



NEW BRAUNFELS UTILITIES

Proposed Sewer Rate Second Reading

New Braunfels City Council
September 8, 2014

Topics For Discussion

- Discuss impact fee considerations
- Discuss rate increase impact
- Sewer rate recommendation

Topics for Discussion

- The impact fee discussion has been helpful and NBU is planning to propose increasing the current sewer impact fee to the maximum later this year. That change is available in the near term and NBU has already been taking steps in that direction.
- NBU also plans to conduct a review and update its sewer impact fee inputs and pricing calculations with an eye toward increasing the maximum allowable fee if appropriate; the increased costs of capital have only been fully felt within last 18 months.

however

- NBU has already reflected an increase in the sewer impact fee to 95% of maximum over the five year (financial and rate) planning period

and

- ***Even an increase in the current fee to 100% or an increase in the maximum impact fee beyond 2015 will not increase revenue for FY 2014-2015 and thus not reduce the proposed sewer rate increase for this year***

Sewer Rate Discussion

- While this presentation will address questions raised regarding impact fees, the focus of this discussion needs to be a review of the requirements of the 4.5% sewer rate increase.
- NBU has met with City Council over the last five years reviewing steps taken to manage the rate increases as carefully as possible.
- The investment in capital is happening now and it is necessary to address the revenue requirement.

Impact Fee History

- NBU charges water and wastewater impact fees to new development within its service area and has in some form of that done so since the mid-1970's.
- Impact fees are up front fees usually paid by the developers or builders which are designed to recover part of the cost of major infrastructure needed to serve the new development.
- In 1987, the Texas Legislature passed Senate Bill 336, which has since been codified as Chapter 395 of the Texas Local Government Code to regulate the imposition of such fees.

Impact Fee History

- In 1989 NBU began a process of developing water and wastewater impact fees which would be in technical compliance with Chapter 395.
- In order to develop a compliant fee, the City appointed an advisory Committee. As allowed by Chapter 395, the local Planning and Zoning Commission acts as the advisory committee and the committee is supplemented by a representative of the real estate industry and a representative of the extraterritorial jurisdiction of New Braunfels.
- The advisory committee works in concert with NBU staff and consultants and with City staff to enact impact fees using the technical procedures and public hearing process required under Texas law.

Updating Impact Fees

- Impact fees are developed for a ten year planning horizon, NBU's current impact fee plan and pricing structure was approved in 2011.
- The NBU Board has authority to establish an effective impact fee rate up to the maximum level as established in the 2011 plan.
- The City/NBU is required to review the plan and pricing structure at least every three (3) years by local ordinance, to determine if they should be updated.
- To the extent that NBU believes that the maximum impact fees must be increased, certain technical studies and a public process are required.
- NBU Board has been advised and is preparing to act on increasing the effective fee for sewer to the maximum since recent construction costs have increased significantly with the competition for labor and materials due to Eagle Ford Shale development.

Impact Fee Statutory Requirements

- A detailed technical study is required to initiate a new maximum fee.
- The study must include a review of land use assumptions, service area definition, growth projections , CIP development, cost allocation, unit usage determination, etc.
- The advisory committee must be involved to advise and assist in the impact fee update process.
- Public notice and a public hearing must be conducted prior to establishing an updated impact fee plan and pricing structure.
- The NBU Board and ultimately the City Council must approve changes to the impact fee plan and pricing structure.

Impact Fee Statutory Requirements

- Impact Fees may only be used for the uses for which the fees were collected.
 - Only facilities in the associated Construction Improvement Program (CIP) can be funded by the fee
 - Funding of debt service as it relates to those facilities may also be funded by the fee
- Items not payable by the impact fee :
 - Construction, acquisition, or expansion of public facilities or assets other than capital improvements or facility expansions identified in the CIP.
 - Repair, operation or maintenance expenses
 - Upgrading, updating, expanding or replacing existing facilities to meet stricter standards or provide better service to existing customers
 - Administrative and operating costs
 - Capital or interest payment for any capital improvements or facility expansions not identified in the CIP
- Fees which are not expended on appropriate CIP projects within 10 years must be refunded plus interest
- The maximum allowable fee under state statute is the full capital cost per unit, less tax/rate credits

