

City of Dallas Water Utilities Fiscal Year 2007 Budget

Dallas City Council

August 16, 2006

Purpose

Provide the City Council an update on the Water Department FY 2006-07 recommended budget to include:

- Operations and Maintenance requirements
- Capital Program recommendation
- Retail rate increase

Water Utilities' 2007 Budget Objectives

- Continue commitment to:
 - Water conservation
 - Implement year three of Water Conservation Five Year Strategic Plan
 - Enhanced leak detection program to reduce water losses
 - Water supply planning to meet the current and future needs of the City of Dallas, including economic growth and development
 - Rehabilitation and replacement of Dallas' aging water and wastewater infrastructure to provide dependable service to our customers
 - Ongoing review of operations and business processes to identify cost efficiencies and savings
- Meet Financial Management Performance Criteria (FMPC), regulatory requirements and growth demands

Major Components of FY07 Budget

- Recommended Expenditures of \$465.5M
 - Major Expenditure increases of \$32.4M
 - \$12.4M (38%) O&M with major increases in power (\$9.8M), chemicals (\$1.9M) and fuel (\$0.7M)
 - \$20.0M (62%) debt service and cash transfers to construction to fund capital program and meet FMPC requirements
 - April Revenue Bond Sale of \$220.0M
 - Retire commercial paper issued in FY06
 - Utilizes 30 year debt to lower rate impacts to current customers
 - Meets FMPC Requirements
 - 1.50 coverage requirement
 - 20% equity funding (cash transfer of \$49.3M + \$4.0 surplus from FY06)

Major Components of FY07 Budget

(continued)

- **Recommended Program Improvements**
 - **Water Conservation – \$79,720; 2 FTEs**
 - Implement an Industrial/Commercial/Institutional rebate program
 - Develop a bi-lingual water audit program
 - **Grease Abatement Program – \$395,000; 2 FTEs**
 - Enhance the Fats, Oils and Grease Abatement initiative
 - Decrease dry weather sanitary sewer overflows due to buildup in sewer lines
 - **Water Quality Monitoring – \$139,489; 2 FTEs**
 - Increase monitoring of surface water and distribution system
 - Regulatory compliance related to Stage 2 of Disinfection By-Products Rule
 - **Hydrostatic Testing and Chlorination Crew – \$67,836; 1 FTE**
 - Reduce wait time to retest water mains before returning to service
 - Reduce construction activity time in neighborhoods
 - **Leak Detection Crew - \$52,366; 2 FTEs**
 - Enhance leak detection program
 - Reduce water losses
 - **Engineering Services In-house Design – \$216,063; 9 FTEs**
 - Increase ability and response time to replace aging pipelines
 - Increase ability to maintain dependable service to customers

Recommended FY 2007 Capital Improvement Program

- Capital Improvement Program of \$265.95M
 - \$212.69M commercial paper
 - \$53.26M cash (includes \$4M in FY06 surplus revenues)
- CIP includes 4 categories
 - Regulatory \$21.50M
 - Growth \$115.31M
 - Rehab and Replacement \$108.83M
 - Work for Others \$20.31M

Major Projects in FY 2007 Capital Improvement Program

- Lake Fork Pipeline Interconnect
- Phase 2 of East Side Water Treatment Plant major expansion increasing plant capacity from 440 to 540 MGD
- Replacement of 85 miles of water and wastewater mains
- Rehabilitation and expansion of effluent filters at Central Wastewater Treatment Plant ensuring fully filtered quality of effluent provided to Trinity River Project Lakes
- Upgrade Alta Mesa Water Pump Station's capacity
- Preliminary design, survey and property acquisition for the future water transmission pipeline to Southwest Dallas and southern customer cities providing the infrastructure for economic growth and development in the southern sector of Dallas

Comparison of FY07 and FY06 Operating Budgets

	<u>FY 2006 Budget</u>	<u>FY 2007 Proposed</u>	<u>Percent Increase</u>
Operations Programs			
Salaries and Benefits	\$ 88,746,567	\$ 87,662,830	-1.2%
Power and Light; Fuel	40,508,415	51,064,679	26.1%
Chemicals	14,055,018	16,003,340	13.9%
Other Supplies	20,950,540	21,649,881	3.3%
Professional & Contractual Svcs	6,838,642	5,467,651	-20.0%
General Fund: CIS, City Forces, GFICR	21,033,850	20,415,690	-2.9%
Payment in Lieu of Taxes	3,000,000	3,000,000	0.0%
Street Rental	13,943,457	15,473,000	11.0%
Other Services	26,076,430	22,505,907	-13.7%
Non-fleet Equipment	706,100	968,416	37.1%
Reimbursements	(4,815,005)	(991,070)	-79.4%
Capital Programs			
Debt Service	156,635,812	173,068,345	10.5%
Transfers to Construction	45,472,000	49,260,000	8.3%
Change in Expenditure Budget	<u><u>\$ 433,151,826</u></u>	<u><u>\$ 465,548,669</u></u>	7.5%

Note: Special Collections and financial reporting staff moved to General Fund for FY07

Major Components of FY07 Budget

(continued)

- Recommended Revenues of \$466.2M
 - Increase of \$2.1M in wholesale revenues (3.2% wholesale rate increase) based on cost of service study
 - \$680,000 increase in cash balance to meet FMPC working capital requirements
 - Retail rate increase of 7.6%
 - FY06 Budget Briefing projected an 8.2% increase
 - \$4.0M of FY06 surplus revenues to fund FY07 capital projects (reduces FY07 cash transfer requirements)

FY07 Retail Revenue Requirement

Revenues @ Current Rates	\$437,369,362	
Increase in Wholesale Revenues	<u>\$ 2,117,969</u>	
Total		\$439,487,331
FY07 Expenses (see slide 8)		(\$465,548,669)
Increase in cash balance (FMPC)		<u>(\$680,000)</u>
FY07 Revenue Requirement		(\$26,741,338)
= 7.6% Retail Rate Increase		

