



Austin Water Utility

Joint Subcommittee on Financial Plan

November 7, 2011

Joint Subcommittee Members

Water & Wastewater Commission

- Sarah Faust
- Mickey Fisbeck
- Chien Lee, P.E.

Resource Management Commission

- Sean Kelly
- Dr. Hari Krishna
- Luke Metzger

Impact Fee Advisory Committee

- J.R. (Hank) Kidwell
- Brian Rodgers
- Kris Bailey

AWU Project Team Members

Austin Water Utility

- Greg Meszaros, Director
 - Contact Phone: (512) 972-0108
 - Email: greg.meszaros@austintexas.gov
- David Anders, Assistant Director
 - Contact Phone: (512) 972-0323
 - Email: david.anders@austintexas.gov
- Daryl Slusher, Assistant Director
 - Contact Phone: (512) 972-0218
 - Email: daryl.slusher@austintexas.gov

Austin Water Utility

- Michael Castillo, Finance & Budget Manager
 - Contact Phone: (512) 972-0332
 - Email: michael.castillo@austintexas.gov
- Drema Gross, Water Conservation Manager
 - Contact Phone: (512) 974-2787
 - Email: drema.gross@austintexas.gov
- Brian Long, Supervising Engineer
 - Contact Phone: (512) 972-0177
 - Email: brian.long@austintexas.gov



Austin Water Utility

Joint Subcommittee Liaison:

Felicia Cancino

- Contact Phone: (512) 972-0114
- Email: felicia.cancino@austintexas.gov

Corporate Finance

- Jeff Knodel, Deputy Chief Financial Officer
 - Contact Phone: (512) 974-2589
 - Email: jeff.knodel@austintexas.gov

- Ed Van Eenoo, Budget Officer
 - Contact Phone: (512) 974-2638
 - Email: ed.vaneenoo@austintexas.gov

Communication Plan

Communication Plan

- Website Demonstration
 - City homepage
 - Utilities
 - Austin Water Utility
- Web Contents Discussion

Communication Plan

- Member notebooks
 - Process discussion
 - Contents review
- Commission Updates
 - Subcommittee members should provide update to your respective Commission or Committee
 - Agenda item should be added to regular meetings

Joint Subcommittee Voting Items

Council Resolution Summary

Whereas Preamble

- Weather volatility results in significant revenue volatility for AWU
- Majority of AWU costs are fixed making operational budget susceptible to revenue volatility
- As part of the FY 2012 Budget, AWU established the Revenue Stability Fund, a reserve fund, to mitigate revenue fluctuations due to weather volatility (clarification in upcoming slide)
- Council adopted the Revenue Stability Fee of \$4.40 per 5/8" meter

Whereas Preamble

- The fixed Revenue Stability Fee is regressive, whereby low-water users absorb a higher percentage increase to their bill than higher users; thus is a disincentive to water conservation
- Intent of Council is to establish a graduated, progressively-based Revenue Stability Fee which increases with water usage to encourage water conservation
- AWU must address its debt service ratio and other financial reserve policies
- Earliest possible date to implement in April 2012

Be It Resolved by Council

- City Manager directed to work with Joint Subcommittee of the 3 commissions and the public
- City Manager to develop short-term and long-term financial plan recommendations to strengthen the financial stability of AWU

Resolution Summary

- Implement financial policies to:
 - Implement a separate Revenue Stability Reserve Fund with appropriate funding levels
 - Plan to fund target levels of Reserve Fund over a period of time using a graduated Revenue Stability Fee
 - Implement policies to adjust Revenue Stability Fee when target levels are met or to replace any reserves used
 - Consider all customer classes
 - Develop water conservation program and marketing plan targeted to high-volume, low-income households who do not qualify for a fee waiver
 - Consider options for addressing volatility through volumetric rates and structures based on practices of other utilities

Resolution Summary

- Fixed Revenue Goals
 - Develop recommendations for fixed revenue goals and a phased approach to achieving the goals
- Financial Metrics
 - Financial policies related to debt ratios and other financial metric goals and plan to meet targeted goals
 - Financial policies on water and wastewater impact fees

Resolution Summary

- Timeline and Progress Reports
 - City Manager present recommendations to the Audit & Finance Committee by April 15, 2012
 - City Manager present recommendations to Council by May 1, 2012
 - City Manager to provide bimonthly progress reports to Council
- Subcommittee Review
 - Subcommittee provide Council with a review of staff recommendations by May 1, 2012

Questions and Discussion on Resolution?

