

Water Reserve Fund Surcharge

- Item 1.31: A water volumetric Reserve Fund Surcharge per 1,000 gallons of water used shall be charged to all customer classes to build or replenish the Reserve Fund to target levels.
- Item 1.32: When the target levels of the Reserve Fund are reached, the Reserve Fund Surcharge shall be reduced to levels sufficient to only maintain the 120 days of operating requirements as may be necessitated by changes in budgeted operating costs over time.
- Item 1.33: The surcharge revenue collected to build or replenish the Reserve Fund shall not be included in the general fund transfer calculation for Austin Water Utility. Moreover, the general fund transfer calculation should also include a revenue offset in the amount of the Austin Water Utility's annual transfer to the City's Sustainability fund.
- Item 1.34: All interest earned by the Reserve Fund account should remain in the Reserve Fund in order to offset funding and replenishment requirements and to minimize rate impacts for water customers.

Recommendation Item #2 – Financial Metrics:

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

Financial Metrics

- Item 2.1: The Austin Water Utility should strive to maintain an operating cash reserve equivalent to a minimum of 60 days of budgeted operations and maintenance expenses.
- Item 2.2: Encourage staff to educate financial professionals about the new reserve fund in an attempt to improve AWU's financial position with as little rate impact as possible.

Recommendation Item #3 – Other Policies:

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

Other Recommendations

- Item 3.1: **Impact Fees:** Adopt an impact fee policy that calculates the maximum impact fee allowed by law. Consider the elimination of the current zone discount policy that has the effect of subsidizing infrastructure for new development.
- Item 3.2: **Service Extension Requests (SER):** Consider revising the SER Ordinance with the goal of reducing subsidies for new infrastructure to serve new growth. This includes eliminating cost reimbursement and calculating all SERs under the cost participation formula.
- Item 3.3: **Green WTP sale proceeds:** Reconsider directing the proceeds from the sale of the Green WTP land in order that the money from the sale is directed to the Austin Water Utility in an amount equivalent to the costs to replace the treatment capacity at Green WTP. These funds can be used by AWU to establish the Revenue Stability Reserve Fund.
- Item 3.4: **Water Budget:** Recommends the Austin City Council consider directing staff to work with the Water and Wastewater Commission Budget Subcommittee to evaluate cost savings options to reduce expenditures with the intent to offset the water rate and fee increases.

- Item 1.19: Volumetric residential rates for Blocks 3-5 should not be set below the average volumetric cost of water per 1,000 gallons. Only water sold in Blocks 1 and 2, which constitute on average a generous provision for essential water (as opposed to discretionary use of water) might be sold below average volumetric cost
- Item 1.20: Volumetric residential rates in Block 3 should be lower than rates for Blocks 4 and 5 to provide some amount of discretionary water use at less than premium rates to be charged in Blocks 4 and 5.
- Item 1.21: Volumetric residential rates should be designed in such a manner as to not concentrate bill impacts on a narrow range of users in Blocks 1-3, according to amount of water used (such as, for example, large increases for those using 8,000-9,000 gallons while other users in Blocks 1-3 have much lesser increases).
- Item 1.22: In future rate increases based on these new volumetric rate intervals, AWU should propose rates that maintain or minimize the increase in the dollar variance between blocks 1 and 5.

New Water Revenue Stability Reserve Fund ("Reserve Fund")

- Item 1.23: AWU should create a Revenue Stability Reserve Fund to be used to offset revenue shortfalls where actual revenue is less than budgeted revenue for a particular fiscal year.
- Item 1.24: The target funding level for the Reserve Fund is 120 days of the budgeted operating requirements of Austin Water Utility which includes operations and maintenance and other operating transfers, but excludes debt service and other transfers. In FY 2012, 120 days of operating and maintenance and other operating transfers equals \$34,520,852.
- Item 1.25: Upon creation of the Reserve Fund, the goal to reach the target funding level will be no later than 5 years (by the end of FY2016-17 if no withdrawals are made prior to the end of that fiscal year). In FY 2017, 120 days of operating and maintenance and other operating transfers is projected to equal \$45,100,000.
- Item 1.26: Funding for the Reserve Fund may be provided from the following sources:
- a. Reserve Fund Surcharge – a volumetric Reserve Fund Surcharge could be charged to all customer classes, in the same amount per 1,000 gallons of water sold for all classes, in order to build or replenish the Reserve Fund to target levels.
 - b. Excess Operating Cash Balances – any operating cash balances in excess of 60 days of budgeted operating requirements at the end of each fiscal year may be transferred to build or replenish the Reserve Fund to target levels.
 - c. Other Sources – available cash balances from other Utility sources may be transferred to build or replenish the Reserve Fund to target levels.
- Item 1.27: The City Council must approve any Reserve Fund utilization through a separate action.
- Item 1.28: The Reserve Fund shall only be used to offset a current year water service revenue shortfall where actual water service revenue is less than the budgeted level by 10% or greater.
- Item 1.29: The maximum use of the Reserve Fund in any fiscal year should be no more than 50% of the existing balance at the time of request for Council action.
- Item 1.30: In the event that any portion of the Reserve Fund is used, the balance should be replenished to the target levels within 5 years, provided that if the fund is drawn down during the first 5-year development period the reserve fund surcharge shall not be lower than it was during the year in which the draw-down occurred until such time as the fund reaches its 120 days of operating costs.

