

Utility Rate Sub-Committee Update

Council: C. Marion, K. Sullivan, P. Prince

Staff: T. Hlavinka, S. Lockwood, E. Belaj, V. Manzano

Utility Rates Consultant: Nelisa Heddin

Financial Consultant: Tom Lawrence

May 19, 2022

Sub-Committee Goals and Objectives

- Fiscal responsibility is the determining factor in final recommendations.
- Utility rate relief was a prime objective of the sub-committee.
 - Lago Vista's water and waste-water rates exceed almost all other municipalities in the central Texas region.
 - Many citizens have communicated that utility bills are a severe pain point.
 - Rate relief was a stated goal in the engagement letter with Nelisa Heddin.
- Increasing taxes to fund lower water rates isn't an acceptable solution

Timeline

- January-April 2021 - Utility rates raised as an issue by multiple new council members. Council sub-committee is formed to study the issue.
- May 2021 – Contract executed with Nelisa Heddin to perform utility rate analysis.
- May - June of 2021 – Nelisa gathers data from city staff and builds first pass analysis.
- July 2021 - February 2022 – Meetings to review analysis and provide feedback for adjustment to the model were held and additional data/information from the City to inform discussions was collected. Tom Lawrence provides input on bond issuance timing, cost, and debt schedules.

Utility Rate Analysis

- Revenue
 - Water and wastewater fee projections are based on historical data
 - Impact fees, tap fees, and line extension fees are included
- Expenses
 - Costs are separated into fixed, variable, and capital investments.
 - The Capital Improvement Plan (CIP) for water and wastewater facilities over the next 10 years was provided by staff and associated costs were incorporated into the analysis.
- Funding sources.
 - Impact fees over the 10-year time horizon were used to the maximum extent possible.
 - Debt funding vs use of cash reserves was discussed in great detail.
 - Timing of new vs existing debt payments was considered to ensure fit to existing tax rates.
 - Appropriate debt payment schedules were identified.
- Growth assumptions
 - Conservative growth rates were used to ensure viability of bond payments

Key Assumptions

- Growth in customers would equal 5% in the first two years of the projection and 3% for the subsequent three years.
- A bond package is the best method to pay for most, if not all, of the capital projects included in the model.
 - Bond issuance would be timed to fit within existing tax rates and growth assumptions.
- Utility Fund transfer to General Fund will be increased to cover its full share of costs for debt.

Financial Summary, Utility Fund

Future rate reductions are possible
if revenue from Tap & Extension fees continues

	FYE2019 (Actual)	FYE2020 (Actual)	FYE2021 (adopted)	FYE2022 (preliminary)
Revenue (w/o fees & Transfers)	6,436,619	7,010,699	6,476,615	7,013,698
Expenses (w/o fees & Transfers)	6,190,984	6,515,122	7,106,992	7,777,366
Subtotal (w/o fees & Transfers)	245,635	495,577	(630,377)	(763,668)
Tap/Extension fees	1,732,391	3,068,469	2,358,061	2,760,999
Tap/Extension expenses	747,318	1,659,632	1,083,155	900,000
Subtotal (with fees)	1,230,708	1,904,414	644,529	1,097,331
Fund transfers	-	657,251	2,038,522	95,000
Total	1,230,708	2,561,665	2,683,051	1,192,331

Current water/sewer rates are below expenses

Tap & Extension fees result in a positive total

From Utility Reserve for specific projects

Ten Year Utility CIP

~\$53M 10 year projected spend for Utilities
 Significant portion would be paid by Impact Fees