Recommendation

- Increase wholesale customer rates per cost of service study
- Increase retail rates 7.6% to support the services purchased by Results Teams in Budgeting for Outcomes process
 - Typical monthly residential utility bill will increase from \$42.02 to \$45.11
- Issue 30-year revenue bonds
 - Supports a \$265.95M capital program

Appendix

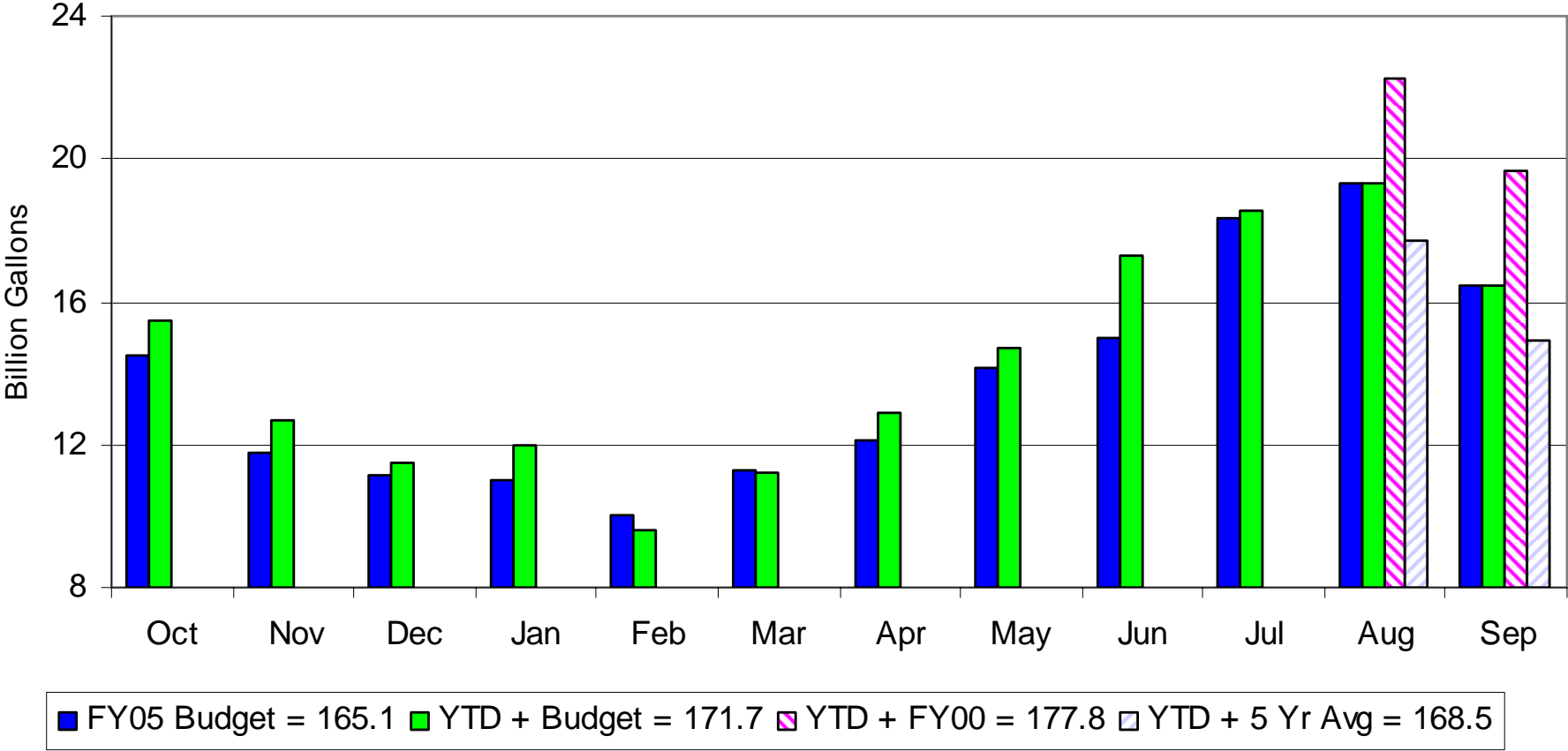
Current Fiscal Year Status

As of June 2006

- Revenues projected to be \$442.7M or \$9.1M above budget
 - Water revenues are \$5.7M above budget
 - Wastewater revenues are \$0.4M below budget
 - Interest income is \$4.4M over budget
 - Miscellaneous revenues are \$0.6 M below budget
- Expenses projected to be \$440.3M or \$7.1M above budget
 - Power and chemical costs are projected to be \$5.0M over budget due to increased water usage due to dry, hot weather
 - Salaries are \$3.4M under budget due to vacancies and lag time in hiring
 - Cash transfers to construction \$4.0 M over budget to fund FY07 capital projects
- Net revenues pending year end close to be dedicated to funding capital projects
 - Net revenues currently projected to be \$1.983M