Impact Fee Theory

- Existing users pay for operations and maintenance, existing utility capital facilities plus renovation and rehabilitation of existing capital facilities through existing rates
- Future users pay their cost of service through rate payments and for growth related system expansion costs through impact fees
- Existing users will not, in the long term, bear the cost of facilities for future users

Impact Fee Practical Considerations

- Equity between existing and future users is a benefit that will occur over the long term
- There will be near term rate increases because
 - There is considerable lag time between utility expenditures for growth related facilities and recovery of impact fees from future development
 - NBU and most utilities recover impact fees at less than the maximum calculated amount because of the onerous burden imposed by the legislation to refund with interest.
 - The cost of facilities set forth in the CIP plan have escalated beyond the amount included in the plan and the current impact fee but we cannot be certain at this time without the requisite review that we have incurred costs beyond what we are recovering.
 - Texas law requires that maximum allowable impact fees be offset by rate credits (recognizing that new customers will also pay for growth-related facilities in their rates)

NBU Sewer Impact Fee Rate History And Possible Adjustments

	Maximum	Effective	Percent Change From Previous Effective Sewer Rate
Previous Impact Fee Program (1999 -2009) <i>Percent of Maximum</i>	\$ 1,545.23	\$ 1,160.00 75%	
Current Impact Fee Program ^{(1) (2)} (2009 - 2019) <i>Percent of Maximum</i>	\$ 1,570.11	\$ 1,260.00 80%	9%
If Increased to 95% Effective Fee		\$ 1,491.60	29%
If Increased to 100% Effective Fee		\$ 1,570.11	35%

Notes:

1. Maximum Fee Rate Approved by the New Braunfels City Council on February 28, 2011 for 5/8" meter.
2. Effective Impact Fee Rate Approved by the NBU Board of Trustees effective May 1, 2011

Sewer Impact Fee Rate Comparison With Surrounding Communities

Residential	Sewer Impact Fee	Pct From Avg
New Braunfels -Existing	\$ 1,260	-51%
New Braunfels - Proposed	\$ 1,570	-39%
Cibolo	\$ 1,770	
Fredericksburg	\$ 2,160	
San Marcos	\$ 2,185	
Austin	\$ 2,200	
Kyle	\$ 2,216	
San Antonio	\$ 2,255	
Seguin	\$ 2,374	
Schertz	\$ 3,468	
Boerne	\$ 4,580	
Average (excluding New Braunfels Utilities)	\$ 2,579	

Historical Wastewater Capital Projects – Aging System Rehabilitation and System Enhancement & Extension Projects

(\$ in Thousands)

	Fiscal Year								Total
	2007	2008	2009	2010	2011	2012	2013	2014	
Aging System Rehabilitation	\$ -	\$ 170	\$ -	\$ 37	\$ 116	\$ 194	\$ 481	\$ 568	\$ 1,566
System Enhancement	\$ 220	\$ 175	\$ 190	\$ 422	\$ 390	\$ 37	\$ 247	\$ -	\$ 1,681
System Extensions	\$ 150	\$ 140	\$ 85	\$ 33	\$ 188	\$ 106	\$ 272	\$ 342	\$ 1,316
								Total	\$ 4,563

Note: Above categories represent aggregate expenditures on smaller scale projects that arose over the course of the fiscal year that have not been itemized separately.

Historical Wastewater Capital Projects – TxDOT Projects

(\$ in Thousands)

	Fiscal Year								Total
	2007	2008	2009	2010	2011	2012	2013	2014	
HWY 46W Widening	\$ -	\$ 106	\$ 62	\$ 7	\$ -	\$ -	\$ -	\$ -	175
Guadalupe River Bridge in Gruene	\$ 2	\$ 270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	272
BUS 46 Widening "The Hill"	\$ -	\$ -	\$ -	\$ -	\$ 53	\$ -	\$ 201	\$ 156	410
FM 306 Widening	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 257	\$ 1,800	\$ 40	2,097
Seguin RR Underpass Widening	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 54	\$ 25	79
FM 1101 Widening	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 136	136
								Total	\$ 3,169

Historical Wastewater Capital Projects – Joint Projects with City of New Braunfels

(\$ in Thousands)

