

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

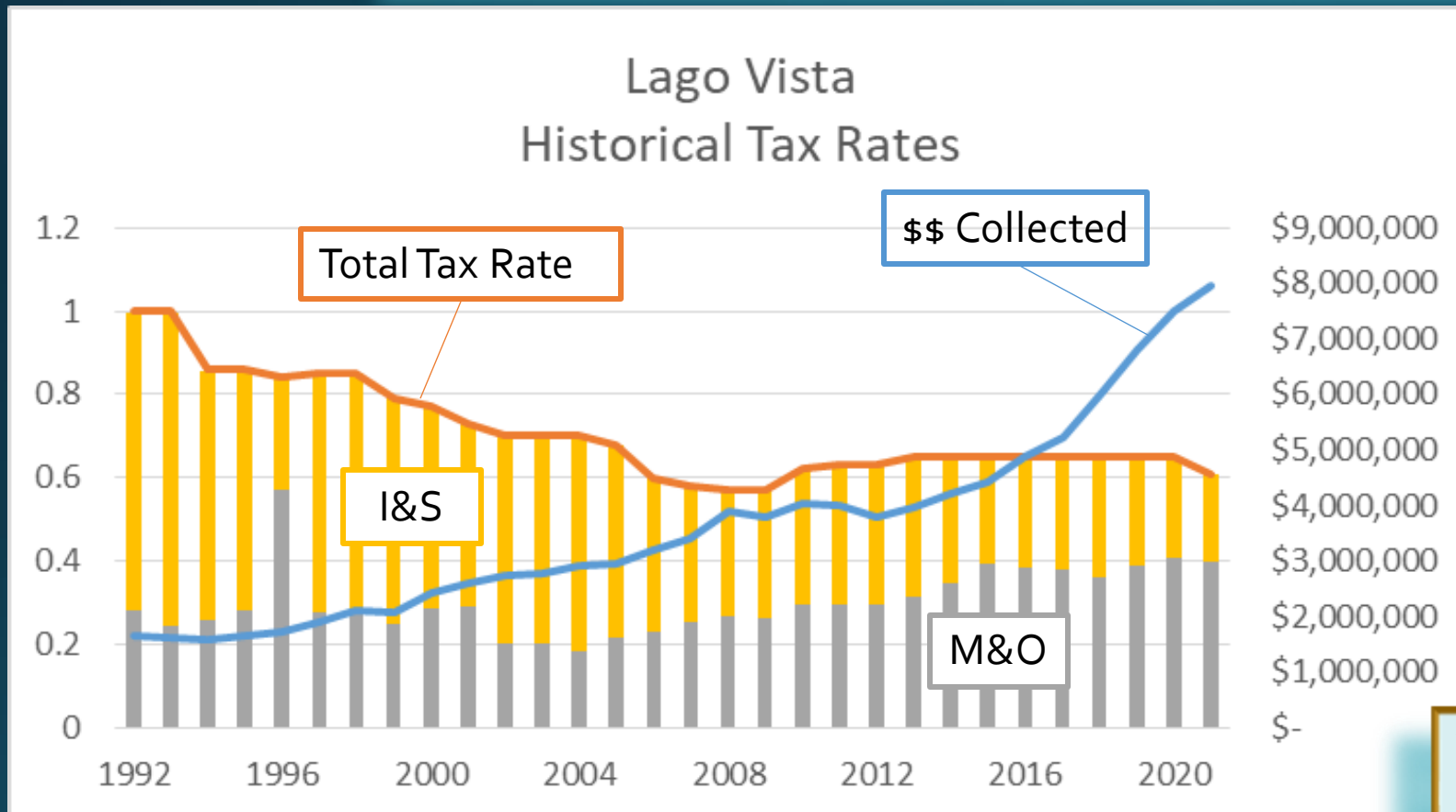
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	Total CIP	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	Total	% Existing Customers	% Impact Fee Eligible
Water															
Impact Fee Study	10,000												10,000	0%	100%
SCADA Improvements	217,500												217,500	100%	0%
Leak Detection 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 Replacemen					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 Glanc		100,000	975,000										1,075,000	30%	30%
Sewer Transmission Hi Dr to Truman		100,000	780,000										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		

