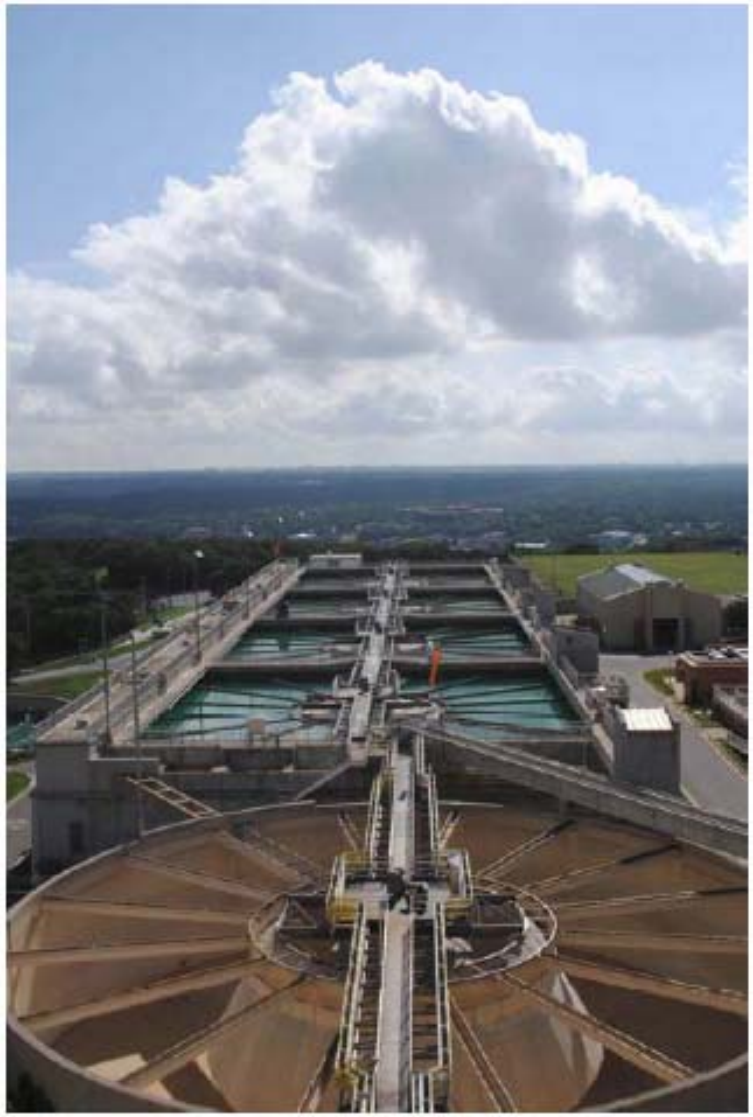


Austin Water Utility

Joint Committee on AWU's Financial Plan

March 26, 2014

Joint Committee – 2014

Welcome from AWU

Greg Meszaros

Director

Committee Discussion Items

- Timelines
  - Meetings in April and May
  - Recommendations by May in order for AWU to include in our FY 2015 proposed budget
  - Meeting schedule to be discussed
- Goals
  - Develop recommendations on water rate design policies for 2015 water rate increase and future
  - Develop recommendations on drought rate structures and policies
  - Review budget expenses and make any recommendations on cost savings

Committee Discussion Items

- Joint Committee Website
  - Same website location with 2014 work separated
  - Meeting agenda and all backup information on site
  - Question and Answer system will be available for Committee members and public use
  - Videos of meetings will be available
  - Additional links to information will be posted

Committee Discussion Items

- Handouts Summary
  - Binder of information for Committee members

Committee Voting Items

- Meeting Schedules
  - Set future meeting schedules

April 2014

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
		1	2	3	4	5
			Possible Joint Comm. Meeting Day			
6	7	8	9	10	11	12
			Water and Wastewater Commission			
13	14	15	16	17	18	19
		Possible Joint Comm. Meeting Day	MCS Commission meeting	**Possible Joint Comm. Meeting Day**		
20	21	22	23	24	25	26
			Possible Joint Comm. Meeting Day			
27	28	29	30			
			Possible Joint Comm. Meeting Day			