	Fiscal Year										Total
	2007	2008	2009	2010	2011	2012	2013	2014			
Church Hill St. Drainage	\$ 20	\$ 107	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 127
Canyon Drive Reconstruction	\$ 140	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 140
Gruene Road Widening	\$ 75	\$ 14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 89
Stonewall St. Reconstruction	\$ 120	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 120
Mill St. Reconstruction	\$ 270	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 270
South Tributary	\$ -	\$ 25	\$ 366	\$ 3	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 394
North Tributary	\$ -	\$ -	\$ 33	\$ 1	\$ -	\$ 274	\$ 9	\$ -	\$ -	\$ -	\$ 317
Katy and Mesquite	\$ -	\$ 45	\$ 341	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 386
Forest Drive Improvements	\$ -	\$ -	\$ 15	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 15
Gruene Road/Torrey	\$ -	\$ -	\$ 236	\$ 2	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 238
Edgewater/Dallas/Chicago/Allen	\$ -	\$ -	\$ 201	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 201
Walnut Avenue Widening	\$ -	\$ -	\$ -	\$ 130	\$ 340	\$ 327	\$ 556	\$ 39	\$ -	\$ -	\$ 1,392
Church Hill Rd Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 113	\$ -	\$ -	\$ -	\$ -	\$ 113
Elizabeth Street Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 97	\$ 158	\$ -	\$ -	\$ -	\$ 255
Union Street Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 111	\$ 26	\$ -	\$ -	\$ 137
										Total	\$ 4,194

Historical Wastewater Capital Projects – NBU Projects

(\$ in Thousands)

	Fiscal Year										Total
	2007	2008	2009	2010	2011	2012	2013	2014			
Lift Station Upgrades	\$ 12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 12
Alligator Creek Trunk Main Addition	\$ 1,600	\$ 45	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,645
Avery Park Force Main Extension	\$ 42	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 42
Union Street at San Antonio	\$ -	\$ 20	\$ 154	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 174
Comal River Trunk Main	\$ -	\$ 215	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 215
Rio Lift Station Relocation & Expansion	\$ -	\$ -	\$ 231	\$ 330	\$ 4,000	\$ 2,700	\$ -	\$ -	\$ -	\$ -	\$ 7,261
Dunlap Drive Improvement	\$ -	\$ -	\$ 280	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 280
E. Green Valley Rehabilitation	\$ -	\$ -	\$ 381	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 381
Rio Trunk Main Rehabilitation	\$ -	\$ -	\$ 108	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 108
HWY 81 at Walnut Rehabilitation	\$ -	\$ -	\$ -	\$ 56	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 56
Comal St at Faust Rehabilitation	\$ -	\$ -	\$ -	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 50
Field Asset Inventory	\$ -	\$ -	\$ -	\$ 63	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 63
June 2010 Storm Damage	\$ -	\$ -	\$ -	\$ 64	\$ 74	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 138
Lakeview Sewer Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ 45	\$ 211	\$ 139	\$ -	\$ -	\$ -	\$ 395
Morningside to FM 1044 Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ 50	\$ 491	\$ 62	\$ -	\$ -	\$ -	\$ 603
Business 35 Collection Upgrade	\$ -	\$ -	\$ -	\$ -	\$ 31	\$ 87	\$ -	\$ -	\$ -	\$ -	\$ 118
Linde and Tanglewood Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ 57	\$ 5	\$ -	\$ -	\$ -	\$ -	\$ 62
Walnut/Laurel Canyon Main Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ 249	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 249
HWY 46 Gravity Main Addition	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28	\$ 300	\$ -	\$ -	\$ -	\$ 328
PLC Upgrade Project	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 70	\$ 21	\$ -	\$ 232	\$ -	\$ 323
Dove Crossing Force Main Addition	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 355	\$ -	\$ -	\$ -	\$ -	\$ 355
Albert to Torrey Upgrade	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 167	\$ 64	\$ -	\$ -	\$ -	\$ 231
Solms Aerial Crossing	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24	\$ -	\$ -	\$ -	\$ -	\$ 24
Belmont to Old McQueeney Rehabilitation	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 115	\$ -	\$ 5	\$ -	\$ 120
									Total	\$	13,233

Historical Wastewater Capital Projects – NBU Plant Projects

(\$ in Thousands)

