

# FINANCIAL PLAN

## BUDGET TRENDS IN FY 2015 - 2016

El Paso Water Utilities continues to evolve in addressing and meeting the needs of our customers in the 21<sup>st</sup> century. It is well prepared to meet the challenges to serve a large metropolitan region in the Southwest. The Utility is one of the most cost-efficient organizations—public or private—in the entire Southwest. The Utility is focused on meeting the supply and demand needs of its current and future customers, while minimizing costs and maximizing service.

During FY 2015-2016 the Utility completed eight new wells and rehabilitation of old wells to ensure that El Paso had the necessary groundwater supply available to serve our customers. In addition, In July 2015 the Utility completed the final phase of the multi-year Eastside Interceptor System that will provide wastewater service to the growing eastside area from Montana Avenue to the Roberto Bustamante Wastewater Treatment Plant. FY 2015-2016 saw continued improvements in operational efficiencies. Through the guidance of Public Service Board the Utility continued its regional leadership, investment in its employees, and passed these savings on to the customers.

Overall operating costs for FY 2015-2016 are projected to increase compare to the prior year, mainly due to the additional cost to purchase and treat 50,000 acre feet (AF) of surface water that the Utility received in 2015 through its contracts with the El Paso County Water Improvement District #1. In 2015 the Utility received an additional 14,000 AF of surface water compared to 2014 when the Utility only received 36,000 AF. This increase resulted in additional surface water cost and chemical expense in the two surface water treatment plants. In accordance with the Board's Strategic Plan, the Utility focused on becoming a more efficient and better trained workforce through the use of technology, automation and cross training.

The Utility has made a conscious and ongoing effort to reduce unaccounted for water. A comprehensive program focusing on leak detection, reservoir rehabilitation, and increased meter replacement have all contributed to more accurate billing and less unaccounted for water. Unaccounted for water has decreased from 14% in 1996 to 9.35% in 2015. Results of this program are reflected in various benchmarks in this budget document.

While the bulk of capital improvement efforts are geared towards serving the growth of the city, including water resource development, the Utility still pays diligent attention to replacement and rehabilitation of the system as a whole. Phased improvements to reservoirs, pump stations, lift stations, treatment plants, and distribution and collection lines are a critical part of the capital improvement program. This allows the Utility to boast over a 99.99% reliability rating and demonstrates why the TCEQ again rated the Utility a "Superior Water System." Of the estimated \$94.9 million to be invested in plant and system improvements and additions in FY 2015-2016, the Utility estimates spending \$17.4 million to continue with the multi-year, multi-phase relocation of support facilities including the auto shop and warehouse, \$4.6 million in well drilling and equipping of high capacity water wells, \$5.0 million for the preliminary design of the advanced purified water plant. Currently the pilot plant is operating and in the testing phase and we are in continued negotiations with TCEQ that will set the operating conditions and processes for the full scale facility. \$8.0 million for new distribution water lines and pumping equipment, and \$13.9 million in rehabilitation of existing water infrastructure including \$2.5 million for water plants upgrades and emergencies. In addition, \$2.5 million is projected to be spent for emergency back-up power generators. On the wastewater side, the Utility estimates spending \$9.1 million in new collection systems and pumping facilities, \$12.7 million in rehabilitation of existing wastewater infrastructure and \$3.3 million in reclaimed water facilities improvements. Finally, the Utility's geographic information system

continues to expand and allow staff to take advantage of cutting edge tools in addressing Utility issues and priorities.

The Utility took advantage of low interest rates and on December 2, 2015 issued \$48.6 million in 2015C bonds to take long \$40.0 million in commercial paper and to refund \$14.0 million in prior bond issues and resulted in a Net Present Value Savings of \$1.5 million.

