

Memorandum

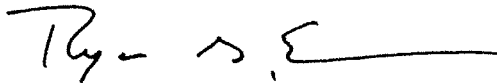


DATE August 14, 2009

TO Honorable Mayor and Members of the City Council

SUBJECT Water Utilities: Overview of Proposed FY10 Budget

Attached is the Water Utilities Department FY09-10 Proposed Budget Briefing to be presented by the Water Utilities Department at the August 19, 2009 meeting of the Dallas City Council.



Ryan S. Evans
First Assistant City Manager

Attachment

c: Mary K. Suhm, City Manager
Thomas P. Perkins, City Attorney
Deborah Watkins, City Secretary
Craig Kinton, City Auditor
Jill A. Jordan, P.E., Assistant City Manager
Forest E. Turner, Assistant City Manager
A.C. Gonzalez, Assistant City Manager
David K. Cook, Chief Financial Officer
Jeanne Chipperfield, Director of Budget & Management Services
Judge C. Victor Lander, Administrative Judge
Helena Stevens-Thompson, Assistant to the City Manager
Jo M. Puckett, P.E., Director, Dallas Water Utilities

Water Utilities: Overview of Proposed FY10 Budget

August 19, 2009



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Purpose

This briefing provides an overview of Dallas Water Utilities, its water and wastewater operations, and recommended FY 09-10 Budget

Background

Dallas Water Utilities Mission

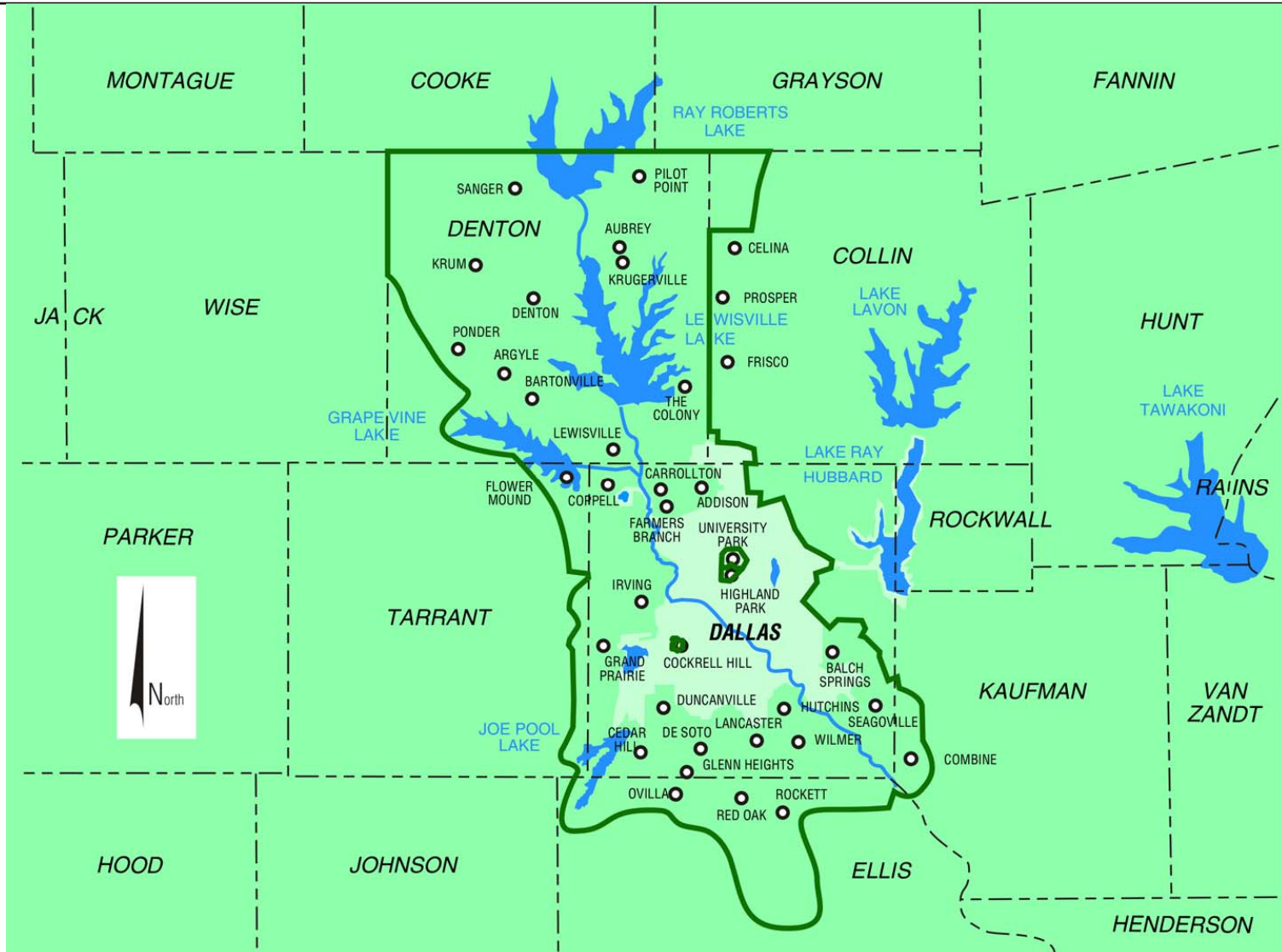
TO PROVIDE SERVICES VITAL TO THE HEALTH AND SAFETY OF DALLAS CITIZENS AND OUR CUSTOMERS, by supporting the City's efforts toward economic development, environmental protection, and enhancement of quality of life. These services include water supply, treatment, and distribution; and wastewater collection and treatment. *Dallas Water Utilities is a City-owned enterprise providing regional services.*

DALLAS WATER UTILITIES STRIVES TO PROVIDE EXCELLENT RESPONSE TO THE NEEDS OF OUR CUSTOMERS AT A FAIR AND REASONABLE COST through our operations, customer service, maintenance, and support functions. Our products consistently meet higher quality standards than those set by local, state and federal regulatory agencies with an emphasis on efficiency and effectiveness in all of our efforts.

DALLAS WATER UTILITIES VALUES AND RESPECTS OUR EMPLOYEES. Their experience, technical knowledge, and dedication are indispensable. We emphasize worker safety in all we do, and provide opportunities for development and advancement for our employees.

DALLAS WATER UTILITIES LOOKS TOWARD THE FUTURE *by planning efforts and capital programs designed to meet the needs of future generations in the most cost-effective manner.* Because we function in a world where technology and regulations are constantly changing, we realize that we can be effective only to the degree that we are open to new ideas and challenges.