Background Information

AWU FY 2012 Budget Highlights

Fund Summary

(In Millions)	2011	2012	Variance
Beginning Balance	\$ 49.0	\$ 46.8	\$ (2.2)
Revenue	422.1	458.8	36.7
Transfers In	6.8	4.6	(2.2)
Available Funds	\$ 428.9	\$ 463.4	\$ 34.5
Operating Requirements	181.8	189.3	7.5
Debt Service	171.6	189.1	17.5
Transfers Out	86.3	87.5	1.2
Total Requirements	\$ 439.7	\$ 465.9	\$ 26.2
Excess (Deficiency)	(10.8)	(2.5)	8.3
Ending Balance	\$ 38.2	\$ 44.3	\$ 6.1

2012 Cost Drivers

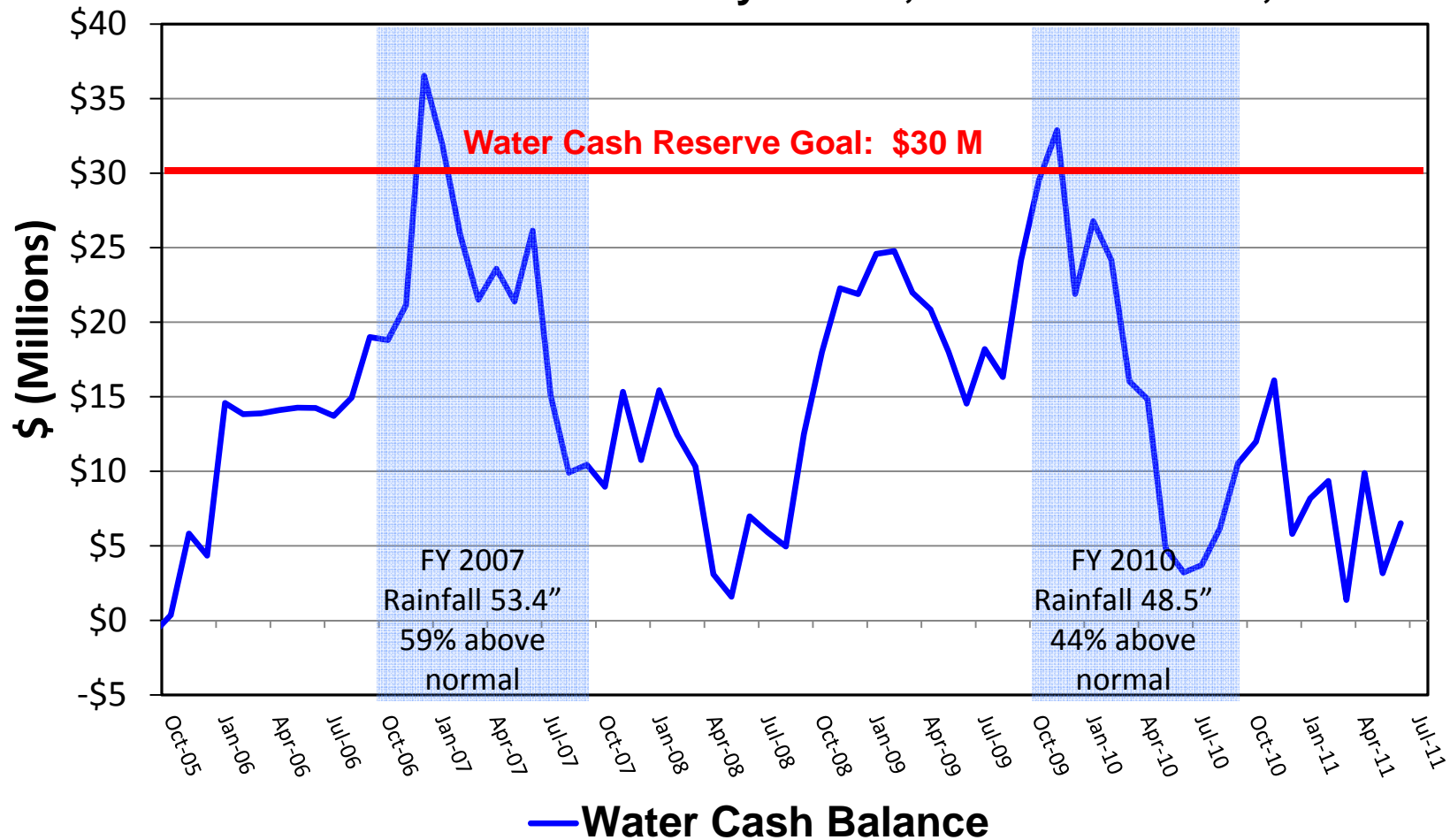
Category	Proposed Increase (Millions)	Justification
Personnel Costs	\$3.4	<ul style="list-style-type: none"> • 2.0% compensation adjustment • 2.0% additional retirement contribution • Health insurance increase
O&M Support Costs	\$4.0	<ul style="list-style-type: none"> • Austin Energy customer care • Public Works street cut repairs
Electrical Costs	\$4.5	<ul style="list-style-type: none"> • Austin Energy Green Choice & Base Rate Increase
Debt Service	\$17.5	<ul style="list-style-type: none"> • Existing debt service \$9.7 • New debt service \$5.4 • WTP4-related debt service \$2.4
Transfers Out	\$1.2	<ul style="list-style-type: none"> • General Fund Transfer \$0.7 M • Sustainability Fund Transfer \$0.4 M • Environmental Remediation / Other \$0.2 M

