



# Austin Water Utility

## Joint Subcommittee on Financial Plan

December 21, 2011

# New Handouts

## New Handouts

- Presentation
- Meeting minutes
- Draft Council Resolution
- Question Responses
- Los Angeles Water Rate Ordinance
- Los Angeles Water Rate Quarterly Notice

# Draft Council Resolution Discussion

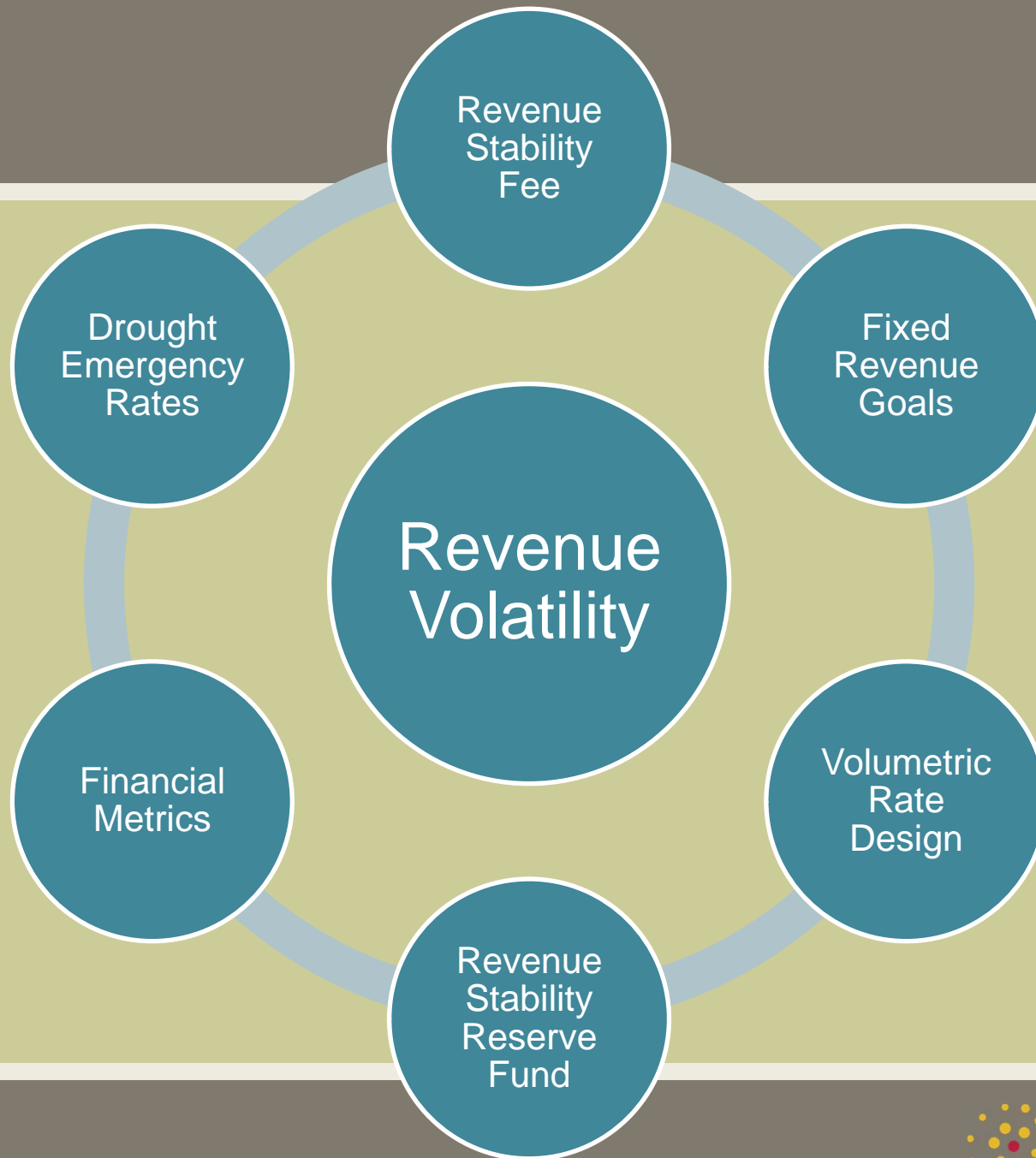
# Process / Evaluation Criteria Discussion