~\$53M

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

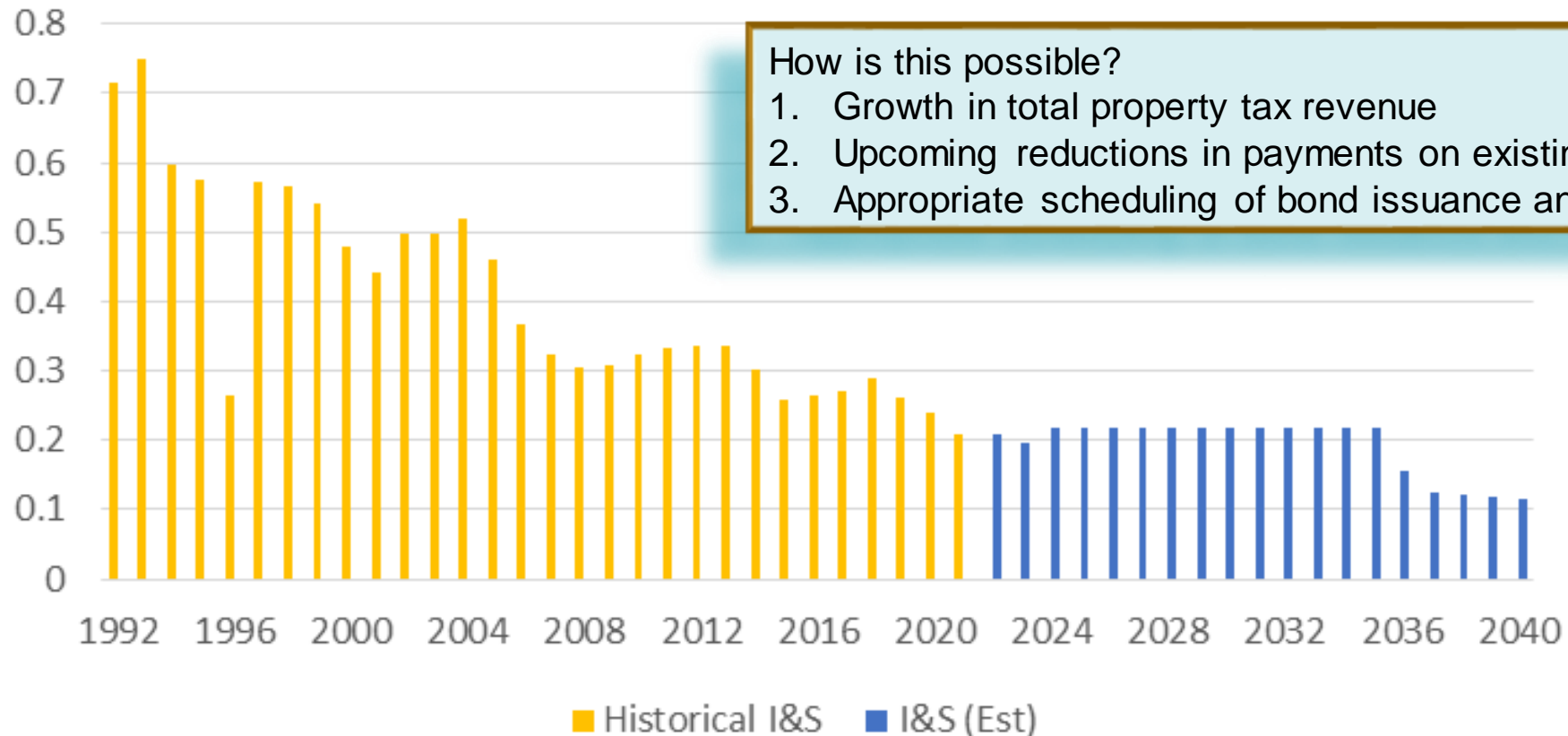
Funding projects through bonds (I&S) vs cash payments (O&M) allow major projects to be done without waiting years to build up savings, and without increasing total tax rates.