May 2014

SUNDAY	MONDAY	TUESDAY	WEDNESDAY	THURSDAY	FRIDAY	SATURDAY
				1	2	3
4	5	6	7	8	9	10
			Possible Joint Comm. Meeting Day			
11	12	13	14	15	16	17
			Water and Wastewater Commission			
18	19	20	21	22	23	24
			Possible Joint Comm. Meeting Day			
25	26	27	28	29	30	31
			Possible Joint Comm. Meeting Day			

Staff Briefings

Conservation and Drought Rates Presentation

Daryl Slusher

Assistant Director

Environmental Affairs and Conservation

Drought, Conservation, Rates and Revenues - the National Context

The Value and Cost of Water

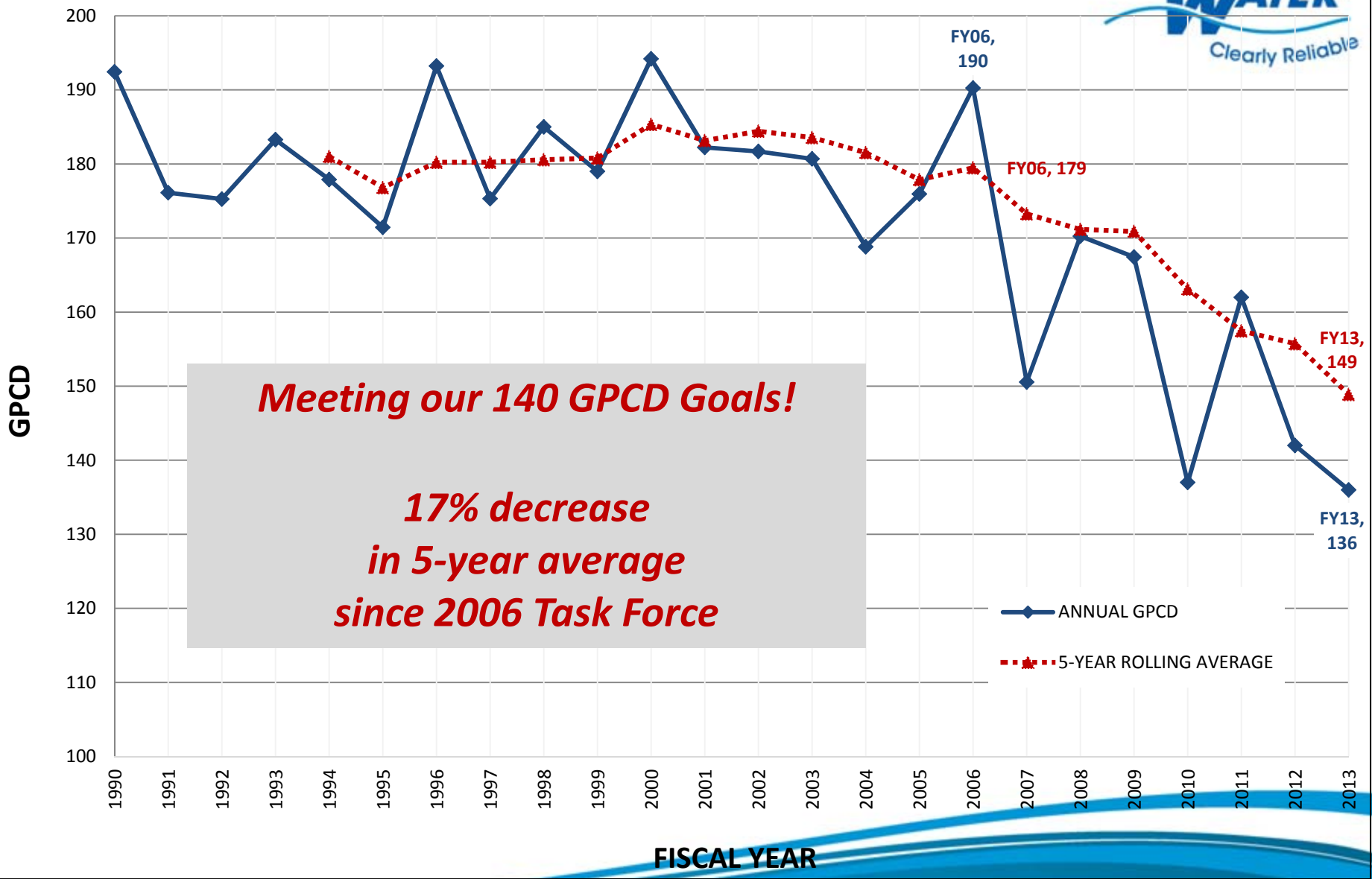
Daryl Slusher, Assistant Director
Austin Water

