

Memorandum



CITY OF DALLAS

DATE June 12, 2015

TO Members of the Budget, Finance & Audit Committee: Jerry R. Allen (Chair),
Jennifer S. Gates (Vice Chair), Tennell Atkins, Sheffie Kadane, Philip T. Kingston

SUBJECT Dallas Water Utilities: Overview of Fiscal Year 2015-16 Budget

On June 15, 2015 the Budget, Finance and Audit Committee will be briefed on the Dallas Water Utilities Fiscal Year 2015-16 Budget and provided an update on the Fiscal Year 2014-15 Budget. The briefing will be presented by Jody Puckett, Director of Dallas Water Utilities. The briefing is attached for your review.

Please let me know if you need additional information.

William Funch
for Mark McDaniel
Assistant City Manager

c: Honorable Mayor and Members of City Council
A.C. Gonzalez, City Manager
Warren M.S. Ernst, City Attorney
Craig D. Kinton, City Auditor
Rosa A. Rios, City Secretary
Daniel F. Solis, Administrative Judge
Ryan S. Evans, First Assistant City Manager

Jill A. Jordan, P.E., Assistant City Manager
Joey Zapata, Assistant City Manager
Eric D. Campbell, Assistant City Manager
Jeanne Chipperfield, Chief Financial Officer
Sana Syed, Public Information Officer
Jody Puckett, Director, Dallas Water Utilities
Elsa Cantu, Assistant to the City Manager

Dallas Water Utilities: Overview of Fiscal Year 2015-16 Budget

Budget Finance & Audit Committee
June 15, 2015



Purpose

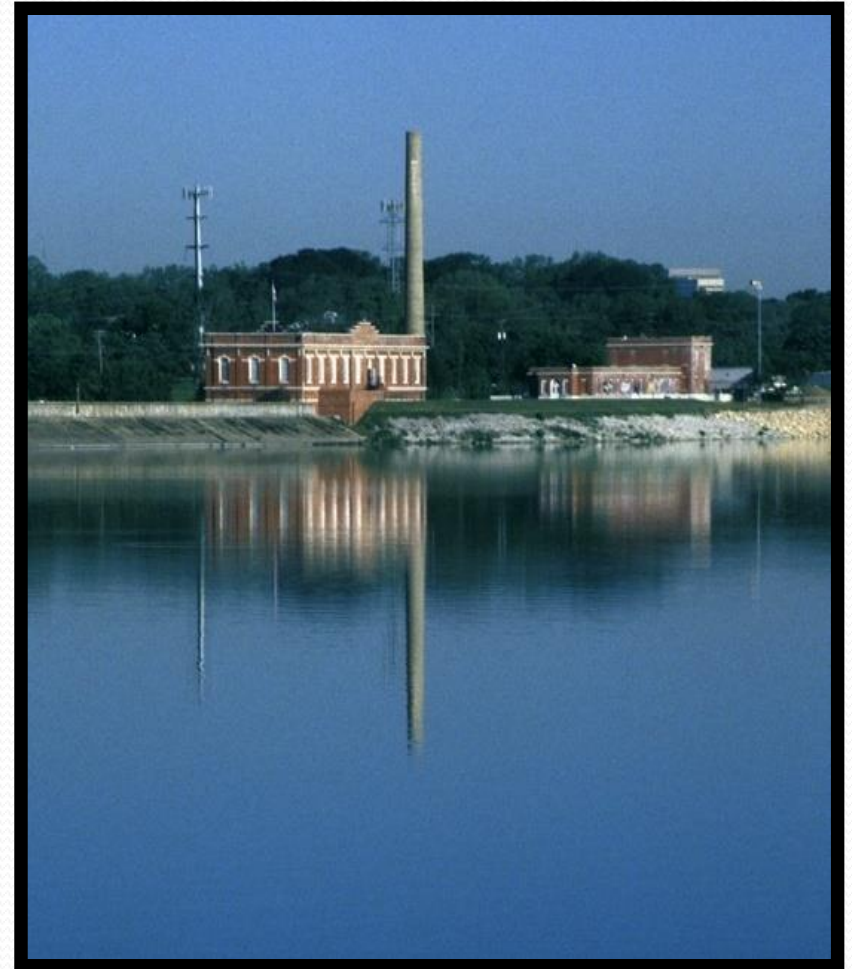
- This briefing provides an overview of Dallas Water Utilities' preliminary Fiscal Year 2015-16 Budget

Background

City of Dallas Water Utilities Fact Sheet

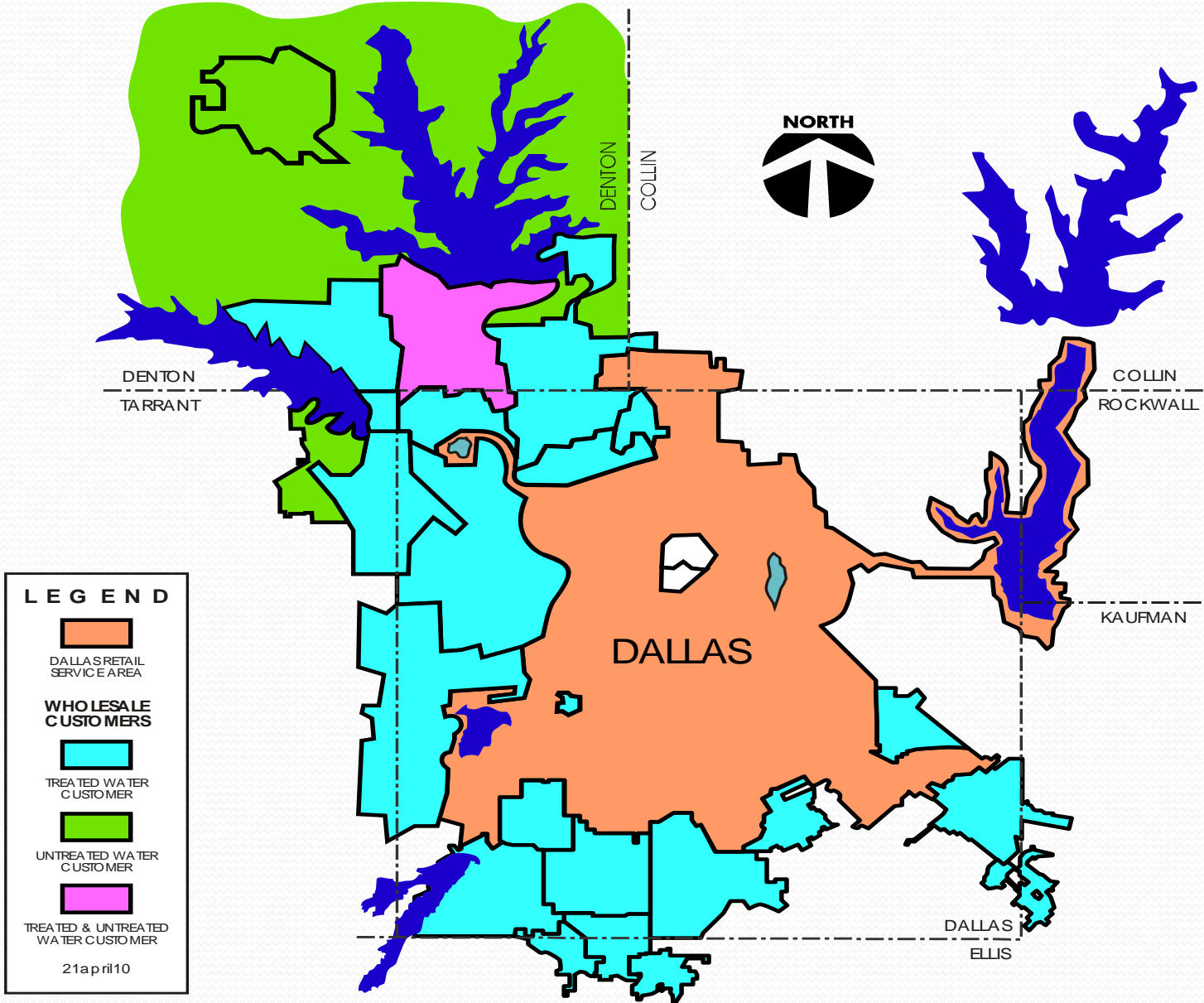
Dallas Water Utilities is a regional municipal utility owned by the City of Dallas