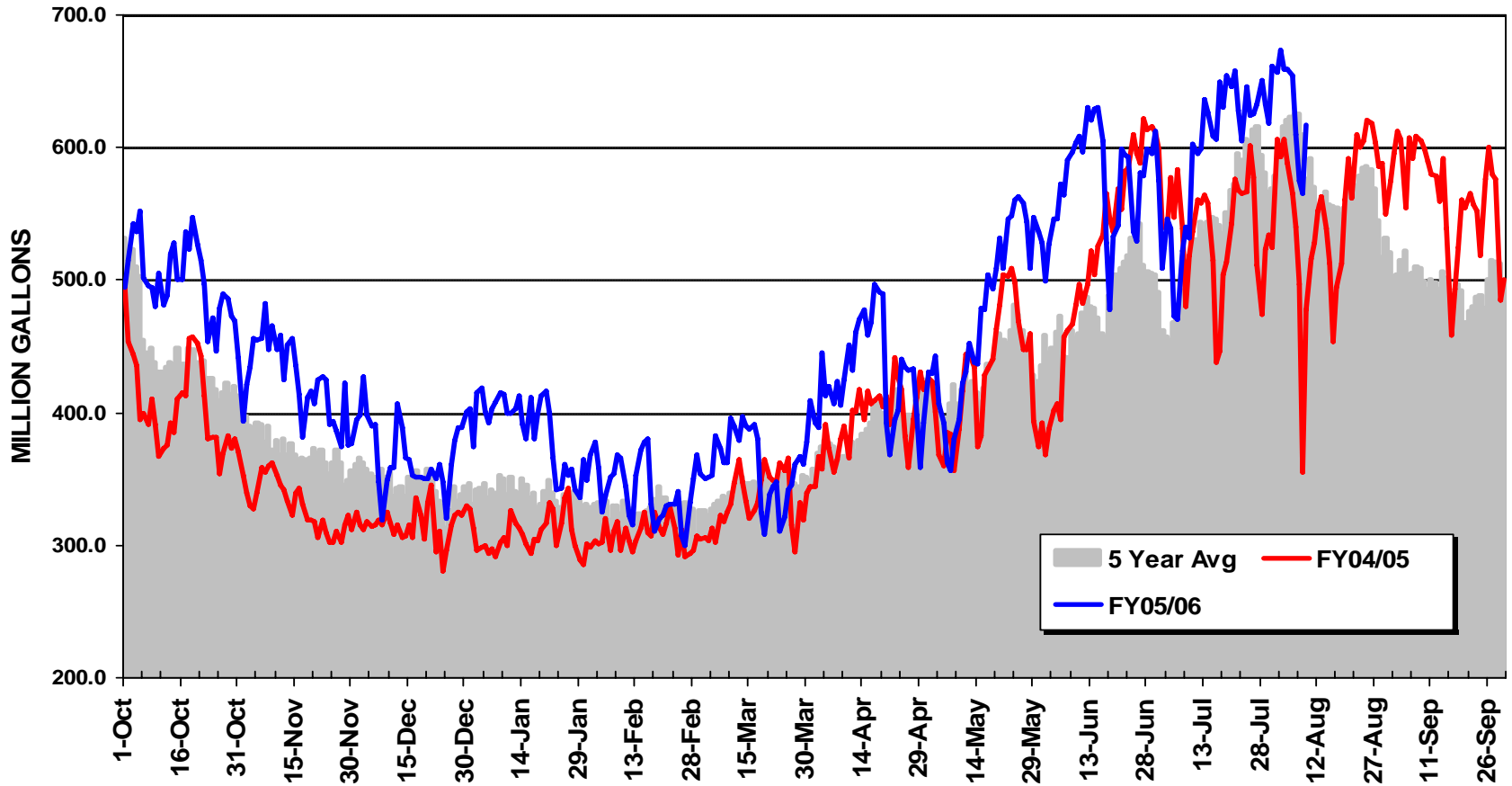
FY06 Consumption Projections

Year to Date through July 2006



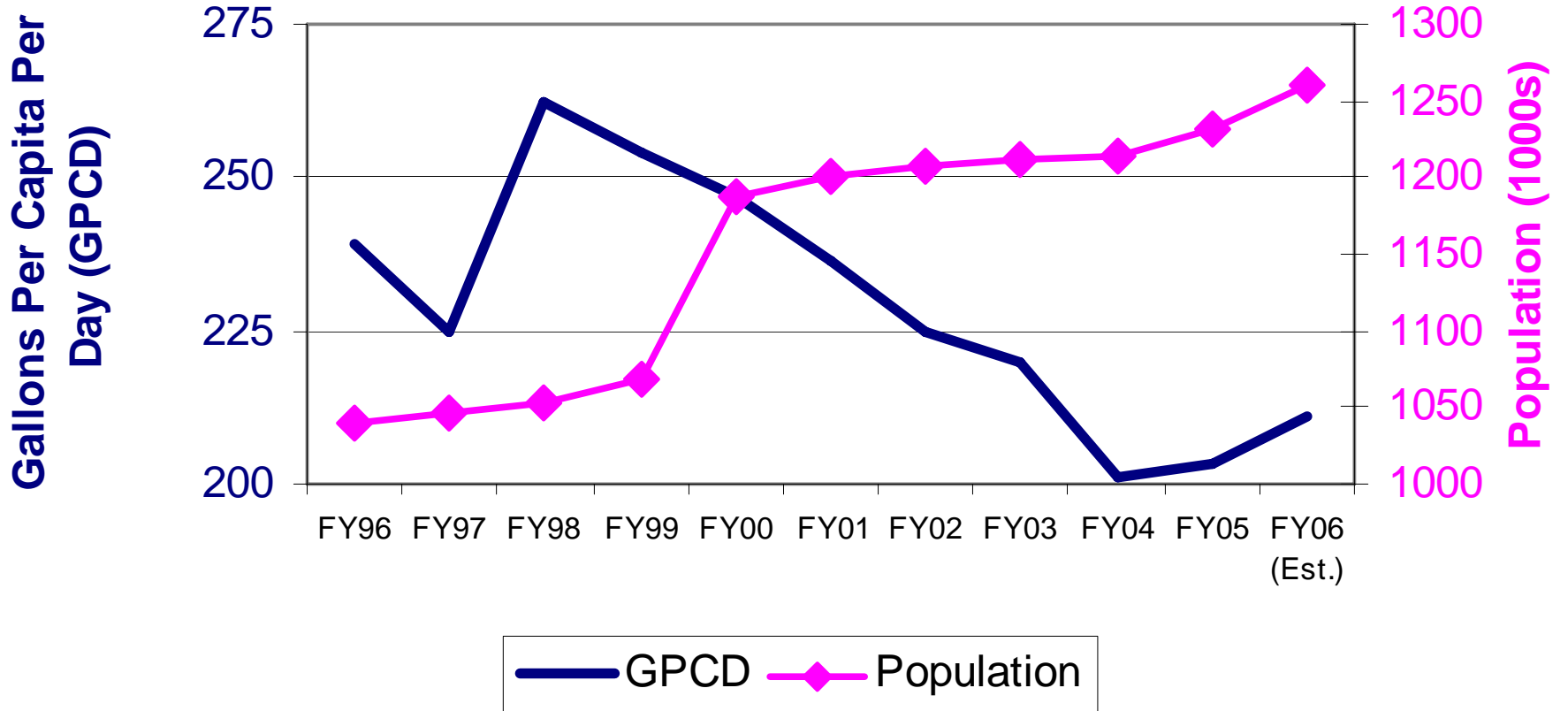
Dallas Water Utilities System

Daily Water Consumption (FY05 and FY06)