City of Dallas Customer Cities



City of Dallas Water Utilities Fact Sheet

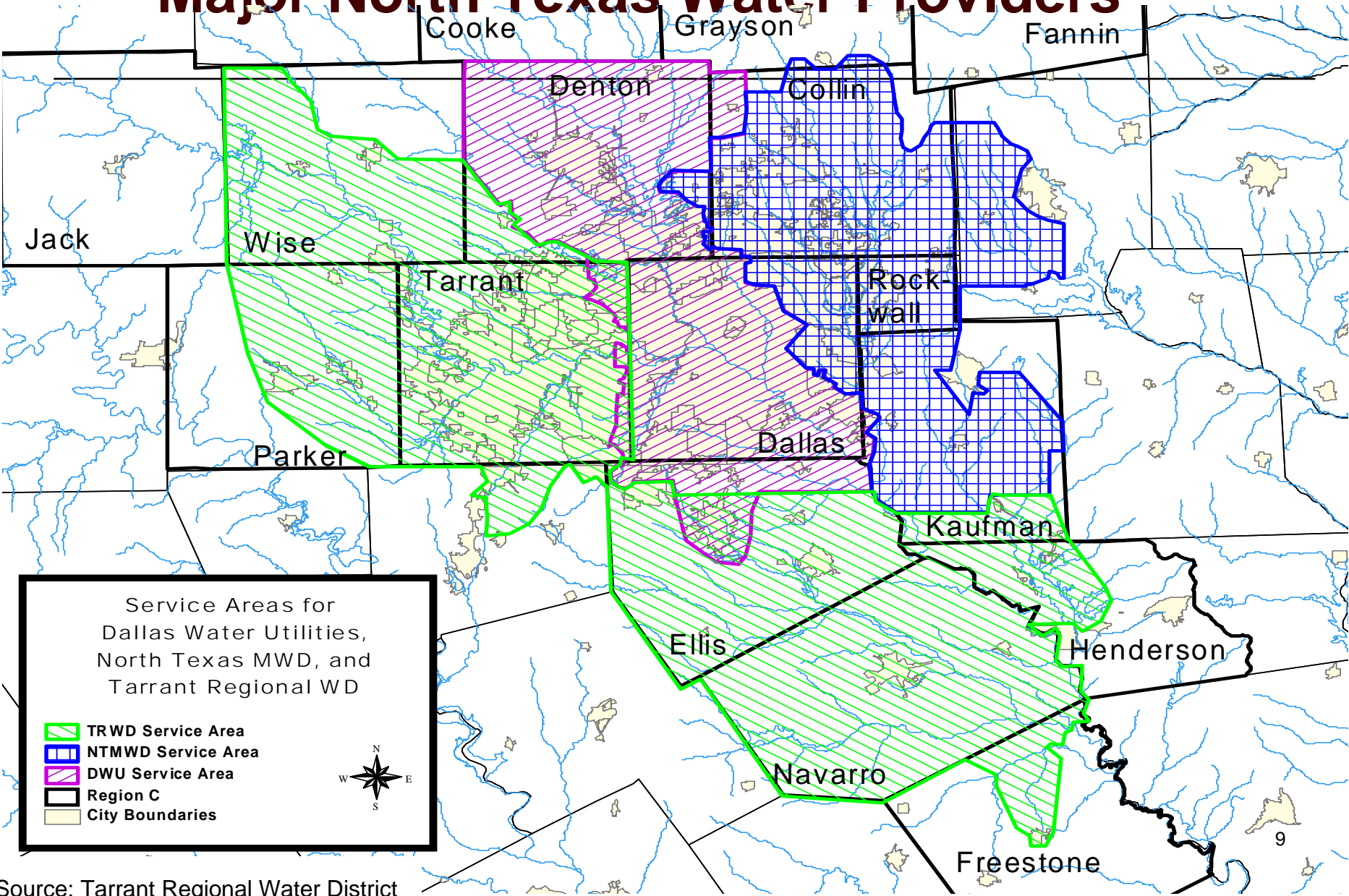
The Dallas Water Utilities is funded from water and wastewater revenues, and receives no tax dollars

- Approximately 1,500 employees
- Population served (treated water)
 - 1.3 million - City of Dallas
 - 960,000+ wholesale customer cities
- 699 square mile service area
- 306,000 retail customer accounts
- 4,950 miles of water mains
- 4,250 miles of wastewater mains
- 3 water treatment plants
- 2 wastewater treatment plants
- Wholesale customers
 - 24 treated water, 3 untreated water, 11 wastewater






Dallas Water Utilities: Regional Role

- Over 1.7 million acre feet of additional water needed by the major water providers in the Dallas area by 2060
- Of this amount, Dallas represents 37%, TRWD represents 25%, NTMWD 31%, and UTRWD 7%
- There is need for a regional approach for future water supply sources
- Regional relationships include East Texas agencies
 - Sabine River Authority
 - Upper Neches River Municipal Water Authority
 - Northeast Texas Municipal Water District
 - Sulphur River Basin Authority

Major North Texas Water Providers



Service Areas for
Dallas Water Utilities,
North Texas MWD, and
Tarrant Regional WD

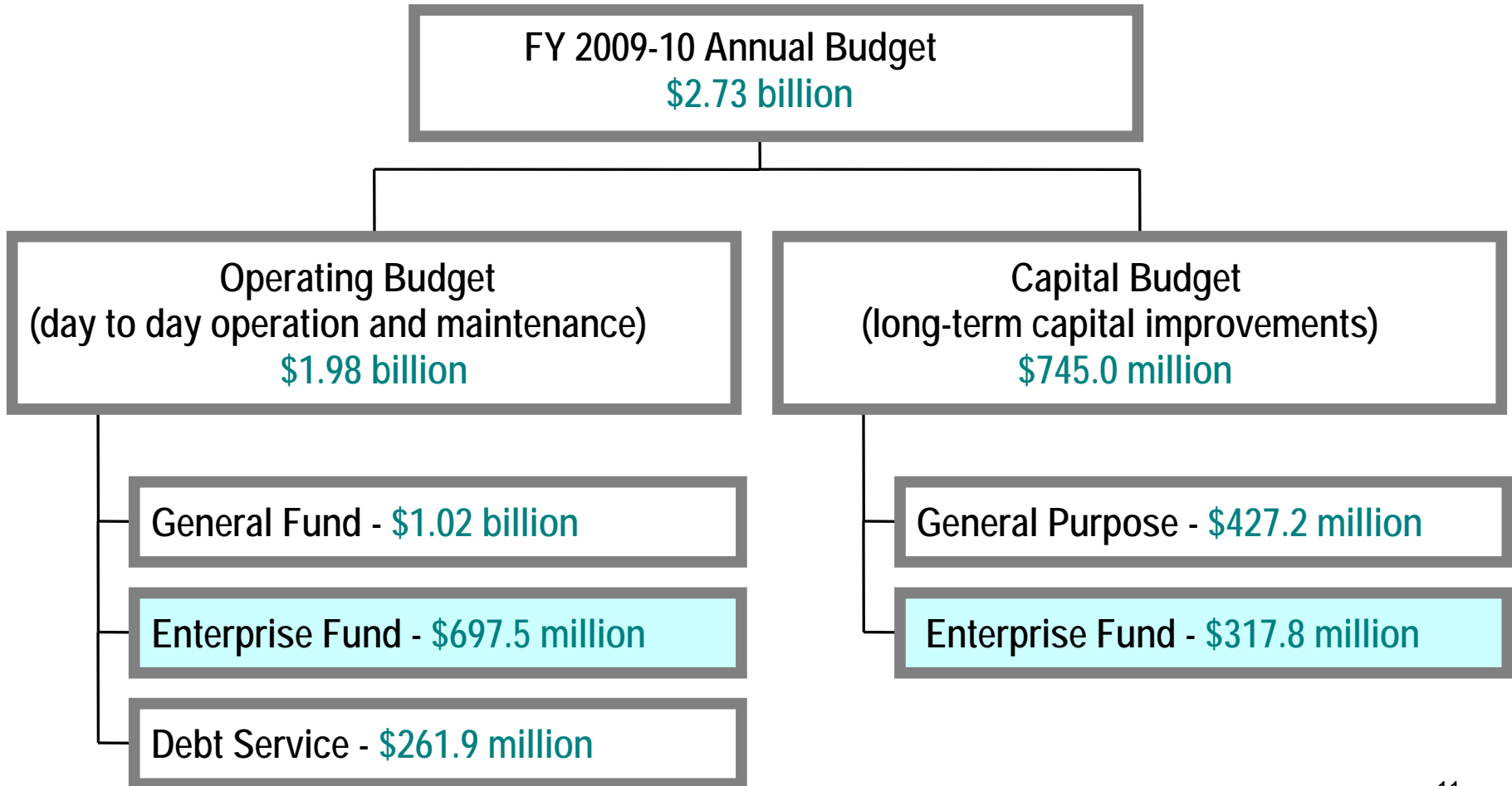
-  TRWD Service Area
-  NTMWD Service Area
-  DWU Service Area
-  Region C
-  City Boundaries