- Enterprise fund department
- Approximately 1,500 employees
- Population served (treated water)
 - 1.2 million - City of Dallas
 - 1.2 million wholesale customer cities
- 699 square mile service area
- 300,000+ retail customer accounts
- 4,922 miles of water mains
- 4,016 miles of wastewater mains
- 3 water treatment plants
- 2 wastewater treatment plants
- Wholesale customers
 - 23 treated water
 - 4 untreated water
 - 11 wastewater



White Rock Pump Station

Dallas Water Utilities Service Area



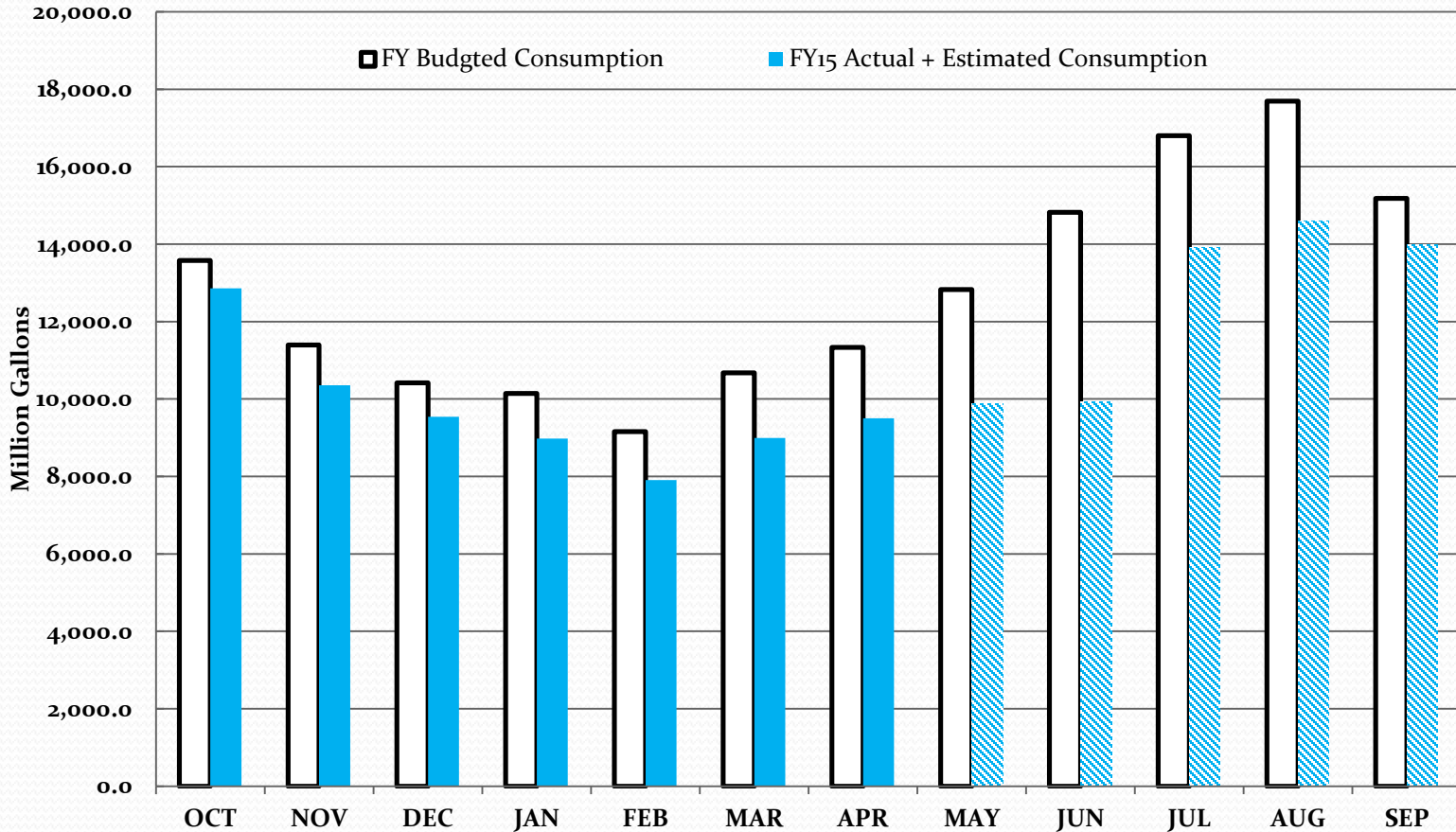
Update on FY15 Operating Budget

- Fiscal Year 2014-15 Operating Budget of \$614.5M
 - April FTA projects revenues to be 5.2% or \$31.9M under budget
 - With current long term weather forecast, revenues could be impacted by an additional \$47.1M
- Projected revenue shortfall of \$79M
- Current expense forecast is \$535.5M
 - Additional expense of \$16.1M associated with SRA escrow payment
- Balancing current year expenses to revenues by reducing:
 - Personnel expenses
 - Power costs
 - Street Rental
 - Debt Service savings from Series 2015 bond sale refunding
 - Cash transfers to construction from \$82.5M to \$18.9M
 - Defers capital projects and reduces capital program approximately \$25M