March 2014

What I'll Cover

- Results of Austin Water Conservation and Drought Response
- The Value and Cost of Water
- Austin is not alone: Utilities nationwide face aging infrastructure, declining water use, and resulting rate pressure.
- Austin revenue drop is steeper than many due to more rapidly declining water usage from water conservation and drought response.

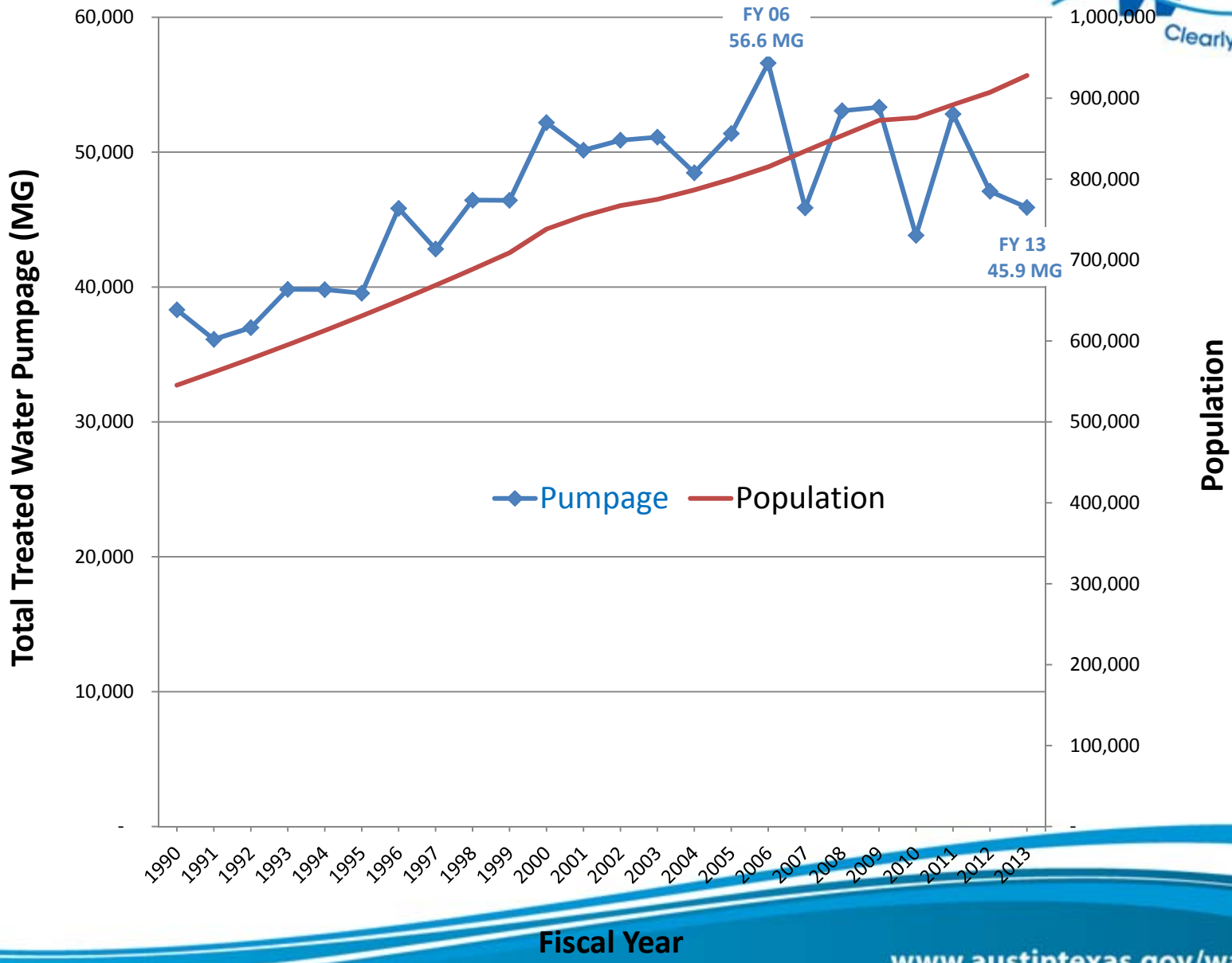
Total Pumpage in Gallons Per Capita per Day (GPCD)



