

August 25, 2014

Dear Manager Ott:

I am writing you to express my deep disappointment in the misleading public notice regarding the Austin Water Utility budget and proposed rates which Staff placed in the Austin Chronicle (see **Item 1** attached). Despite the emphasis of the Joint Committee and the Water and Wastewater Commission on transparency and clarity in presenting difficult information to the Austin Water customers, Management has apparently decided to obscure the magnitude of the necessary water rate increase and its impacts on residential bills. This deceptive presentation not only casts suspicion on all the honorable work done by the Joint Committee and the Commission, as well as the courageous actions of AWU Staff in embracing deep budget cuts, but it also creates the shadow of doubt on budget presentations by Staff for all departments, whether deserved or not.

Our customers have responded in an extraordinary manner to the drought by deep conservation, saving the resource for the entire region, for which they deserve an extra measure of respect and trust. While the resource has been secured for these past several years, the Utility has underrecovered its costs by large margins because customers have conserved faster than the Utility's ability to adapt to revenue losses. It is difficult to explain to the customers that despite their sacrifices in conservation, the Utility must recover its fixed costs (more than 80% of costs) and stop offering below-cost rates on 67% of the gallons it sells, as has been City policy. But that is the reality, and it is the job of Staff, and Commissioners, to educate and prepare the public for the necessary response to this slow-motion natural disaster which is creating a financial crisis as well. That response must be to raise water rates to an extent that a customer using 7000 gallons of water would pay 22% more for the same quantity of water next year than they did this year (although still not paying their full cost), or \$8.60 extra for water alone. (The *combined* water and sewer bill would increase by \$9.79, or 12.1%.) Residential customers using lesser or greater amounts, customers which are multifamily or commercial or industrial customers, would all see varying impacts on their bills, but the use of the "average" residential customer is a benchmark with which most customers can relate.

City Management has chosen, for the Chronicle notice and earlier budget presentations, to compare the bill of a customer using 8000 gallons this year to a customer using 7000 gallons next year, suggesting that the water bill increase for an "average" customer is only \$1.43, or 3.1% (with a total water and sewer bill increase of \$2.62, or 3%). This is a clumsy attempt to blunt the bad news, which is more than three times as bad as your notice suggests on the total bill, six times worse on the water bill alone. Everyone knows that if we buy less of a commodity it will cost less than buying more of that commodity; that is not useful information. Management owes the customers an apology for the misrepresentation and it owes them the truth, especially when it is using the customers' money to place a misleading ad.

The truth, clearly stated, is: it will cost most residential customers in the neighborhood of 22% more to receive the same amount of water next year.

There is a years-long pattern of obscuring utility rate impacts. After the Utility lost \$53 million in FY2010, Staff instituted a new \$4.40 fixed charge for each customer to address its revenue volatility. Leaving aside the merits or shortcomings of that fee approach, Management chose to show a 7.7% increase in the average water bill – by not including the new \$4.40 fee in the calculations, suggesting somehow that the new fee was not a “rate” increase. In reality, the average residential water bill that year increased by approximately 23.5% when the new fee was included. (See **Item 2** attached.)

Also, throughout my four years on the Budget Committee of the Water and Wastewater Commission we have often talked about the mislabeling of needed revenue increases in budget documents as “rate increases”. Many budget documents for AWU show, at the bottom, a percent “rate increase” that is needed for budget needs to be met. I am sure it is presented in that manner to assure the public that the impact on their bills will be much lower than what will actually occur, since an “average” residential bill increase approaches twice what is shown as “rate increase” (really *revenue* increases) in the budget.

Because of ongoing concerns about transparency and clarity for utility customers, the Joint Committee included an extensive paragraph in our recommendations (**Item 3** attached) that, if adopted by Management, would clarify that needed “revenue increases” could not be misconstrued to be “rate increases”, or “bill increases”, particularly for residential customers. We also asked that the bill impact on an average residential customer be explicitly included as a separate item (in addition to “revenue increase” percentages) in budget documents. These recommendations have been ignored.

I wish that there were some possibility of innocent misunderstanding or poor communications, but there is no plausible deniability in the presentation of the Chronicle notice. Despite the fact that Management’s budget presentations have represented that most of the recommendations of the Joint Committee have been adopted in the AWU budget (absent General Fund transfer reductions), the public and Council have not been told that our recommendations regarding clarity and transparency have been completely disregarded.