Capital Improvement Plan

DRAFT

Total CIP	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total	% Existing Customers	% Impact Fee Eligible
Water														
Impact Fee Study	10,000											10,000	0%	100%
SCADA Improvements	217,500											217,500	100%	0%
Leak Detection Survey		120,000				120,000						240,000	100%	0%
BPS at Airport Water Pressure Plane				100,000	850,000							950,000	0%	60%
Valves and FH Replacement		200,000		200,000								400,000	100%	0%
Water Line Bar-K to Bronco	872,000											872,000	35%	25%
WTP-1 Raw Water Intake Upgrade	180,000	1,800,000										1,980,000	0%	60%
WTP1 Expansion	625,000	2,000,000	2,520,000	3,000,000	1,000,000							9,145,000	0%	70%
Water System Balance Project	250,000											250,000	100%	0%
Water Line Replacements			500,000	500,000	500,000	500,000						2,000,000	100%	0%
Meter Replacement and AMI Installa	961,483											961,483	100%	0%
Water Master Plan												-	0%	100%
Allegiance Ground Storage Tank							1,500,000					1,500,000	0%	60%
Bronco Ground Storage Tank								1,500,000				1,500,000	50%	10%
Talon Elevated Storage Tank									1,500,000			1,500,000	0%	40%
Paseo Pump Station Expansion										1,025,000		1,025,000	0%	60%
WTP3 Sludge Pond	281,981											281,981	100%	0%
WTP3 Expansion									1,360,000	6,700,000	6,700,000	14,760,000	0%	0%
Total Water	\$ 3,397,964	\$ 4,120,000	\$ 2,520,000	\$ 3,800,000	\$ 2,470,000	\$ 500,000	\$ 2,000,000	\$ 1,500,000	\$ 2,860,000	\$ 7,725,000	\$ 6,700,000	\$ 37,592,964		
Wastewater														
WWTP Improvements	543,521											543,521	100%	0%
Emergency Power	129,147					400,000						529,147	100%	0%
WWTP TY-1 Conversion										500,000		500,000	100%	0%
Bronco Wastewater Line Replaced				100,000								100,000	45%	15%
Wastewater System Master Plan	189,166											189,166	0%	100%
WWTP Expansion PH 2&3			105,000	395,000	2,500,000	2,500,000						5,500,000	0%	60%
Santa Carlo Lift Station Design & Con		300,000										300,000	30%	30%
McArthur Lift Station Rebuild			130,000	800,000								930,000	30%	30%
Wastewater Line Replacements				500,000	500,000	500,000	500,000					2,000,000	100%	0%
Replace Cove Lift Station				250,000								250,000	30%	30%
Replace Truman Lift Station					500,000							500,000	30%	30%
Pond 17 to Pond 3 Effluent Disp. Line						625,000						625,000	100%	0%
Sewer Transmission Rimrock to Gland							625,000					1,075,000	30%	30%
Sewer Transmission Hi Dr to Truman								625,000				880,000	30%	30%
Sewer Transmission Patriot to Highla					150,000	1,050,000						1,200,000	30%	30%
Sewer Transmission American to Ma					20,000	180,000						200,000	30%	30%
Total Wastewater	\$ 861,834	\$ 500,000	\$ 2,160,000	\$ 3,175,000	\$ 4,000,000	\$ 3,000,000	\$ 500,000	\$ 625,000	\$ -	\$ 500,000	\$ -	\$ 15,321,834		

