs. This line item represents AW's allocation of these city-wide costs.

**CTECC Fund**

This requirement is AW's allocation to fund the Combined Transportation and Emergency Communications (CTECC) Emergency Operation Center.

**Economic Incentives Reserve Fund**

The Economic Incentives Reserve Fund provides incentive grants and other economic incentive agreements established on the grounds that they provide higher levels of employment, economic activity, and stability. The fund is funded by transfers from the General Fund, Austin Energy, and Austin Water. The transfers are completed in anticipation of future payouts as specified in the agreements. This line item represents AW's allocation of these city-wide costs. AW's participation in paying for these costs ended in 2014.

**Capital Projects Management Fund**

The Capital Projects Management Fund (CPMF) is an internal service fund that accounts for the project delivery costs of engineering, construction and inspection costs for the City of Austin Capital Improvements Program (CIP). This transfer is to help fund the CPMF for services related to Austin Water's Capital Improvement Program. Prior to FY 2017, CPMF charged projects directly for services related to individual projects.

**Environmental Remediation Fund**

The purpose of the Environmental Remediation Fund is to provide remediation of sites which could affect ground and surface water quality or public health and safety. Use of these funds is limited to those sites for which the City has either partial or total liability. Transfers to this fund from Austin Water are based on the number of sites scheduled for remediation and their associated costs. This line item represents AW's allocation of these city-wide costs. AW's participation in paying for these costs ended in 2015.

**PARD CIP Fund**

Austin Water has budgeted \$100,000/year to transfer to a PARD CIP fund for contribution to a water conservation program of converting fill and drain pools to filtered pools not requiring daily draining. AW's participation in paying for these costs ended in 2014.

**Total Transfers Out:**

This line item represents the total of all transfers out line items above.

**Total Requirements:**

This line item represents the total of all operating and other requirements, debt service, and transfers out.

**Excess / Deficiency of Total Available Funds Over Total Requirements:**

This line item represents the net of the increase/decrease of funds received over funds expensed.

**Adjustment to GAAP:**

This represents the differences of line items included in the General Accepted Accounting Principles (GAAP) basis ending balance calculation and not included in the current budget fiscal year (budget basis).

**Ending Balance:**

The ending fund balance is the unrestricted working capital balance of each fund and must reconcile to the audited ending balance on a GAAP basis. For enterprise funds, this includes current assets (cash and accounts receivable) less current liabilities (accounts payable) and reserve for encumbrances.



# Fitch Rating Report | WIC



# Fitch Rating Report | WIC





# Fitch Rating Report | WIC



# Fitch Rating Report | WIC



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**Fitch Rates Austin's (TX) \$271MM Water and Wastewater Rev Rfdg Bonds 'AA-';****Outlook Revised** Ratings Endorsement Policy  
19 May 2014 3:48 PM (EDT)

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Fitch Ratings-New York-19 May 2014: Fitch Ratings assigns an 'AA-' rating to the following Austin, Texas (the city) revenue bonds:

--Approximately \$271,171,000 million water and wastewater system revenue refunding bonds, series 2014.

The series 2014 bonds are scheduled for negotiated sale the week of June 3. A portion of the 2014 bonds will retire Austin Water Utility's (AWU, or the system) outstanding commercial paper notes, while the balance of the 2014 bonds will refund outstanding water and wastewater system revenue bonds for cost savings with no extension of bond maturity dates.

In addition, Fitch affirms the following rating for the city's remaining revenue bonds:

--\$30.5 million combined utility systems (prior first lien) revenue bonds at 'AA';  
--\$148.1 million combined utility systems (prior subordinate lien) revenue bonds at 'AA-';  
--\$2.3 billion water and wastewater system revenue bonds at 'AA-'.

The Rating Outlook for the series 2014 bonds and outstanding parity water and wastewater revenue bonds is revised to Negative from Stable.

The Rating Outlook remains Stable for outstanding combined utility system prior and subordinate lien bonds based on the strength of the joint and several pledge of net revenues of the combined utility systems, consisting of AWU and Austin Energy (AE).

#### SECURITY

The series 2014 bonds are secured by net revenues of AWU, after provision for the prior first lien obligations of the combined utility systems. The series 2014 bonds are on parity with the prior subordinate lien obligations of the combined utility systems and all outstanding water and wastewater revenue bonds. The 2014 bonds will not carry a debt service reserve.

The prior first- and subordinate-lien obligations are secured by a joint and several pledge of net revenues of the combined utility systems, consisting of AWU and AE (electric revenue bonds rated 'AA-' with a Stable Outlook by Fitch). The issuance of additional bonds secured by a joint and several pledge of net revenues of AWU and AE is no longer permitted by the master bond ordinance, making both liens effectively closed. A default on the prior subordinate lien obligations and water and wastewater bonds would not trigger a default on the prior first lien bonds.

