



# Austin Water Utility

## Joint Committee on AWU Financial Plan

May 17, 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?