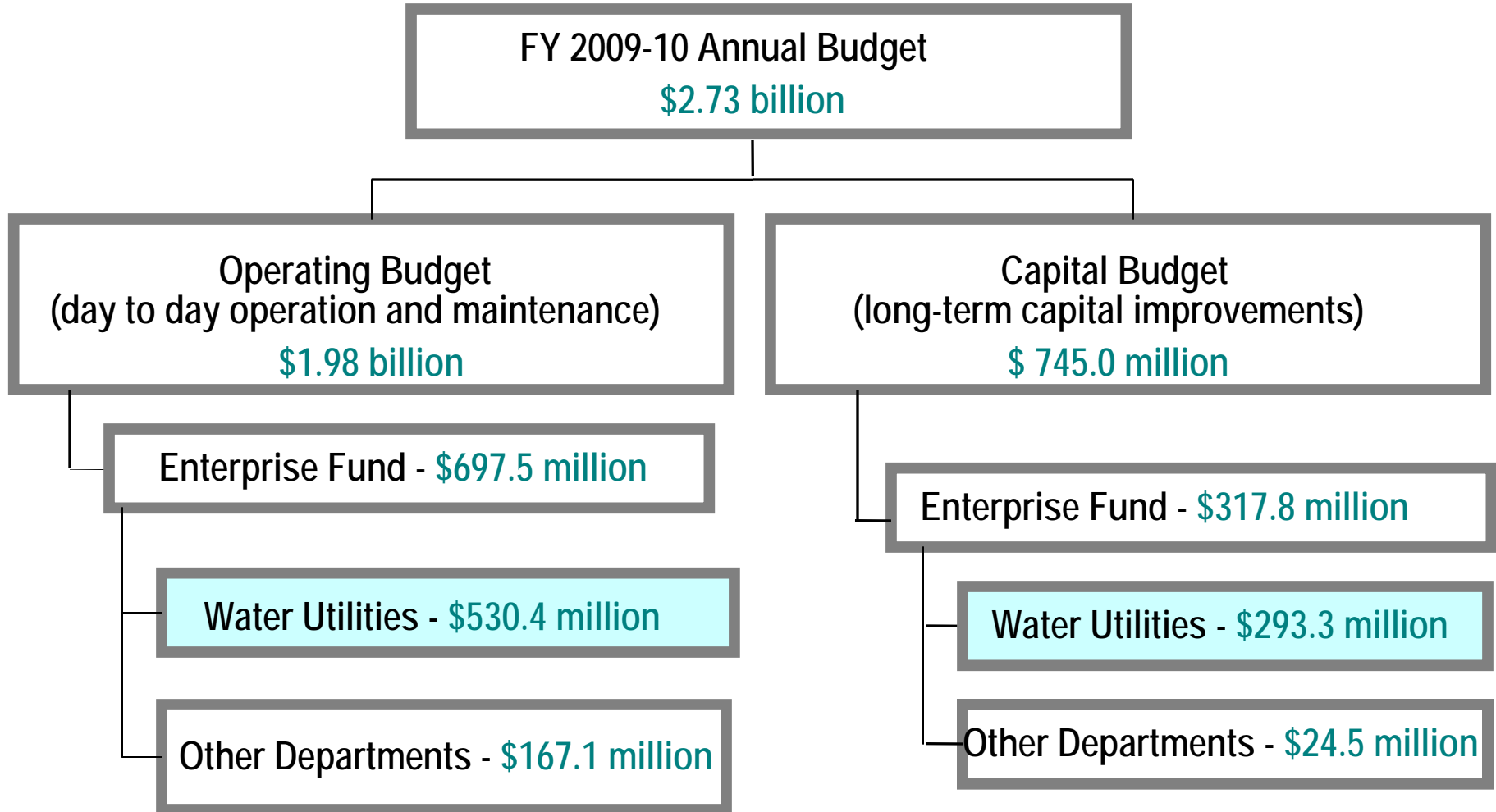
Dallas Water Utilities Impacts and Accomplishments

- Regional efforts:
 - Working with Tarrant Regional Water District (TRWD) to connect Lake Palestine at a reduced cost to both Dallas and TRWD
 - Water swap with North Texas Municipal Water District (NTMWD)
 - Temporary permit for Lake Ray Hubbard through December 2011
 - Long term permit for Lake Ray Hubbard additional lake yield in progress
 - Joint water conservation ad campaign with TRWD resulting in additional \$750k of media exposure
- Resource management:
 - Since 2001 saved 83.9BG of water as a result of enhanced Water Conservation Program
 - Expansion of leak detection program to survey water distribution system every 2.5 years instead of every 5 years reducing water losses due to undetected leaks
 - Connected Lake Fork to the Dallas' system
 - Awarded contracts for the installation of 115 miles of water and wastewater mains

FY 2009-10 Recommended Budget



FY 2009-10 Recommended Budget



Management Approach

- Capital intensive operation with assets of \$2.9 billion
 - Water Supply - \$0.5 billion
 - Treatment Plants - \$1.1 billion
 - Water/Wastewater Pipeline - \$1.3 billion
- Utilize 5 year budget forecast and 10 year capital improvement program (CIP) supported by system master planning
- Use Financial Management Performance Criteria (FMPC), including:
 - Dallas Water Utilities funds solely for use of the utility
 - Short-term debt used for interim financing of capital projects
 - Long-term debt used only for capital infrastructure (30 year debt)
 - Debt service coverage should be at least 1.3 times at all times and 1.5 times at fiscal year-end
 - Customer cities rates based on 1979 agreement and contractual agreement
- Strict adherence to TCEQ/EPA regulations

FY2009-10 Recommended Operating Budget

Budget Provides the Following Services

- 162.0BG of water treated and delivered
- 73.5BG of wastewater treated
- 135 miles of water/wastewater mains replaced
- Completion of FY09 enhancement to evaluated water distribution system for leaks every 2.5 years (currently 5 years)
- Continuation of conservation initiatives projected to reduce GPCD from 197 to 195

FY09-10 Budget Focus

Proposed budget continues the focus on maintaining infrastructure and conserving resources through:

- Maintains annual replacement rate of 1.5% for aged water and wastewater mains
- Enhanced programs for water and wastewater systems maintenance to pro-actively detect system leaks
- Increased utilization of electric vehicles on wastewater treatment plant sites
- Co-generation of electricity at Southside Wastewater Treatment Plant scheduled to be online by June 2010
- Maintains compliance standards for NELAC laboratory certification
- Establish certified management systems for business continuity by integrating quality and safety management systems (ISO 9001 and OHSAS 18001) with existing ISO 14001
- Realignment of FTEs to enhance City-wide billing and customer services functions

Major Components of FY10 Budget

- Recommended Expenditures of \$530.4M
- Significant expenditure changes:
 - Costs to fund capital program - \$8.0M
 - Payment in Lieu of Taxes (PILOT) - \$7.3M
 - Street Rental - \$4.8M
 - Remaining O&M costs – (\$0.9M)
- Meets FMPC Requirements
 - 1.50 bond coverage requirement
 - 20% equity funding for capital program

Payment in Lieu of Taxes (PILOT)