#### KEY RATING DRIVERS

**FINANCIAL RESULTS EXPECTED TO WEAKEN:** The revision in Outlook to Negative from Stable on the water and wastewater bonds reflects the diminishing prospect of any material improvement in AWU's financial profile over the near term, due in part to ongoing drought conditions. Financial metrics remain weak for the rating category and further erosion in both debt service coverage (DSC) and liquidity is expected by the close of the current fiscal year based on year-to-date results.

**LIMITED FLEXIBILITY:** AWU's low cash levels, high rates, narrow operating margins after making transfers to the city's general fund, and susceptibility to sizeable declines in consumption limit the system's overall flexibility.

**STRONG SERVICE AREA:** AWU provides water and wastewater treatment service to a sizeable service territory that includes the city (general obligation bonds rated 'AAA', Stable Outlook) and neighboring areas beyond the city limits.

AWU's growing service area exhibits a deep and diverse economy, exceptionally low unemployment, above average wealth levels, and a highly diversified customer base.

**LEVERAGED SYSTEM:** The system's debt levels are high for the rating category, although capital needs have begun declining to a more manageable level and borrowing plans are not expected to result in a meaningful increase in current leverage.

**AMPLE CAPACITY:** Water supply and treatment capacity of the overall system are anticipated to be sufficient for the foreseeable future.

**HIGHER RATING ON PRIOR LIEN DEBT:** The 'AA' rating on the prior first lien bonds reflects the closed nature of the lien, the very modest proportion the bonds that make up AWU's and AE's (AE, 'AA-/Stable) overall debt profile, and the strong debt service coverage provided by the pledge of the combined utilities. Coverage of prior first lien obligations should continue to strengthen given the decreasing annual debt service requirements.

#### RATING SENSITIVITIES

**IMPROVED FINANCIAL METRICS:** Additional negative rating action is likely absent a measured near-term improvement in AWU's financial profile, particularly its unrestricted cash balances, to a level more consistent with the current rating category.

#### CREDIT PROFILE

##### WEAK FINANCIAL RESULTS EXPECTED TO CONTINUE

Financial performance for fiscal 2013 resulted in a slight decline in DSC to 1.4x compared to the prior year and a modest increase in unrestricted cash to a still narrow 50 days cash on hand. Operating results fell short of healthier financial targets included in the prior year forecast, continuing AWU's trend of underperformance relative to forecasted expectations. The city continues to implement rate increases, although revenue growth has failed to materialize as forecasted due primarily to sizeable water consumption declines in four out of the prior five years. The trend in declining sales has reportedly continued into the current fiscal year, which is expected to further erode AWU's already weak financial metrics. Financial projections show DSC coverage dropping to 1.3x with a modest decline in unrestricted cash.

Similar to prior years, AWU forecasts improved DSC beginning in fiscal 2015 to about 1.6x and a meaningful increase in liquidity to a level more consistent with the current rating. AWU's forecast reasonably assumes continued growth in debt service, a sizeable rate hike in fiscal 2015 followed by more manageable rate adjustments of 3% per year. Fitch considers the assumed 1.4% rate of growth in sales incorporated into the forecast to be aggressive, particularly given the more recent trend in demand and the potential for drought conditions to remain. Fitch will continue to monitor AWU's ability to achieve its stated financial goals and respond accordingly.

##### STRONG SERVICE AREA

AWU provides water and wastewater service on a retail basis to a particularly strong service territory that includes the city of Austin and neighboring portions of Travis and Williamson Counties. The system's customer base is highly diverse, composed mostly of residential users, with the 10 largest customers accounting for a nominal 6% of total revenues in fiscal 2013.

Austin's economy continues to outperform that of many other large metro areas in the U.S. The city is the state capital and is home to seven colleges and universities, including the University of Texas (the University of Texas System rated revenue bonds rated 'AAA', Stable Outlook by Fitch), one of the largest public universities in the country. Wealth indicators for the area are comparatively high and the city's March 2014 unemployment rate of 3.9% is exceptionally low relative to state and national averages. Consequently, customer delinquencies are minimal and revenue collection is near perfect.

##### AMPLE SUPPLY AND TREATMENT CAPACITY

AWU has an ample, long-term water supply, pursuant to an agreement with the Lower Colorado River Authority (LCRA, revenue bonds rated 'A', Stable Outlook by Fitch) that runs through 2050 and is extendable through 2100 at AWU's option. The agreement, for which AWU made a \$100 million up-front payment, provides the utility with up to 201,000 firm acre-feet of water per year, equal to about 55% more than AWU's average daily demand recorded in fiscal 2013. AWU does not anticipate exceeding its current allocation until at least 2050.