The Joint Committee passed off their recommendations to the Budget Committee of the Water and Wastewater Commission (made up of five of the seven Commissioners), which also expressed similar concerns about transparency. And when AWU Staff later provided the full Commission with Management’s budget presentation, prepared for Council (**Item 4**), which suggested that an average residential customer would only see a 3% increase in their water bill (the same figures included in the Chronicle notice calculations), several Commissioners strongly objected to such deceptive presentation, and I myself told AWU Staff that we hoped to make our protests heard at the Management level so such

deception would stop. We were assured by Director Meszaros that he would bring our concerns to his “bosses” the following day, which I am sure he did because we later received a revised presentation for Council respondent to our concerns (*Item 5*).

So there is no plausible deniability for putting the same deceptive information in the Chronicle for the public, disingenuously including a \$1.43 increase in water bill when the real increase, for the same amount of commodity, is more than six times that amount. The asterisked footnote in the notice clarifies nothing; it just gives Staff a “cover” to say that the notice is technically accurate, although greatly misleading.

By making the choice not to respect our customers, Management Staff has dishonored all the hours of work put into dealing with this natural disaster by Joint Committee members, Budget Committee volunteers, the Water and Wastewater Commission, and AWU Staff who have spent huge amounts of time beyond their normal duties and who have bravely done what no public agency ever does – voluntarily cut tens of millions of dollars from their budget and agree to do more for much less in order for their customers to have a lesser financial burden.

I still support the necessary rate increases; I still honor the work of AWU Staff in developing a new business model; and I still honor the support that the Budget Office and Management Staff have given to AWU and its customers to address this financial crisis. But all of us, Staff and volunteers and AWU customers, deserve better than the choices made by Management to obscure a difficult financial reality to avoid public scrutiny. I for one will do my best to make it up to the customers by telling them the difficult truth, that we must all pay more for less until we can get beyond this challenging period.

Mickey Fishbeck, AICP

Chair, Joint Committee on Austin Water Utility Financial Plan

Member, Water and Wastewater Commission and Budget Committee

Cc: City Council Members

Greg Meszaros, Director, Austin Water Utility

Dale Gray, Chair, Water and Wastewater Commission; Chair, WWWC Budget Committee

ITEM 1: EXCERPTS FROM AUSTIN CHRONICLE NOTICE

Major Rate & Fee Changes

Estimated fiscal impact of proposed rate and fee changes on a "typical" residential rate payer:

Fig. 2

	2014 Monthly Rate	2015 Proposed Rate	Monthly Dollar Change	
Austin Energy	\$105.18	\$109.85	\$4.67	<i>residential customer usage of 1,000 Kwh</i>
Austin Water Utility	\$88.30*	\$90.92	\$2.62	<i>residential customer using 7,000 gallons of water and 4,700 gallons of wastewater</i>
Austin Resource Recovery	\$19.75	\$21.60	\$1.85	<i>residential customer using 64-gallon cart</i>
Clean Community Fee	\$6.65	\$7.40	\$0.75	<i>per single-family home/residence</i>
Transportation User Fee	\$7.80	\$8.25	\$0.45	<i>per single-family home/residence</i>
Drainage Utility Fee	\$9.20	\$9.80	\$0.60	<i>per single-family home/residence</i>
Property Tax Bill	\$77.56	\$78.75	\$1.19	<i>estimated median-valued home of \$196,500</i>
Total Monthly Rate	\$314.44	\$326.57	\$12.13	average projected increase of 3.9%

* In 2014, typical residential customer usage was 8,000 gallons of water.

The Austin Water Utility (AWU) provides retail water, wastewater and reclaimed water services to a population of approximately 900,000 both inside and outside of the Austin city limits. AWU's \$514.6 million operating budget, a \$29.9 million decrease from FY 2013-14, includes the elimination of 10 vacant positions and other reductions resulting from a department-wide effort to offset the impact of lower customer water use projections and strengthen AWU's financial metrics. An 8.1% system-wide rate increase is proposed for FY 2014-15 to further offset the impact of reduced water usage. This increase is expected to cost a typical customer \$2.62 per month. AWU's capital budget includes \$182 million in planned spending for rehabilitation or replacement of aging water and wastewater lines and growth of reclaimed water assets.