- 1993 Charter election resulted in a charter amendment for Dallas Water Utilities, stating in Sec. 14(a)(4) that :
 - “the city council may appropriate or pledge all receipts and revenues from the water utilities department for payment of an amount equal to ad valorem taxes and other charges that would be due the city if the water utilities were not a city-owned public utility.”
- Based on the net book value of inside-city water utilities property (\$1.8 billion) times the current ad valorem tax rate

Implementation of PILOT

- As part of the FY05 budget, Council authorized a partial implementation of PILOT in the amount of \$2M for public private partnership initiatives
 - \$3M in FY06, FY07 and FY08
 - \$6M in FY09

- Proposed FY10 expansion to fully implement PILOT:
 - Public/Private Partnership - \$6.8M
 - Other Economic Vibrancy efforts - \$6.5M

FY10 Retail Revenue Requirement

FY09 Budgeted Revenues	\$511,158,717	
Adjustments:		
Forecasted Sales Adjustment*	(\$4,038,110)	
Revenues at Current Rates		\$507,120,607
Wholesale Revenues	\$3,349,877	
Luminant Energy Sales at Lake Fork	<u>\$2,600,000</u>	
Total		\$513,070,484
FY10 Expenses		<u>(\$530,365,482)</u>
FY10 Revenue Requirement		(\$17,294,998)
= 4.2% Retail Rate Increase		

*Projected pumpage reduced from FY09 level of 163.0BG to 162.0 BG for FY10 due to current usage trends and implementation of conservation measures

Capital Improvement Program

Recommended FY 2010 Capital Improvement Program

- Major FY 2010 projects include:
 - Water/wastewater main replacements including support of GO Bond Program - \$133.7M
 - East Side Water Treatment Plant Improvements - \$40.5M
 - Southside Wastewater Treatment Plant Improvements - \$24.0M

- CIP includes four categories
 - Regulatory \$16.02M
 - Growth \$47.20M
 - Rehab and Replacement \$182.03M
 - Work for Others \$48.05M
 - \$293.30M

- Approximately 2/3 of \$293.3M CIP addresses maintenance of existing infrastructure

FY 09-10 Capital Budget Funding

- Proposed Capital Budget (CIP) of \$293.3M
 - Projects to be awarded with cash and CP
- \$350M Revenue Refunding Bond Sale to retire \$273M in outstanding commercial paper and refund \$77M in revenue bonds
- Meets all FMPC requirements
 - Bond Coverage budgeted at 1.55
 - Equity Funding of 27%

Retail Rate Impact

Proposed Rate Adjustment Impact to Residential Water and Sewer Bills

Customer Usage in Range	Average Bill at Current Rates	Proposed Average Rates	Proposed Increase	% Increase	Number of Customers Impacted	% of Customers in Range
0 to 4,000 gallons	\$19.74	\$20.36	\$0.62 ^a	3.1%	66,531	28.4%
4,001 to 10,000 gallons	\$47.42	\$48.90	\$1.49 ^b	3.1%	98,579	42.1%
10,001 to 15,000 gallons	\$66.80	\$69.59	\$2.80 ^c	4.2%	30,144	12.9%
Above 15,000 gallons (Includes conservation tier rate)	\$160.61	\$170.13	\$9.52 ^d	5.9%	<u>38,656</u>	<u>16.5%</u>
Total					233,909	100.0%

Data based on January 2008 through December 2008 usage

^a Average water and sewer use: 2,170 gallons

^b Average water and sewer use: 6,471 gallons

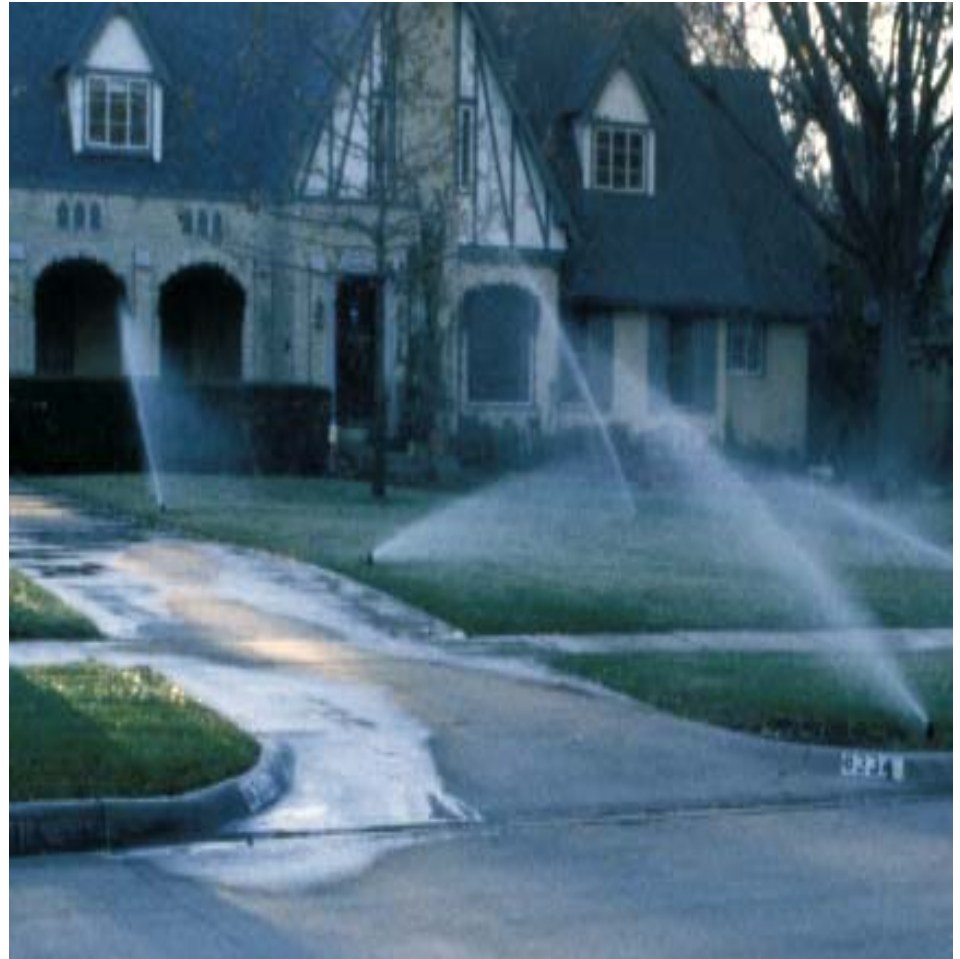
^c Average water use 12,074 gallons and sewer use: 6,800 gallons

^d Average water use 31,414 gallons and sewer use: 6,800 gallons

84% of residential customers will see an average monthly bill increase of \$2.80 or less

Water Conservation Program

- Council adopted stricter conservation measures in 2001
 - Added 4th tier water rate for usage over 15,000 gallons
 - Passed an ordinance regulating lawn and landscape irrigation:
 - Avoiding water runoff and waste
 - Maintaining sprinkler systems
 - Summer daytime watering restrictions
 - No watering during any form of precipitation
 - Installation of rain and freeze sensors by 2005



Conservation Efforts

- Conservation measures adopted by the Council in Oct 2001 have been positive
 - Dallas saved an estimated 83.9 billion gallons of water since 2001
 - GPCD has been reduced approximately 25% from FY98 to FY08
 - As a result, Dallas has been able to mitigate the impact of drought weather conditions on water supply
- Five Year Strategic Plan adopted in April 2005 is working
 - Goals designed to achieve an average 1% per year reduction in gallons per capita per day over five years
 - Actual average reduction is 2.8% in gallons per capita annually
- Dallas continues to aggressively pursue conservation strategies
 - Time-of-day watering restrictions extended from April 1 to Oct 31 annually
 - Previously, time-of-day watering restrictions were Jun 1 – Sep 30 annually
 - Council approved toilet rebate program in April 2007
- 25% of future water will be met by conservation and reuse