AWU's water treatment plants provide significant excess treatment capacity estimated to be sufficient until at least 2030 following the addition of a new facility in 2014. AWU's two wastewater treatment plants provide 150 million gallons per day (mgd) of capacity, which was sufficient to meet average daily flows of 104 mgd in fiscal 2012. Existing treatment capacity is reportedly sufficient for the foreseeable future, and discharge permits are current.

#### DECLINING RATE AFFORDABILITY

Fitch considers AWU's combined water and wastewater rates somewhat high relative to income levels of city residents, and in comparison to other large urban systems. Although rate hikes on a combined percentage basis have been fairly modest over the last several years, the city's total monthly residential bill currently amounts to about \$88, equal to an above average 2.1% of median household income.

#### MANAGEABLE CAPITAL NEEDS

For the sixth consecutive year, AWU's capital needs have continued to decline to a more manageable level. Projected spending through fiscal 2019 totals \$839.8 million, down nearly 18% from the prior five-year plan as larger scale projects have neared completion. The city expects to fund about two-thirds of its five-year capital program with annual borrowings through 2019. Excess cash flow is projected to cover the balance of planned expenditures. AWU's financial forecast through 2019 exhibits sufficient excess cash flow needed to meet annual pay-go targets.

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Additional information is available at '[www.fitchratings.com](http://www.fitchratings.com)' .

In addition to the sources of information identified in Fitch's Revenue-Supported Rating Criteria, this action was additionally informed by information from Creditscope.

#### Applicable Criteria and Related Research:

--'Revenue-Supported Rating Criteria'(June 2013);  
--'U.S. Water and Sewer Revenue Bond Rating Criteria' (July 2013);  
--'U.S. Public Power Rating Criteria' (Dec. 2012);  
--'2014 Water and Sewer Medians'(Dec. 2013);  
--'2014 Outlook: Water and Sewer Sector' (Dec. 2013).

#### Applicable Criteria and Related Research:

Revenue-Supported Rating Criteria  
U.S. Water and Sewer Revenue Bond Rating Criteria  
U.S. Public Power Rating Criteria  
2014 Water and Sewer Medians  
2014 Outlook: Water and Sewer Sector

**Additional Disclosure**

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## **FITCH RATES AUSTIN'S (TX) WATER AND WASTEWATER REV RFDG BONDS 'AA-'; OUTLOOK REVISED TO STABLE**

Fitch Ratings-New York-03 May 2016: Fitch Ratings assigns an 'AA-' rating to the following Austin, Texas (the city) revenue bonds:

--Approximately \$251,855,000 water and wastewater system revenue refunding bonds, series 2016.

The series 2016 bonds are scheduled for a negotiated sale the week of May 10. The bonds will be used to retire outstanding commercial paper obligations and refund portions of outstanding parity bonds for interest cost savings.

In addition, Fitch affirms the ratings for the city's remaining revenue bonds:

- \$28.6 million combined utility systems (prior first-lien) revenue bonds at 'AA';
- \$119 million combined utility systems (prior subordinate lien) revenue bonds at 'AA-';
- \$2.3 billion water and wastewater system revenue bonds at 'AA-'.

The Rating Outlook for the series 2016 bonds and outstanding parity water and wastewater revenue bonds is revised to Stable from Negative.

The Rating Outlook is Stable for outstanding combined utility system prior- and subordinate-lien bonds based on the strength of the joint-and-several pledge of net revenues of the combined utility systems, consisting of Austin Water Utility (AWU) and Austin Energy (AE).

### **SECURITY**

The series 2016 bonds are secured by net revenues of AWU, after provision for the prior first-lien obligations of the combined utility systems. The bonds are on parity with the prior subordinate-lien obligations of the combined utility systems and all outstanding water and wastewater revenue bonds. The series 2016 bonds will not carry a debt service reserve.

The prior first- and subordinate-lien obligations are secured by a joint-and-several pledge of net revenues of the combined utility systems, consisting of AWU and AE (electric revenue bonds rated 'AA-/Stable Outlook). The issuance of additional bonds secured by a joint-and-several pledge of net revenues of AWU and AE is no longer permitted by the master bond ordinance, effectively closing both liens. A default on the prior subordinate-lien obligations and water and wastewater bonds would not trigger a default on the prior first-lien bonds.

### **KEY RATING DRIVERS**

**IMPROVED FINANCIAL PERFORMANCE:** Fitch's revision of the Outlook to Stable from Negative reflects modest but notable improvement in AWU's financial performance. Fitch expects improvement to continue at least through the current forecast period ending in fiscal 2021.