New Minimum Water Charge (Non-Residential)

- Item 1.10: 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. The conversion factors for various meter sizes should be based on AWWA hydraulic equivalencies as used in the City's water and wastewater Impact Fee Ordinance (See "Fixed Revenue Goals" section).
- Item 1.11: Since large volume and wholesale customers have individual water rates for each customer based on their individual cost of service, a new minimum water charge should be 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 1.12: The water fixed revenue goal for the AWU should be 20% of the total water revenue requirements.
- Item 1.13: The fixed revenue requirements, above the current monthly \$7.10 minimum charge revenue, to meet the 20% fixed water revenue goal should be allocated to each customer class based on the customer classes' relative water cost of service.
- Item 1.14: For example, for FY 2012, the target fixed revenue for the Residential class would have been 25.3%; the target for Multifamily would have been 17.8%; the target for Commercial would have been 16.3%; the target for Large Volume would have been 11.5%; and the target for Wholesale would have been 11.0%.

Volumetric Rates for Water

- Item 1.15: The current volumetric rate block consumption intervals should be replaced with new volumetric rate block intervals. Those intervals should be based on:
 - Tier 1 – Bottom 10% of residential water customers according to volumes purchased
 - Tier 2 – Capped at approximately average winter residential water use per month
 - Tier 3 – Capped at approximately average summer residential water use per month
 - Tier 4 – Remainder of customers not in the other three tiers
 - Tier 5 - Top 10% of residential water customers according to volumes purchased
- Item 1.16: The initial new rate block intervals for FY2012-13 should be as follows, based on the above criteria:
 - Tier 1: 0 – 2,000 gals.
 - Tier 2: 2,001 – 6,000 gals.
 - Tier 3: 6,001 – 11,000 gals.
 - Tier 4: 11,001 – 20,000 gals.
 - Tier 5: Over 20,000 gals.
- Item 1.17: Block intervals may be adjusted from time to time, consistent with block descriptions presented above, if AWU determines that patterns of usage have changed sufficiently to require adjustment to remain consistent with the criteria above for block breaks.
- Item 1.18: Block 1 rates should initially be set at approximately \$1.25 and block 5 rates should be set at approximately \$12.25, an \$11.00 variance between blocks 1 and 5 (based on the FY2011-12 budget). These amounts would adjust accordingly for rate increases and to maintain cost of service.

Joint Committee on Austin Water Utility's Financial Plan

Committee Final Recommendations: Rate Structure & Financial Policies

Recommendation Item #1 – Rate Structure:

The Joint Committee on Austin Water Utility's Financial Plan recommends, for Council consideration, the following fixed fee, volumetric rate, and reserve fund policies for Austin Water Utility (AWU):

Current \$7.10 per Meter Equivalent Minimum Charge

- Item 1.1: The monthly meter-size based minimum charge (currently \$7.10 for a 5/8" meter) including the cost of service based components of customer charge, equivalent meter charge, and fire protection will continue to be charged the same for all customer classes. The minimum charge could continue to adjust accordingly for rate increases and to maintain cost of service.
- Item 1.2: The stakeholder and Staff participants in the next formal cost of service process are encouraged to convert any capital-based portion of the minimum charge (if any is included in the cost of service update) to one based on American Water Works Association (AWWA) meter hydraulic equivalents as used in the City's water and wastewater Impact Fee Ordinance.

Current Water Revenue Stability Fee

- Item 1.3: AWU should redesign the current meter-size-based revenue stability fee for residential customers and replace it with a tiered fee that would charge less for customers using less water and more for customers using more water, as described below.
- Item 1.4: The current revenue stability fee for non-residential customers should be redesigned and replaced with a new meter-based fixed fee appropriate for each customer class as described below.

New Tiered Minimum Water Charge (Residential)

- Item 1.5: AWU should redesign the Revenue Stability Fee ("RSF") as a tiered minimum water charge that is based on 5 tiers in which the consumption levels of the tiers are the same as the 5 volumetric rate blocks.
- Item 1.6: The tiered minimum water charge should be based on monthly water usage. The tiered minimum water charge would be charged for those bills that fall within a rate block, not a volumetric charge per 1,000 gallons.
- Item 1.7: The dollar amounts of the tiered minimum water charge would be smaller for the lower water use blocks and larger for the higher water use blocks.
- Item 1.8: Blocks 1-3 should have different fixed charges for each block, and blocks 4-5 should have the same fixed charge in order to reduce volatility of the tiered minimum water charge revenue.
- Item 1.9: The amounts for the tiered minimum water charge would start at approximately \$1.50 for block 1 and increase to approximately \$10.00 for blocks 4-5. See Attachment A, as a reference of the tiered minimum charge design and application that is proposed (based on FY2011-12 budget requirements). These amounts would be adjusted for future budget years to attain fixed revenue goals for the residential water class (See "Fixed Revenue Goals" section).