



Proposed FY2017 - FY2021 Financial Plan, Rates, and Emerging Issues

Mayor and Council Study Session
April 5, 2016

Presented By:
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Scott Clark, Deputy Director
Harold Smith, Raftelis Consulting



Purpose

- Request adoption of
 - Notice of Intent to Increase Water Rates and Fees
 - Regular Council Session April 5, 2016
- Present to Mayor and Council
 - Policy Guidance
 - Proposed Five-Year Financial Plan
 - Cost of Service Models
 - CWAC Recommendation & Staff Recommendation
 - Proposed Two-Year Rate Schedule (FY 2017 and FY 2018)
 - Acknowledge Council and Community Concerns
 - Public Process and Timeline



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Outcomes

- Proposed Five-Year Financial Plan
 - 7% annual revenue request FY 2017 – FY 2021
- Two Cost-of-Service Models for consideration
 - Traditional
 - Average weighted Residential Rate increase = 8.7%
 - Smoothing
 - Average weighted Residential Rate Increase = 7.5%
- Seeking two-year rate plan, FY 2017 & FY 2018
- Acknowledge concerns and guidance



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FY2017-2021 Five-Year Financial Plan Policy Guidance

Mayor & Council Policies

- Senior Lien Debt service coverage
 - 175% Net Operating Budget
- Working Capital – Days of Operations and Maintenance
 - 85 days
- Annual review of rates and fees



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FY2017-2021 Five-Year Financial Plan

Policy Guidance

- Consider revenue request in context of total cost of government:
 - Reduced Operations and Maintenance Request
 - \$6.7 million
 - Deferred Capital Improvements
 - \$49 million
- Assist Low Income
 - Budgeted \$925,000
- Support Economic Development
 - Budgeted \$6.5 million for Sonoran Corridor/Aerospace Parkway water infrastructure
- Support Water Conservation Priorities
 - \$ 300,000
 - Low income conservation loan program
 - \$350,000
 - Stormwater Neighborhood projects



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Citizens Water Advisory Committee Guidance & Recommendation

- Guidance
 - Maintain the reclaimed incentive
 - Send a strong conservation signal
 - Explore blocks
- CWAC Recommendations
 - FY 2017 - FY 2021 Financial Plan
 - 7% per year for five years
 - Rates
 - Cost-of-Service Smoothing Model
 - Rates for one year
- Staff recommendation
 - Rates for two years



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Change From FY 2016 to FY 2017 Requested Budget

FY 2017 Operating and CIP Budget Requirements at 7% Revenue Increase

	FY 2016 Adopted Budget	FY 2017 Requested Budget	Change	
Operating Budget Request as of November CWAC		\$188,202,482		
Total Department-wide Reductions to stay within a 7% Revenue Increase		(\$6,758,612)		
Total Reduced Operating Budget Request	\$172,069,690	\$181,461,870	\$9,392,180	
Non Discretionary		84% of total budget		
Debt Service	\$53,511,000	\$56,666,770	\$3,155,770	6%
Personnel costs <i>(Increases to group ins., workers comp., unemployment only)</i>	35,196,481	35,738,220	541,739	2%
CAP	26,316,020	27,252,100	936,080	4%
Power	15,913,825	15,422,420	(491,405)	-3%
Admin Service Charge (Direct/Indirect)	9,990,440	10,307,957	317,517	3%
In Lieu property	1,600,000	2,000,000	400,000	20%
Legal	600,000	860,000	260,000	30%
Low Income Program	525,000	925,000	400,000	42%
Others include TARP and AOP maintenance management	687,120	1,727,200	1,040,080	60%
Conservation Loan Program*		300,000	300,000	100%
Stormwater Neighborhood Projects*		350,000	350,000	100%
Total:	\$144,339,886	\$151,549,667	\$7,209,781	
Water Reliability and Customer Service Budget Requirements				
Maintenance, wells, valves, service lines, etc. previously CIP funded		\$3,170,000	\$3,170,000	
Replacement Vehicles	714,000	2,000,000	1,286,000	
Other misc. net reductions		(3,075,237)	(3,075,237)	
New CSRs, Customer Service Training, Web Master, AMI PM		576,636	576,636	
Utility Billing Upgrades		250,000	250,000	
Total:		\$2,921,399	\$2,207,399	
Total FY2017 Increase:			\$9,417,180	
<i>*Conservation Fund</i>				
Fiscal Year 2017 - 2021 Capital Improvement Program (CIP)				
<i>The CIP program provides the investment needed to meet capacity and water quality demands of the Utility's customer base. The Fiscal Year 2017-2021 capital program will be funded through a combination of water revenues, water system revenue obligations, and other debt funding.</i>				
CIP Budget Request as of October CWAC Presentation			\$ 280,138,000	
Total CIP Reductions to stay within the 7% Revenue Request			\$ (49,069,000)	
Total Reduced CIP Request:			\$ 231,069,000	