# Topics Summary

- Tiered Revenue Stability Fee
- Fixed Revenue Goals
- Revenue Volatility
- Revenue Stability Reserve Fund
- Financial Metrics
- Impact Fee Policies
- Service Extension Request Reimbursement Policies
- Water Conservation & Marketing
- Drought Emergency Rates
- Other Topics

## Process Strategy

- Identify topic decision points where AWU needs Subcommittee input to develop recommendations
- Identify evaluation criteria for each topic to compare solutions
- Provide Subcommittee with topic information
- Subcommittee will review and provide input on each topic decision points
- Work through all topics before any AWU recommendation is developed
- Subcommittee will review and provide input on AWU recommendations





# Revenue Stability Fee

## Usage Basis

- Historic 12-month average
- Current month usage
- Volumetric revenue adjustment

## Number of Tiers

- Three
- Four
- Volumetric revenue adjustment

## Use of Revenue

- Fund current period / annual expenditures
- Deposit to Revenue Stability Fund

# Revenue Stability Fee (cont'd)

## Revenue Allocation

- Based on current meter-based revenue by class
- Class-based cost of service
- Based on fixed revenue percentage by class

## Nonresidential Fee

- Current meter-based fee
- Tiered based on historic 12-month average
- Tiered based on monthly usage

# Fixed Revenue Goals

## Basis for Goal

- Specific costs
- Percentage of total revenue
- Percentage of fixed costs
- Set dollar amount

## Determination of Goal

- Target level

## Funding Timeline

- Number of years to reach targeted level

# Volumetric Rate Design

## Residential Blocks

- Reduce differentials between blocks
- Percentage subsidy of Blocks 1 and 2
- Revenue requirements funded from Blocks 1, 2 and 3
- Revenue requirements funded from Blocks 1, 2, 3 and 4

## Nonresidential Rate Structure

- Uniform rates
- Seasonal rates

## Timeline

- Number of years to reach targeted volumetric rate design

# Revenue Stability Reserve Fund

## Appropriate Funding Target

- Percentage of total revenue
- Percentage of fixed costs
- Set dollar amount

## Funding Mechanism

- Revenue Stability Fee
- Fourth and/or fifth residential block revenue
- Some portion of nonresidential volume revenue

## Funding Timeline

- Number of years to reach targeted funding level

# Revenue Stability Reserve Fund (cont'd)

## Use of Funds

- No restrictions
- Restricted uses

## Replenishment of Funds

- Policy of replenishing funds for revenue stability

# Financial Metrics

## Debt Service Coverage Target

- Minimum in bond covenant
- Minimum plus “contingency”

## Cash Balances

- Number of days of Operations and Maintenance expense

## CIP Funding

- Debt v. cash funding targets

## Timeline

- Timeline to reach financial metric goals

# Drought Emergency Rates

## Triggers for Implementation

- Drought declaration, lake levels, State guidelines

## Rate Structure

- Uniform increase to all volumetric rates
- Multiplier applied to all volumetric rates
- Increased Revenue Stability Fee

## In Effect Timeline

- Drought ending, lake levels
- Recovery of lost revenue



# Questions & Discussion?

# Revenue Stability Fee Structure

# Revenue Stability Fee

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- Tiered based on historic 12-month average
- Tiered based on monthly usage

## Evaluation Criteria

- AWU and Joint Subcommittee will develop evaluation criteria for each topic
- Evaluation criteria will be used to compare possible solutions

## Tiered Fee Usage Basis

- Based on 12 month average water use
  - Historical average usage
  - Customers split into tiers
- Based on current month water use
  - Current month usage
  - Tiers based on rate blocks
- Volumetric Revenue Adjustment – LA Option
  - Volumetric rate adjustment to recover shortfalls

# Los Angeles Water Revenue Adjustment

- Recovers any prior year shortage in revenue due to variation in water sales
- Adjustment factor per 1,000 gallons added to all water consumption until revenue shortfall recovered
- Limit on adjustment unless financial required
- Excludes:
  - Reclaimed water service
  - Public sponsored irrigation, recreational, agricultural, horticultural, floricultural, community gardens, and youth sports