	Fiscal Year				Total
	2011	2012	2013	2014	
NSKWWTP Renovation	\$ 255	\$ 4,100	\$ 1,143	\$ 315	\$ 5,813
NKWWTP Clarifier Rehabilitation	\$ -	\$ -	\$ 1,150	\$ -	\$ 1,150
Sam C. McKenzie Jr. Water Reclamation Facility	\$ 420	\$ 893	\$ 2,880	\$ 936	\$ 5,129
Gruene Water Reclamation Facility	\$ -	\$ -	\$ 4,220	\$ 797	\$ 5,017
				Total	\$ 17,109

Statement of Revenue & Expenses

Wastewater LOB

(\$ in Thousands)

	Budget FY 2015	Forecast FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019
Revenues					
Sewer Services	\$ 12,499	\$ 13,630	\$ 14,665	\$ 15,722	\$ 16,223
Sewer Other	137	142	148	153	159
Total Operating Revenues	\$ 12,636	\$ 13,773	\$ 14,812	\$ 15,875	\$ 16,382
Expenses					
Operating Expenses	\$ 4,232	\$ 4,359	\$ 4,489	\$ 5,001	\$ 5,151
Depreciation	3,431	4,772	5,671	5,732	5,762
Total Operating Expenses	\$ 7,663	\$ 9,131	\$ 10,160	\$ 10,733	\$ 10,913
Net Operating Income	\$ 4,973	\$ 4,642	\$ 4,652	\$ 5,142	\$ 5,468
Nonoperating rev/(exp)					
Impact Fees	1,534	1,593	1,654	1,717	1,783
Services & Miscellaneous	28	28	29	29	30
Interest Expense, G&A	(1,753)	(3,998)	(5,313)	(4,896)	(4,689)
Total nonoperating rev/(exp)	\$ (192)	\$ (2,377)	\$ (3,630)	\$ (3,150)	\$ (2,876)
Net Income before allocation	\$ 4,781	\$ 2,265	\$ 1,023	\$ 1,993	\$ 2,592
Income Allocation	\$ 236	\$ 288	\$ 345	\$ 404	\$ 456
Expense Allocation	(2,126)	(2,218)	(2,316)	(2,413)	(2,511)
Net Income	\$ 2,890	\$ 336	\$ (948)	\$ (16)	\$ 538

Statements of Cash Flow

Wastewater LOB

(\$ in Thousands)

	Budget FY 2015	Forecast FY 2016	Forecast FY 2017	Forecast FY 2018	Forecast FY 2019
Net Income	\$ 2,890	\$ 336	\$ (948)	\$ (16)	\$ 538
Add Back					
Depreciation	\$ 3,431	\$ 4,772	\$ 5,671	\$ 5,732	\$ 5,762
Interest Expense	1,234	2,934	4,519	4,819	4,652
Intergovernmental Expense	523	569	620	667	714
Net Available for Debt Service	\$ 8,079	\$ 8,611	\$ 9,861	\$ 11,201	\$ 11,667
Debt Service	\$ (2,021)	\$ (4,572)	\$ (7,934)	\$ (9,554)	\$ (9,483)
Restricted Funds	(1,534)	(1,593)	(1,654)	(1,717)	(1,783)
Intergovernmental	(523)	(569)	(620)	(667)	(714)
Net Revenues available for Capital	\$ 4,001	\$ 1,877	\$ (346)	\$ (737)	\$ (314)
Capital Expenditures					
Wastewater Projects	\$ 24,596	\$ 43,481	\$ 28,863	\$ 1,386	\$ 655
Wastewater Equipment	288	-	184	95	328
Support Services Allocated Capital	566	762	603	535	26
Total Capital Expenditures	\$ 25,450	\$ 44,243	\$ 29,650	\$ 2,017	\$ 1,009
Capital Expenditures - Funding					
Debt	\$ 19,677	\$ 40,538	\$ 28,107	\$ 1,003	\$ 241
Central Facilities	12	10	10	-	-
Impact Fees	1,524	1,583	1,643	1,706	1,297
CIAOC & Grant Funding	235	235	235	235	-
Revenue	4,001	1,877	(346)	(737)	(314)
Total Capital Funding	\$ 25,450	\$ 44,243	\$ 29,650	\$ 2,207	\$ 1,224
Excess Revenue used to Fund Capital	\$ -	\$ -	\$ -	\$ 191	\$ 214
Debt Service Coverage	4.00	1.88	1.24	1.17	1.23