Revised Forecast of FY15 Budget

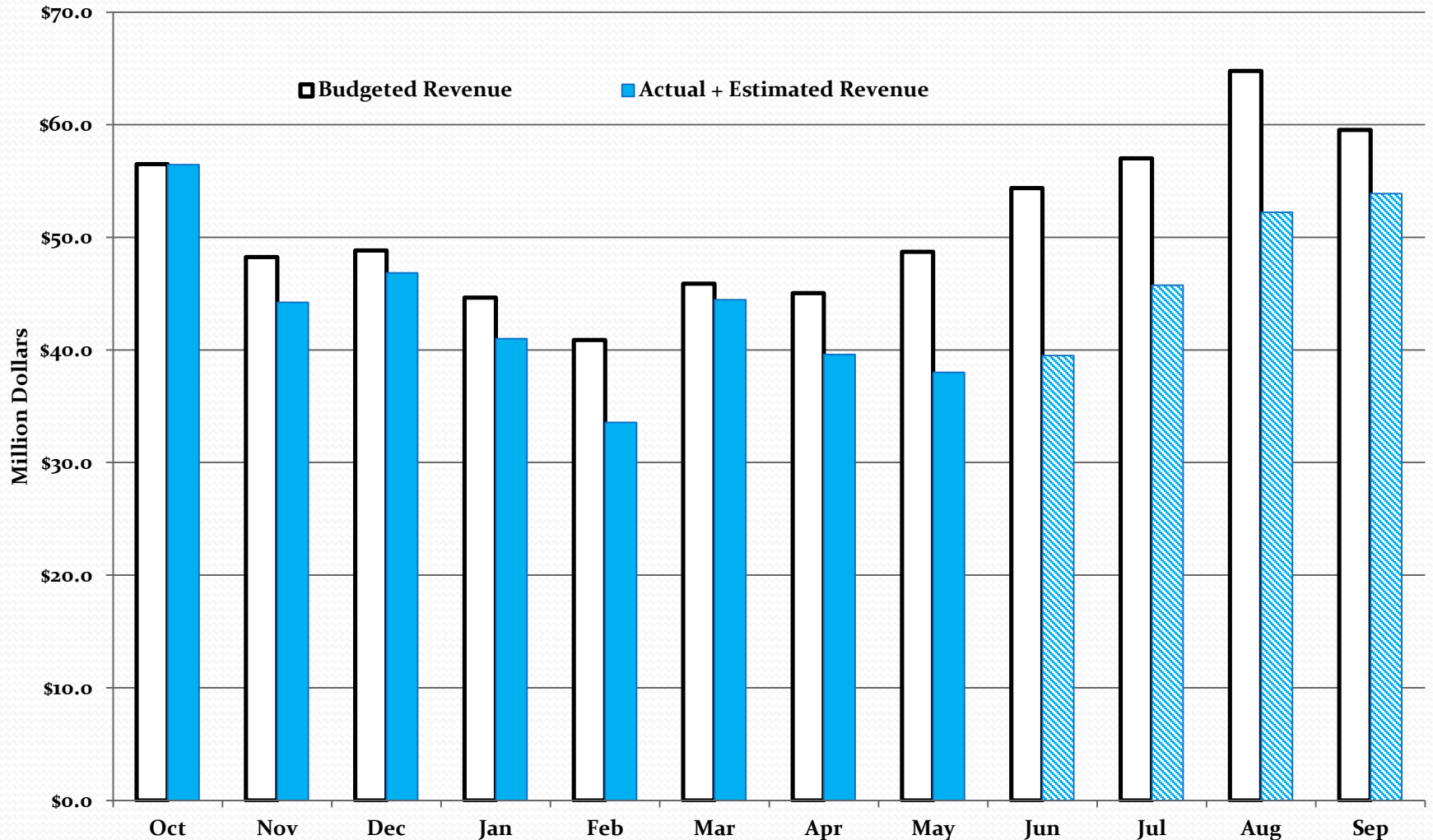
	FY15 Adopted Budget	FY15 Budget Estimate as of June 1
Salaries, Benefits & Pension Obligation Bonds	\$ 103,991,400	\$ 95,812,530
Power, Chemicals & Fuel	56,005,203	51,005,203
Other Supplies & Services*	66,658,016	81,551,248
General Fund: CIS, City Forces, GFICR	28,997,398	28,997,398
Street Rental	25,447,000	22,789,216
Payment in Lieu of Taxes	21,725,000	21,725,000
Professional & Contractual Svcs	5,908,862	5,908,862
Equipment	<u>4,801,056</u>	<u>4,801,056</u>
Operating and Maintenance Expenses	\$ 313,533,935	\$ 312,590,513
Debt Service	\$ 197,265,242	\$ 182,819,429
Transfers to Construction	82,500,000	18,850,508
Integrated Pipeline Project	<u>21,222,000</u>	<u>21,222,000</u>
Capital Funding Expenses	<u>\$ 300,987,242</u>	<u>\$ 222,891,937</u>
Preliminary Fiscal Year 2015-16 Operating Budget	\$ 614,521,177	\$ 535,482,450
* Includes SRA Escrow payment		

FY15 Consumption Comparison



As of May 31, consumption is 13.2% or 11.8 BG below budgeted forecast

FY15 Revenue Comparison



April FTA preliminary estimate through May projected revenues to be \$31.9M under budget

Dallas Water Utilities Budget Focus

FY 2015-16 Budget Focus



- Dallas Water Utilities is municipally owned retail and regional wholesale water/wastewater supplier
 - Costs are driven by infrastructure requirements for both growth and renewal
 - Dallas is responsible for meeting future water requirements for service area
 - Self-supporting
- Proposed budget continues the focus on maintaining the infrastructure and conserving resources through:
 - Water and wastewater systems maintenance/replacement
 - Annual replacement of aged water and wastewater mains
 - Pro-active detection of water system leaks
 - Water conservation efforts



Rehabilitation Focus Show Results

- Goals and Benefits
 - Efficient use of water supply
 - Recovers production capacity and costs
 - Reduced liability and damage to property
 - Improved environmental quality
- Unaccounted For Water was 7.37% for FY14 and 9.41% year to date for FY15 with an industry goal of 10%
- Sanitary sewer spills per 100 miles of main are 0.8% compared to the industry standard of 6.2%
- Water main breaks/leaks per 100 miles of main were 34 in Fy14 compared to 43 in FY11

Fiscal Year 2015-16 Operating Budget

Fiscal Year 2015-16 Preliminary Budget

- The March Preliminary Budget proposal has been updated to include:
 - Additional \$18.1M to fully fund SRA rate dispute escrow amount of \$24.1M in FY16
- Preliminary FY 2015-16 Budget includes:
 - Operating Budget of \$651.0M
 - An increase of \$36.5M from FY15
 - Capital Budget of \$219.3M
 - Revenue bond sale of \$125M
- Total retail revenues projected to increase by 6.7%
 - Wholesale cost of service studies currently being finalized
- Continue commitment to provide high quality and sufficient water and wastewater service to meet customer needs
- Forecasted Max Year coverage based on FY15 revenues limits Capital Program to \$219.3M (Previously planned program of \$319.9M)

FY 2015-16 Budget Provides the Following Services

- 151.5 BG of water treated and delivered
- 60.0 BG of wastewater treated
- Capital Improvement Program of \$219.3M
- Continuation of plant expansion at Eastside Water Treatment Plant and replacement of aged water and wastewater mains
- Meets all State and Federal water and wastewater quality requirements
- Meets all Financial Management Performance Criteria
 - Based on year end forecast for FY15's revenues and expenses
 - Maximum Year coverage for FY16 is 1.78
 - Maximum Year coverage against Prior Year Revenues is 1.30

Major Expense Increases for Preliminary FY16 Operating Budget

- Preliminary FY16 Operating Budget of \$651.0M
 - Increase of \$36.5M from FY 2015 Operating Budget of \$614.5M
- Major Expense Items
 - FY 2015 Operating Budget \$614.5M
 - Sabine River Authority Rate Dispute Escrow Fund \$ 18.1M
 - Debt Service and Capital Funding (\$ 3.1M)
 - Cash Construction Funding \$ 8.5M
 - Integrated Pipeline funding \$ 3.7M
 - Salaries & Benefits for FY16 full year funding and Merits \$ 2.6M
 - Street Rental Increase due to increased retail revenues \$ 1.3M
 - Other O&M \$ 5.4M
- Proposed Fiscal Year 2015-16 Operating Budget **\$651.0M**