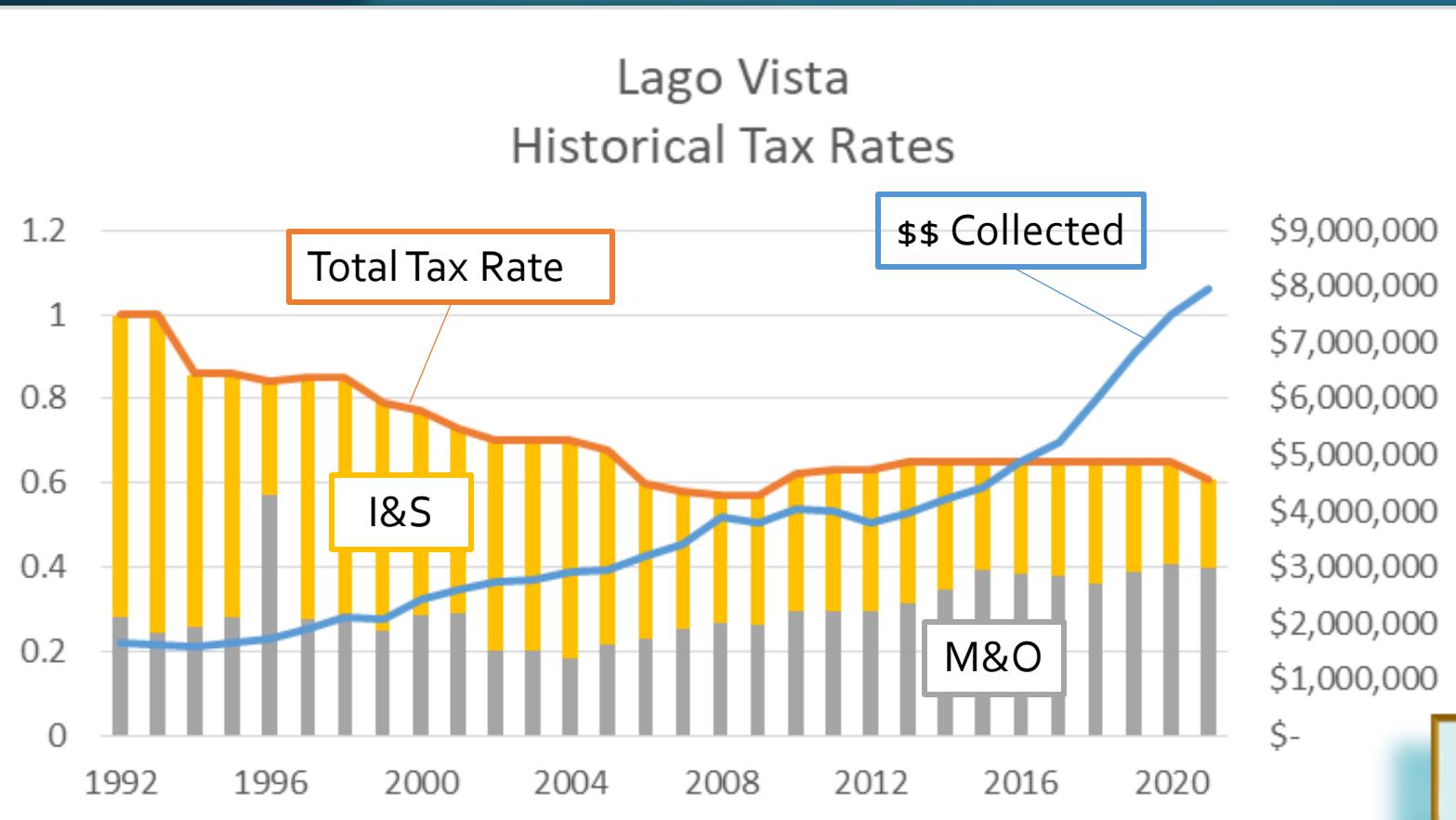
Water

WasteWater

~\$53M

Total property tax collections have increased significantly with relatively constant debt payments for a number of years.**