Wastewater Capital Projects in the Five Year Plan for Fiscal Years 2015- 2019

(\$ in Thousands)

		Budget FY 2015	FY 2016	Forecast			Total 5-Yr. Plan
				FY 2017	FY 2018	FY 2019	
Annual Projects	Aging System Rehabilitation-WW	\$ 340	\$ 340	\$ 340	\$ 340	\$ 340	\$ 1,700
	System Extensions-WW	165	165	165	165	165	825
	System Enhancements-WW	150	150	150	150	150	750
						Total	3,275
TxDOT Projects	Business 46 Widening - Landa to Kerlick - Sewer	\$ 3,289	\$ -	\$ -	\$ -	\$ -	\$ 3,289
	FM 1101 Widening TxDOT	347	-	-	-	-	347
						Total	3,636
Other	Remote Terminal Unit to PLC-WW	\$ 50	\$ -	\$ -	\$ -	\$ -	\$ 50
							Total
Bond Projects - City of New Braunfels	Alves Ln Improvements (CNB)-WW	\$ 67	\$ 341	\$ 568	\$ 292	\$ -	\$ 1,268
	Live Oak Ave & Katy St Improvements	66	317	86	-	-	469
	Morningside Dr. Reconstruction	29	90	375	344	-	839
	Solms Rd Reconstruction	8	23	97	88	-	216
	Rueckle Rd Reconstruction	3	6	63	7	-	79
						Total	2,871
Wastewater Treatment Projects	Sam C. McKenzie Jr. Water Reclamation Facility	\$ 11,847	\$ 15,380	\$ 5,795	\$ -	\$ -	\$ 33,022
	N/S Kuehler WWTP Renovation	7,713	7,171	-	-	-	14,884
	Gruene WWTP Relocation & Expansion	523	19,497	21,224	-	-	41,243
						Total	89,149
Grand Total							\$ 98,981

Funding of Wastewater LOB in FY 2015

(\$ in Thousands)

Net Revenues available for Capital Expenditures **\$ 4,001**

Revenue effect of proposed 4.5% Sewer Rate Increase	\$	448	
Less: 16% Margin transfer to City		(72)	
Net margin effect to NBU			(376)