Summary

- Dallas Water Utilities is a large, municipally owned regional water/wastewater supplier
 - Self-supporting
 - Costs are driven by infrastructure requirements for both growth and renewal
 - Responsibility for planning to meet water requirements for service area
- What We've Accomplished
 - Standard & Poor's Ratings Services upgraded Dallas Water Utilities' waterworks and sewer system revenue bonds from a AA+ rating to AAA, the firm's highest rating
 - Recognition by numerous agencies for the Utilities' good work
- Recommend Proposed Operating Budget of \$530.4M
 - Capital Improvement Program of \$293.3M
 - Average retail rate increase of 4.2%

Appendix

Services by Key Focus Areas

Service Number		FY09 Budget	FY09 Estimate	FY10 Proposed Budget
ECONOMIC VIBRANCY				
2.89	Water Capital Funding	\$ 248,789,750	\$ 233,384,357	\$ 256,715,446
2.90	Water Production & Delivery	\$ 106,180,553	\$ 100,938,987	\$ 102,721,891
2.91	Water Utilities Capital Program Management	\$ 12,957,878	\$ 12,170,683	\$ 12,415,226
CLEAN, HEALTHY ENVIRONMENT				
3.64	Wastewater Collection	\$ 16,183,933	\$ 16,988,606	\$ 16,035,506
3.65	Wastewater Treatment	\$ 45,737,133	\$ 42,860,004	\$ 46,970,575
3.68	Water Conservation	\$ 4,955,102	\$ 4,723,761	\$ 4,602,244
E3 GOVERNMENT				
6.17	CIS Support for Water	\$ 9,566,908	\$ 8,790,145	\$ 10,645,463
6.82	Water Planning, Financial and Rate Services	\$ 2,746,546	\$ 2,551,221	\$ 2,968,114
6.83	Water Utilities Customer Account Services	\$ 18,046,142	\$ 18,870,790	\$ 19,912,371
6.84	Water's Price of Doing Business	\$ 45,994,771	\$ 45,187,392	\$ 57,378,646
	Totals	\$ 511,158,717	\$ 486,465,946	\$ 530,365,482

Note: Estimate as of June FTA

Retail Rates

Dallas Water Utilities Monthly Payment Rates

Customer Charge		Current	Proposed	Current	Proposed	Combined	Proposed
		Water	Water	Sewer	Sewer		Combined
5/8	Inch Meter	\$3.90	\$4.00	\$3.49	3.77	\$7.39	\$7.77
3/4	Inch Meter	4.57	5.25	4.09	4.78	\$8.66	\$10.03
1	Inch Meter	6.64	7.63	5.93	6.93	\$12.57	\$14.56
1 1/2	Inch Meter	12.50	14.37	11.17	13.07	\$23.67	\$27.44
2	Inch Meter	19.53	22.44	17.44	20.41	\$36.97	\$42.85
3	Inch Meter	46.88	53.87	41.86	48.97	\$88.74	\$102.84
4	Inch Meter	78.13	89.77	69.76	81.60	\$147.89	\$171.37
6	Inch Meter	156.26	179.53	139.51	163.21	\$295.77	\$342.74
8	Inch Meter	261.74	300.73	233.69	273.38	\$495.43	\$574.11
10	Inch Meter or larger	398.47	457.82	355.76	416.18	\$754.23	\$874.00

Usage Charge per 1,000 gallons

	Current	Proposed	Current	Proposed
	Water	Water	Sewer	Sewer
Residential				
Up to 4,000 gallons	1.50	1.54	4.19	4.26
4,001 to 10,000 gallons	2.80	3.00	4.19	4.26
10,001 to 15,000 gallons	3.92	4.20	4.19	4.26
Above 15,000 gallons	5.02	5.38	4.19	4.26
General Services				
Up to 10,000 gallons	1.95	2.03	2.62	2.74
Above 10,000 gallons	2.39	2.50	2.62	2.74
Above 10,000 gallons for use more than 1.4 times annual monthly average	3.52	3.68	2.62	2.74
Optional General Services				
1st million gallons or less (minimum)	1,548.12	1,593.00	2.55	2.68
Above 1 million gallons (per 1,000 gallons)	1.97	2.05	2.55	2.68

