

# Memorandum



CITY OF DALLAS

DATE January 29, 2018

Honorable Members of the Government Performance & Financial Management  
Committee: Jennifer S. Gates (Chair), Scott Griggs (Vice Chair), Sandy Greyson,  
TO Lee M. Kleinman, Philip T. Kingston, Tennell Atkins, Kevin Felder

SUBJECT **Sabine River Authority Escrow Funds and Settlement Options**

On Monday, February 5, 2018, Dallas Water Utilities will brief the Government Performance & Financial Management Committee on the Sabine River Authority Escrow Funds and Settlement Options. I have attached the briefing for your review.

Please let me know if you need additional information.

A handwritten signature in blue ink that reads "M. Elizabeth Reich".

M. Elizabeth Reich  
Chief Financial Officer

Attachment

c: Honorable Mayor and Members of the City Council  
T.C. Broadnax, City Manager  
Larry Casto, City Attorney  
Craig D. Kinton, City Auditor  
Billerae Johnson, City Secretary (Interim)  
Daniel F. Solis, Administrative Judge  
Kimberly Bizer Tolbert, Chief of Staff to the City Manager  
Majed A. Al-Ghafry, Assistant City Manager

Jon Fortune, Assistant City Manager  
Joey Zapata, Assistant City Manager  
Jo M. (Jody) Puckett, Assistant City Manager (Interim)  
Nadia Chandler Hardy, Chief of Community Services  
Raquel Favela, Chief of Economic Development & Neighborhood Services  
Theresa O'Donnell, Chief of Resilience  
Directors and Assistant Directors

# **Sabine River Authority Escrow Funds and Settlement Options**

**Government Performance  
and Financial Management  
Committee**

**February 5, 2018**

**Terry S. Lowery  
Director (Interim)  
Dallas Water Utilities**



**City of Dallas**

# Purpose

- Provide information on the Sabine River Authority Lake Fork Rate Dispute Settlement Agreement and the disposition of the escrow fund
- Provide recommendations for:
  - Smoothing future rate increase impacts for retail customers
  - Resolution of settle-up with wholesale customers

# Background

- Lake Fork is owned and operated by the Sabine River Authority (SRA)
- A 1981 Water Supply Contract entitled Dallas to 74% of the dependable yield of the lake
- Contract language for 2014 renewal included “mutually agreed upon” compensation to the SRA in addition to the current annual O&M payments
- Despite extensive negotiations, agreement was not reached between the SRA and the City of Dallas



# Background (continued)

- The SRA Board of Directors set an arbitrary rate in October 2014, increasing costs by \$24.1M per year
- The City filed a case at the Public Utilities Commission
  - Lawsuits were also filed in Travis County and Orange County
- The administrative law judge set an interim rate and entered the order to establish an escrow fund
- A settlement agreement was approved by the Dallas City Council on Oct. 11, 2017 and by the SRA Board of Directors on Oct. 12, 2017

# Highlights of the Settlement Agreement

- Annual payment to SRA
  - SRA in-basin rate on 120,000 acre-feet/year
  - SRA out-of-basin rate on a minimum use or on actual use if higher than minimum
  - Rates adjusted annually based on average municipal bond rate capped at 5.5%
- Transfer rights to 11,860 acre-feet to SRA
  - Water cannot leave Sabine River Basin
  - This transfer results in a reduction of about \$300,000 in the annual service charge

# Highlights (continued)

- Transport SRA's Lake Fork water to Lake Tawakoni using Dallas Water Utilities' pipeline
  - SRA will pay electric costs for pumping water
- Amend contract section 6.02
- Release escrow money to SRA for pre-settlement expenses with the balance to be held as a credit against future annual payments



# Escrow Fund Status

- As of Sept. 30, 2017, the escrow fund had a balance of \$68,686,362.53 with a final payment of \$2,009,768 made in October 2017
- Pre-settlement amount of \$23,374,885.08 was payable to SRA
- Balance of approximately \$47.3M and any accrued interest will be used for payments in the following fiscal years until depleted



# Who Funded the Escrow Account?

- Escrow fund expenses were paid in FY15-17 and included in the current year's budget
- Retail customers paid their share of the costs in FY16, FY17 and the current 2018 rates
- Wholesale customers paid their contractual share of those costs in FY16 and FY17 and the current 2018 rates

# Escrow Fund Settlement Impacts

- FY18 operating budget expenses will be reduced by \$24.1M due to the settlement
  - Reduction in expenses will be used to smooth future rate increase needs
- Beginning in FY18, costs for SRA's additional compensation will average \$9.2M through FY22
- Payment will be made from the remaining escrow fund until depleted
- Balance projected to cover payments for an additional 5-6 years

# Impacts to Retail Customers

- Payments from remaining escrow fund will reduce annual revenue needs by \$8-10M until depleted
- Wholesale customers' continued payment of post-settlement costs through rates will reduce the retail revenue requirement by approximately \$3.7M annually
- Smooths proposed retail rate increases

	FY19	FY20	FY21	FY22	Average
<b>August 2017 Outlook</b>	2.8%	3.1%	3.2%	1.5%	2.7%
<b>Post-Settlement Revised Outlook</b>	0%	0%	2.6%	2.4%	1.3%

# Impacts to Wholesale Customers

- Wholesale rates have included their contractual share of the escrow payments, an annual amount of about \$10M
- The annual cost difference between wholesale rates with full escrow and with settlement is about \$6.3M
- Wholesale customers will continue to pay their share of post-settlement costs through cost of service studies, approximately \$3.7M annually
- Individual wholesale customers will receive a credit in FY19-21 based on their actual payments
  - Total annual credits are about \$6.3M

# Next Steps and Timing

- Finalize accounting steps to track this process with City Controller's Office
- Include in budget proposal for FY19 Operating Budget
- Notify wholesale customers of the recommended process in February 2018

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