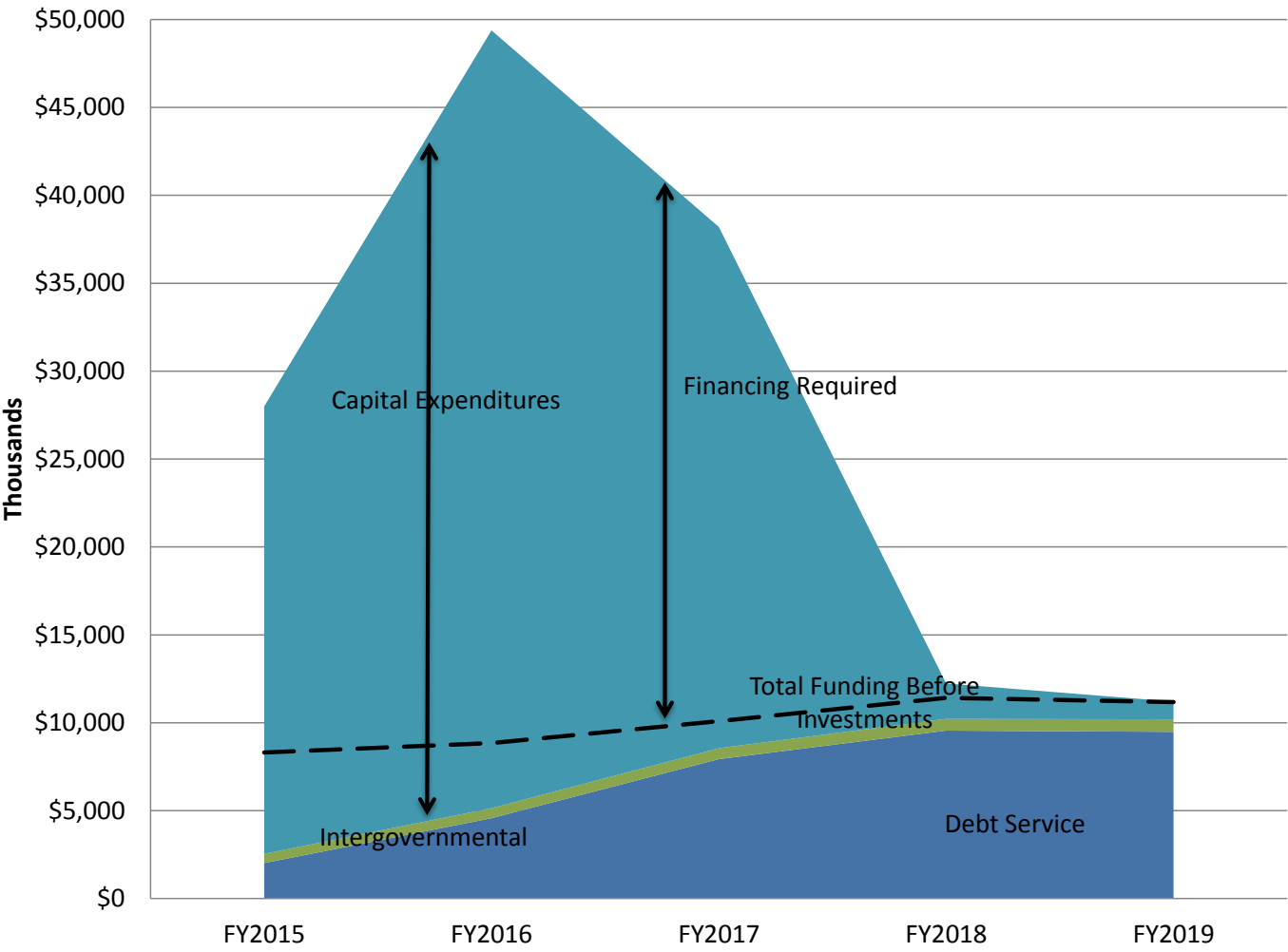
Adjusted Net Revenues to NBU (without Sewer Rate Increase) **\$ 3,625**

		Percent
<i>Capital Expenditures for Wastewater LOB</i>		
- Expansion for Gruene WWTP	\$ 293	1.1%
- New Sam McKenzie WWTP	11,847	46.5%
Sub-total for Expansion Facilities with Potential Impact Fee Funding	12,140	47.7%
Other Capital Expenditures	12,456	48.9%
Total Capital Expenditures	24,596	96.6%
Capital Equipment	288	1.1%
Support Services Allocated Capital	566	2.2%
Total Capital Expenditures for Wastewater LOB	\$ 25,450	100.0%

<i>Funding of Capital Expenditures</i>		
Internally-generated funds without sewer rate increase	\$ 3,625	14.2%
Net effect of 4.5% Sewer rate increase	376	1.5%
Total internally-generated funds with proposed sewer rate increase	4,001	15.7%
Impact fees and CIAOC	1,772	7.0%
Debt	19,677	77.3%
Total Funding	\$ 25,450	100.0%

Wastewater LOB – Funding Sources and Expenditures

(\$ in Thousands)



Making the Financially Prudent Decision Requires Balancing Many Factors

- Sufficient funding to maintain a safe and reliable system to ensure the operational integrity of the system
 - Utilizing preventive maintenance programs
 - Replacement of aging infrastructure
 - Extend for growth
 - Avoid fines for overflows and non-compliance
- Operate the utility at a cost-effective manner while attracting talent and experience to manage the system prudently
 - NBU's O&M cost per customer over the past ten years is significantly below various metrics such as CPI, increase in net plant, and growth in customers
 - As a steward of the municipal utility, NBU has closely scrutinized needed expenditures and deferred \$21 Million in capital expenditures and \$5 Million in operating expenses over the next five year planning horizon
- Setting appropriate service rates
 - NBU's rates are considerably lower than surrounding communities
 - NBU has historically developed and annually updated a five year financial plan and communicated anticipated rate increases to the City Council
 - NBU has included a concept of gradually phasing-in projected rate increases to minimize substantial rate increases ("rate shock") to customers at any one time
- Utilization of impact fees to fund capital project expansions
 - Since January 1, 2008 NBU has utilized \$12.5 Million of sewer impact fees to fund capital project expansions.
- Leveraging with debt to fund need capital infrastructure projects over the long-term
 - NBU is projecting to issue \$30 Million in FY 2015 and \$124 Million over the next five years to fund capital projects
- The combination of all of the above impacts the growth and vitality of the city
 - Having a sound utility system attracts employers and residents to the city (less uncertainty in utility costs)
 - The additional employers and residents enhances the tax base to support city services and projects