## FY 2016 – 2017: MEETING FUTURE DEMANDS

The FY 2016-2017 operating and capital budget was presented to the Public Service Board for review, input and guidance in two public budget workshops. The budget was adjusted based on direction from the Board; and is consistent with the Board’s Strategic Plan. Budget workshop meetings were open to the public and were held as follows:

<u>Date</u>	<u>Agenda</u>
November 9, 2015	Stormwater Utility Operating and Capital Budget
November 16, 2015	Water, Wastewater, and Reclaimed Water Operating and Capital Budget
January 13, 2016	Public Hearing and Adoption of Budget, Rates and Rules and Regulations for Water Wastewater, Reclaimed Water, and Stormwater Utility

## ASSUMPTIONS

The FY 2016-2017 budget is based on certain assumptions and specific operating and capital budget costs. Financial projections for future years require additional assumptions related to revenue growth, expenditures and necessary rate adjustments. Basic assumptions to this year’s five-year financial plan include the following:

### Basic Assumptions

Customer growth rate	1.5%
Water billed	35.5 billion gallons

### Basic Assumptions

Water billed growth rate	1.5%
Wastewater treated	22.1 billion gallons
Wastewater treated growth rate	1.5%
Miscellaneous revenues growth rate	2.0%
Fire Protection growth rate	1.0%
Operations and Maintenance growth rate	1.0% of operating budget
Contingencies	2.5% of operating budget
Interest earnings rate	0.25% of average fund balance
Payment to City (water only)	10.0% of water revenues
Future debt financial costs	4.50% (includes subsidized State Revolving Fund Loans)

## BASIS OF BUDGETING

The budget and comprehensive annual financial report are prepared using the accrual basis of accounting. Revenue is recognized as it is earned and expenses are recognized as goods or services are delivered. The PSB has elected to apply all applicable Governmental Accounting Standards Board (GASB) pronouncements as well as Financial Accounting Standards Board pronouncements and Accounting Principles Board opinions, issued on or before November 30, 1989, unless those pronouncements conflict with, or contradict GASB pronouncements. The operating budget is prepared at the **object** level. The object of expenditure is the good or service for which the expenditure was made. For further detail, sub-object listings are provided and reported by the Utility as “account numbers.” For a complete listing of the Utility’s operating budget, refer to the section of this budget book entitled “Operating Budget Detail.”

The Utility’s funds are not appropriated; rather the budget is an approved plan that can facilitate budgetary control and operational evaluations. The Utility defines fund equity as net position, which equals assets minus liabilities. Fund position is divided into four categories; net

invested in capital assets, restricted for construction and improvements, restricted for debt service, and unrestricted.

### FY 2016-2017 DETAIL BUDGET

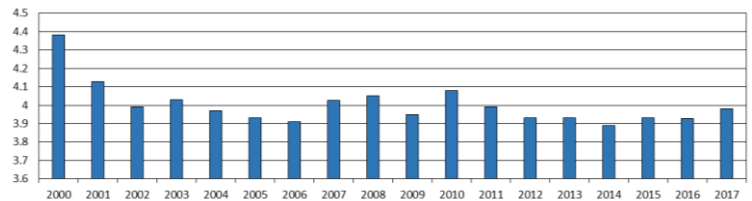
The Fiscal Year 2016 – 2017 budget reflects the PSB’s updated Strategic Plan goals and objectives and is a balanced budget, with the revenue and other financing sources equal to the expenditures and other financing uses. The FY 2016-2017 combined operating and capital budget addresses a continued effort to hold the line on expenditures. The Utility adopted an 11 percent water and wastewater rate increase. Some of the highlights of the 2016-2017 budget are as follows:

The operating budget increased by \$5.4 million. The following changes to the operating budget show that expenses increased mainly as a result of the expected increase in river water allotment of 15,000 acre feet:

- \$900,000 increase in river water supply cost
- \$1.7 million increase in electricity expense
- \$476,000 increase in chemical expense

In addition, there was an increase of \$1.0 million for normal salary adjustments and 11 new positions.