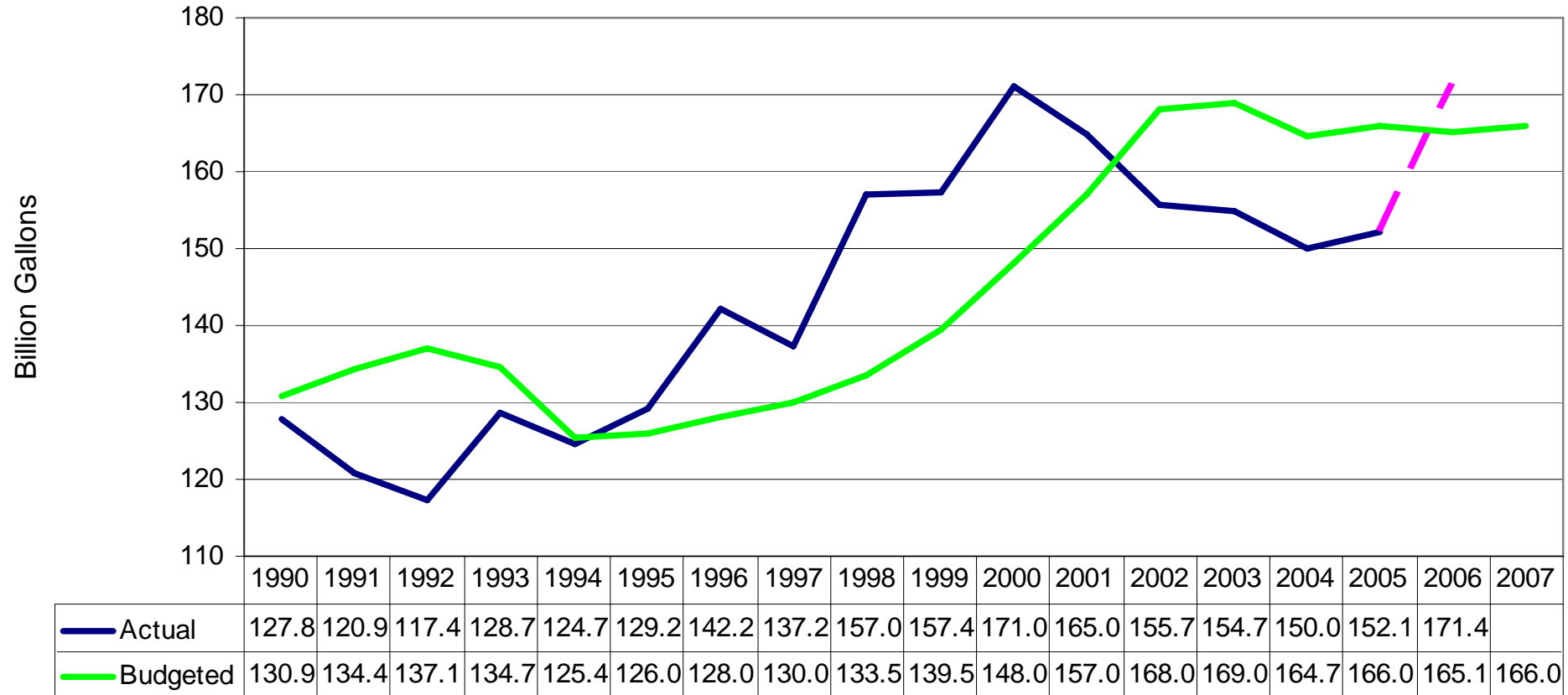


As of August 9, 2006

Annual GPCD and Population



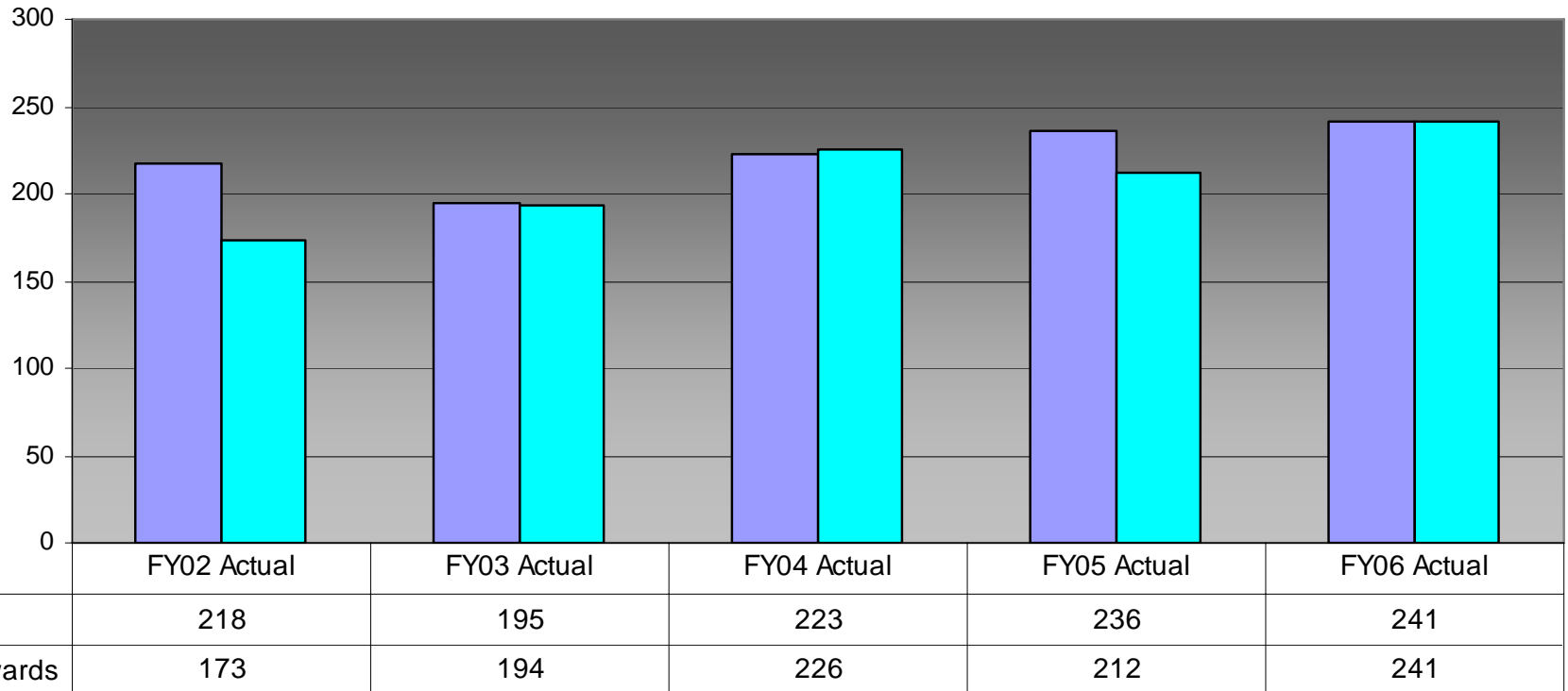
Historical Pumpage Budgeted vs Actuals



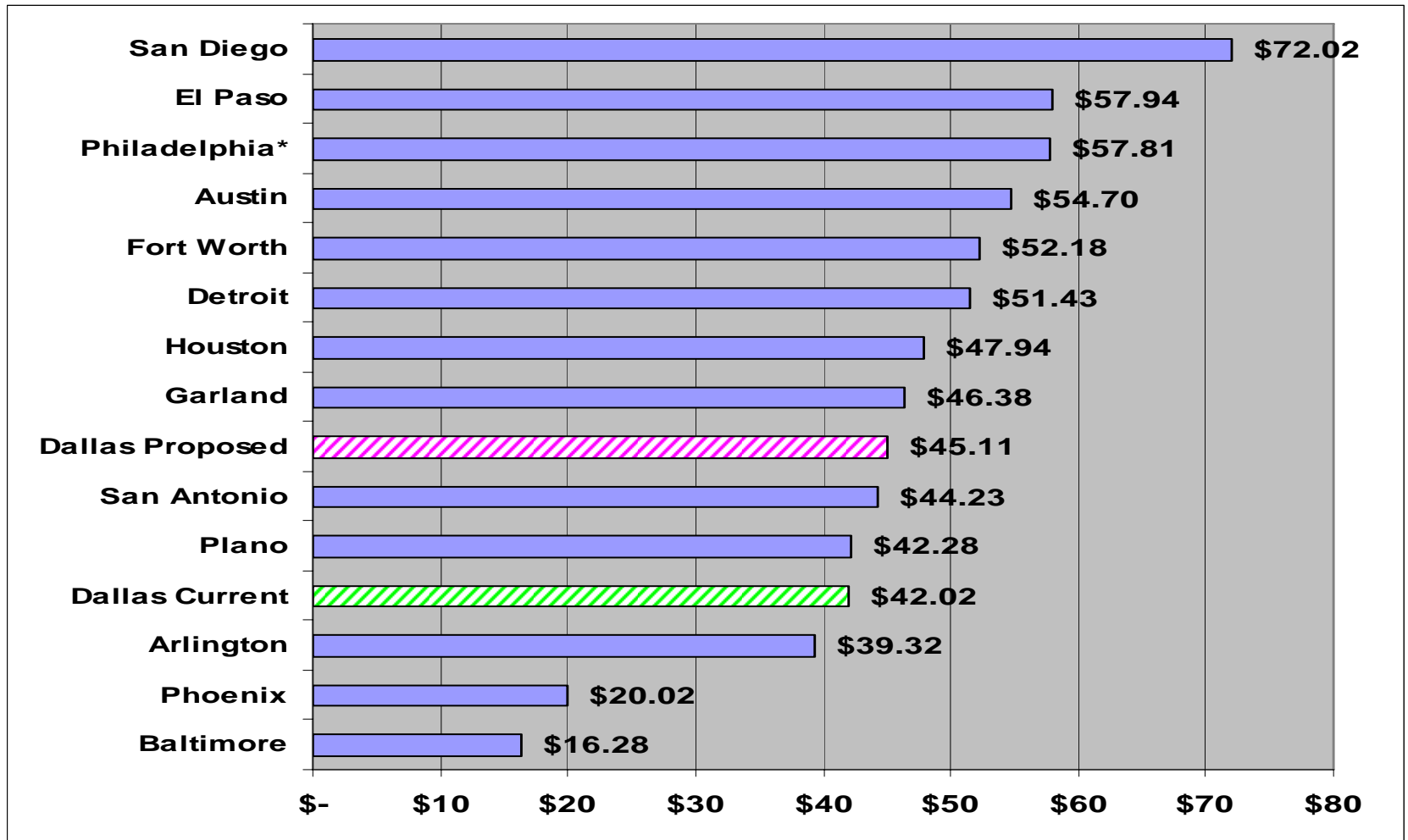
Note: FY06 Actual is estimated based on actual consumption through July 2006

Recent Capital Improvement Programs

Amounts in Million Dollars



Average Monthly Water & Sewer Residential Bills as of July 2006



Note: Bill comparison based on July 2006 rates; water consumption of 8,300 gallons; and, 6,100 gallon Winter Months Average for sewer