FY 2017-FY 2021

Summary Five Year Financial Plan

- Operations and Maintenance - \$179.5 million
- Capital Improvement Program - \$56.1 million
- Conservation Program – No changes in rate
- Debt Service Coverage – 186%
- Operating Days Cash – 95 days
- Low income assistance - \$925 thousand
- Support to Economic Development – \$6.5 million
- Financial Stability – AA, Aa2 (Stable Outlook)
 - Enabled debt refinancing saving of \$8.9 million



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Cost of Service - Traditional Model

Customer Class	Allocated Cost of Service	Adjusted Cost of Service/Revenue Target (\$1,000)	Less Revenue Under Existing Rates (\$1,000)	Revenue Adj. Cost of Service Rates Minus Existing (\$1,000)	Revenue Increase % Required
Potable Drinking:					
Residential	\$94,567	\$101,664	(\$93,556)	\$8,108	8.7%
Multifamily	\$24,641	\$26,212	(\$24,762)	\$1,450	5.9%
Commercial	\$34,777	\$37,159	(\$35,487)	\$1,672	4.7%
Industrial	\$2,016	\$2,136	(\$1,955)	\$181	9.3%
Construction Water	\$1,109	\$1,218	(\$1,163)	\$55	4.7%
Fire Sprinkler Service Hydrants (Public Fire Protection)	\$2,226	\$2,426	(\$2,212)	\$214	9.7%
Schools Peak Costs	\$254	-	-	-	
Reclaimed	\$14,032	\$8,739	(\$8,673)	\$66	0.8%
Total	\$179,554	\$179,554	(\$167,808)	\$11,746	7.0%



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8.7% Overall Rate impacts, typical Single-Family Residential FY '17 & FY '18 (Traditional Model)

Ccf/mo.	FY	Change from Prior FY (%)	Change from Prior FY (\$)	Projected monthly cost (\$)
0 Ccf (fixed rates)	FY17	6.4%	\$0.76	\$12.67
	FY18	6.8%	\$0.86	\$13.53
3	FY17	7.9%	\$1.42	\$19.32
	FY18	8.1%	\$1.57	\$20.90
7	FY17	8.9%	\$2.30	\$28.20
	FY18	8.9%	\$2.52	\$30.72
9	FY17	9.5%	\$3.10	\$35.60
	FY18	9.1%	\$3.23	\$38.83
15	FY17	10.5%	\$5.49	\$57.79
	FY18	9.3%	\$5.37	\$63.17