** 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.

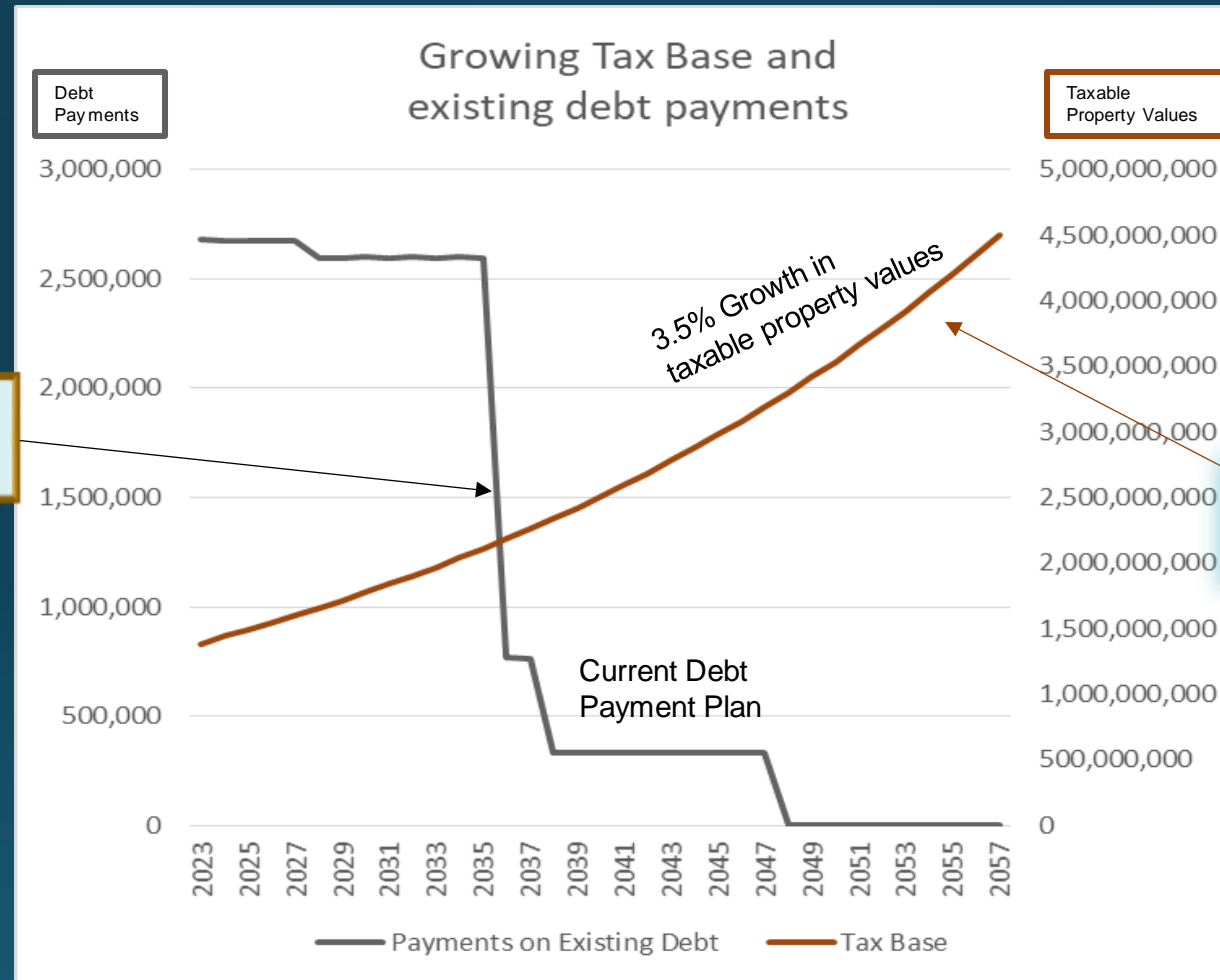
Projected I&S Tax Rates with added \$40M Utility bonds



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



Existing debt payments fall dramatically in 2036

3.5% Growth in total tax dollars collected

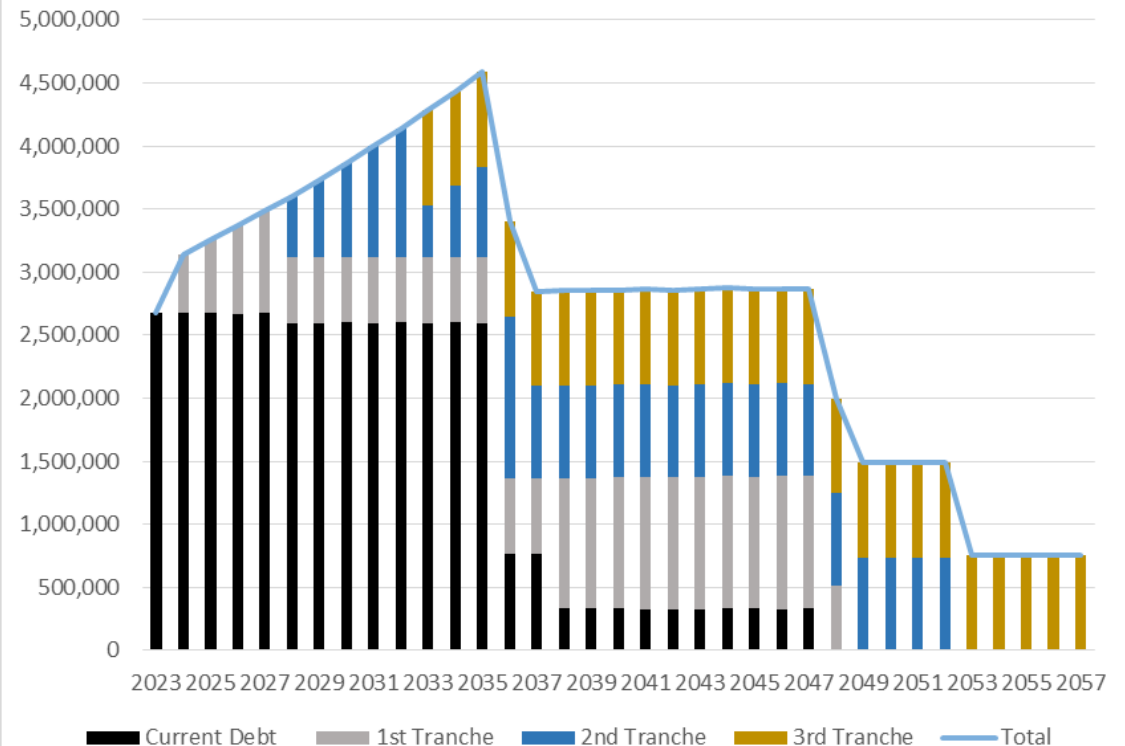
CITY OF LAGO VISTA
Proforma I & S Tax Rate Analysis
(Subject to Change)