Budgeted Employees per Thousand Customers



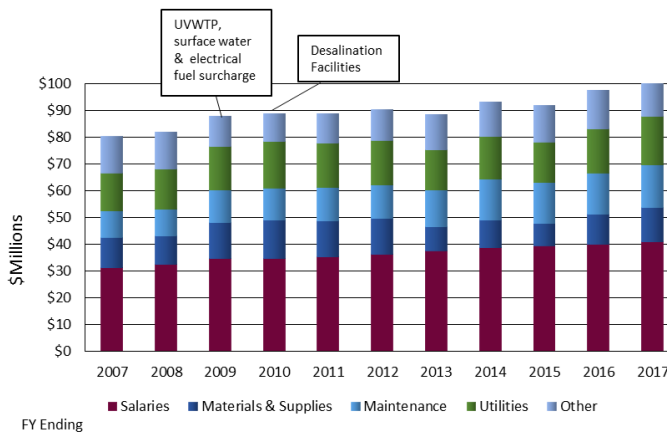
FY Ending

The following table identifies adjustments to the staffing table:

Change in Staffing	
Section	Number of Positions
Administration	+2
Engineering	+1
Financial and Support Services	+2
Information Systems	+2
Operations (Water)	+2
Operations (Wastewater)	+1
Operations (Equipment & Facilities Maintenance)	+1
<b>Net Change, All Divisions FY 2016-17</b>	<b>+11 positions</b>

The Utility’s ratio of employees to 1,000 customers has been reduced by 20% from 5.0 in 1996 to 3.9 employees per 1,000 customers budgeted for in FY 2016-2017.

Operating Expenditure Comparison



Some capital projects were delayed in FY 2015-2016, therefore in FY 2016-2017 \$46.9 million of capital projects are already funded through prior years’ appropriations. Out of the \$289.9 million capital budget, \$240.9 million is from new appropriations. The capital budget continues to address acquisition of additional water sources, continued population growth and water demand, rehabilitation of water and wastewater infrastructure, and new water, wastewater and reclaimed water facilities to meet future demand:

- To meet the demands of growth both inside and outside the city, several projects are included in the FY 2016-2017 capital budget. One of these is the acquisition of land for “far” water

importation project at an estimated cost of \$125.0 million.

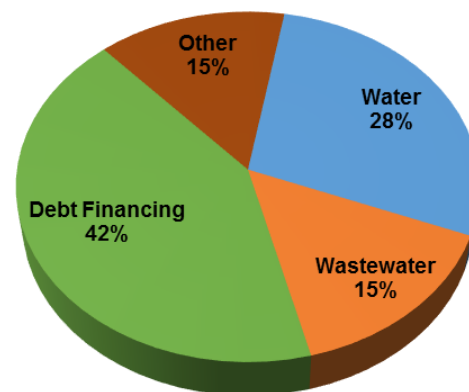
- Construction of four reservoirs in the northeast, central and eastside of El Paso. These tanks will be built over two years at an estimated cost of \$26.0 million of which \$12.2 million will be spent during FY 2016-2017.
- A new strategic plan initiative is the implementation of a drought proof source of water. An advance purified water plant will be designed to produce drinking water. The Utility budgeted in FY 2016-2017 \$5.0 million for the preliminary design with the goal of treating 10 MGD in the near future for an estimated construction cost of \$129 million.
- The Utility will be constructing and equipping six water supply wells in the east and northeast areas of the city at an estimated cost of \$5.7 million.
- The Utility included \$12.0 million to provide emergency back-up power to major water facilities. This will be the fifth year of this multi-year \$30 million project.
- The capital budget also includes \$33.0 million for wastewater rehabilitation projects which includes \$6.8 million for plant process optimization of wastewater plants.
- In addition, the budget includes \$22.36 million for the relocation of water operations, dispatch and central control. This project was accelerated with the request from the City to relocate the Rescue Mission to our fleet maintenance location.
- The Utility maintains the level of system rehabilitation and replacement, and compliance with existing and new federal and state regulatory mandates.

Other projects that make up the capital budget include planning, design, and construction phase work in all parts of town. Line replacement and rehabilitation will continue at a high level, with the most critical lines identified and repaired on a prioritized basis. The Utility continues to work with the County of El Paso to bring first-time

public water service to areas outside the city limits by obtaining grants to provide this much needed service. The Utility continues to work in close conjunction with the City of El Paso and the Texas Department of Transportation in major street renovation and highway projects. As El Paso continues to assert its role as the most important city on the U.S.-Mexico border, more joint efforts with the Texas Department of Transportation, Texas Water Development Board, City of El Paso, and other governmental agencies will increase. Many of these projects are associated with state highways and associated rights-of-way, as El Paso remains a major thoroughfare into the 21st century.