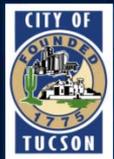


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Cost of Service - Smoothing

Customer Class	Allocated Cost of Service	Adjusted Cost of Service/Revenue Target (\$1,000)	Less Revenue Under Existing Rates (\$1,000)	Revenue Adj. Cost of Service Rates Minus Existing (\$1,000)	Revenue Increase % Required
Potable Drinking:					
Residential	\$94,567	\$100,542	(\$93,556)	\$6,986	7.5%
Multifamily	\$24,641	\$26,484	(\$24,762)	\$1,722	7.0%
Commercial	\$34,777	\$37,982	(\$35,487)	\$2,495	7.0%
Industrial	\$2,016	\$2,134	(\$1,955)	\$179	9.2%
Construction Water	\$1,109	\$1,244	(\$1,163)	\$81	7.0%
Fire Sprinkler Service Hydrants (Public Fire Protection)	\$2,226	\$2,428	(\$2,212)	\$216	9.8%
Schools Peak Costs	\$254	-	-	-	
Reclaimed	\$14,032	\$8,739	(\$8,673)	\$66	0.8%
Total	\$179,554	\$179,554	(\$167,808)	\$11,747	7.0%



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7.5% Overall Rate impacts, typical Single-Family Residential FY '17 & FY '18 (Smoothing Model)

Ccf/mo.	FY	Change from Prior FY (%)	Change from Prior FY (\$)	Projected monthly cost (\$)
0 Ccf (fixed rates)	FY17	6.4%	\$0.76	\$12.67
	FY18	6.8%	\$0.86	\$13.53
3	FY17	7.6%	\$1.36	\$19.26
	FY18	7.9%	\$1.51	\$20.78
7	FY17	8.3%	\$2.16	\$28.06
	FY18	8.5%	\$2.38	\$30.44
9	FY17	8.8%	\$2.86	\$35.36
	FY18	8.7%	\$3.09	\$38.45
15	FY17	9.5%	\$4.95	\$57.25
	FY18	9.1%	\$5.23	\$62.49

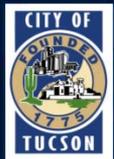


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Average Residential Impacts FY 2016 Compared to FY 2017

	CCFs	FY 2016	FY 2017	Change	Percent
Winter Average	7	\$26.47	\$28.62	\$2.15	8.12%
Annual Average	8	\$29.85	\$32.35	\$2.50	8.38%
Summer Average	9	\$33.22	\$36.08	\$2.86	8.61%