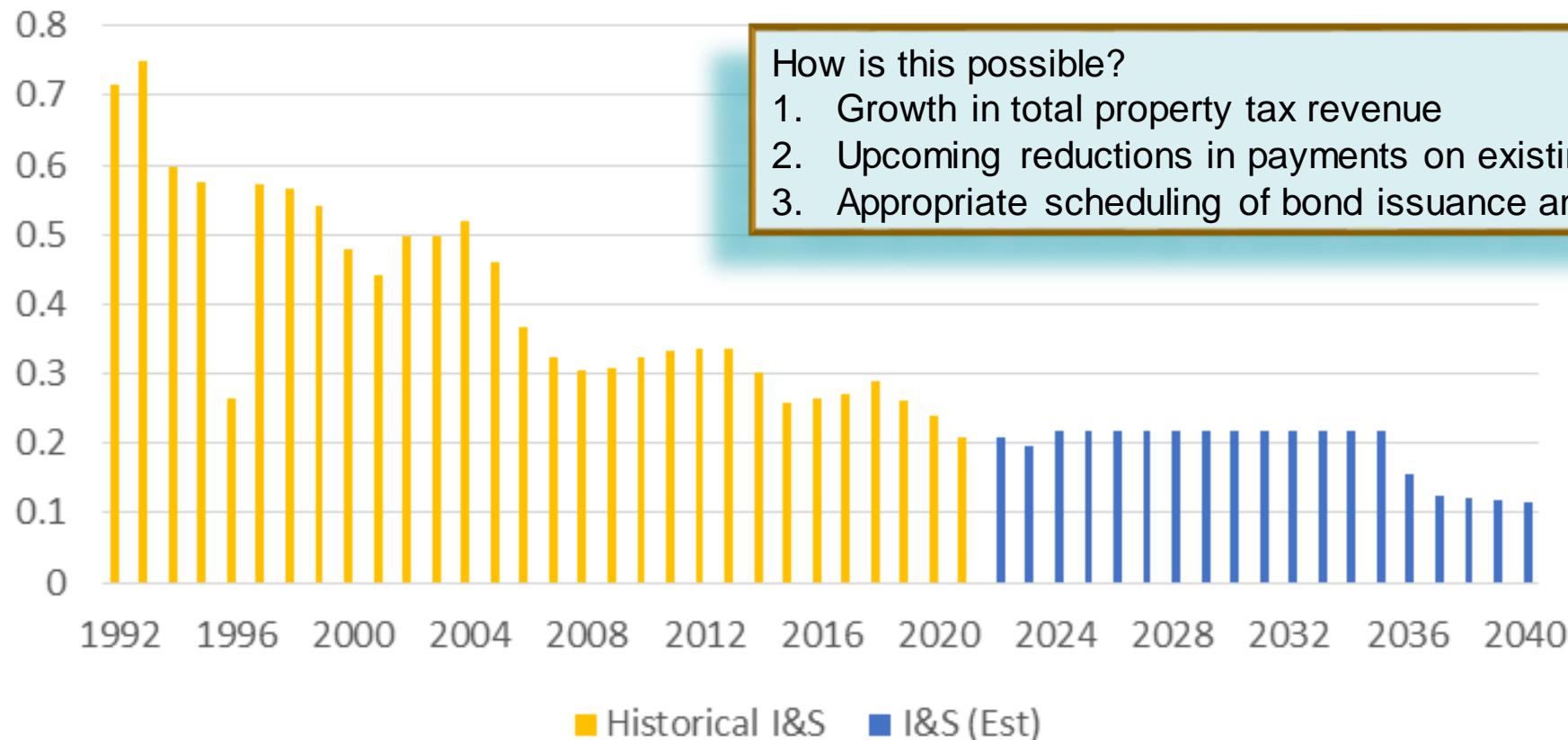
Funding projects through bonds (I&S) vs cash payments (O&M) allow major projects to be done without waiting years to build up savings, and without increasing total tax rates.



** Property Tax use is split into two parts:
Interest & Sinking (used for paying debt)
Maintenance & Operations (used for paying non debt related expenses)

Proposed \$40M bonds can be done without increasing total tax rate, and with almost no increase in I&S tax rate.