Meeting our 140 GPCD Goals!

17% decrease in 5-year average since 2006 Task Force

Total Annual Pumpage and Population



The Arithmetic of Drought Response and Conservation – Impact on Rates

- Drought response and conservation lower revenues
- Treating and delivering less water reduces some costs, such as treatment chemicals and pumping
- But savings are nowhere near lost revenue
- Treatment plants, pumping stations and other infrastructure must still operate.
- Water must still be delivered to all customers through underground pipes to every faucet.
- Consequently fixed costs are very high portion of overall costs

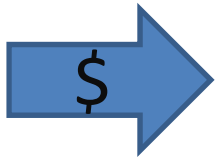
Ullrich Water Treatment Plant

South Austin Regional Wastewater Treatment Plant

Water Conservation and Drought Response alter traditional financial patterns

- $27 million loss in FY 13 due to weather conditions, drought response, conservation initiatives and economic conditions

Traditional Pattern	
Dry Year 	Wet Year 

New Pattern	
Dry Year  or 	Wet Year 

National Trends and Issues

National facts and trends in water industry

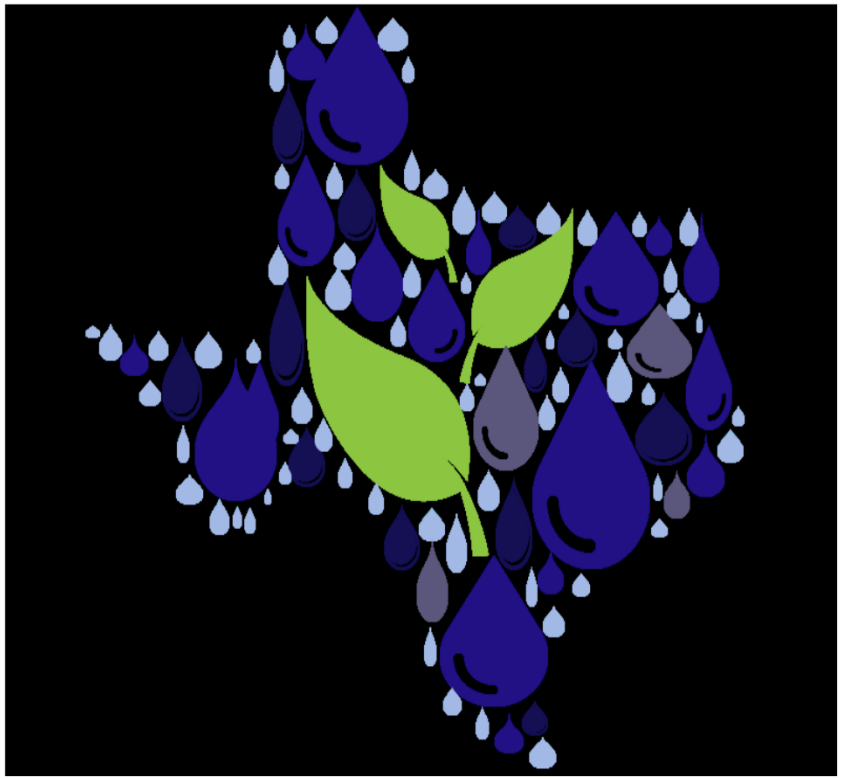
- Aging infrastructure including thousands of miles of pipes installed after WWII
  - American Society of Civil Engineers gives water and wastewater infrastructure a D
- Little to no federal money; water is a local responsibility
- Declining water use and increasing costs
- Climate change - Extreme weather events