Revenue Requirement

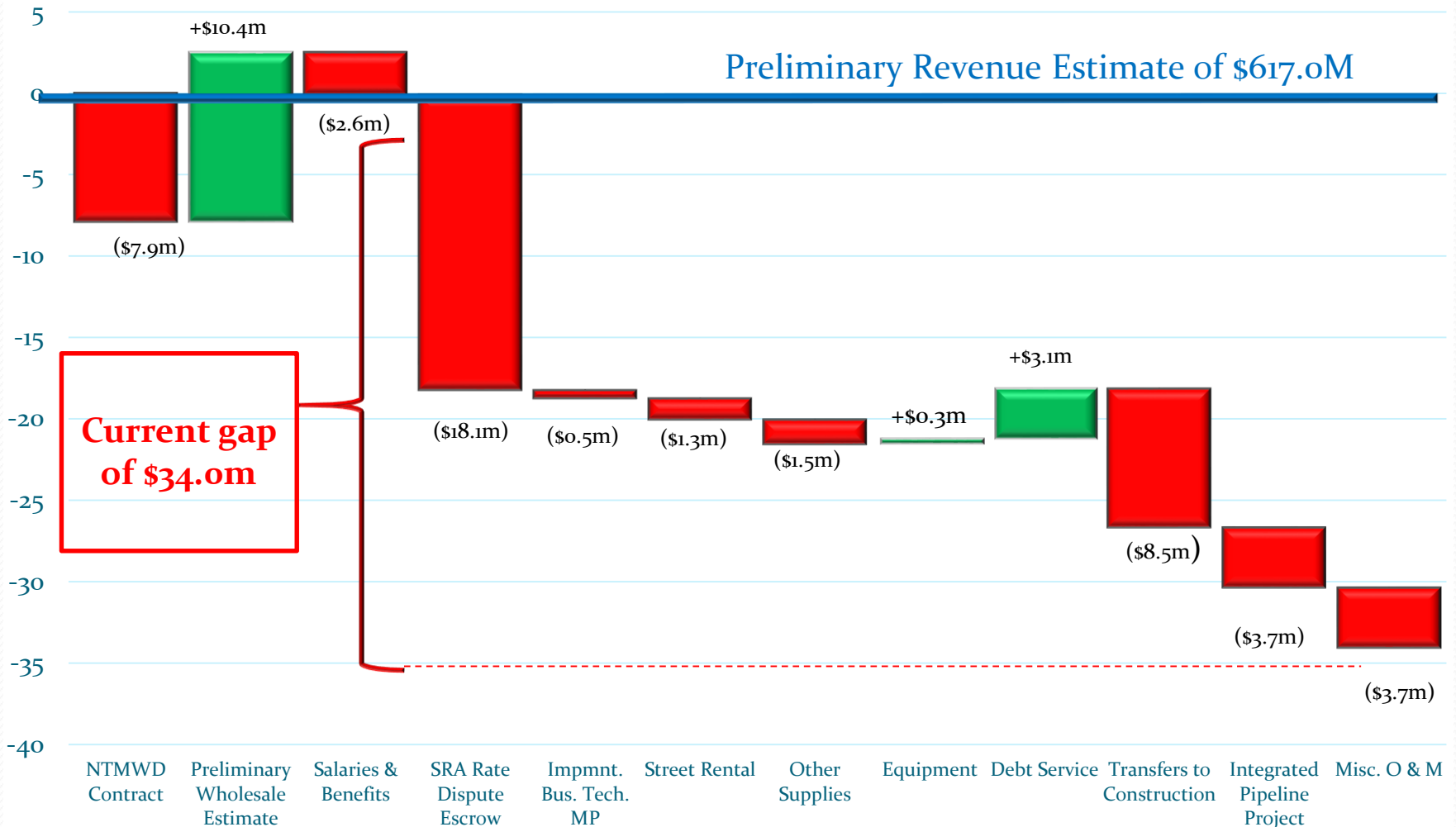
FY16 Preliminary Retail Revenue Requirement

(in millions)

Retail Revenues at Current Rates	\$508.7
Wholesale Sales	\$89.0
NTMWD Interim Contract (thru May 2016)	\$2.0
Miscellaneous Revenues	<u>\$6.9</u>
Total FY16 Preliminary Operating Revenues	\$606.6
Preliminary Wholesale Estimate	<u>\$10.4</u>
FY16 Preliminary Revenues	\$617.0
Preliminary FY16 Expenses	<u>(\$651.0)</u>
FY16 Preliminary Additional Revenue Requirement	\$34.0
Retail Rate Increase	6.7%
Retail Rate Increase if Street Rental fee raised to 6% of retail revenues	7.7%

FY 2015-16 Outlook

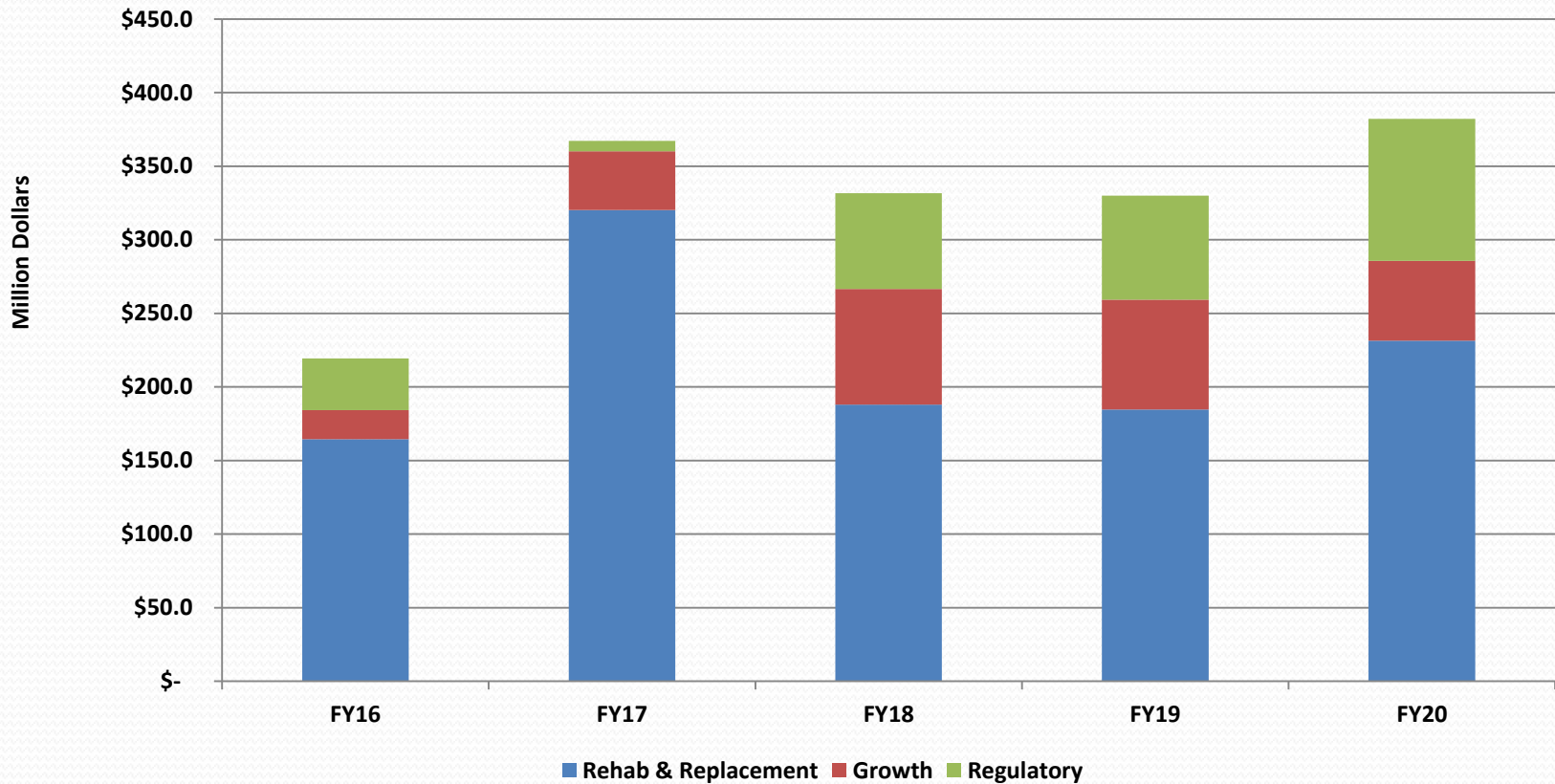
Preliminary Revenue Estimate of \$617.0M



