



Austin Water Utility

Joint Committee Update

June 28, 2012

AWU Historical Issues

- Revenue volatility due to weather, conservation, and economy
- Significant revenue shortfall in 2010
- Fixed revenue was 11% prior to 2012, with the new Revenue Stability Fee increasing to 17%
- Volumetric rates increases were focused on higher use blocks which increased subsidy of lower use customers

Council Resolutions

Major directives

- Implement a tiered fixed fee based on volume of water used
- Consider fixed revenue goals
- Creation of a Revenue Stability Reserve Fund
- Consider addressing volatility through volumetric rates
- Consider addressing debt ratio goals and financial metrics
- Impact fee discounts and service extension reimbursement policies
- Conservation marketing plan targeted to high-volume, low income households not getting fee waivers

Joint Committee Update

Overview

- Meetings from November to May
- Committee recommendations approved on May 30th
- Committee recommendations presented to Council today
- AWU recommendations will be proposed for implementation in 2013 budget

Joint Committee Update

Process & Public Involvement

- 15 meeting lasting over 3 hours each
- Each meeting videotaped
- Significant amounts of information provided to the Committee members
- Website created
 - All information provided to Committee on website
 - Links for videos of each meetings
 - Question and Answer section

Joint Committee Update

Process & Public Involvement

- Rate Design Model
 - Created rate design scenario model for “what ifs”
 - Prepared 30 options of rate design
 - Model includes rates, fixed revenue percentages, customer bill comparisons at varying levels, reserve fund surcharge revenue, and volatility measure
 - Allowed Committee members to see impact of their suggestions

Joint Committee Recommendations

JOINT SUBCOMMITTEE

Mickey Fishbeck, AICP - Chair (Water & Wastewater Commission)

Kris Bailey - Vice-Chair (Impact Fee Advisory Committee)

Impact Fee Advisory
Committee

J. R. (Hank) Kidwell, P.E.
Brian Rodgers

Resource Management
Commission

Sean Kelly, P.G.
Luke Metzger

Water & Wastewater
Commission

Sarah Baker Faust
Chien Lee, P.E.

OTHER PARTICIPANTS

- Austin Water Staff
- Redoak Consulting
- Karyn Keese (Atkins)
- Clean Water Action
- Public Commenters

CAUSES OF VOLATILITY

- **There are various factors leading to uncertainty in revenue recovery**
 - Possibility of continuing weather volatility
 - 140 gpcd goal places pressure on revenue recovery
 - Residential volume rate structure among the most progressive in the country
 - Dependence on residential customers with high usage at high rates to subsidize two-thirds to three-fourths of residential customers
 - Residential breakeven volume is 13,300 gallons – more than twice the median monthly usage (6,100 gals) and more than the average summer use (11,000 gals)
 - Subsidies of the Reclaimed Water system will increase for the immediate future

JOINT COMMITTEE RECOMMENDATIONS

- Retain current fixed customer charge (\$7.10 in FY12) until next cost of service study
- Replace fixed “Revenue Stability Fee” adopted last year with new fixed charge
 - Residential fee will be graduated based on the five volumetric tiers
 - Blocks 1-3 will have different charges for each block
 - Blocks 4 and 5 will have the same fixed charge to reduce volatility
 - Appears to be first rate of this structure in the country
 - Commercial and multifamily fee to be based on meter size using standard AWWA conversion factors (same as impact fees)
 - Wholesale and large users will be charged individual monthly fee

JOINT COMMITTEE RECOMMENDATIONS

- **How much should be charged to customers through fixed charges?**
 - Approximately 83% of AWU costs are fixed
 - Prior to FY12, AWU recovered 11% through fixed charges
 - Standard practice is 20-30%
 - Last year's Revenue Stability Fee raised the percentage to 17%
 - Joint Committee recommendation is 20%

JOINT COMMITTEE RECOMMENDATIONS

- **How should responsibility for revenues from fixed charges be distributed among customer classes?**
 - Each class will contribute proportionate to their total cost of service
 - Volume rates will be reduced to ensure that each class is charged no more than its total cost of service
 - All classes will contribute to fixed revenues (including wholesale)

JOINT COMMITTEE RECOMMENDATIONS

- **Residential Volumetric Rates – Changing the Break Points**
 - Tier 1 – Bottom 10% of residential water customers according to volumes purchased
 - Tier 2 – Capped at approximately average winter residential water use per month
 - Tier 3 – Capped at approximately average summer residential water use per month
 - Tier 4 – Remainder of customers not in the other three tier
 - Tier 5 - Top 10% of residential water customers according to volumes purchased