3. Appropriate scheduling of bond issuance and payments

FYE 9/30	Tax Base		Sample Debt Service for \$40 Million over 10 Years				Est I&S
	Plus 5% 2023-24 Plus 3.5% Thereafter	Existing Debt	Sample, \$13.4M at 2.5% in 2023	Sample, \$13.3M at 2.75% in 2027	Sample, \$13.3M at 3% in 2032	Est. Aggreg DS for I&S Tax	Tax Rate at 100%
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	522,938	744,319	-	3,865,342	0.2176
2031	1,838,700,030	2,597,271	522,938	876,463	-	3,995,171	0.2173
2032	1,903,054,531	2,601,880	522,938	1,009,550	-	4,131,930	0.2171
2033	1,969,661,439	2,592,668	522,938	408,688	754,825	4,285,493	0.2176
2034	2,038,599,590	2,600,139	522,938	558,806	751,600	4,433,482	0.2175
2035	2,109,950,575	2,591,572	522,938	709,944	755,275	4,587,816	0.2174
2036	2,183,798,845	766,162	598,688	1,286,669	753,575	3,398,493	0.1556
2037	2,260,231,805	762,721	598,688	1,343,340	751,575	2,848,883	0.1260
2038	2,339,339,918	331,500	1,034,500	736,844	754,200	2,852,444	0.1219
2039	2,421,216,815	332,688	1,035,188	732,244	756,375	2,856,744	0.1180
2040	2,505,959,404	333,500	1,039,250	736,400	753,175	2,859,325	0.1141
2041	2,593,667,983	329,031	1,047,625	733,894	754,600	2,865,150	0.1105
2042	2,684,446,362	329,281	1,040,438	732,975	755,655	2,859,269	0.1065
2043	2,778,401,985	329,156	1,042,750	732,944	755,400	2,861,650	0.1030
2044	2,875,646,055	333,200	1,049,375	732,900	755,755	2,871,650	0.0999
2045	2,976,293,667	331,400	1,045,375	731,744	755,800	2,864,319	0.0962
2046	3,080,463,945	329,200	1,050,750	735,106	754,995	2,870,031	0.0932
2047	3,188,280,183	331,500	1,050,438	732,988	755,700	2,868,625	0.0900
2048	3,299,869,989	-	511,313	735,388	751,975	1,998,675	0.0606
2049	3,415,365,439	-	-	732,306	752,725	1,487,031	0.0435
2050	3,534,903,229	-	-	733,744	752,250	1,485,694	0.0420
2051	3,658,624,842	-	-	734,631	753,650	1,488,281	0.0407
2052	3,786,676,712	-	-	734,969	754,750	1,489,719	0.0393
2053	3,919,210,397	-	-	-	755,250	755,250	0.0193
2054	4,056,382,761	-	-	-	755,150	755,150	0.0186
2055	4,198,356,157	-	-	-	754,450	754,450	0.0180
2056	4,345,298,623	-	-	-	753,150	753,150	0.0173
2057	4,497,384,075	-	-	-	756,175	756,175	0.0168
Totals		\$ 41,663,850	\$ 18,899,917	\$ 18,420,958	\$ 18,858,750	\$ 97,843,475	

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

Estimated debt payments
including \$40M in new Utility Bonds



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