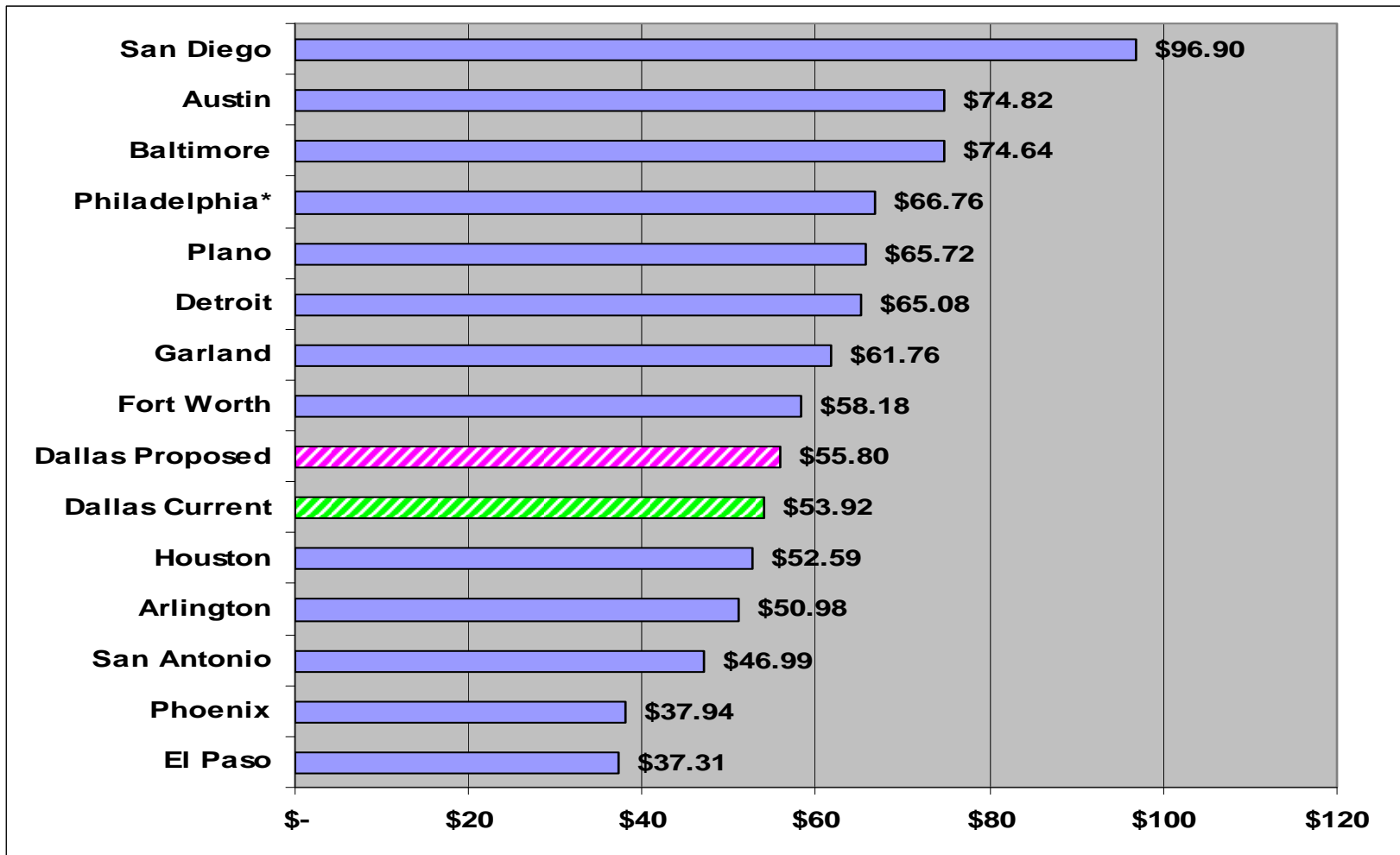
Proposed rates effective Oct. 1, 2009



Affordability Guideline

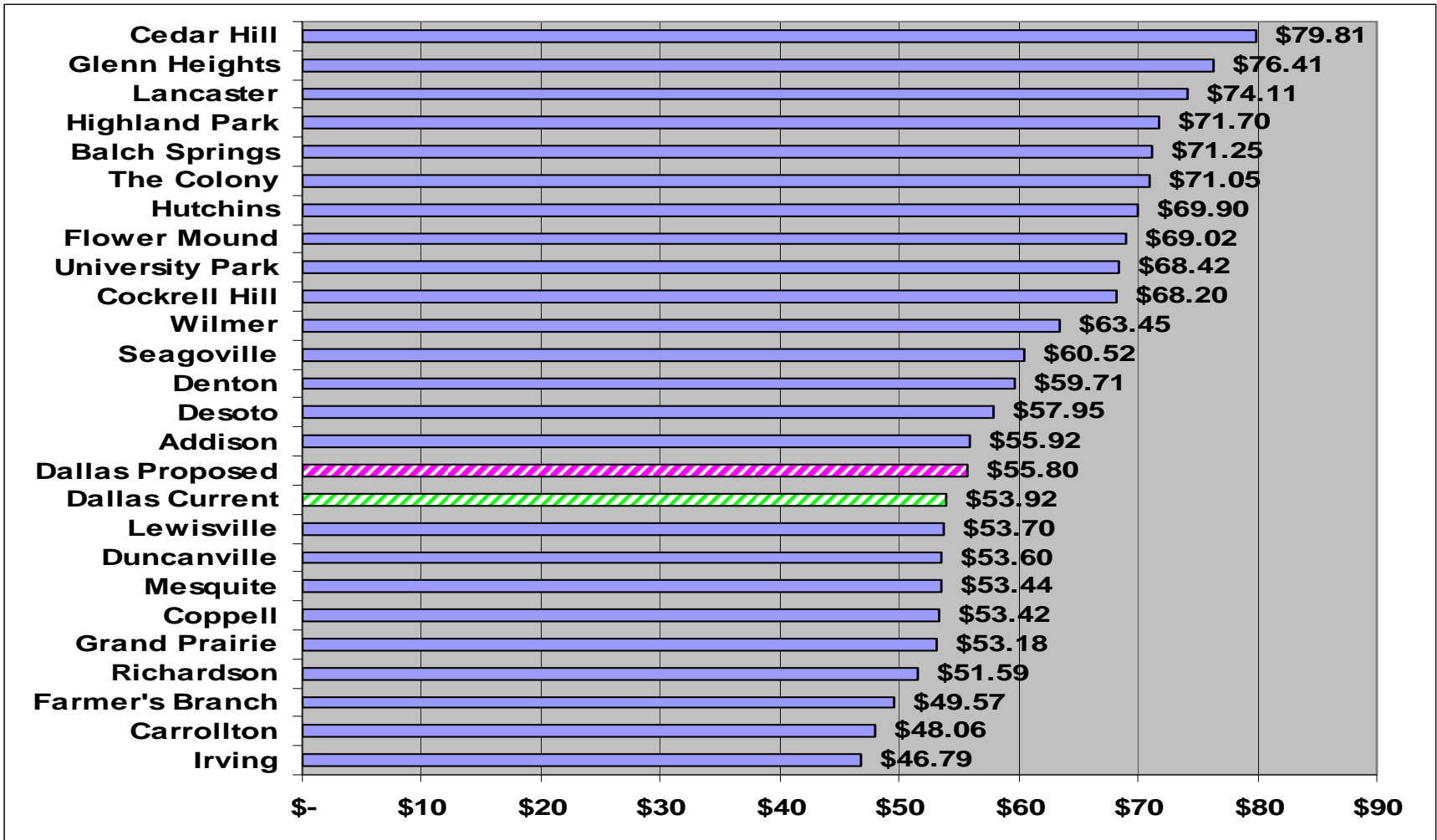
- US EPA affordability guideline for water and wastewater bills is 2% of median income
 - Dallas' water and wastewater bills would be 1.6% of median income
- Typical monthly residential water and wastewater bill would increase from \$53.92 to \$55.80
 - Based on water use of 8,300 gallons and 6,800 gallons Winter Months Average for sewer

Index Cities Comparison of Average Monthly Water & Sewer Residential Bills



Note: Bill comparison based on rates effective August 2009; water consumption of 8,300 gallons; and, 6,800 gallon Winter Months Average for sewer

Customer Cities Comparison of Average Monthly Water & Sewer Residential Bills



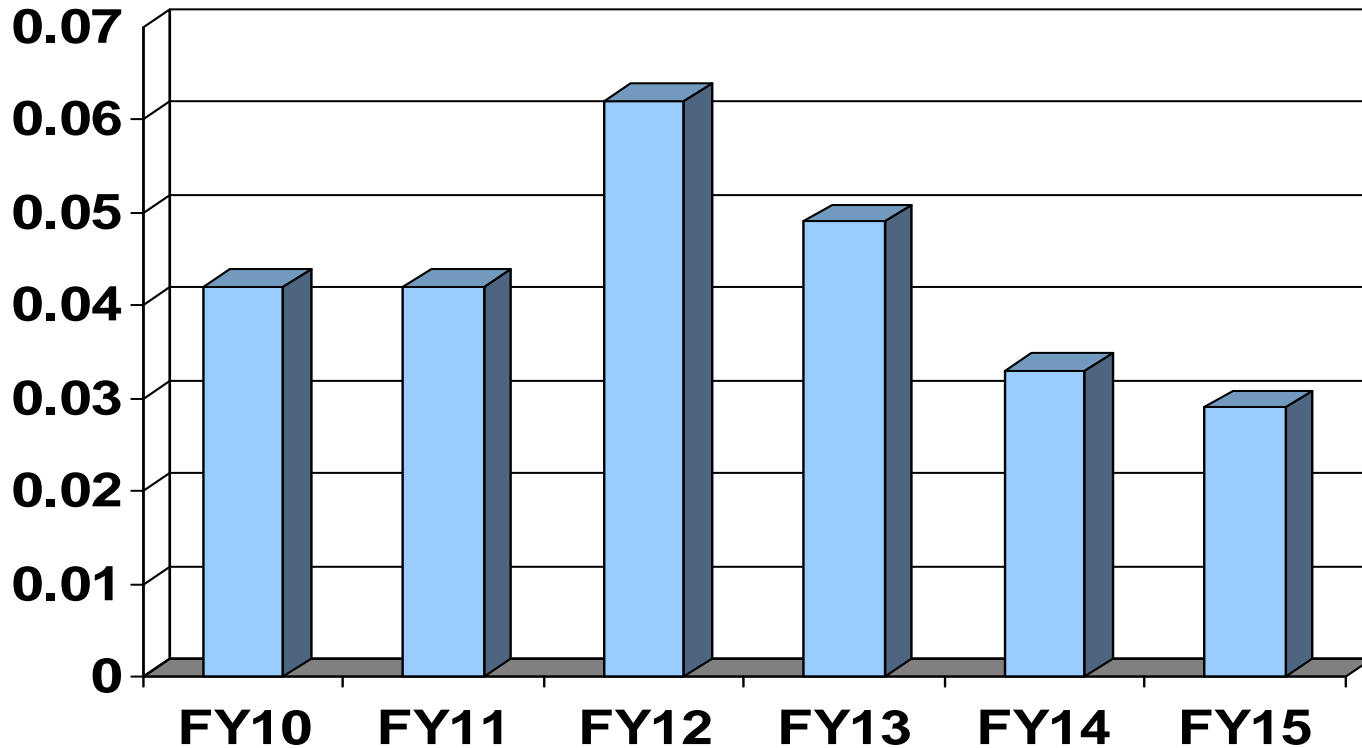
Note: Bill comparison based on rates effective August 2009; water consumption of 8,300 gallons; and, 6,800 gallon Winter Months Average for sewer