### Revenues and Other Financing Sources

Sources of Funds, FY 16-17: \$463.234 million



**Water** – Water revenues are funds generated for providing potable water service to customers and fire protection. Water revenue for FY 2016-2017 is estimated at \$107.3 million and reflects an increase of \$8.4 million in billed water compared to the budgeted water revenue for FY 2015-2016 due to an approved 11 percent revenue adjustment and normal growth in customers.

**Wastewater** – Wastewater revenues are proceeds from providing wastewater treatment services to customers. Wastewater revenue for FY 2016-2017 is estimated to be \$69.6 million. This estimate is higher from the previous year's budget reflecting an approved 11 percent revenue adjustment and normal customer growth.

**Water Supply Replacement Charge** – Water Supply Replacement Charge (WSRC) is restricted revenue used for the costs of attaining future water supplies and the infrastructure associated with it. The revenue source is estimated to be \$23.5 million for FY 2016-2017. Effective March 1, 2015, a 3/4" x 5/8" meter accounts with monthly water consumption of less than 3 ccfs are not be charged the WSRC. This rate elimination was approved by the PSB to help low volume users.

**Debt Service Proceeds** – These are restricted funds available from previously issued and/or new bond issues for a specific use. For FY 2016-2017 the Utility budgeted \$181.0 million for new bond issues for capital improvements. This is an increase of \$83.0 million over the previous year and includes a bond issue of \$100.0 million to purchase water rights land in Hudspeth County.

**Franchise Fee** – Effective September 1, 2014 the City of El Paso started charging the Utility a franchise fee of \$3.6 million annually. Effective September 1, 2015, City Council approved another annual fee of \$3.6 million. City Council approved the fee as a means to compensate the City of El Paso for the Utilities' use of city streets and the rights of way for projects and wear and tear on City streets. The monthly fee is billed to all inside City customers.

**Reclaimed** – Reclaimed water revenues are funds generated for supplying advanced secondary and tertiary reuse water services. This revenue source is estimated to generate \$3.6 million in FY 2016-2017. The estimated revenue is \$549,000 more than FY 2015-2016 due to an approved 15 percent revenue adjustment and normal customer growth. The 15 percent includes an approved reduction in the subsidy of the reclaimed water rate that will be gradually eliminated over the next ten years.

**Interest Income** – This category includes interest earned from investments, other cash management functions and notes receivable. This revenue source is estimated at \$318,000 for FY 2016-2017. In the December 2015, the Federal Reserve announced a 25 basis point

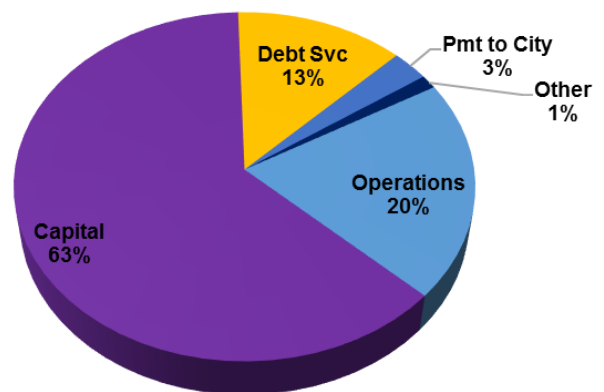
increase and tended toward an expectation of additional rate hikes in 2016.

**Grants** – This category includes any funds from federal and state governmental agencies. Almost always these proceeds are for capital improvement projects. Grant proceeds from existing and/or new grants for FY 2016-2017 are estimated to be \$1.8 million.