Effects of Not Increasing the Sewer Rate Fee

- Wastewater LOB is already projected to have negative net cash flow (after debt service and intergovernmental transfer) despite projected rate increases included in FYs 2017-2019 forecast
 - Reducing revenue will exacerbate the negative cash flow
 - Goes against the principle of maintaining economic self-sufficiency for each LOB
- Increases the amount to be borrowed
 - Increases debt service and adversely impacts debt service coverage ratio and debt/capitalization ratios
 - Over time, puts additional pressure on debt ratings which could lead to higher interest expense and ultimately higher service rates to support the higher debt service
- There is no free lunch
 - Needed infrastructure requires financing whether it be from internally generated funds, impact fees or service rates
- Potential for much-needed capital projects to be delayed or cancelled.
- As the utility system ages, and without additional funding, the cost of rehabilitation will only increase the possibility of system failure which could lead to monetary fines
 - Leads to negative environmental effects to the community
 - Overall cost would be higher because the repairs would still need to eventually be made
 - *Example: in July 2013, SAWS as part of settlement proceeding with the EPA, agreed to spend about \$1.1 billion in upgrades to its sewer systems and pay a \$2.6 million civil fine to correct sewage spills.*

Revenue Effects of Not Increasing Proposed Sewer Rate

(\$ in Thousands)

	NBU FIVE YEAR PLAN		NO INCREASE IN FY 2015		
	Sewer Rate Increase	Total Sewer Revenue	Sewer Rate Increase	Total Sewer Revenue	Change From Plan
Fiscal Year 2015	4.5%	\$ 12,499	0.0%	\$ 12,051	\$ (448)
Fiscal Year 2016	4.5%	\$ 13,630	4.5%	\$ 13,049	\$ (582)
Fiscal Year 2017	4.5%	\$ 14,665	4.5%	\$ 14,040	\$ (625)
Fiscal Year 2018	4.5%	\$ 15,722	4.5%	\$ 15,051	\$ (671)
Fiscal Year 2019	0.0%	\$ 16,223	0.0%	\$ 15,530	\$ (692)
Total		\$ 72,739		\$ 69,721	\$ (3,017)

- ***The net effect is not just the loss of revenue in one year. Over five years, the ~\$450K revenue loss becomes \$3.0 Million.***
- ***The elimination of the proposed rate increase has a significant impact on Wastewater's revenue and cash flow and it's ability in becoming economically self-sufficient.***
- ***The proposed rate increases are designed to be permanent in order to replace aging infrastructure in the future and maintaining the reliability of the utility system.***

Vigilance in managing costs

- **Deferred \$21 Million of capital projects from the initial five year capital plan submitted**
 - **Electric** - \$5.8 Million
 - **Water** - \$1.4 Million
 - **Waste Water** - \$13.8 Million
- **Eliminated more than 8.3%, or \$909 K, in operating costs in FY 2015**
 - Since FY 2015 is the base year for the five year plan, it had the effect of reducing operating expenses over the five year plan period by \$4.8 Million.
- **Overall, NBU's operating and maintenance costs from the FY 2014 Budget to the FY 2015 Budget are increasing by only 2% from \$21.1 Million to \$21.6 Million, respectively.**

Summary Comparison of Operating Costs and Cost Per Customer Data

	Actual FY 2003	Actual FY 2013	Annz Pct Chg	Budget FY 2015	Annz Pct Chg
Cost Per Customer	\$ 229.20	\$ 227.11	-0.1%	\$ 240.37	0.4%
CPI (End of Year)	184.300	233.049	2.4%		
NBU Customers/Meters	54,177	81,649	4.2%	89,697	4.3%
Total NBU Operating Expenses	\$ 12,417	\$ 18,543	4.1%	\$ 21,560	4.7%
Net Plant (\$ Millions)	\$ 111	\$ 236	7.8%		
Employee Count - FTE	195.5	219.0	1.1%	243.0	1.8%