Business Model Change

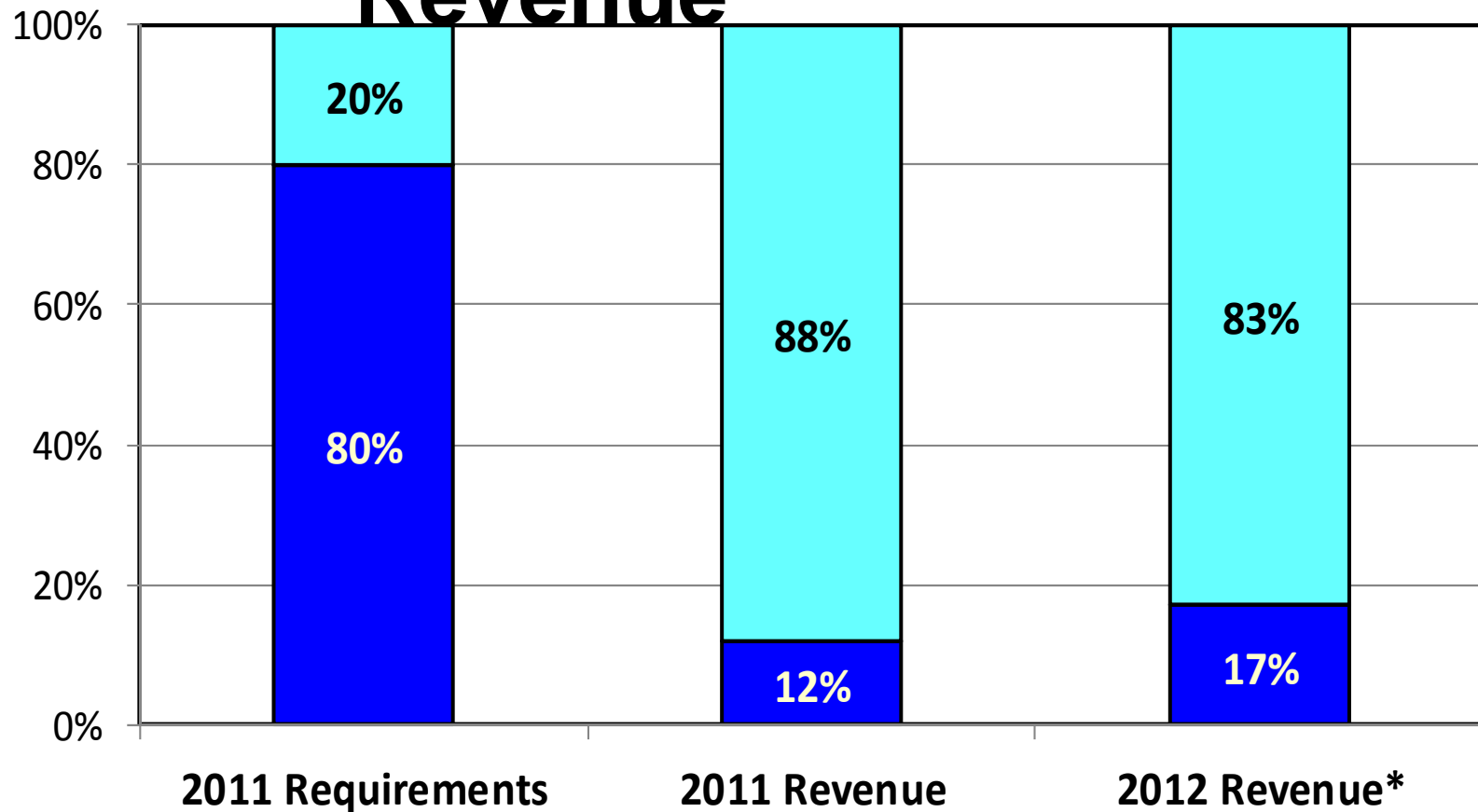
- Imbalance between fixed costs and fixed revenue
- Significant revenue volatility
 - Aggressive conservation rates
 - Weather volatility - \$53 million revenue shortfall in 2010
- Cash balance is only reserve mechanism
 - Significant revenue shortfalls reduce cash reserves