Dallas Water Utilities Monthly Prompt Payment Rates

Customer Charge	Current Water	Current Sewer	Combined
5/8 Inch Meter	\$3.61	\$3.23	\$6.84
3/4 Inch Meter	4.23	3.78	\$8.01
1 Inch Meter	6.14	5.49	\$11.63
1 1/2 Inch Meter	11.56	10.33	\$21.89
2 Inch Meter	18.07	16.13	\$34.20
3 Inch Meter	43.37	38.72	\$82.09
4 Inch Meter	72.28	64.53	\$136.81
6 Inch Meter	144.55	129.06	\$273.61
8 Inch Meter	242.13	216.18	\$458.31
10 Inch Meter or larger	368.61	329.10	\$697.71

No change in Customer Charge

Usage Charge per 1,000 gallons

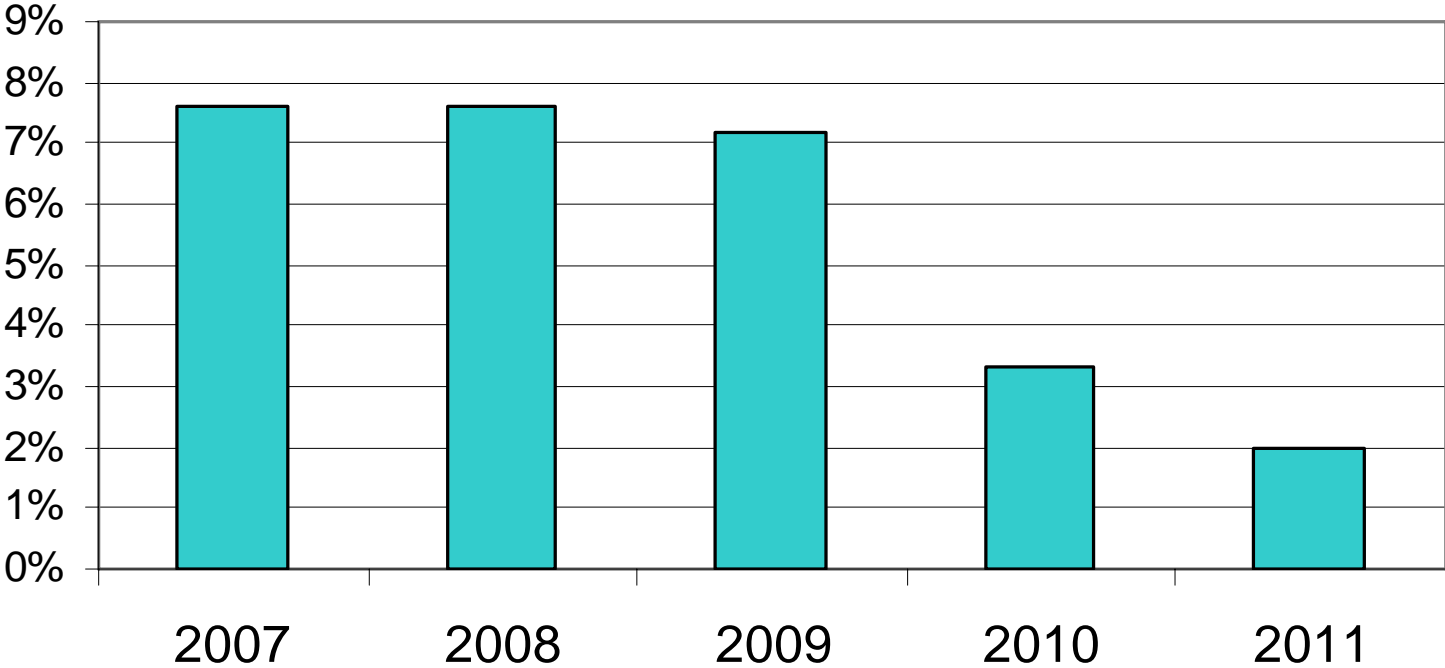
	Current Water	Proposed Water	Current Sewer	Proposed Sewer
Residential				
Up to 4,000 gallons	1.29	1.41	3.42	3.72
4,001 to 10,000 gallons	2.13	2.31	3.42	3.72
10,001 to 15,000 gallons	2.86	3.20	3.42	3.72
Above 15,000 gallons	3.70	4.10	3.42	3.72
General Services				
Up to 10,000 gallons	1.43	1.55	2.02	2.21
Above 10,000 gallons	1.82	2.00	2.02	2.21
Above 10,000 gallons for usage more than 1.4 times annual monthly average	2.80	3.05	2.02	2.21
Optional General Services				
1st million gallons or less (minimum)	1,140.00	1,260.00	1.95	2.13
Above 1 million gallons (per 1,000 gallons)	1.51	1.68	1.95	2.13

Proposed rates effective Oct. 1, 2006

Recommended Fee Changes Effective October 1, 2006

	<u>Existing</u> <u>Fee</u>	<u>Recommended</u> <u>Fee</u>
<u>Water/Wastewater Quality Fees</u>		
Hydrostatic testing with three day turnaround	N/A	\$ 300.00
Fire flow testing for information older than 2 years	N/A	\$ 100.00
Fire flow tests at 2 sites for information < 2 years	N/A	\$ 100.00
<u>Surcharge Rates</u>		
BOD	\$1.73389	\$1.87316
TSS	\$1.25934	\$1.14842

