



Austin Water Utility

Joint Committee on AWU Financial Plan

May 2, 2012

Presentation Outline

- Revenue Stability Reserve Fund
 - Decision points
 - Target levels, % of total revenue, and days of O&M
 - Financial policy highlights
- Volumetric Rates
 - Option 27 Discussion
- Financial Metrics
 - Decision points
 - Targets
 - Financial policies
- Drought Emergency Rates
 - Rate method
 - Decision Points

Revenue Stability Reserve Fund

Revenue Stability Reserve Fund

- Decision Points
 - Appropriate funding target
 - Percentage of total revenue
 - Set dollar amount
 - Funding mechanisms
 - Revenue stability fee
 - Current ending balances
 - Volumetric rates
 - Use of funds
 - Restricted or unrestricted
 - Funding timelines
 - To reach target levels
 - To replenish once funds are used

Reserve Fund Levels

Revenue Stability Reserve Fund Level Comparison

Reserve Fund Level	Percent of Water Total Revenue \$ 234,300,000	Number of Days of Water O&M \$ 105,000,000	Volumetric Rate to Achieve Goal in 5 Years
\$20,000,000	8.5%	70	\$0.09
\$23,430,000	10.0%	81	\$0.11
\$25,000,000	10.7%	87	\$0.11
\$30,000,000	12.8%	104	\$0.14
\$35,145,000	15.0%	122	\$0.16
\$40,000,000	17.1%	139	\$0.18
\$45,000,000	19.2%	156	\$0.20
\$46,860,000	20.0%	163	\$0.22
\$50,000,000	21.3%	174	\$0.23

Reserve Fund – Funding Mechanisms

- Possible funding mechanisms
 - Revenue stability fee – volumetric charge
 - Current ending balances – reduce to fund reserve
 - Transfer of higher than budgeted revenue
- When fund level is reached
 - Eliminate fee
 - Reduce fee to lowest level that would maintain percentage of total revenue as it grows

Reserve Fund – Uses of Funds

- Possible uses of reserve funds
 - Covered by specific financial policies
 - Revenue losses
 - Above certain dollar or percentage levels
 - Operations and Maintenance
 - Unanticipated or extraordinary circumstances
 - Rate Stabilization
 - To smooth out increases in rates

Reserve Fund Timelines

- To reach funding goal
 - Target of 3-5 years
 - Lower timeframe requires higher fee
 - Higher timeframe reduces required fee
- To replenish after use of funds
 - Target of 3-5 years
 - Lower timeframe requires higher fee
 - Higher timeframe reduces required fee

Questions and Discussion?

Volumetric Rates

Option 27

- Revisions or questions?

Volumetric Rate Spread

- Volumetric rate spread between blocks 1 & 5
 - Current: \$11.02 spread (\$1.17 to \$12.19)
- Future volumetric rate spread illustration
 - Assumed 5% rate increase per year for 10 years
 - Rate blocks adjusted to be consistent with Option 27
 - Includes fixed charges
 - Future volumetric rates illustrations
 - All blocks increase at same percent per block per year
 - All blocks increase at same dollar amount per block per year

Volumetric Rate Spread Illustration

- Assumptions: 5% rate increase per year
 - All rate blocks increase at same percent per block per year
 - \$7.10 minimum charge increases to \$11.56 or 63% by 2022
 - Tiered fixed fee rate spread between tiers 1 and 5 increases from \$8.50 to \$13.84 or 63% by 2022
 - Rate spread between blocks 1 and 5 increases from \$11.00 to \$17.90 or 63% by 2022
 - All blocks increase at same dollar amount per block per year
 - \$7.10 minimum charge increases to \$11.56 or 63% by 2022
 - Tiered fixed fee rate spread between tiers 1 and 5 stays the same at \$8.50 through 2022
 - Rate spread between blocks 1 and 5 stays the same at \$11.00 through 2022

Decision Points

- Tiered Fee Rate Goals
 - Increase current \$8.50 variance between tiers 1 & 5
 - Maintain current \$8.50 variance between tiers 1 & 5
- Volumetric Rates Goals
 - Increase current \$11 variance between blocks 1 & 5
 - Maintain current \$11 variance between blocks 1 & 5
- Financial policies
 - How to set volumetric rates to achieve goal
 - Same percentage per block
 - Same dollar per block

Questions & Discussion?