**Other** – This category includes proceeds from the sale of assets such as land; revenues from fees charged for development of land recently annexed by the City of El Paso; impact fees from new development, other contributions in aid of construction; and lease revenue. It also includes the drawdown of fund balances to fund capital projects. The FY 2016-2017 estimated revenue from this source is \$75.7 million, which includes \$25.1 million from fund balance, \$1.6 million in revenue from annexation fees, \$1.5 million in revenue from impact fees and \$2.2 million from contributions from new customers. The BAB 35% tax credit of \$195,000 is also included in this year's budget and reflects the decrease as a result of cuts made in the Budget Act of 2013.

**Expenditures and Other Financing Uses**

Uses of Funds, FY16-17: \$463.234 million



**Operating** – This category includes expenditures for the operations and maintenance costs of the Utility. It includes salaries, materials and supplies, utilities, and all

other expenses. Operating and maintenance expenses for FY 2016-2017 are estimated to be \$93.9 million. This is a 6.2% increase compared to FY 2015-2016. The increase is mainly due to the budgeted increase of surface water allotment from 35,000 acre feet (AF) in FY 2015-16 to 50,000 AF projected for FY 2016-17.

**Capital** – Capital expenses include all expenditures for the planning, design, construction, rehabilitation or purchase of assets. Total capital expenses for FY 2016-2017 are estimated to be \$289.9 million. Land acquisition and water capital projects represent 82.6% of total capital expenditures in FY 2016-2017, with wastewater projects representing 15.6%, reclaimed water projects representing 0.9%, and capital equipment representing 0.8%.

**Debt Service** – This category includes expenditures for the payment of principal and interest on bonds and other debt instruments including commercial paper. Debt service for FY 2016-2017 is estimated to be \$60.2 million. This is a \$6.0 million increase over the prior year due to the additional debt services cost associated with \$181.0 million of new bonds to be issued to finance capital projects and land acquisition. In addition, the Utility plans to take long an estimated \$50.0 million of Commercial Paper Notes next fiscal year.

**Payment to City** – 10% of water revenues paid to the City of El Paso's general fund per bond ordinance. For FY 2016-2017, this payment to the City is estimated to be \$13.3 million. This figure is \$1.2 million more than the previous year due to an approved 11 percent water revenue adjustment.

**Franchise Fee** – Effective September 1, 2014 the City of El Paso started charging the Utility a franchise fee. Effective September 1, 2015, City Council approved the annual franchise fee of \$3.6 million. City Council approved the fee as a means to compensate the City of El Paso for the Utilities' use of city streets and the rights of way for projects and wear and tear on City streets. The monthly fee is billed to all inside City customers.

**Contingency** – This category allows for unusual, unbudgeted expenses, equivalent to 2.5% of the operating budget. The contingency this year is \$2.3 million.

## **DEBT SERVICE**

The following chart shows, as of February 29, 2016, all outstanding principal and interest owed by El Paso Water Utilities. An adequate level of debt and strong financial positions reflects superior fiscal management that have allowed EPWU to continue to earn among the highest ratings that can be awarded by rating agencies like Standard & Poor's (AA+) and Fitch (AA+). In October 2015, Standard & Poor's and Fitch Ratings confirm the Utilities bonds of AA+ with a Stable Outlook. In 1997, to leverage the market and be more flexible in financing capital construction projects, the Utility initiated the use of interim commercial paper financing. The credit agreement, in the amount of \$40 million, is equally and ratably secured by and are payable from the sale of bonds or additional borrowing under the commercial paper program. In July 2015, the Public Service Board approved a resolution selecting Bank of America N.A. as the Liquidity Provider for the Commercial Paper Program. The commercial paper matures from one to 270 days, with the current interest rate of 0.06%. The Utility took advantage of low interest rates and on December 2, 2015 issued \$48.6 million in 2015C bonds to take long \$40.0 million in commercial paper and to refund \$14.0 million in prior bond issues and resulted in a Net Present Value Savings of \$1.5 million.

This new debt service has been included in the FY 2016-2017 budget. The net result of low interest rates on debt financing means lower overall cost to EPWU customers. The combined result of these efforts allows the Utility to continue to be able to provide competitive service in the region.













\* This statement has been revised to reflect the new GASB 34 reporting requirements











Approved  
Budget