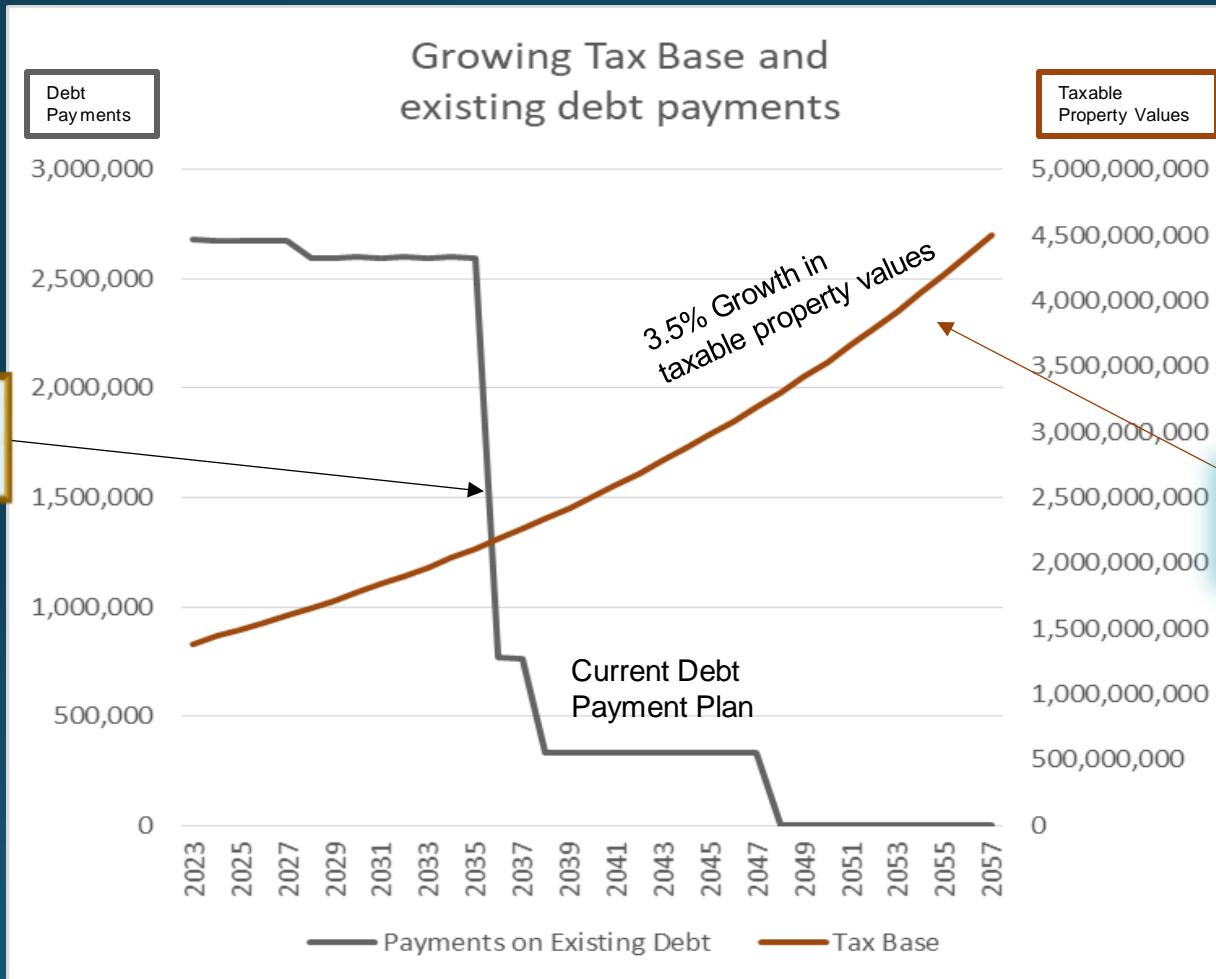
Projected I&S Tax Rates with added \$40M Utility bonds



How is this possible?