# LA Option – 2010 Water Revenue Shortfall Example



(\$ in Millions)	Water Revenue 2010 Budget	Water Revenue 2010 Actual	Revenue Shortfall	Percent Shortfall
Residential	\$ 85.8	\$ 66.8	\$ (19.0)	-22.1%
Multifamily	\$ 35.9	\$ 34.1	\$ (1.8)	-5.0%
Commercial	\$ 61.6	\$ 47.4	\$ (14.2)	-23.1%
Large Volume	\$ 12.9	\$ 10.8	\$ (2.1)	-16.3%
Wholesale	\$ 9.9	\$ 8.9	\$ (1.0)	-10.1%
Total	<u>\$ 206.1</u>	<u>\$ 168.0</u>	<u>\$ (38.1)</u>	<u>-18.5%</u>



# LA Option – 2010 Water Revenue Shortfall Example – Option #1

(\$ in Millions)	2010 Revenue Shortfall	2011 Budget Volumes (in 1,000 Gals.)	2011		2011 Revenue Adjustment	Additional Percent Increase
			Adjustment by Total Shortfall \$/1,000 Gals.			
Residential	\$ (19.0)	18,451,969	\$ 0.82		\$ 15.2	16.7%
Multifamily	\$ (1.8)	9,165,148	\$ 0.82		\$ 7.5	19.7%
Commercial	\$ (14.2)	12,875,668	\$ 0.82		\$ 10.6	17.0%
Large Volume	\$ (2.1)	2,763,019	\$ 0.82		\$ 2.3	18.7%
Wholesale	\$ (1.0)	3,142,779	\$ 0.82		\$ 2.6	24.4%
Total	<u>\$ (38.1)</u>	<u>46,398,583</u>			<u>\$ 38.1</u>	

FY 2011 Water Rate Increase 5.4%

**Water Revenue Adjustment Based on Total Shortfall and Total Volumes**

# LA Option – 2010 Water Revenue Shortfall Example – Option #2

(\$ in Millions)	2010 Revenue Shortfall	2011 Budget Volumes (in 1,000 Gals.)	2011 Adjustment by Class Shortfall \$/1,000 Gals.	2011 Revenue Adjustment	Additional Percent Increase
Residential	\$ (19.0)	18,451,969	\$ 1.03	\$ 19.0	20.83%
Multifamily	\$ (1.8)	9,165,148	\$ 0.20	\$ 1.8	4.73%
Commercial	\$ (14.2)	12,875,668	\$ 1.10	\$ 14.2	22.76%
Large Volume	\$ (2.1)	2,763,019	\$ 0.76	\$ 2.1	17.07%
Wholesale	\$ (1.0)	3,142,779	\$ 0.32	\$ 1.0	9.40%
Total	<u>\$ (38.1)</u>	<u>46,398,583</u>		<u>\$ 38.1</u>	

FY 2011 Water Rate Increase 5.4%

**Water Revenue Adjustment Based on Class Shortfall and Class Volumes**

## LA Option Pros and Cons

- Pros
  - Recovers revenue shortfalls in following year
  - Easy mechanism to increase rates when needed
  - Adjustment is removed when shortfall recovered
- Cons
  - Volatile solution to volatility problem
  - Possibly high rate adjustments on top of regular rate increases
  - Multiple year shortfalls would increase revenue adjustment
  - If there are maximum limits on the adjustment, then revenue would not be recovered or it would take longer to recover
  - Does not take into account expense savings and cash or reserve balances in adjustment
  - Complex for customers to understand
  - More difficult for customers to budget for water bills

# Usage Basis Decision Point Discussion

## Number of Tiers

- 12 month Average Usage
  - 3 Tiers based on 1/3 of customers
  - Customers without 12 months usage in 2<sup>nd</sup> tier
- Current Month Usage
  - 3 tiers based on rate blocks 1, 2, and 3-5
  - 4 tiers based on rate blocks 1, 2, 3, and 4-5 or rate blocks 1, 2, 3-4, and 5
- LA Option Revenue Adjustment
  - Volumetric rate adjustment
  - Based on usage, the more you use the more you pay