Note: Forecasts are preliminary and are subject to change during rate development and budget process

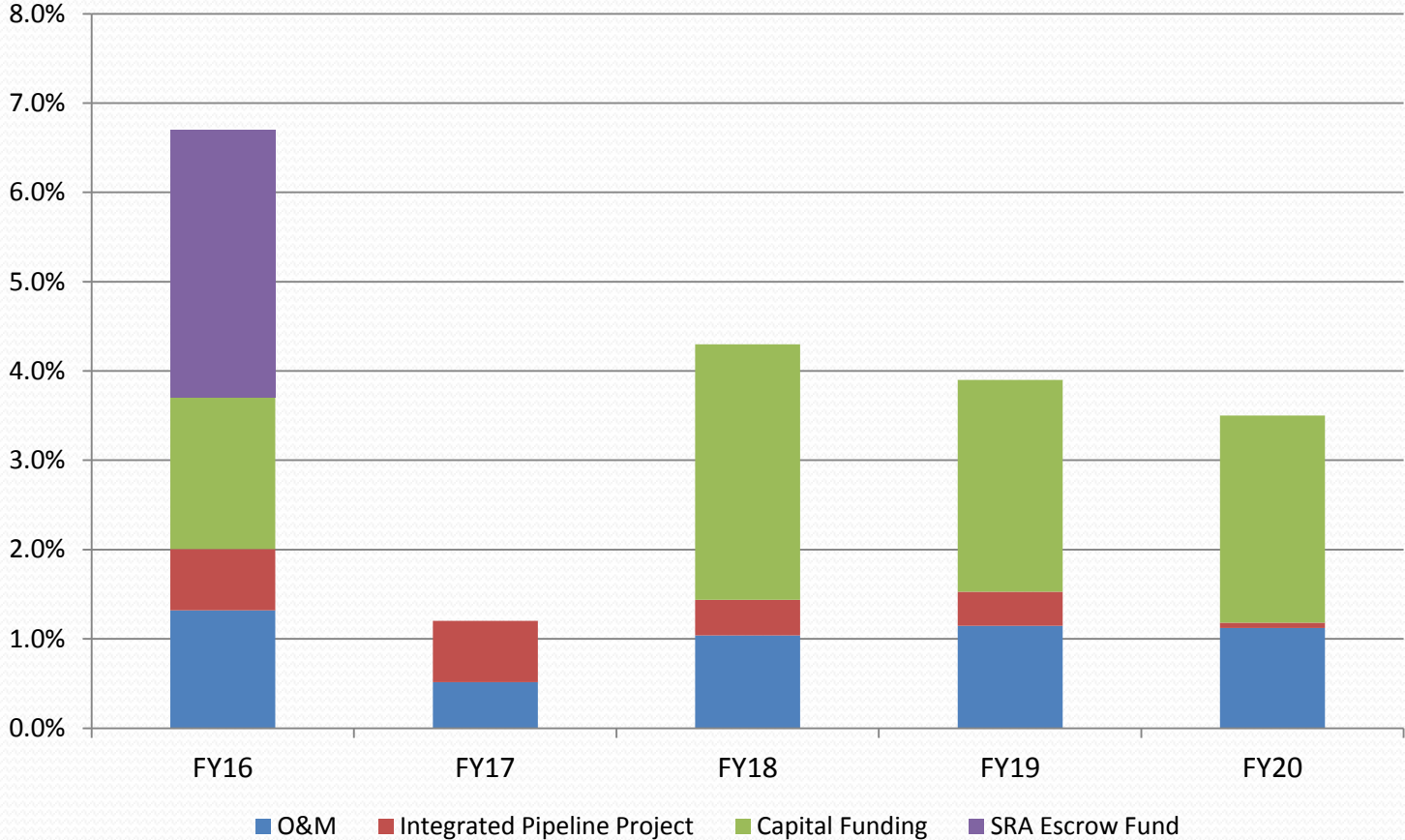
Future Outlook

Future Outlook: Capital Improvement Program



Note: Does not include cost of additional future water supply acquisitions

Future Outlook: Retail Revenue Increases



Note: Dallas Estimated Share of IPL project is \$832M; with estimated capital savings of \$196M and includes every other year revenue bond sales