ITEM 2: 2012 PRESENTATION SHOWING WATER RATE INCREASE WITHOUT NEW \$4.00 WATER SUSTAINABILITY FEE



Average Residential Customer Bill Impact - 2012

Average Residential Customer (8,000 gals. water, 4,500 gals. wastewater)

	<u>Current 2011 Rates</u>	<u>Forecast 2012 Rates</u>	<u>\$ Variance</u>	<u>% Variance</u>
Water Service	\$ 27.79	\$ 29.93	\$ 2.14	7.7%
Wastewater Service	\$ 36.55	\$ 37.94	\$ 1.39	3.8%
Water Sustainability Fee	\$ -	\$ 4.40	\$ 4.40	-
Total Revenue	<u>\$ 64.34</u>	<u>\$ 72.27</u>	<u>\$ 7.93</u>	<u>12.3%</u>

Notes: Average residential customer volumes changed to reflect actual average (Previous 8,500 and 5,000 and New at 8,000 and 4,500 gallons).
Actual bill impact to be determined based on cost of service calculations



Water variance shown \$2.14

Plus New Water Fee \$4.40

Total Water Increase = \$6.54

\$6.54 / \$27.79 = 23.5% Water bill increase

ITEM 3: EXCERPT FROM JOINT COMMITTEE RECOMMENDATIONS (Reference Recommendation 1.3)

Joint Committee on Austin Water Utility's Financial Plan - 2014

Committee Final Recommendations: Rate Design, Drought Rates and Expenses

Recommendation Item #1 – Water Revenue Projections:

The 2014 Joint Committee on Austin Water Utility's Financial Plan recommends, for Council consideration, the following water revenue projection policies for Austin Water Utility (AWU):

Water Revenue Forecasts for 2015 and beyond

- Item 1.1: Austin Water should base its FY 2015 water revenue projections assuming that stage 2 will continue throughout the year.
- Item 1.2: Austin Water customers' response to the severe drought has been underestimated in the projections by Austin Water, and therefore a more conservative approach to water revenue projections should be used in the 2015 and future budgets.
- Item 1.3: Great care should be taken by Staff to distinguish between needed "revenue increases" and needed "rate increases". Revenue increases are often described in budget documents as "rate increases", which leads to a misunderstanding that a particular class of customers or a particular customer will experience rate or bill increases of that percentage. Generally, the residential class will experience higher percentage rate increases than what is presented in the budget as "rate increases". Staff should consider adding to budget documents a benchmark labeled "water bill increase for average residential customer" in addition to relabeling needed "revenue increase" for the item currently labeled "water rate increase"

**ITEM 4: EXHIBIT PRESENTED TO WATER AND WASTEWATER COMMISSION
PRIOR TO COUNCIL PRESENTATION**



Average Residential Customer Bill Impacts

	<u>2014 Rates¹</u>	<u>2015 Rates²</u>	<u>\$ Variance</u>	<u>% Variance</u>
Water ³	\$ 45.52	\$ 46.95	\$ 1.43	3.1%
Wastewater	42.78	43.97	1.19	2.8%
Total	<u>\$ 88.30</u>	<u>\$ 90.92</u>	<u>\$ 2.62</u>	<u>3.0%</u>

Notes:

1. Bills based on 8,000 gallons water usage and 4,700 gallons wastewater discharge
2. Bills based on 7,000 gallons water usage and 4,700 gallons wastewater discharge
3. Water Bills include the Reserve Fund Surcharge

**ITEM 5: REVISED EXHIBIT FOR COUNCIL PRESENTATION RESPONDING TO
COMMISSION TRANSPARENCY CONCERNS**



Average Customer Bill Impacts



	8,000 Gals Water	7,000 Gals Water	7,000 Gals Water	7,000 Gals Water
	Current 2014 Rates	Proposed 2015 Rates	Current 2014 Rates	Proposed 2015 Rates
Water ¹	\$ 45.52	\$ 46.95	\$ 38.35	\$ 46.95
Wastewater ²	42.78	43.97	42.78	43.97
Total	\$ 88.30	\$ 90.92	\$ 81.13	\$ 90.92
\$ Variance	-	\$ 2.62	-	\$ 9.79
% Variance	-	3.0%	-	12.1%

Notes:

1. Bills include the Reserve Fund Surcharge
2. Bills based on 4,700 gallons of wastewater discharge