1. Growth in total property tax revenue
2. Upcoming reductions in payments on existing debt
3. Appropriate scheduling of bond issuance and payments

- 1. Growth in total property tax revenue**
- 2. Upcoming reductions in payments on existing debt**

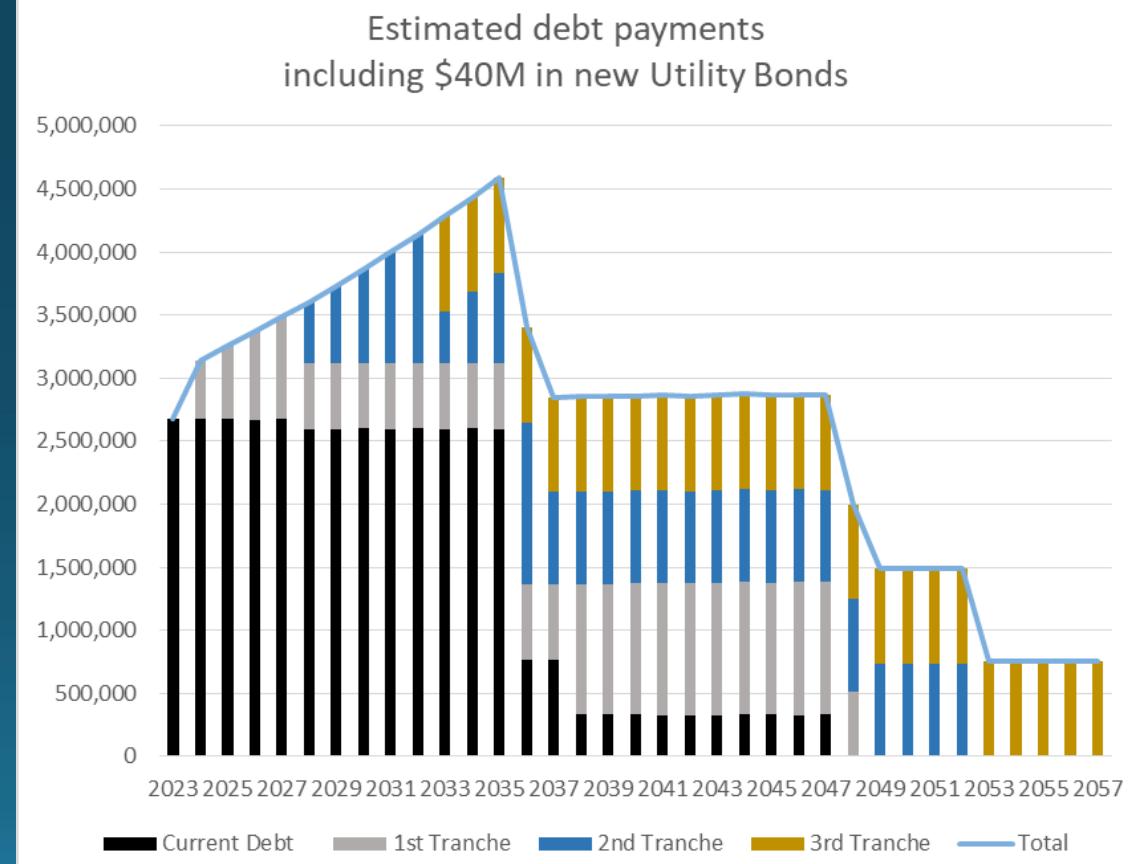


CITY OF LAGO VISTA
Proforma I & S Tax Rate Analysis
(Subject to Change)