Cash Reserve History

Water Cash Balance History - Oct 1, 2005 thru Jun 30, 2011



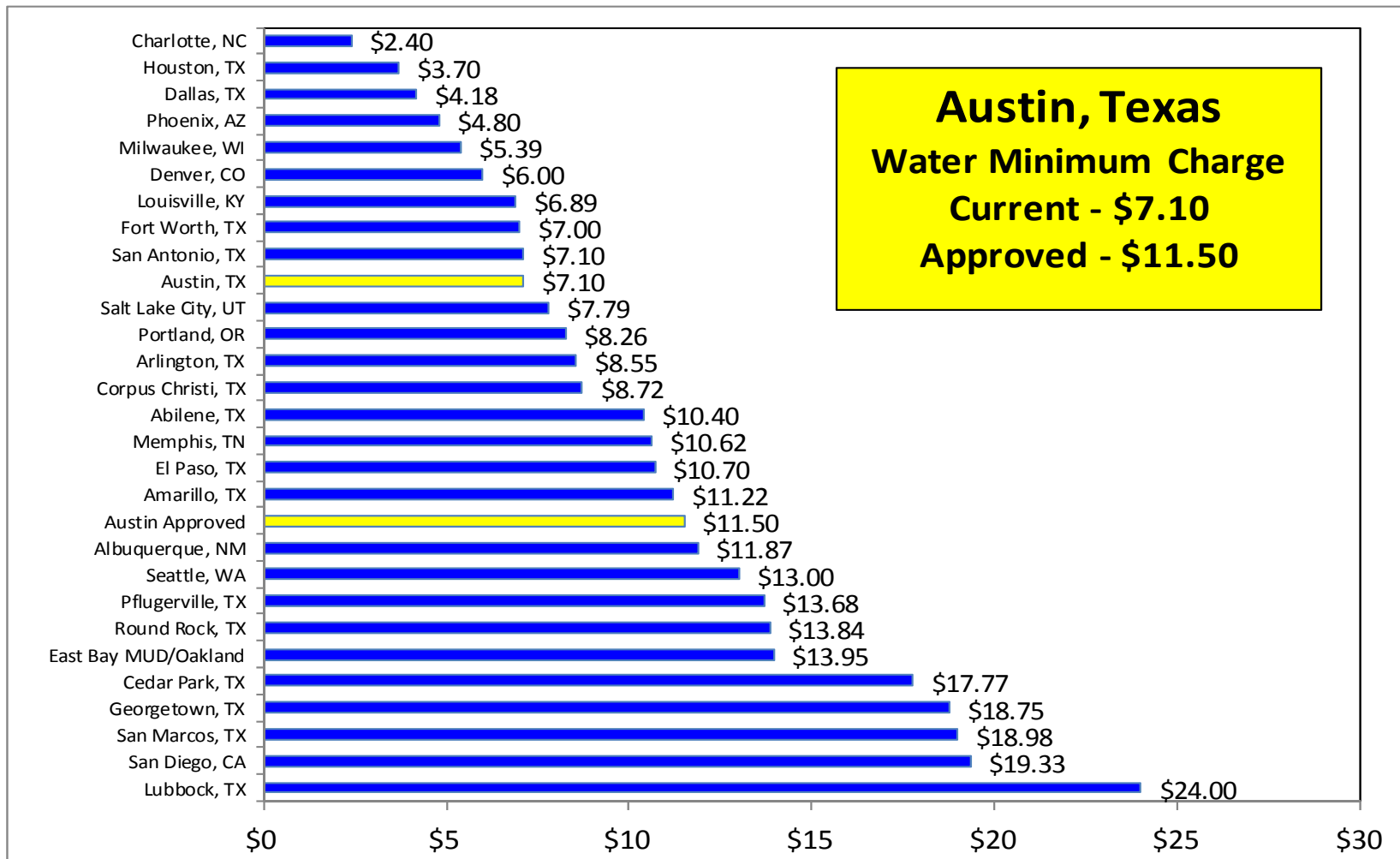
Fixed vs. Variable Cost & Revenue



* 2012 Revenue with Revenue Stability Fee

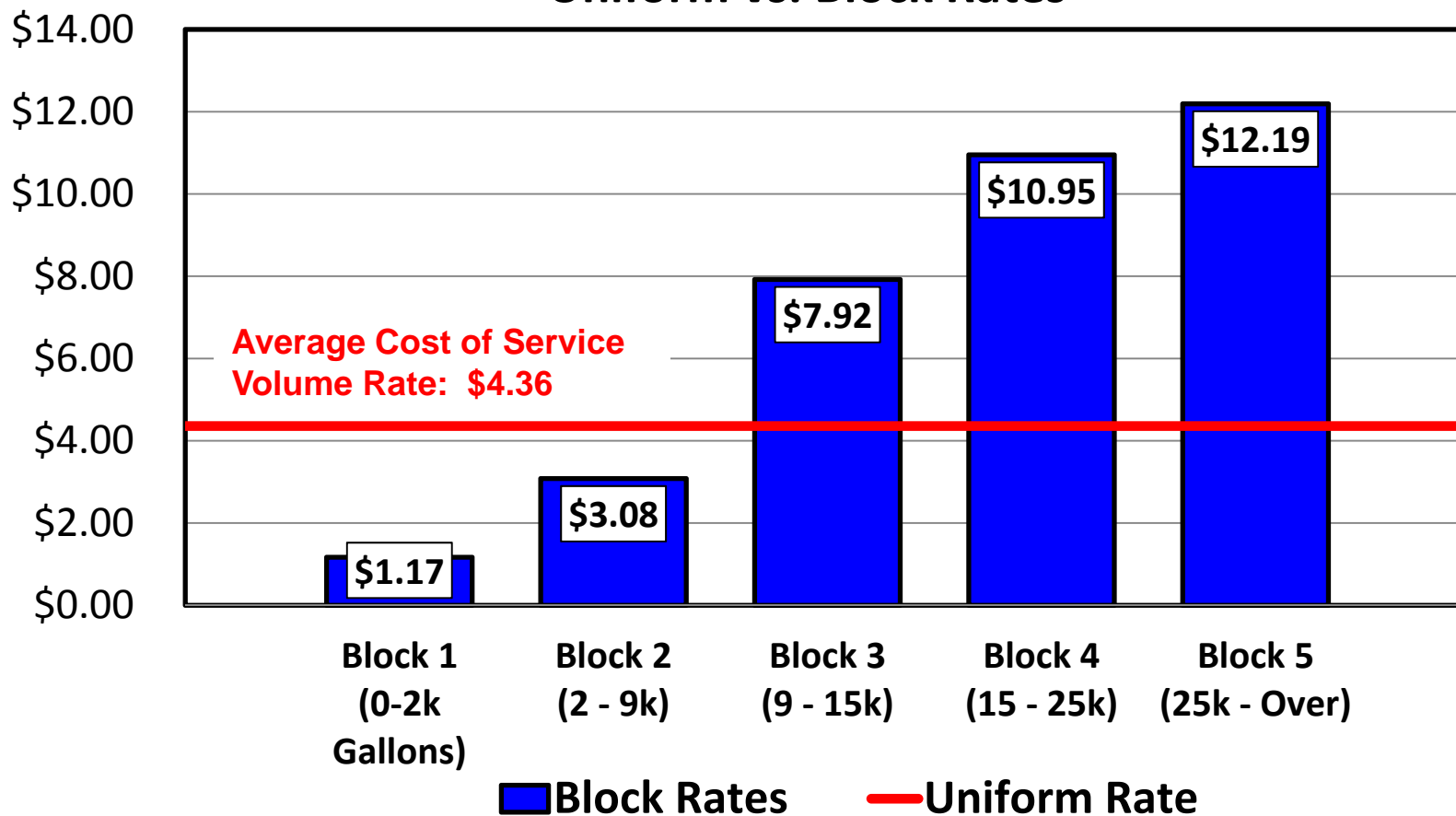
Variable Fixed

Residential Water Fixed Charge Comparison



Approved Residential Rate Design

Residential Volume Rate Per 1,000 Gallons:
Uniform vs. Block Rates





Approved Rate Increases

	<u>Water</u>	<u>Wastewater</u>
Retail Customers		
Residential	6.7%	5.0%
Multi-Family	4.8%	2.6%
Commercial	4.1%	3.3%
Large Volume / Industrial	4.5%	2.9%
Wholesale Customers	5.4%	1.1%
Systemwide	6.6%	3.5%
Revenue Stability Fee (5/8" Meter Equivalent)	\$4.40	\$0.00