Proactivity in Finding Ways to Become More Cost-Efficient

A sampling of activities highlighting NBU's effort to implement progressive, proactive, cost saving initiatives:

- Since 2011, NBU became one of a handful of utilities in the country to perform Cured-in-Place Pipe (CIPP) rehabilitation with internal crews to rehabilitate sewer mains.
 - Has resulted in 50% dollar savings over open trench technology and 25% over contract CIPP rehabilitation.
 - NBU has rehabilitated 45,000 feet of pipe with CIPP.
- NBU assessed 80% of its wastewater collection system using state-of-the art acoustic technology last year.
 - NBU did this work in-house which resulted in 75% dollar savings over using contract resources.
 - NBU is one of only a handful of utilities across the country to do this work in-house.
- In 2010, NBU implemented a predictive maintenance program for its electromechanical equipment which saves O&M expenses and improves reliability.
 - NBU's lubrication program was awarded the best in the country in 2011.

Water & Sewer Bill Comparisons - Residential

Residential	Water		Sewer		Total	Pct from Avg.
Based upon Monthly Gallons Usage for:						
Domestic Consumption	8900 g		4600 g			
Fredericksburg	\$	29.82	\$	18.63	\$	48.45
New Braunfels - Existing	\$	27.21	\$	28.83	\$	56.04
New Braunfels - Proposed	\$	27.21	\$	30.12	\$	57.33
San Antonio	\$	36.03	\$	21.81	\$	57.83
Schertz	\$	39.85	\$	28.13	\$	67.98
Cibolo	\$	56.09	\$	20.43	\$	76.52
Seguin	\$	50.15	\$	27.80	\$	77.95
Boerne	\$	46.75	\$	45.55	\$	92.30
Austin	\$	51.11	\$	41.88	\$	92.99
San Marcos	\$	52.85	\$	41.21	\$	94.06
Kyle	\$	78.78	\$	34.00	\$	112.78
Average (excluding New Braunfels Utilities)	\$	49.05	\$	31.05	\$	80.10

-30%
-28%

Water & Sewer Bill Comparisons - Commercial

	Water	Sewer	Total	Pct from Avg.
Based upon Monthly Gallons Usage for:				
Domestic Consumption	30,800 g	30,800 g		
Fredericksburg	\$ 90.46	\$ 126.93	\$ 217.39	
New Braunfels -Existing	\$ 71.25	\$ 146.16	\$ 217.41	-37%
New Braunfels - Proposed	\$ 71.25	\$ 152.73	\$ 223.98	-35%
San Antonio	\$ 164.73	\$ 104.68	\$ 269.41	
Seguin	\$ 156.50	\$ 128.48	\$ 284.98	
Schertz	\$ 112.76	\$ 173.41	\$ 286.17	
Boerne	\$ 131.73	\$ 187.34	\$ 319.07	
Cibolo	\$ 271.75	\$ 128.99	\$ 400.74	
Kyle	\$ 277.78	\$ 139.03	\$ 416.82	
San Marcos	\$ 211.53	\$ 219.11	\$ 430.64	
Austin	\$ 183.12	\$ 273.34	\$ 456.46	
Average (excluding New Braunfels Utilities)	\$ 177.82	\$ 164.59	\$ 342.41	

Summary

- NBU has scrutinized capital and operation costs to minimize potential rate increases
- The New Braunfels City Council has been apprised on an annual basis of NBU's long-term capital plan and the anticipated sewer rate increases since 2008.
- The NBU Board of Trustees began a review of the effective sewer impact fee rate in April with plans to implement changes before the end of calendar year 2014.
- NBU will be reviewing the impact fee CIP in the near term as part of the three year requirement within the City Ordinance.
- The critical need for wastewater infrastructure has begun in earnest and will continue for about three years.
- Planning has been ongoing for many years and financial commitments and contracts are being awarded.
- A sewer rate increase is needed to support wastewater operations and debt service.
- Recommend that City Council approve an across-the-board 4.5% sewer rate increase effective October 8, 2014.