Recommended Fee Changes for FY10

	<u>Existing Fee</u>	<u>Proposed Fee</u>
<u>Surcharge Rates</u>		
1. Biochemical Oxygen Demand	\$2.21010	\$2.25180
2. Total Suspended Solids	\$1.33440	\$1.37610
<u>Service Connection Charges</u>		
3. ¾ - inch Water Service	\$2,615	\$2,073
4. 1 - inch Water Service	\$2,765	\$2,173
5. 1 ½ - inch Water Service	\$3,538	\$3,411
6. 2 – inch Water Service	\$4,038	\$3,711
7. ¾ - inch Water Deadhead Connection	\$1,075	\$675
8. 1 - inch Water Deadhead Connection	\$1,275	\$775
9. 1 ½ - inch Water Deadhead Connection	\$1,475	\$1,075
10. 2 - inch Water Deadhead Connection	\$1,575	\$1,275
11. Up to 2” Bullhead Water Connection	\$1,575	\$2,575
12. 6 – inch Wastewater Lateral w/ Connection	\$2,111	\$2,343
<u>Charges for Use of Fire Hydrants</u>		
13. Monthly Hydrant Service Charge	\$46.88	\$53.87
<u>Charges for Transporters of Septic Tank</u>		
14. Disposal Fee	\$2.90	\$4.50
<u>Liquid Waste Transportation</u>		
15. Fee and Display of Permit	<u>Existing</u>	\$240 for the first vehicle and \$170 for each additional
	<u>Proposed</u>	\$220 for each vehicle

Future Outlook

Future Outlook: Rate Increases

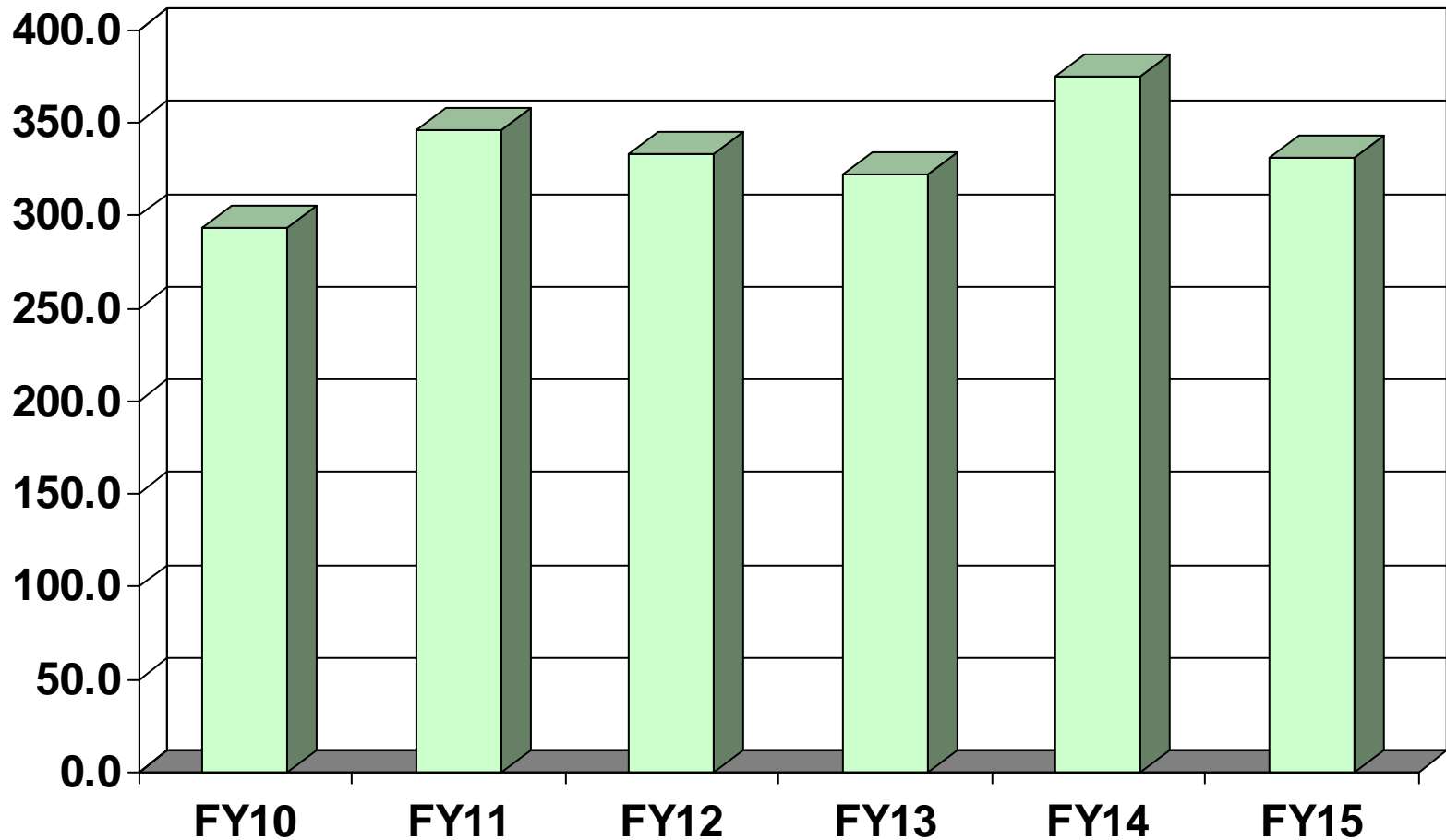


Assumptions include: 1) O&M annual increases of 3%; 2) debt costs cover existing debt payment schedule and amount for bonds to be sold to refinance and refund outstanding commercial paper; and, 3) cash transfers to meet FMPC recommended 20% equity and bond ordinance coverage of 1.50 times max year P&I for year end and maintain 1.30 at any point during the year.