Rates effective November 1, 2011

Approved Residential Water Rates

- Includes 1% transition to cost for commercial and large volume customers
- Minimum charge includes \$4.40 Revenue Stability Fee

	Current Rates	Approved Rates	\$ Var
Minimum Charge	\$ 7.10	\$ 11.50	\$ 4.40
Block 1: 0 - 2,000 gals.	\$ 1.06	\$ 1.17	\$ 0.11
Block 2: 2,001 - 9,000 gals.	2.78	3.08	0.30
Block 3: 9,001 - 15,000 gals.	7.15	7.92	0.77
Block 4: 15,001 - 25,000 gals.	9.88	10.95	1.07
Block 5: 25,001 - over gals.	10.99	12.19	1.20

Approved Residential Wastewater Rates

- All classes at cost of service

	<u>Current Rates</u>	<u>Proposed Rates</u>	<u>\$ Var</u>
Minimum Charge	\$ 8.95	\$ 9.25	\$ 0.30
Block 1: 0 - 2,000 gals.	\$ 3.61	\$ 3.79	\$ 0.18
Block 2: 2,001 - 9,000 gals.	8.15	8.38	0.23

Average Residential Monthly Bill Impacts

2012 Average Residential Customer
(7,727 gals. water, 4,699 gals. wastewater)

	<u>Current 2011 Rates</u>	<u>Proposed 2012 Rates</u>	<u>\$ Variance</u>	<u>% Variance</u>
Water Service	\$ 26.71	\$ 28.82	\$ 2.11	7.9% *
Revenue Stability Fee	\$ -	\$ 4.40	\$ 4.40	-
Wastewater Service	\$ 38.17	\$ 39.45	\$ 1.28	3.4%
Total Revenue	<u>\$ 64.88</u>	<u>\$ 72.67</u>	<u>\$ 7.79</u>	<u>12.0%</u>

* Includes 1% transition to cost of service

Affordability: Low Income Customers

- Customer Assistance Program (CAP) customers have been provided a waiver of the minimum charge since 2009 and the proposed Revenue Stability Fee