Summary

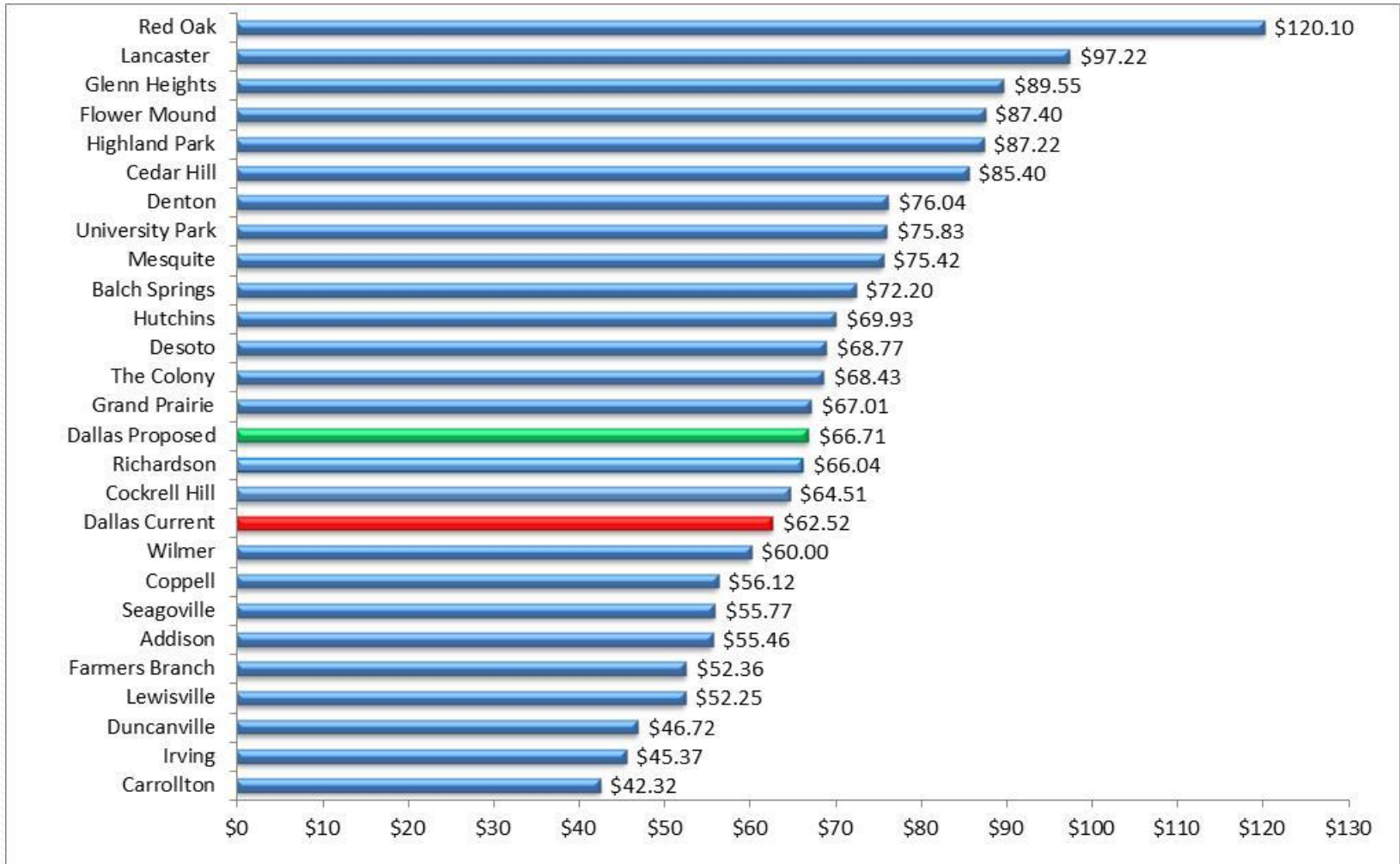
- Dallas Water Utilities is a large, municipally owned regional water/wastewater utility provider
 - Self-supporting
 - Costs are driven by infrastructure requirements for both growth and renewal
 - Responsibility for planning to meet water requirements for Dallas and service area
- Preliminary Operating Budget of \$651.0M
 - Overall retail revenue increase of 6.7%
 - Typical bill increases \$4.19 per month from \$62.52 to \$66.71
- Recommend Capital Budget of \$219.3M

APPENDIX

Impact of Proposed 6.7% Increase

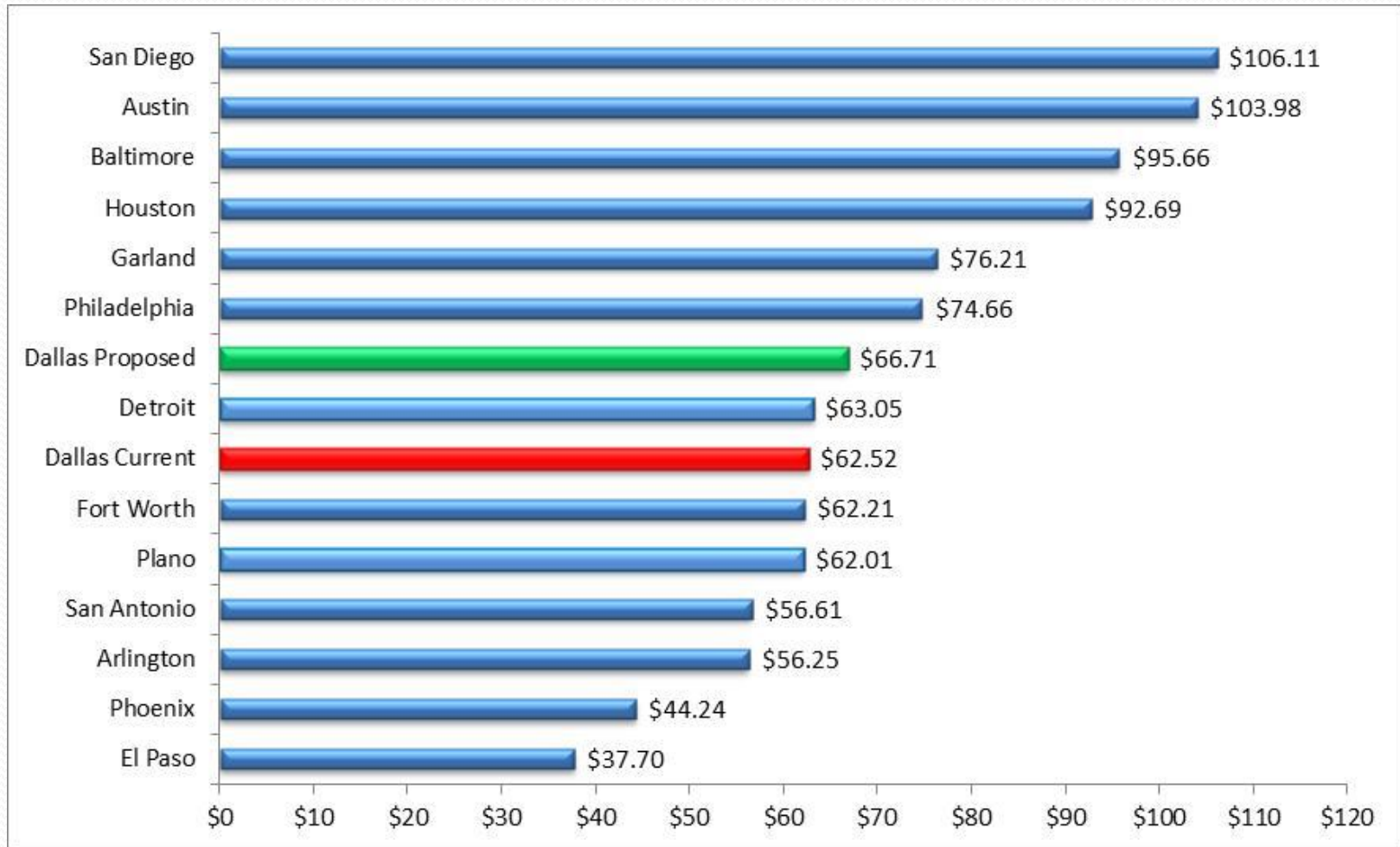
- Typical monthly residential water and wastewater bill would increase from \$62.52 to \$66.71 or \$4.19 per month
 - Based on water use of 8,300 gallons and 5,900 gallons Winter Months Average for sewer
- US EPA affordability guideline for wastewater bills is 2% of median income
 - Dallas' wastewater bills would be 0.9% of median income based on American Community Survey Data Profile