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Affordability

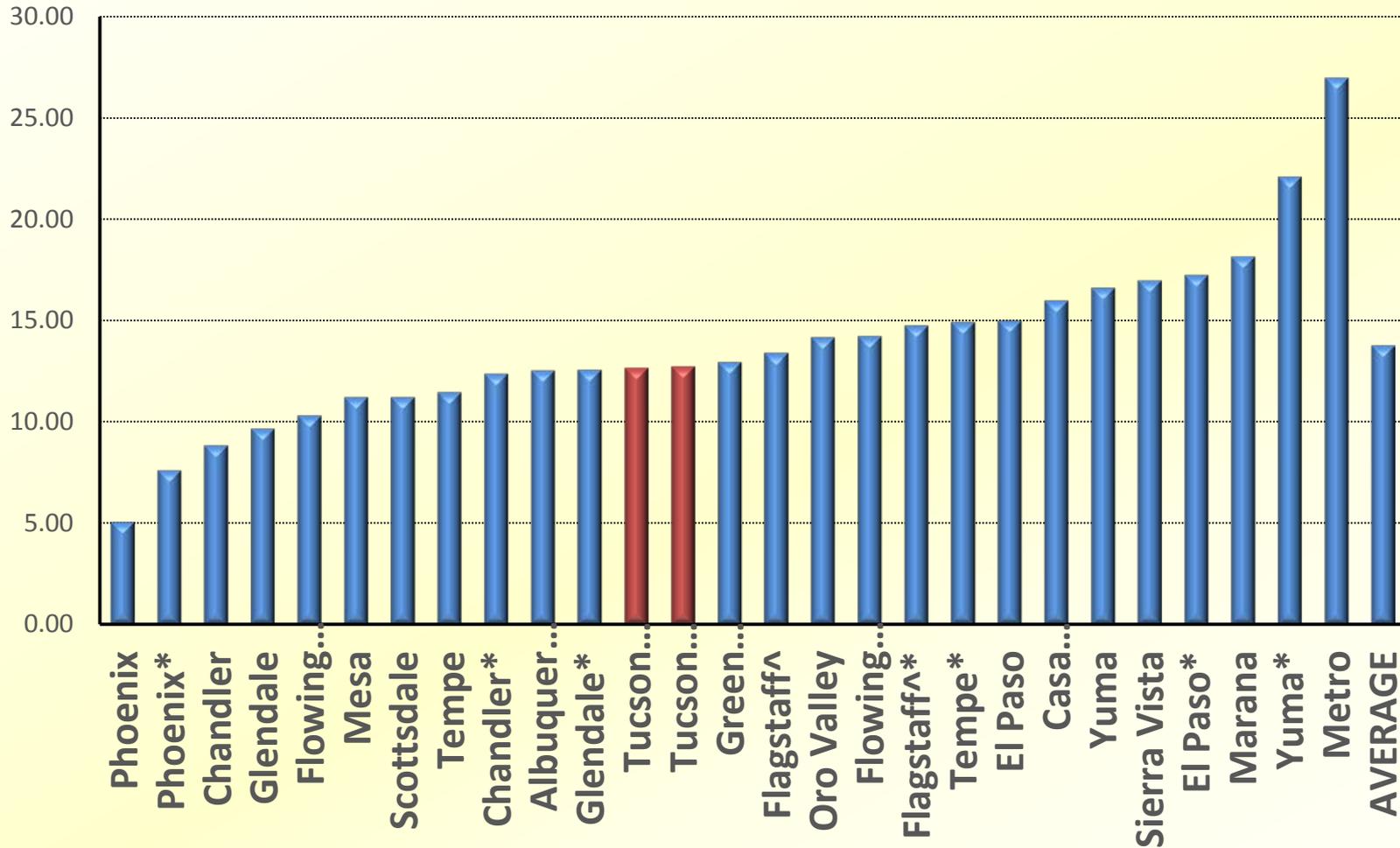
- American Water Works Association
 - 1.5% to 2.5% Median Household Income (MHI)
- Fitch (Bond Rating Agency)
 - 1% MHI
- City of Tucson Water Department
 - Proposed Rate Increase
 - 1.08% of City of Tucson MHI
 - 0.87 metropolitan area



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Fixed Rates Comparison



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FY2017 Financial Plan / Rate Setting Schedule

<p>April 5:</p>	<p><u>M&C</u></p> <ul style="list-style-type: none"> - FY2017 combined Financial Plan/Proposed Rate presentation - Adoption of Notice of Intent to Raise Rates (ARS 9-511.01)
<p>April 20th – 26th :</p>	<p><u>Town Halls</u></p> <ul style="list-style-type: none"> - April 20th, 5:30 – 7:30 p.m. Parks and Recreation Building, Mesquite Room 900 S. Randolph Way - April 26th, 5:30 – 7:30 p.m. Quincie Douglas Library, Large Meeting Room 1585 E. 36th St. - April 28th, William Clements Recreation Center, Multipurpose Room 8155 E. Poinciana Drive
<p>May 17:</p>	<p><u>M&C</u></p> <ul style="list-style-type: none"> - Rate Increase Public Hearing (ARS 9-511.01) - Adoption of Rate Increase
<p>July 5:</p>	<p>New rates take effect first week of FY2017</p>



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Council and Community Concerns

- Improve Communications
 - Spanish-language outreach
 - Share success
 - Three years of water stored in Avra Valley
- Improve low-income programs
 - Access to water conservation tools
 - Access to low-income program bill subsidy
- Revenue Stability
 - Declining revenue in potable and reclaimed sales
 - Aging infrastructure
 - Strong conservation signal
 - Right to water



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Financial Plan, Rates, & Emerging Issues Discussion & Recommendations



April 5, 2016



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