

**** D R A F T ****

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

Committee Final Recommendations: Rate Design, Drought Rates & Expenses

Recommendation Item #1 – Water Revenue Projections

Straw Poll: 1:1 to 1:3: 6-0 Unanimous in favor

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"

Recommendation Item #2 – 2015 Proposed Rate Design:

Straw Poll: 2:1 to 2:8 6-0 Unanimous in favor

The 2014 Joint Committee on Austin Water Utility's Financial Plan recommends, for Council consideration, the following water rate design policies for AWU:

Proposed 2015 Overall Rate Design

- Item 2.1: The rate design recommendations of the 2012 Joint Committee are again recommended for any proposed 2015 water rate increase.

Current Meter Equivalent Minimum Charge

- Item 2.2: The monthly meter-size based minimum charge (currently \$7.10 for a 5/8" meter) will continue to be charged the same for all customer classes. The minimum charge would continue to adjust accordingly for rate increases and to maintain cost of service.

Tiered Minimum Water Charge (Residential)

- Item 2.3: In future rate increases, AWU should propose rates that maintain the approximate \$10.50 dollar variance between blocks 1 and 5 of the tiered minimum charge.

Minimum Water Charge (Non-Residential)

- Item 2.4: Multifamily and commercial customers should be assessed a meter-size-based fixed charge that would be sufficient to meet target fixed revenue for the classes.
- Item 2.5: Since large volume and wholesale customers have individual water rates for each customer based on their individual cost of service, these classes should continue to be charged a minimum water charge determined for each large volume and wholesale customer equivalent to each class' annual fixed revenue responsibility divided by 12 months.

Fixed Revenue Goals for Water

- Item 2.6: The water fixed revenue goal for the AWU should be 20% of the total water revenue requirements based on each customer classes' relative water cost of service.

Volumetric Rates for Water

- Item 2.7: The current volumetric rate block consumption intervals shall remain the same for 2015, but may be adjusted from time to time, if AWU determines that patterns of usage have changed sufficiently to require adjustment to remain consistent with the criteria for block intervals recommended by the 2012 Joint Committee.
- Item 2.8: In future rate increases based on current or any new volumetric rate intervals, AWU should propose rates that maintain or minimize the increase in the dollar variance between blocks 1 and 5. Current variance between blocks 1 and 5 is \$11.00 which should be maintained for 2015.

Recommendation Item #3 – Future Proposed Rate Design After 2015:

Straw Poll: Items 3:1 to 3:2 3-3 in favor; Item 3.3 3-3 in favor; Item 3.4 to 3.5 4-2 in favor

For future rate increases for FY 2016 and beyond, the 2014 Joint Committee on Austin Water Utility's Financial Plan recommends, for Council consideration, the following volumetric rate policies for Austin Water Utility:

Fixed Revenue for Water

- Item 3.1 For future rate design proposals for FY 2016 and beyond, the fixed revenue percentages should be increased from the current 20% of total revenue to a maximum of 25%.
- Item 3.2: AWU should consider a 2-5 year transition period, starting no earlier than FY 2016, when increasing the fixed revenue to 22.5%.
- Item 3.3 For future rate design proposals for FY 2016 and beyond, the tiered-fixed fee spread between blocks 1 and 5 should be increased to \$22.75 from the current \$10.50.

Volumetric Rates for Water

- Item 3.4: For future rate design proposals for FY 2016 and beyond, the only residential volumetric rate block below the average volumetric cost of service rate should be block 1. Blocks 2 through block 5 should be charged at least the average volumetric cost of service rate.
- Item 3.5: AWU should consider a 2-5 year transition period, starting no earlier than FY 2016, when implementing raising block 2 to the average volumetric cost of service rate.

Recommendation Item #4 – Drought Rates:

Straw Poll: 4:1 to 4:6 4-2 in favor

The 2014 Joint Committee on Austin Water Utility's Financial Plan recommends, for Council consideration, the following drought rate policies for Austin Water Utility:

Initiation of Drought Rates

Item 4.1: The implementation of Stage 3 and Stage 4 drought rates would be triggered on the implementation of Stage 3 and Stage 4 water restrictions, respectively.

Drought Rates for Stage 3 and Stage 4 Water Restrictions

Item 4.2: Until such time as AWU has at least one year of representative class-level usage data upon which to estimate Stage 3 or Stage 4 demand impacts, including peak-related impacts, AWU should develop drought rates using a system-wide rate per 1,000 gallons for all customers. This would be charged to all classes at the same rate, including Customer Assistance Program (CAP) customers and wholesale customers.

Item 4.3: Wholesale customers would be charged Stage 3 and Stage 4 drought rates, however their fiscal year revenue responsibility, including any drought rate revenue, would be capped at a maximum of their identified cost of service amount for that year.

Item 4.4: Stage 3 and stage 4 drought rates would remain in effect while stage 3 and stage 4 water restrictions are in effect.

Elimination of Drought Rates

Item 4.5: AWU would be required to monitor the revenue losses, as compared to budget levels, due to stage 3 and stage 4 water restrictions.

Item 4.6: The elimination of stage 3 or stage 4 drought rates would be dependent on the following conditions:

- Stage 3 drought rates would only be removed if stage 3 water restrictions are removed and a lesser Stage is imposed.
- Stage 4 drought rates would only be removed if stage 4 water restrictions are removed and Stage 2 or lesser water use restrictions are imposed.
- Additionally, Stage 3 and Stage 4 rates would be discontinued for the appropriate rates at Stage 2 or lesser Stage rates:
 - When 90% of revenue losses have been recovered (compared to budgeted revenues); or
 - It is one month past the end of the fiscal year in which the Stage 3 or Stage 4 rate was last imposed;
 - Provided that in no case shall Stage 3 or Stage 4 rates be extended more than four months after Stage 3 or Stage 4 water use restrictions have been removed in favor of Stage 2 or higher water use restrictions, without prior approval of the City Council.

Recommendation Item #5 – AWU Expenses:

The 2014 Joint Committee on Austin Water Utility's Financial Plan recommends, for Council consideration, the proposed 2015 budget include the following policies related to expenses incurred by Austin Water Utility:

Operating Expenses

Item 5.1:

Transfers to Other Funds

Item 5.2: The Joint Committee recommends elimination of any transfers to the General Fund which are not related to the provision of utility service. Examples of these transfers include Sustainability Fund, General Fund, Economic Development Fund, Economic Incentives Reserve Fund, and any other transfers not related to the provision of utility service.