Future Outlook: Rate Increases



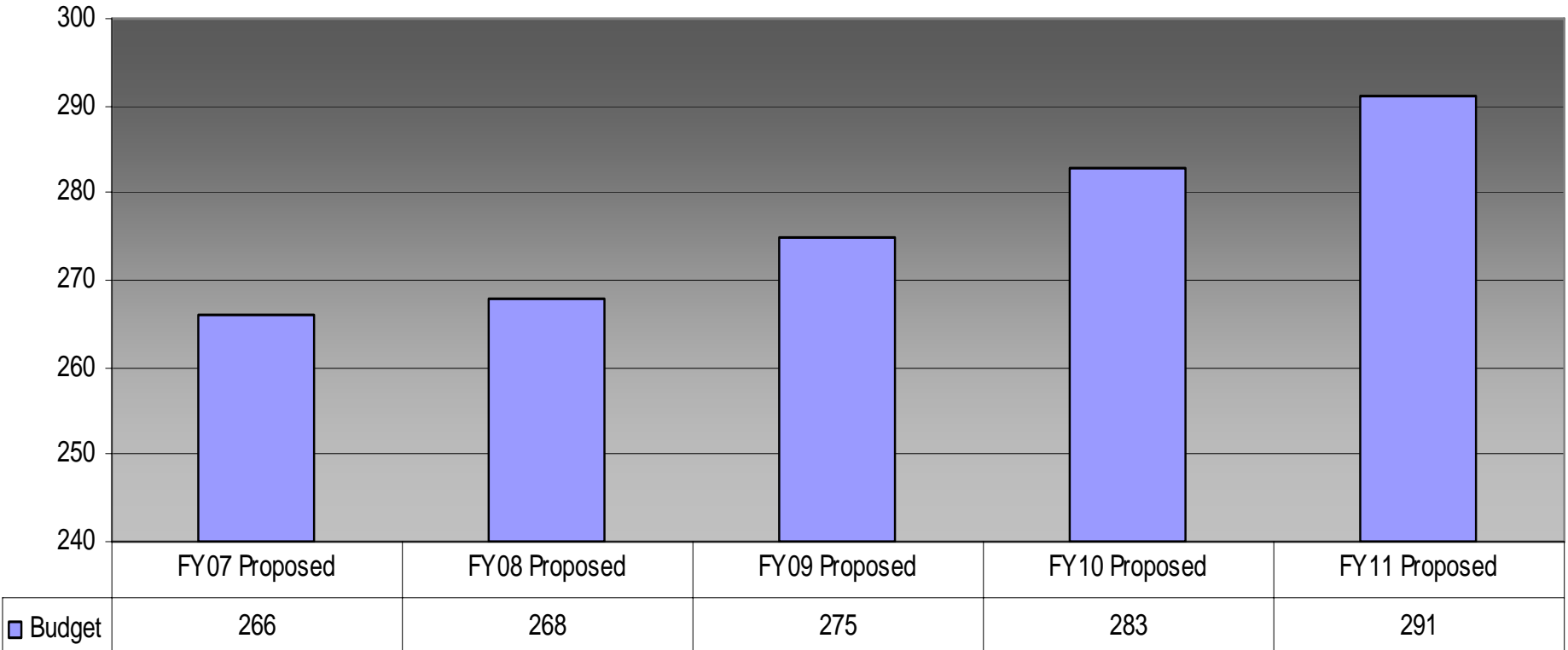
FY 2007 FY 2008 FY 2009 FY 2010 FY 2011

Prior year rate projection	8.2%	7.0%	6.6%	3.0%	N/A
Current rate projection	7.6%	7.7%	7.2%	3.3%	2.0%

Note: Does not include cost of future water supply acquisitions

Future Outlook: Capital Improvement Program

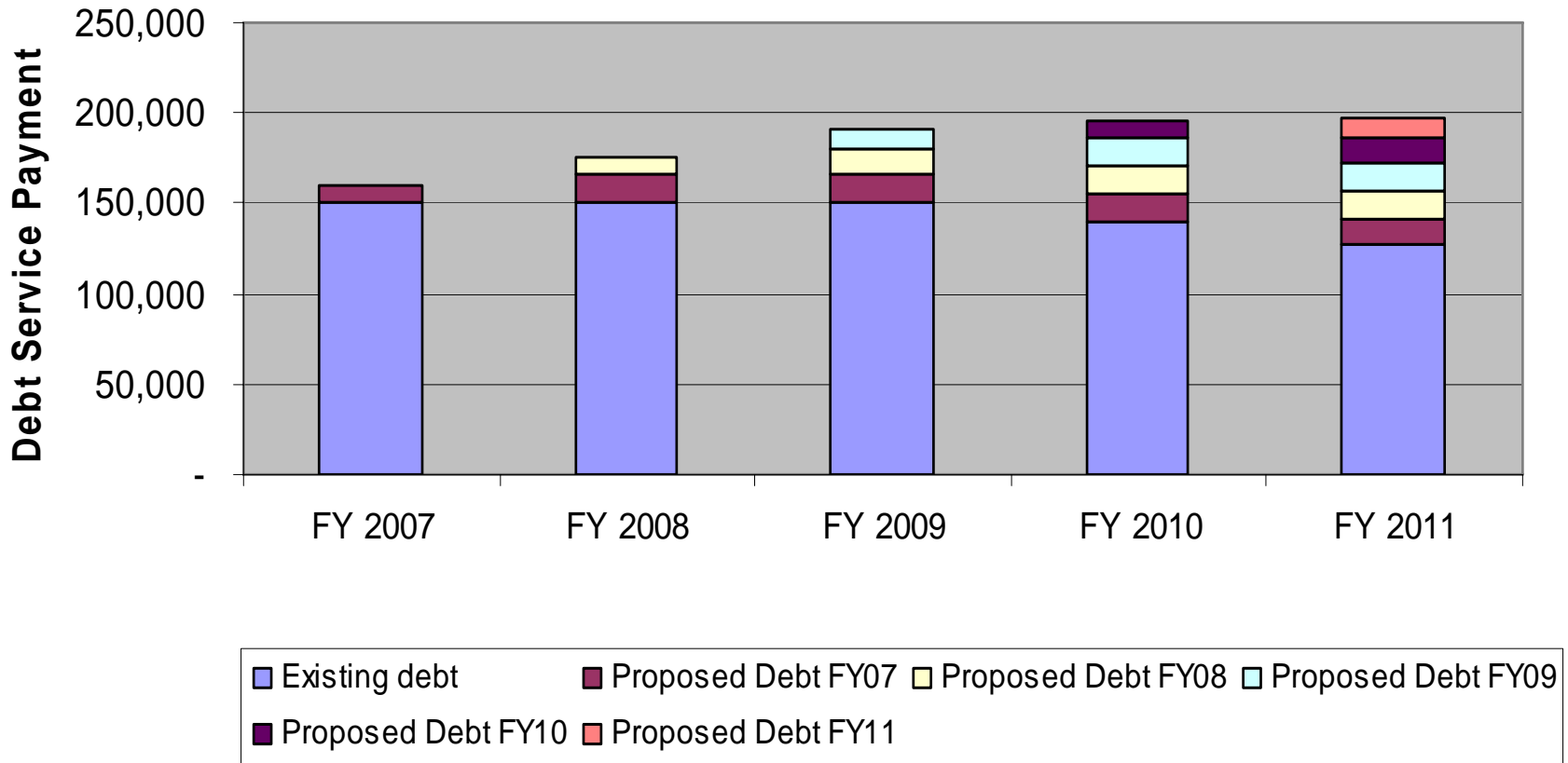
Amounts in Million Dollars



Note: Does not include cost of future water supply acquisitions

Future Outlook: Debt Service

(Amounts in Thousands)