# Number of Tiers Decision Point Discussion

## Revenue Allocation

- Based on meter size revenue distribution
  - Approved fee revenue by class
- Based on cost of service allocation
  - Total cost of service percentage by class
- Based on specific percentage of fixed revenue
  - Consistent percentage of fixed revenue for all classes

# Revenue Allocation Alternatives

	Approved Fee Meter Size Based		Alternative #1 COS Allocation		Alternative #2 Fixed Revenue at 17%	
	Fee	% of Total	Approved Fee	% of Total	Approved Fee	% of Total
Residential	\$ 10.5	61.4%	\$ 7.6	44.3%	\$ 2.1	12.5%
Multifamily	\$ 2.5	14.6%	\$ 3.1	18.3%	\$ 4.1	23.8%
Commercial	\$ 4.0	23.4%	\$ 4.6	26.9%	\$ 6.9	40.1%
Large Volume	\$ 0.1	0.6%	\$ 0.9	5.5%	\$ 2.0	11.9%
Wholesale	\$ -	0.0%	\$ 0.8	5.0%	\$ 2.0	11.8%
Total	<u>\$ 17.1</u>	<u>100.0%</u>	<u>\$ 17.1</u>	<u>100.0%</u>	<u>\$ 17.1</u>	<u>100.0%</u>



# Revenue Allocation Decision Point Discussion

## Use of Revenue

- Current fee used only for operations
  - Current level of fee could not be reduced
- Fund operations and Revenue Stability Reserve Fund
  - Current fee would be base level to pay for operations
  - Future increases in fee for funding of reserve or replenishing used reserve funds
- Transition to Fund Revenue Stability Reserve Fund
  - Transition purpose of fee to fund revenue stability reserve fund only

# Transition to Fund Reserve

- Transition current revenue stability fee to fund revenue stability reserve fund only
  - \$17 million collected from fee for operations would be transitioned back to be funded through the minimum charge
  - As the minimum charge is increased in future years, the revenue stability fee would be broken down into components of operations and reserve fund
  - Reserve fund amount would fund the reserve fund only
  - As transitioned, the amount of the fee for operations would approach zero, while the reserve fund portion of the fee would increase
  - Once the reserve fund has attained target levels then the fee would be reduced to appropriate levels
  - If reserve funds are used, the fee would increase to replenish the reserve

# Use of Revenue Decision Point Discussion

## Non-Residential Fee

- Revenue Stability Fee for Multifamily, Commercial, and Large Volume customers
  - Continue meter based Revenue Stability Fee
  - Analyze other alternatives for fee structure
    - such as tiered fee based on consumption levels
  - Develop individualized fees for each large volume customer based on their revenue levels and fixed revenue goals
- Revenue Stability Fee for Wholesale customers
  - Develop individualized fees for each wholesale customer based on their revenue levels and fixed revenue goals
  - Would not change their total cost of service

# Non-Residential Fee Decision Point Discussion

## Draft Evaluation Criteria

- Tiered fee where higher use customers pay more than lower use customers
- Less regressive percentage increase for lower use customers
- Reduction in revenue volatility
- Rate stability
- Equitable allocation of fee revenue between classes
- Ability to reduce your fee through conservation
- Ease of understanding for the customer
- Ease of implementation within new billing system

# Draft Evaluation Matrix

	Usage Basis			Tiers			Revenue Allocation		
	12 Month Avg Usage	Current Month Usage	LA Option Revenue Adj.	3	4	Volume	Meter Size	COS	Fixed %
Tiered Fee									
Less Regressive									
Reduction in Revenue Volatility									
Rate Stability									
Equitable Allocation Between Classes									
Reduce fee through conservation									
Ease of Understanding									
Ease of Implementation									



# Evaluation Criteria and Matrix Discussion

## Next Meeting

- Wednesday, January 4, 2012
  - Evaluation matrix for the Revenue Stability Fee Structure
  - Additional discussion on Revenue Stability Fee Structure
  - New topic: Fixed Revenue Goals
    - Topic information
    - Decision points and feedback
    - Evaluation criteria discussion

# Questions or Comments?