FYE 9/30	Tax Base Plus 5% 2023-24 Plus 3.5% Thereafter	Sample Debt Service for \$40 Million over 10 Years				Est I&S Tax Rate at 100%	
		Existing Debt	Sample, \$13.4M at 2.5% in 2023	Sample, \$13.3M at 2.75% in 2027	Est. Aggreg DS at 3% in 2032		
2022	\$ 1,310,840,456	\$ 2,676,631	\$ -	\$ -	\$ 2,676,631	\$ 0.2089	
2023	1,376,382,479	2,679,358	-	-	2,679,358	0.1947	
2024	1,445,201,603	2,676,372	466,417	-	3,142,789	0.2175	
2025	1,495,783,659	2,673,008	581,375	-	3,254,383	0.2176	
2026	1,548,136,087	2,671,531	698,563	-	3,370,093	0.2177	
2027	1,602,320,850	2,676,680	812,625	-	3,489,305	0.2178	
2028	1,658,402,080	2,591,433	528,563	483,208	3,603,204	0.2173	
2029	1,716,446,152	2,597,195	522,938	608,188	3,728,320	0.2172	
2030	1,776,521,768	2,598,773	523,500	744,319	3,865,342	0.2176	
2031	1,838,700,030	2,597,271	524,438	876,463	3,995,171	0.2173	
2032	1,903,054,531	2,601,880	520,900	1,009,550	4,131,930	0.2171	
2033	1,969,661,439	2,592,668	525,133	408,688	4,285,493	0.2176	
2034	2,038,599,590	2,600,139	524,688	558,806	4,433,482	0.2175	
2035	2,109,950,575	2,591,572	521,375	709,244	4,587,816	0.2174	
2036	2,183,798,845	766,162	598,688	1,286,659	3,398,493	0.1556	
2037	2,260,231,805	762,721	599,938	734,610	2,848,883	0.1260	
2038	2,339,339,918	331,500	1,034,500	730,614	2,852,444	0.1219	
2039	2,421,216,815	332,688	1,035,188	732,614	2,856,744	0.1180	
2040	2,505,959,404	333,500	1,039,250	736,400	2,859,325	0.1141	
2041	2,593,667,983	329,031	1,047,625	733,894	2,865,150	0.1105	
2042	2,684,446,362	329,281	1,040,438	732,975	2,859,269	0.1065	
2043	2,778,401,985	329,156	1,042,750	736,614	2,861,650	0.1030	
2044	2,875,646,055	333,200	1,049,375	732,900	2,871,650	0.0999	
2045	2,976,293,667	331,400	1,045,375	731,744	2,864,319	0.0962	
2046	3,080,463,945	329,200	1,050,750	735,106	2,870,031	0.0932	
2047	3,188,280,183	331,500	1,050,438	732,988	2,868,625	0.0900	
2048	3,299,869,989	-	511,313	735,388	1,998,675	0.0606	
2049	3,415,365,439	-	-	732,306	1,487,031	0.0435	
2050	3,534,903,229	-	-	733,744	1,485,694	0.0420	
2051	3,658,624,842	-	-	734,631	1,488,281	0.0407	
2052	3,786,676,712	-	-	734,969	1,489,719	0.0393	
2053	3,919,210,397	-	-	-	755,250	0.0193	
2054	4,056,382,761	-	-	-	755,150	0.0186	
2055	4,198,356,157	-	-	-	754,450	0.0180	
2056	4,345,298,623	-	-	-	753,150	0.0173	
2057	4,497,384,075	-	-	-	756,175	0.0168	
Totals		\$ 41,663,850	\$ 18,899,917	\$ 18,420,958	\$ 18,858,750	\$ 97,843,475	

3. Appropriate scheduling of bond issuance and payments

Example scheduling of bond debt, to minimize impact:
2024; \$13.4M 2028; \$13.3M 2033; \$13.3M



Summary and Recommendations

- Propose issuing bonds to fund Utility CIP projects
 - Maximizing use of Impact fees reduces the total amount of debt significantly
 - This can be done without increasing tax rates
 - Estimates assume issuing \$40M debt, scheduled in 3 phases ("Tranches")
- Recommend no rate reductions this year
 - If a bond package for utility infrastructure fails at the ballot in November, investment must be funded from operational dollars and future rate reductions will be unlikely.
 - If growth stagnates, the fund needs to rely on the existing rates to cover its costs.
 - Given the sub-committee's top priority of financial prudence, a unanimous decision was made to not recommend utility rate adjustments at this time.
- Council should return to this topic on an annual basis, with potential for rate reduction in the near future
 - Review what happens with citizen bond approval
 - Review overall financials
 - actual Customer growth & Utility service revenues
 - actual Tap & Extension Fees