Customer Cities Comparison of Average Monthly Water & Sewer Residential Bills



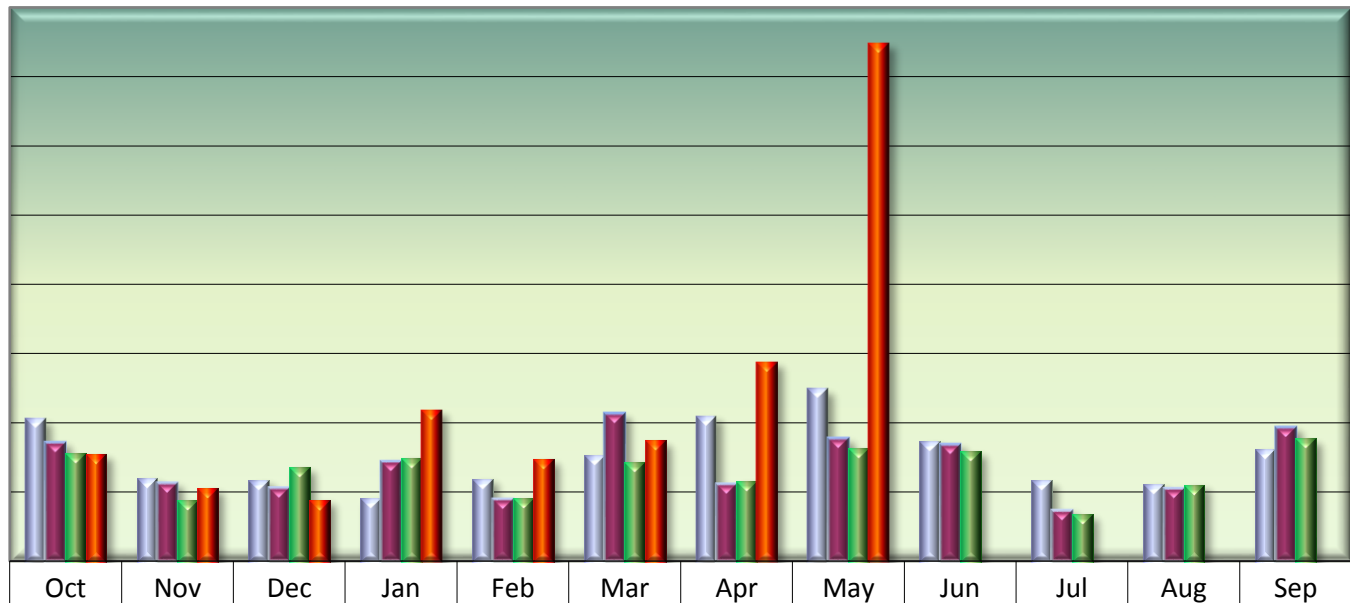
Note: Bill comparison based on rates effective March 2015; water consumption of 8,300 gallons; and 5,900 gallon Winter Months Average for sewer

Index Cities Comparison of Average Monthly Water & Sewer Residential Bills



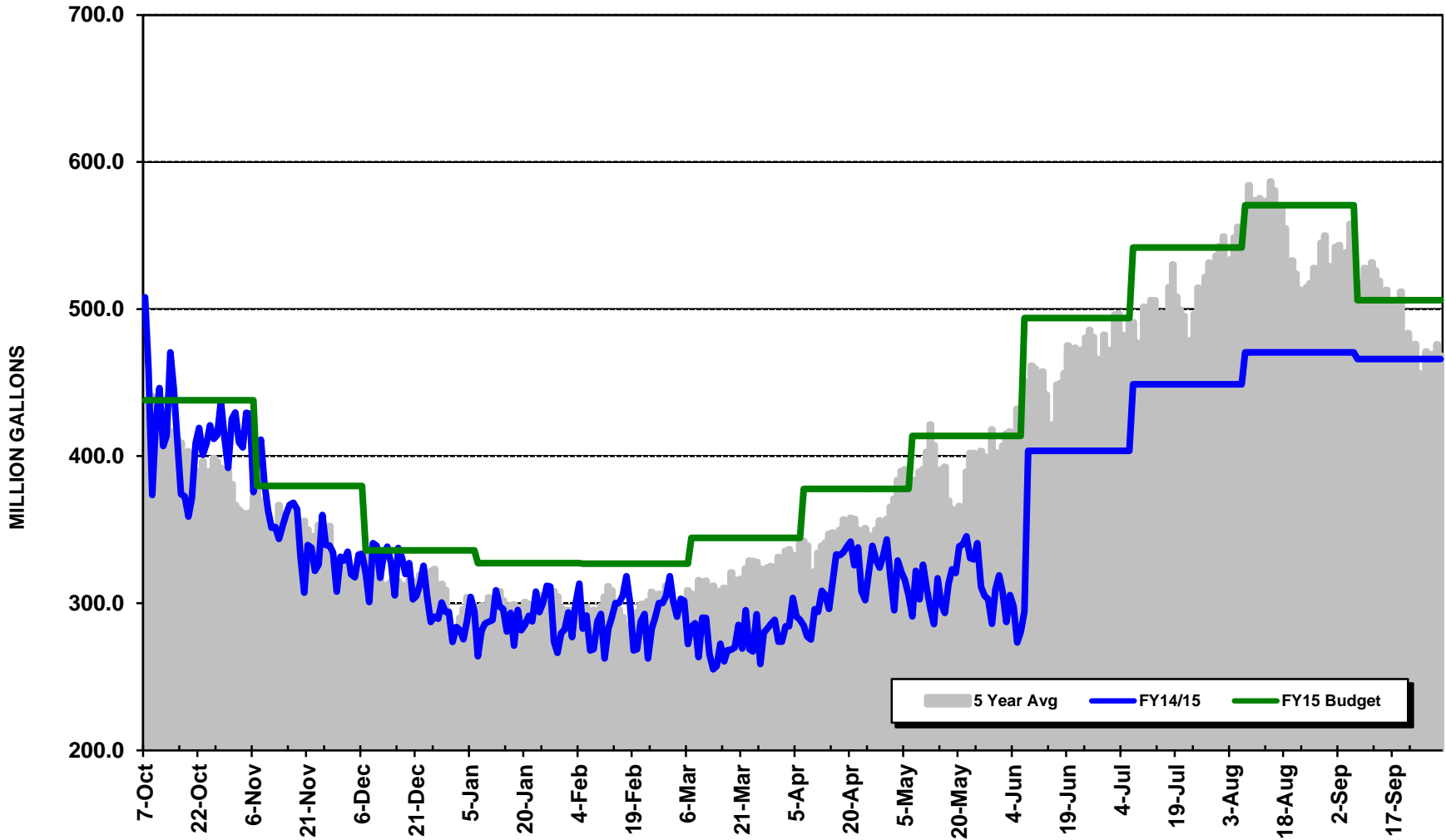
Note: Bill comparison based on rates effective March 2015; water consumption of 8,300 gallons; and 5,900 gallon Winter Months Average for sewer