JOINT COMMITTEE RECOMMENDATIONS

- **Residential Volumetric Rates – New Tiers**
 - Tier 1 – 0-2,000 gals. (Same as current)
 - Tier 2 – 2,001-6,000 gals. (Currently 2,001-9,000 gals,)
 - Tier 3 – 6,001 – 11,000 gals. (Currently 9,001-15,000 gals.)
 - Tier 4 – 11,001-20,000 gals. (Currently 15,001-25,000 gals.)
 - Tier 5 – Over 20,000 gals. (Currently Over 25,000 gals.)
- **Only Tiers 1 & 2 set below cost (Essential Use)**
- **Tier 3 allows for some discretionary use without premium charges**
- **Variance between Block 1 and Block 5 (currently \$11) should not increase over time to avoid returning to volatility effects**

JOINT COMMITTEE RECOMMENDATIONS

- **Establishment of New Revenue Stability Reserve Fund**
 - Goal is 120 days of budgeted operating requirements
 - Five-year fund development period
- **Sources of Funding**
 - Excess operating cash balances at end of fiscal year (more than 60 days)
 - Extraordinary revenues - “Reconsider directing the proceeds from the sale of the Green WTP land in order that the money from the sale is directed to the Austin Water Utility in an amount equivalent to the costs to replace the treatment capacity at Green WTP.”
 - Volumetric Reserve Fund Surcharge charged equally to all classes to build and replenish Fund

JOINT COMMITTEE RECOMMENDATIONS

- **Restrictions on Use of Reserve Fund**
 - Fund can only be used to offset revenue shortfalls where actual revenue is less than budgeted revenue by at least 10% for a particular fiscal year
 - AWU must get authorization from Council for use of Fund
 - Maximum use of Fund in any fiscal year can be no more than 50% of amount in Fund at the time of withdrawal (to provide for two-year event)
- **Replenishment**
 - For each withdrawal there will be a 5-year replenishment period
 - After the Fund is fully funded, the Surcharge will drop to a level needed to keep the Fund at 120 days of operating costs

JOINT COMMITTEE RECOMMENDATIONS

- **Other Recommendations Related to the Fund**
 - In order to more quickly build the Fund, Surcharge revenue should not be included in General Fund Transfer calculation, or in the calculation of the Sustainability Fund Transfer
 - Interest earned by the Reserve Fund should remain in the Fund in order to offset the need for rates to maintain the fund at 120 days
 - In order to provide for 180 total days of operating reserves, as recommended by the Utility's financial advisors, AWU should strive to maintain a 60 day operating reserve (currently 45 days)
 - Staff should endeavor to educate financial professionals regarding the Reserve Fund in order to improve AWU financial position

JOINT COMMITTEE RECOMMENDATIONS

- **Impact Fees**
 - Adopt an impact fee policy that calculates the maximum impact fee allowed by law
 - Consider the elimination of the current zone discount policy
- **Service Extension Requests (SERs)**
 - Consider revising the SER Ordinance with the goal of reducing subsidies for new infrastructure to serve new growth
 - Consider eliminating cost reimbursement and calculating all SERs under the cost participation formula

JOINT COMMITTEE RECOMMENDATIONS

- **AWU Budget**
 - Consider directing staff to work with the Water and Wastewater Commission Budget Subcommittee to evaluate cost savings options to reduce expenditures with the intent to offset the water rate and fee increases

AWU Recommendations

AWU Recommendations

- AWU concurs with all water rate structure and financial metric recommendations
 - Elimination of current revenue stability fee
 - Create new tiered minimum charge for residential
 - Fixed revenue goal of 20% of total revenue
 - Adjust residential rate blocks
 - Create revenue stability reserve fund at 120 days O&M including all restrictions
 - Create reserve fund surcharge to fund reserve
 - Maintain 60 days of operating reserves

AWU Recommendations

- AWU does not concur with some other recommendations of Committee
 - General Fund Transfer
 - Committee recommends not to include Reserve Fund Surcharge revenue in calculation of transfer
 - AWU recommends that all utility revenue included in transfer, however any future use of Reserve Fund would not be included since it was previously included
 - Green WTP Site Proceeds
 - Committee recommends Council reconsider directing all funds from sale of Green WTP site to AWU
 - AWU recommends current Council direction on Green WTP site proceeds

Issues Needing Further Review

- Impact fee policies
- Service Extension Reimbursement policies
- Review cost saving possibilities in AWU budget

Implementation

- Proposed 2013 Budget
 - Proposed rate increase – November 1, 2012
 - Deferred water rate increase
 - Wastewater rate increase
 - Financial policy revisions
 - Proposed water rate increase and structure change – February 1, 2013
 - New rate structure, rates and reserve fund surcharge
 - Programming of billing system required before changes
 - Customer education prior to implementation

Positive Outcomes

- Collaborative effort between AWU staff and Joint Committee
- Reductions to revenue volatility
- More prepared for revenue volatility
- Strengthens AWU's long term financial stability
- Continues City goals of affordability and water conservation
- Strengthens relationships with our commissions and community
- Education of AWU rate issues and finances

Questions?