Note: Does not include cost of future water supply acquisitions

Summary of Services

Key Focus Area and Program	Result	FTE	Funding
Economic Development			
Water Production & Delivery	Economy	559.9	99,793,281
Wastewater Collection	Natural Resources	233.4	15,333,528
Wastewater Treatment	Natural Resources	339.9	48,366,040
Water Utilities Capital Program Management	Economy	190.3	13,644,449
Water Conservation	Natural Resources	10.6	3,615,555
Water Capital Funding	Economy	0.0	222,328,346
Staff Accountability			
Water Utilities Customer Account Services	Government	242.8	16,125,130
Water Planning, Financial and Rate Services	Government	25.5	2,721,925
Water Departmental Support	Government	10.8	1,664,057
CIS Support for Water	Government	0.0	4,022,605
Water's Price of Doing Business	Government	0.0	37,933,755
Totals for FY 2006-07		1,613.2	\$ 465,548,669

Economic Development Economy

- **Water Production and Delivery**

Water Production and Delivery is responsible for the operation and maintenance of the City's potable water system which includes seven raw water impoundments, four raw water pump stations, raw water transmission, seven dams, three purification plants, high service pumping facilities, ground and elevated storage reservoirs and the water distribution system.

- **Water Capital Funding**

Water Capital Funding makes the annual principal and interest payments on outstanding revenue bonds, issues revenue bonds to retire outstanding commercial paper, transfers to the general obligation debt fund for annual payments on outstanding equipment notes for Water Utilities replacement fleet, transfers cash from operating revenues to the capital construction fund for capital improvements that can not be funded with debt, and ensures the cash, or “net revenue” requirements, to meet and maintain the City’s Financial Management Performance Criteria (FMPC).

- **Water Utilities Capital Program Management**

Capital Program Management is responsible for capital improvement projects from inception through start-up. This includes long-range capital budget planning, development of project scopes of work, negotiation and administration of consultant engineer services, studies, determination and evaluation of alternatives, determination of right-of-way and other special requirements, detailed design plans and specifications, advertisement and award processes, administration and inspection of construction, development of "as-built" mapping, testing and start-up of the improvements.

Economic Development

Natural Resources

- **Wastewater Treatment**

Wastewater Treatment utilizes an overall management strategy to better manage wastewater flows generated annually by the citizens of Dallas and 11 customer cities , promote reliable, robust, well managed treatment processes essential to achieve optimization of the treatment facilities, reduce sanitary sewer overflows, and evaluate options for the re-use of DWU's highly treated effluent to augment existing water supplies to meet future water demand.

- **Water Conservation**

Water Conservation addresses short-term and long-term water shortages, provides environmental protection, reduces drought rationing danger and mitigates the high costs of new water system improvements. The Water Conservation Program serves as an operational tool to achieve efficient use of water through practices and measures that reduce consumption and water losses and increase water recycling.

- **Wastewater Collection**

Wastewater Collection is responsible for operating, maintaining, and improving the sanitary sewer system (over 4000 miles of pipe, facilities and associated components) in order to collect and transport wastewater produced by residences and businesses to the treatment plants. Services are available on a twenty-four hour per day, seven days per week basis.

Staff Accountability Government

- **Water Utilities Customer Account Services**

Water Utilities Customer Account Services provides customer relations, monthly utility billings for over 305,000 accounts, payment processing, credit and collection services, customer information, and meter associated services for all water, wastewater, sanitation, and storm water customers. This program also provides for customer relations, service inquiries, and billing and revenue collection for the City's 27 wholesale customers. Annual revenues of over \$500 million are received for all utilities.

- **Water Planning, Financial and Rate Services**

Water Planning, Financial and Rate Services provides technical, financial, and analytical support for long range system capital planning; annual operating budget, cost of service and rate development. This program ensures that the City has water both now and in the future to meet the needs of the citizens of Dallas and customer cities, while maintaining and acquiring water rights as needed. This program is also responsible for development and monitoring of the Department's annual operating budget for departmental revenues and expenditures of almost \$500 million, wholesale and retail cost of service studies and rate development.

- **Water Departmental Support**

Water Departmental Support provides the executive management oversight and administrative support for the direction of over 1,400 Water Utilities employees necessary to provide high quality water and wastewater services vital to the health and safety of Dallas citizens and our customers, as well as to the City's efforts towards economic development, environmental protection, and enhancement of quality of life.

Staff Accountability Government

- **CIS Support for Water**

CIS Support performs system monitoring and problem solving for the CIABS. Over 300,000 accounts are billed monthly for water, wastewater, sanitation and storm water utilities charges. Support includes annual rate change testing and implementation, winter month averaging processing, system interfacing for electronic bill payment, payment file processing for banks, report generation, and business analysis and programming.

- **Water's Price of Doing Business**

Water's Price of Doing Business includes the following payments to the general fund: street rental based on 4% of the utilities retail revenues; general fund indirect cost reimbursement based on the Water Utilities proportionate share of cost for the general government services such as Office of Financial Services, Procurement and Business Development, City Attorney's Office, City Manager's Office, and use of City owned buildings; PILOT is payment in lieu of taxes; liability and property insurance; Worker's Compensation; and payments to other City departments for services provided.