	<u>Actual 2008 Rates</u>	<u>Actual 2009 Rates</u>	<u>Actual 2010 Rates</u>	<u>Estimate 2011 Rates</u>	<u>Approved 2012 Rates</u>
Average Residential CAP Customers					
Water Service:					
Minimum Charge	\$ 5.35	\$ -	\$ -	\$ -	\$ -
Volume Charges	16.40	17.57	18.48	19.61	21.72
Revenue Stability Fee	\$ -	\$ -	\$ -	\$ -	\$ -
Wastewater Service:					
Minimum Charge	\$ 7.10	\$ -	\$ -	\$ -	\$ -
Volume Charges	25.74	26.66	27.72	29.22	30.20
CAP Average Monthly Bill:	\$ 54.59	\$ 44.23	\$ 46.20	\$ 48.83	\$ 51.92
Note: Bills based on 7,727 gallons water usage and 4,699 gallons wastewater discharge					

- (4.9%) decrease in residential CAP customer average bill from FY08 to FY12

Revenue Stability Fee Summary

Revenue Stability Fee Clarification

- No Revenue Stability Reserve Fund has been created
- \$17 million Revenue Stability Fee
 - Currently not funding a reserve
 - Funding for ongoing operations, debt service, and transfers
 - Needed indefinitely to fund AWU operations

Approved Revenue Stability Fee

<u>Meter Size</u>	<u>Fee Per Month</u>	<u>Number of Accounts</u>	<u>% of Accounts</u>
5/8"	\$ 4.40	180,228	86.1%
3/4"	6.60	10,348	4.9%
1"	9.70	8,890	4.2%
1 1/2"	18.20	3,930	1.9%
2"	27.20	3,509	1.7%
3"	66.00	1,207	0.6%
4"	110.00	560	0.3%
6"	220.00	362	0.2%
8"	330.00	190	0.1%
10"	440.00	61	0.0%
12"	506.00	1	0.0%
Total Accounts		209,286	100.0%

Note: 5,275 current Customer Assistance Program (CAP) customers will have their fee waived

Approved Revenue Stability Fee

	Annual Revenue Stability Fee Collections	% of Total
Residential	\$ 10,543,127	61.7%
Multifamily	2,473,666	14.5%
Commercial	3,963,007	23.2%
Large Volume	103,505	0.6%
Wholesale	-	0.0%
Total	\$ 17,083,305	100.0%

Questions and Discussion on Background Information?

Joint Subcommittee Topics Summary

Tiered Revenue Stability Fee

- Other utility practices
- Fee Structure
 - 12-month water use average
 - Current month water use
 - Early decision needed to begin work on billing system
- Tiered fee amounts
- Customer classes to be included
- Implementation date
- Average residential bill impacts
- Recommendations

Revenue Stability Reserve Fund

- Other utility practices
- Target levels of reserve fund
- Funding mechanisms and time frames
- Financial policies regarding use of reserves and how replacement of funds is achieved and time frame
- Average residential bill impacts
- Recommendations

Fixed Revenue Goals

- Other utility practices
- Fixed revenue goals as a percent of total revenue
- Customer class differences in fixed revenue
- Funding mechanisms and time frames to meet goals
- Customer class fixed revenue goals
- Average residential bill impacts
- Recommendations

Revenue Volatility

- Other utility practices
- Current residential block rates
- Current non-residential seasonal rates
- Options to reduce revenue volatility
- Average residential bill impacts
- Time frames for changes to rates or structures
- Recommendations

Financial Metrics

- Other utility practices
- Debt service coverage ratio goals
- Reserve fund goals
- Cash balance goals
- Cash financing of capital projects
- Plan to meet goals
- Financial policies development
- Average residential bill impacts
- Recommendations

Impact Fee Policies

- Current State law calculation summary
- Other utility practices
- Update on process and schedule
- Policy considerations on discounts for zones
- Recommendations

Water Conservation & Marketing

- Other utility practices
- Programs for high volume, low income households that don't qualify for waivers
- Marketing strategies
- Time frames for implementation
- Recommendations

Drought Emergency Rates

- Other utility practices
- Drought emergency rate options
- Time frame for implementation
- City ordinance or policy development
- Average residential bill impacts
- Recommendations

Questions and Discussion on Joint Subcommittee topics?

Next Meeting

- Discussion on tiered revenue stability fee structure
- Review structure options
- Subcommittee questions and discussion
- Public input

Questions and Discussion?