

## FISHBECK'S EDITS

### Joint Committee on Austin Water Utility's Financial Plan

#### Committee 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:

##### **Current \$7.10 per Meter Equivalent Minimum Charge**

- 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.
- 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**

- AWU should eliminate the current meter size based revenue stability fee for residential customers and replace it with a new tiered fixed fee that would charge less for customers using less water and more for customers using more water, as described below.
- The current revenue stability fee for non-residential customers ~~would~~ should be eliminated and replaced with a new fixed fee ~~that would be sufficient to meet target fixed revenue for the class appropriate for each customer class as described below~~.

##### **NEW Residential Tiered Water Fixed Fee Rates**

- AWU should create a new residential tiered water fixed fee rate that is based on 5 tiers in which the consumption levels of the tiers are the same as the 5 volumetric rate blocks.
- The new residential tiered fixed fee rate should be based on monthly water usage. The new tiered fixed fee rate would be ~~a set charge~~ charged for those bills that fall within a rate block, not a volumetric charge per 1,000 gallons.
- The dollar amounts of the tiered fixed fee rate would be smaller for the lower water use blocks and larger for the higher water use blocks.
- Blocks 1-3 ~~will~~ should have different fixed fees rates for each block, and blocks 4-5 ~~will~~ should have the same fixed fee rate (in order to ~~This will~~ reduce volatility of the tiered fixed fee rate revenue).
- The amounts for the tiered fixed fees rate would start at approximately \$1.50 for block 1 and increase to approximately \$10.00 for blocks 4-5 (based on FY2011-12 budget requirements).

These amounts would ~~be adjusted accordingly for future budget years~~ to ~~maintain~~ attain target fixed revenue for the residential water class.

#### New Non-Residential Water Fixed Fees-Rates

- Multifamily and commercial customers ~~would continue with~~ should be charged a meter-size-based fixed ~~fee~~ rate 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.
- Since large volume and wholesale customers have individual water rates for each customer based on their individual cost of service, a new monthly fixed ~~fee rate would~~ should be determined for each large volume wholesale customer ~~that would be sufficient to meet the target fixed revenue for the class. Equivalent to each class' annual fixed revenue responsibility divided by 12 months.~~

#### Fixed Revenue Goals for Water

- The overall Utility-wide water fixed revenue goal for AWU should be 20% of the total ~~revenues~~ water revenue requirements of the Utility.
- ~~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 adjust accordingly for rate increases and to maintain cost of service.~~
- The fixed revenue requirements, above the current monthly \$7.10 minimum charge revenue, to meet the 20% fixed revenue goal ~~will~~ should be allocated to each customer class based on the customer classes' relative water cost of service ~~percentage of total cost.~~

#### Volumetric Rates for Water

- The current volumetric rate block consumption intervals ~~will~~ 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 - Bottom 10% of residential water customers according to volumes purchased

- The initial new rate block intervals for FY2012-13 ~~will~~ 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: ~~20,001 – over~~ Over 20,000 gals.

Block intervals may be adjusted from time to time, consisted 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.

- Block 1 rates will-should initially be set at approximately \$1.25 and block 5 rates will-should be set at approximately \$12.25, a \$12.00 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.
- 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
- 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.
- 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).
- 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 ("Reserved Fund")

- 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.
- 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.
- 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).
- Funding for the Reserve Fund may be provided from the following sources:
  - a. Reserve Fund Surcharge – a ~~fixed~~ or 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.
- The City Council must approve any Reserve Fund utilization through a separate action during the year or as part of the current year assumptions within the Austin Water Utility's annual budget recommendations for the following fiscal year.
- 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.
- The maximum use of the Reserve Fund in any fiscal year ~~is~~ should be no more than 50% of the existing balance at the time of request for Council action.
- In the event that any portion of the Reserve Fund is used, the balance will-should be replenished to the target levels within 5 years.
- If any withdrawal is made from the Reserve Fund during the [first four years of the??] initial five-year creation period, the target date for full funding of the reserve at 120 days of operating

costs should be re-established as five years from the date of withdrawal to minimize annual rate impacts on customers.

#### **Water Reserve Fund Surcharge**

- A water volumetric Reserve Fund Surcharge per 1,000 gallons of water used may be charged to all customer classes to build or replenish the Reserve Fund to target levels.
- 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.
- The surcharge revenue collected to build or replenish the Reserve Fund should 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.
- All interested earned by Reserve Fund account should remain in the Reserve Fund in order to offset funding and replenishment requirements and to minimize rate impact 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**

- The Austin Water Utility should increase their revenue bond debt service coverage over a period of 5 to 7 years to a target of 1.75x.
- The Austin Water Utility shall maintain a minimum operating cash reserve equivalent to a minimum of 60 days of budgeted operations and maintenance expenses.
- Capital projects should be funded through a combination of cash, referred to as pay-as-you-go financing, and debt. A cash funding ratio of 30% to 50% is desirable.

#### **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 ~~The water meter equivalency factors should be changed to be consistent with AWWA standards and impact fee meter equivalency factors.~~
- Item 3.2: SERs ~~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 3.3: Green WTP sale proceeds .....
- Item 3.4: Fluoride .....

Item 3.5: Water Conservation advertising budget .....