**STRONG SERVICE AREA:** AWU provides water and wastewater treatment service to a sizable service territory that includes the city (general obligation [GO] bonds rated 'AAA'/Stable Outlook) and neighboring areas beyond the city limits. Austin has a broad and diverse economy, as reflected by exceptionally low unemployment, above-average wealth levels and a highly diversified, expanding customer base.

**FAVORABLE DROUGHT RESPONSE:** Measures taken at the height of the recent drought have begun to yield positive results and offset continued declines in water sales. An expected easing of water use restrictions currently in place, coupled with ongoing rate increases, improved cost recovery through recent rate structure changes, efforts to cut costs and more conservative financial forecasting, should ensure continued improvement in cash flow and liquidity metrics.

**LEVERAGED UTILITY SYSTEM:** The system's debt levels are high for the rating category, although planned capital spending levels have moderated in recent years to a more manageable level; borrowing plans are not expected to result in a meaningful increase in current leverage.

**SUFFICIENT RESOURCES:** Water supply and treatment capacity of the overall system are anticipated to be sufficient for the foreseeable future.

**HIGHER RATING ON PRIOR LIEN DEBT:** The 'AA' rating on the prior first-lien bonds reflects the closed nature of the lien, the very modest portion of the bonds that make up AWU's and Austin Energy's (AE; 'AA-/Stable Outlook) overall debt profile, and the strong debt service coverage provided by the pledge of the combined utilities.

## RATING SENSITIVITIES

**SUSTAINED FINANCIAL METRICS:** Financial metrics for the city of Austin's (TX) combined water and wastewater system remain weak for the rating category but are forecast to continue strengthening. Continued stability in the rating will be determined largely by AWU's ability to achieve and sustain projected financial targets.

## CREDIT PROFILE

### RATE ADJUSTMENTS ENHANCE FINANCIAL RESULTS

Cash flow and liquidity metrics exhibited solid improvement in fiscal 2015, with all-in debt service coverage climbing to 1.34x and days cash on hand (DCOH) more than doubling to 116 days. The healthier operating performance was driven primarily by an 8.1% rate increase, coupled with modest changes in the rate structure designed to bring about better recovery of fixed costs given the ongoing trend of declining water sales.

Operating projections demonstrate sustained improvement in the overall health of AWU's financial profile. With annual rate increases averaging about 2.5%, debt service coverage after making an annual transfer to the city's general fund should approximate 1.60x through the current forecast period, while liquidity grows to well beyond 450 DCOH over the next several years. Forecast assumptions appear reasonable with level consumption, modest rate hikes, annual customer growth of 1% and additional debt issuance.

### AMPLE SUPPLY AND TREATMENT CAPACITY

AWU provides water and wastewater service almost entirely on a retail basis. The system's 10 largest water customers accounted for just 6% of total water and wastewater revenues in fiscal 2015, evidencing the utility's highly diverse customer base and related revenues. AWU has an ample, long-term water supply, pursuant to an agreement with the Lower Colorado River Authority (LCRA, revenue bonds rated 'A'/Stable Outlook) that runs through 2050 and is extendable through 2100 at AWU's option. Existing water and wastewater treatment capacity is reportedly sufficient for the foreseeable future.

## STRONG SERVICE AREA

The strength and diversity in both AWU's customer base and the city's economy underpin the utility's overall credit profile. The city's role as the state capital and home to seven colleges and universities, including the flagship campus of the University of Texas (University of Texas System revenue bonds rated 'AAA'/Stable Outlook), anchors the region's economy and provides a solid buffer from economic downturns. Wealth indicators for the area are comparatively high, and the city's February 2016 unemployment rate of 2.7% is exceptionally low relative to state and national averages. Accordingly, customer delinquencies are minimal and revenue collection is consistently strong.

#### MANAGEABLE CAPITAL NEEDS

Fitch expects capital needs through 2021 will remain manageable, despite modest increases over the prior two years in the overall size of AWU's capital program. The current five-year program is up by approximately \$44 million, or 5%, over the prior 2015-2019 plan. Cost increases are being driven in large part by plans to expand the utility's reclaimed water program and implement automatic meter reading, both of which Fitch views as constructive developments.

The city expects to fund about two-thirds, or close to \$600 million, of its capital program with borrowings every one-two years through 2021. The city's commercial paper program will continue to be used as an interim funding source that will ultimately be retired with long-term bonds. Excess cash flow is projected to cover the balance of planned expenditures.

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#### Applicable Criteria

Revenue-Supported Rating Criteria (pub. 16 Jun 2014)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=750012](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012)

U.S. Water and Sewer Revenue Bond Rating Criteria (pub. 03 Sep 2015)

[https://www.fitchratings.com/creditdesk/reports/report\\_frame.cfm?rpt\\_id=869223](https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=869223)

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