Historical Rainfall Trends



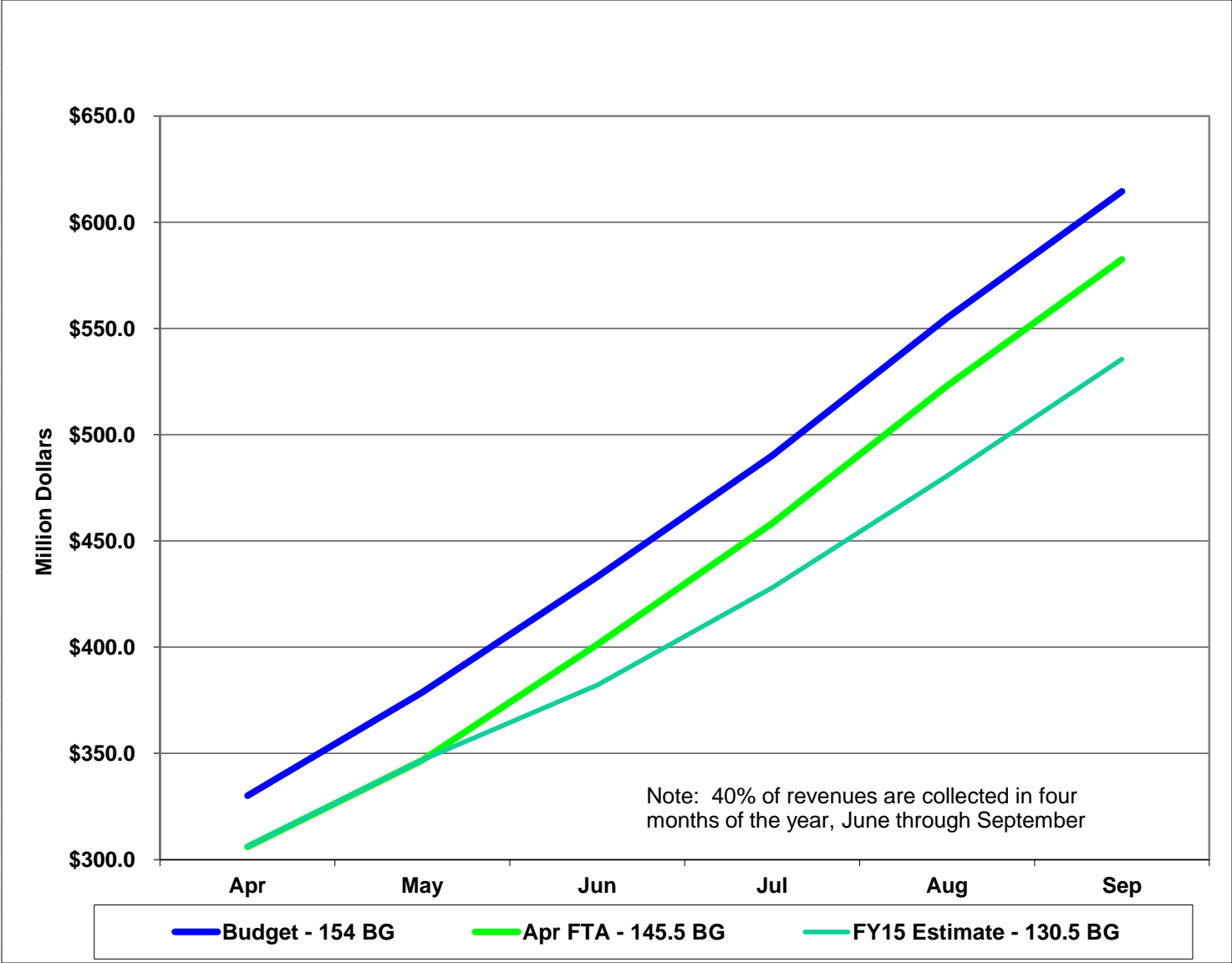
	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
50 Yr Avg	4.12	2.40	2.34	1.83	2.37	3.05	4.20	4.99	3.46	2.33	2.23	3.23
10 Yr Avg	3.43	2.26	2.12	2.88	1.80	4.25	2.23	3.54	3.37	1.48	2.10	3.85
5 Yr Avg	3.10	1.76	2.72	2.98	1.81	2.87	2.31	3.27	3.17	1.36	2.20	3.54
FY15	3.10	2.12	1.76	4.37	2.96	3.49	5.74	14.98				

FY15 Consumption Trends



As of May 31, consumption is 13.2% or 11.8BG below forecast. Based on current weather conditions, revised consumption is added to year to date actuals.

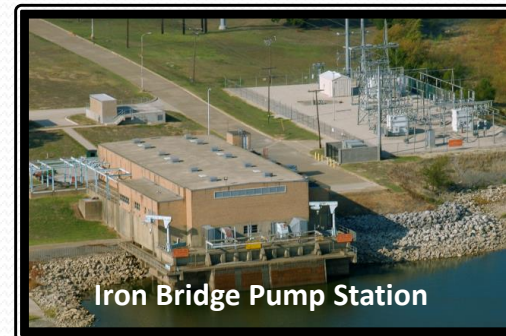
FY15 Revenue Ranges



Fiscal Year 2015-16 Capital Improvement Program

Capital Budget Overview

- Infrastructure driven operation with assets of \$5.3B
- Focus on infrastructure rehabilitation and maintenance
 - For the prior four years, approximately half of the Capital Program went for the maintenance of existing infrastructure
 - For FY16, \$164.4M of the \$219.3M capital program is budgeted for water/wastewater main replacements and infrastructure rehabilitation
- Actions are to sustain what we have, and add new sources to meet future growth



Capital Program Development



- Utilizes 10 year capital improvement program (CIP) supported by system master planning to prioritize and schedule projects
- Council approves Capital Program funding annually as part of the budget process
- Capital Program is typically funded by a combination of cash and debt
- Strict adherence to TCEQ/EPA regulations

FY2015-16 Capital Budget Funding

- Proposed Capital Budget of \$219.3M funded by:
 - Cash Transfer - \$91.0M
 - Commercial Paper (CP) for interim financing
 - Lower interest rates
 - Greater financing flexibility
 - Revenue bond sale of \$125M
 - Approved by City Council
 - Used to pay off short term debt (CP)
 - 30 year term
- Meets all FMPC requirements
 - Max Year Bond Coverage budgeted at 1.78 with Prior Year Coverage at 1.30
 - Equity Funding of 41.5%



FY 2015-16 Capital Improvement Program

- Major FY 2015-16 projects include: Currently being finalized
 - W & WW Pipeline Replacement and Pump Station Program –
 - Renewal of aging assets that are beyond or nearing their life expectancy for improved reliability
 - Improvement projects in support of development and sustainable growth
 - East Side and Elm Fork WTP Improvements
 - Process change at treatment facilities to enhance treated water quality and meet regulatory requirements as it relates to the chemical and biological stability of the treated water
 - Replacement of equipment and chemical feed facilities to realize savings in power and chemical use
 - Renewal of aging infrastructure for improved reliability
 - Central and Southside WWTP Improvements
 - Process improvements to meet regulatory requirements
 - Renewal and/or replacement of aging infrastructure for improved reliability
 - Replacement of equipment and automation improvements to realize savings in power and chemical use
- CIP includes
 - Rehab and Replacement \$164.4M
 - Growth \$19.9M
 - Regulatory \$35.0M
 - \$219.3M