Note: Does not include cost of future water supply acquisitions

Future Outlook: Capital Improvement Program

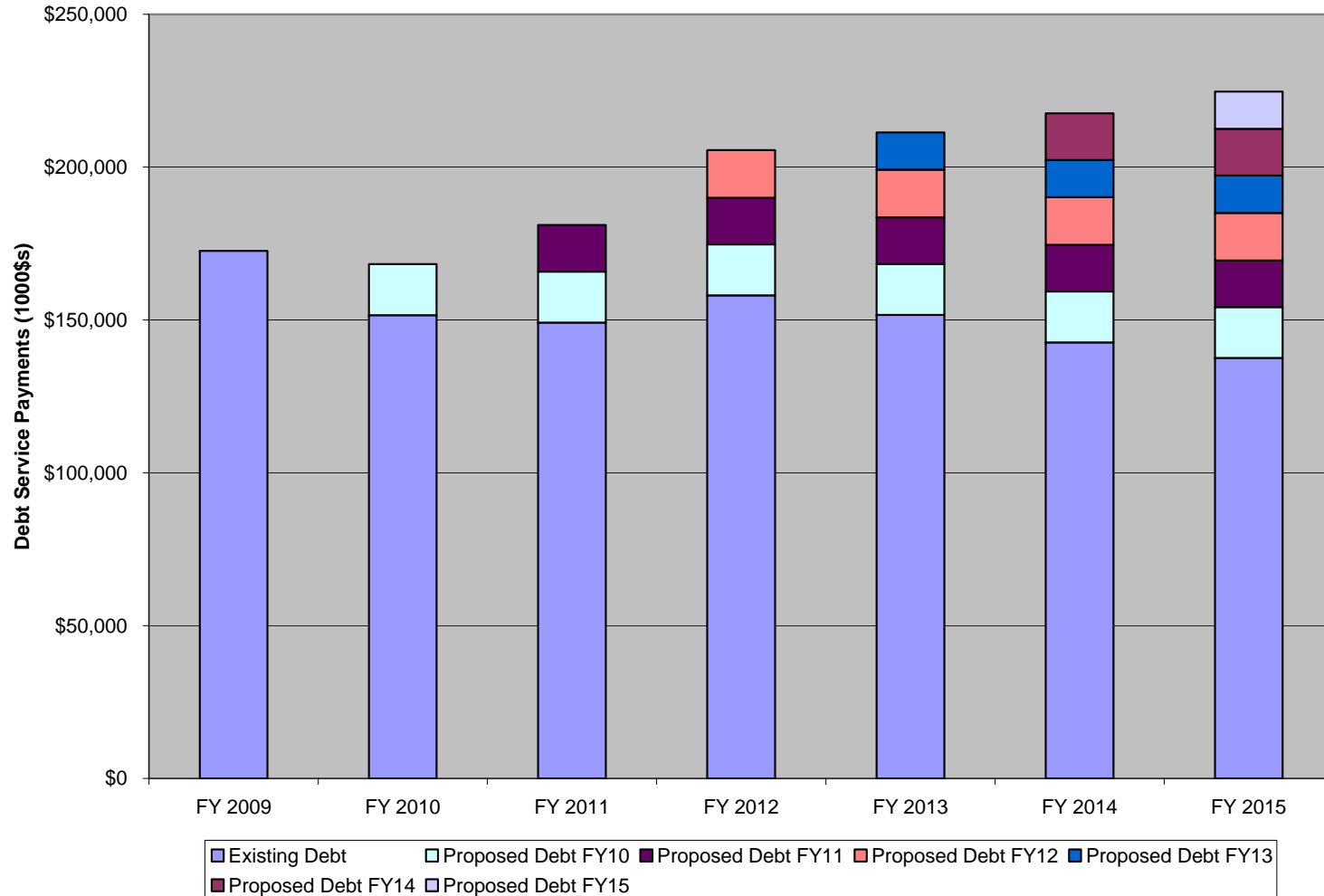
(Amounts in Million Dollars)



Note: Does not include cost of future water supply acquisitions

Future Outlook: Debt Service

(Amounts in Thousand Dollars)



Note: Does not include cost of future water supply acquisitions

FY10 Capital Program Major Projects

FY10 Capital Improvement Projects

Rehabilitation and Replacement of Deteriorated Infrastructure

Provides for rehabilitation and replacement of water and wastewater facilities and infrastructure

- Water Main Replacements Design and Construction	\$56,915,000
- Sewer Main Replacements Design and Construction	\$61,563,000
- Water Facilities Maintenance	
Bachman Plant Sludge Handling and Disposal Lagoon	\$2,000,000
Elm Fork Lagoon Cleaning	\$2,000,000
East Side Electrical Improvements	\$15,000,000
East Side Transfer Pump Station No. 1 and 2	\$10,000,000
East Side Sludge	\$200,000
Change Order - Water Facilities (WF)	\$250,000
Cosa Crest Pump Station Rehabilitation	\$500,000
Water Facilities Security Improvements	\$800,000
Alternative Delivery Method Evaluation Study	\$100,000
Customer Cities Meter Assessments and Improvement	\$500,000
Geotechnical / Material Testing	\$470,000
Water Facilities Repairs and Rehabilitation	\$3,500,000
- Wastewater Facilities Maintenance	
Central Wastewater Treatment Plant - Blower Repairs/Replacement	\$8,000,000
Central Wastewater Treatment Plant - Electrical Improvements (MCC's, Switchgears, etc.)	\$2,000,000
Central Wastewater Treatment Plant - Major Maintenance Improvements	\$2,000,000
Central Wastewater Treatment Plant - Process Control Improvements	\$1,300,000
Wastewater Facilities Security Improvements	\$500,000
Southside Wastewater Treatment Plant - Dedicated Land Disposal Fields and Ponds	\$7,000,000
Southside Plant - Digester Cleaning	\$500,000
Southside Plant - Maintenance Facility	\$800,000
Southside Plant - Fats, Oils and Greases	\$1,000,000
Southside Plant - Rough Screens	\$700,000
Wastewater Facilities Security Improvements	\$500,000
Geotechnical / Material Testing	\$430,000
Wastewater Facilities Repairs and Rehab	\$3,500,000
Total	\$182,028,000

FY10 Capital Improvement Projects (cont.)

Regulatory

Compliance with new and revised state and federal requirements

- Elm Fork Sludge Improvements	\$2,000,000
WWTP Permit Renewals and Modeling	\$20,000
Southside Plant - Odor Control Improvements	\$14,000,000
Total	\$16,020,000

Utility Relocations

Supports GO Bond Program by providing for relocations and replacement of water and wastewater mains in advance of paving projects

Total	\$48,048,000
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Customer Usage

Provides for water and wastewater system enhancements to meet increase in customer demand, improve system efficiency, provide new customer extensions and promote development activities

- Homeowners Extensions and Development Support	\$1,452,000
Central Plant - Effluent/Reuse Pump Station Improvements and pipeline (pump station to head of the plant)	\$1,200,000
Water Planning Studies	\$250,000
Wright Patman Phase I - Initial Alternatives Analysis FY09	\$650,000
Multi-Source Water Supply Optimization Phase 1 - Initial Model Development	\$800,000
General Hydrologic and Hydraulic Engineering Contract	\$200,000
Conjunctive Use Study	\$550,000
5-Party Bay and Estuary Study and Instream Flow Study Cost Share	\$150,000
Ray Hubbard Pipeline and Pump Station Design	\$4,000,000
Ray Hubbard ROW , Easements, Permits	\$1,000,000
Direct Reuse Cedar Crest, Ph 1 & 2 (Zoo and Stevens Park Lines)	\$9,000,000
ROW for third Tawakoni Pipeline	\$500,000
Lake Palestine ROW	\$250,000
Bachman Change Orders	\$150,000
Bachman Plant Third Lagoon Design and Construction	\$1,000,000
East Side - Plant CM Services	\$2,000,000
East Side Change Orders	\$300,000
East Side Substation 3	\$13,000,000
Mountain Creek Reservoir Intermediate	\$500,000
Right of Way for ESWTP to SW Dallas Pipeline (Steitle)	\$10,000,000
Customer Growth and Development Improvements	\$245,000
Total	\$47,197,000

Proposed FY 2009 - 2010 Capital Improvements

\$293,293,000