Financial Metrics

Financial Metrics

- Decision Points
 - Debt Service Coverage targets
 - Minimum in bond covenant
 - Financial policy levels
 - Cash Balances
 - Number of days of O& M expense
 - CIP Funding
 - Debt vs. cash funding targets
 - Timelines
 - Timelines to meet financial metric goals

Financial Metrics

- Debt Service Coverage (DSC)
 - Description: the ratio of the amount of net cash flow available compared to annual principal and interest on debt
 - Calculation:
Total Revenue minus Operations & Maintenance costs divided by total debt service (revenue bonds)
 - Bond covenant levels
 - Bond covenants require a 1.25x DSC
 - Financial policy levels
 - City financial policies require a minimum of 1.50x DSC
 - Rating agency benchmarks
 - Midrange to strong AA rated utilities should be between 1.50x and 2.0x

Financial Metrics

- Cash Balances
 - Amount of cash in relation to the number of days of operations and maintenance it could cover
 - Financial policy levels
 - City financial policies require a minimum of 45 days of O&M
 - Targets in 2012 forecast
 - AWU has targeted working capital between 75 and 100 days O&M in their financial forecast last year
 - AWU will continue to target increased cash balances in 2012 forecast
 - Rating Agency benchmarks
 - Midrange to strong utilities should have between 6 months to a year of cash

Financial Metrics

- Capital Improvement Program (CIP) Funding
 - Cash funding levels of CIP
 - Amount of cash used to fund CIP projects as compared to using debt
 - Financial policy levels
 - City policies recommend a minimum of 20% cash funding of capital spending
 - Rating agency benchmarks
 - Midrange to strong utilities should fund between 20% to 50% of their capital spending in cash

Financial Metrics

- Timelines
 - Improving financial metrics would be transitioned over several years to reduce rate impacts
 - Number of years to reach financial metric goal could vary depending on the financial metric

Questions & Discussion?

Drought Emergency Rates

Drought Rates – Background

- Drought rates and surcharges
 - Usually a part of water conservation plan
 - Many cities trigger surcharges based on water conservation stages
- Various methods for rates or surcharges
 - Increase current volume rates above a certain base level of water use
 - Additional fixed fees
 - Adjust volume block intervals downward to increase amount of customers and consumption at higher rates
 - Different rates for each drought stage

Drought Rates – Other Cities

- San Antonio
 - Stage 4 drought surcharge assessed in addition to current rates
 - Surcharge assessed on residential use above 12,717 gallons per month
 - Commercial irrigation accounts for use above 5,236 per month
 - Surcharge is flat \$4.25 per 1,000 gallons
 - In effect a minimum of one month
 - Remains in effect while in stage 4

Drought Rates – Other Cities

- Dallas
 - Stage 3 rate increase for high water demand users
 - 10% increase in rates for use above 10,000 gallons

- Denver Water
 - Stage 2 drought surcharge initiated as needed to support water use reductions
 - Guiding principals identified for developing surcharges
 - Criteria for lifting surcharges must be determined before implementation
 - Multiple options for surcharges including increasing unit rates, increasing number of tiers, and increasing seasonal rates

Drought Rates – Other Cities

- Louisville, Colorado
 - Surcharges implemented on stage II and above
 - Surcharge is a multiplier of the base rate of \$1.70 per 1,000 gallons and is on top of existing rates
 - Each stage has its own surcharge multiplier
 - Each stage also has its own adjustment to the consumption block intervals

Drought Rates – Other Cities

- North Collin, TX Water Supply Corp.
 - Excess penalty fee per 1,000 gallons for water use exceeding their individual allowed usage amounts
 - Penalty fee is different for stages 2, 3 and 4
 - Multiplier of base rate of 2, 3, and 4 for respective stages
 - Each customers allowed usage is determined by their winter and summer averages
 - Penalty fee charged for all volumes above the allowed usage

Drought Rates – Other Cities

- Durango, Colorado
 - Emergency drought surcharge added to bills if enacted by City
 - Fixed surcharge of \$1.00 for customers using between 2,000 and 10,000 gallons
 - Additional surcharge of \$2.00 for customers using above 10,000 gallons
- Fair Oaks Ranch, Texas
 - Drought surcharges for stages 2 and 3 in addition to normal rates for all usage above 25,000 or 18,000 gallons, respectively
 - Tiered fixed fee plus higher cost per 1,000 gallons for blocks above 40,000 or 25,000 gallons, respectively

Decision Points

- Method of Drought Rates
 - Increase fixed charges
 - Increase volumetric charges
 - Flat surcharge
 - Adjust block intervals
- Implementation Triggers
 - Lake levels
 - Water restriction stages

Questions & Discussion?