Inside Portland's rising utility rates: Less water consumption means higher prices (*Headline from Oregonian website*)

- "It's a strange concept. But in Portland, lower consumption is having an unsettling consequence on water and sewer bills: higher rates. . . because a large chunk of utility costs are fixed, city officials say they must raise rates to make up for the water customers aren't buying." *The Oregonian* 2-18-13

Sierra Club, Lone Star Chapter, and University of North Carolina report:

First and foremost, water utilities must set rates to collect the revenue they need to operate the water utility, invest in its infrastructure, and protect public health. . . One common conflict is the tension that arises between promoting water conservation and ensuring a stable revenue stream to cover the predominately fixed charges of running a water utility

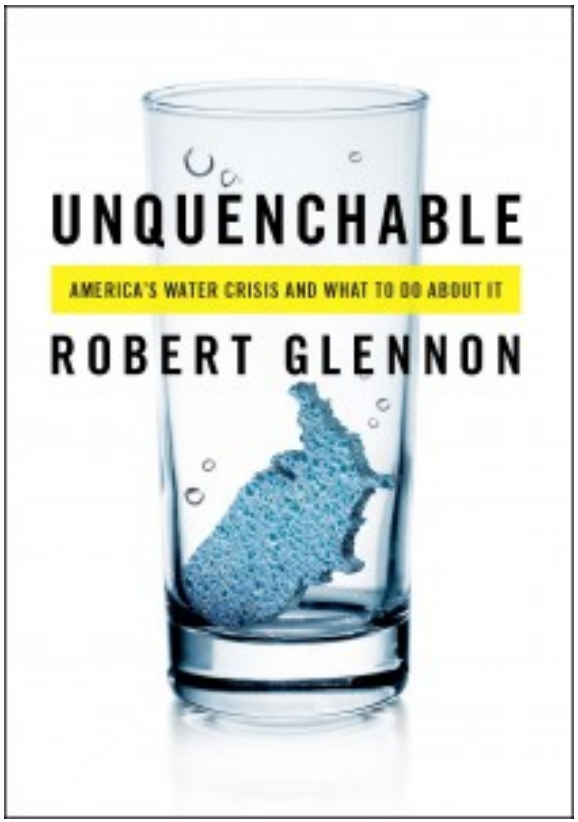


One simply cannot find another product whose real value so far exceeds its price - or for that matter, one whose price is often so unrelated to its true cost of delivery. **State of the Water Industry, TechKnowledgey Strategic Group, from Stanford.edu**

The less water customers use, the less revenue the water supplier receives. . . This problem poses a hardship on the utility's ability to meet its revenue requirements and can undermine the financial viability of their systems and the ability to meet service needs and infrastructure maintenance." **California Water Plan Update 2013**

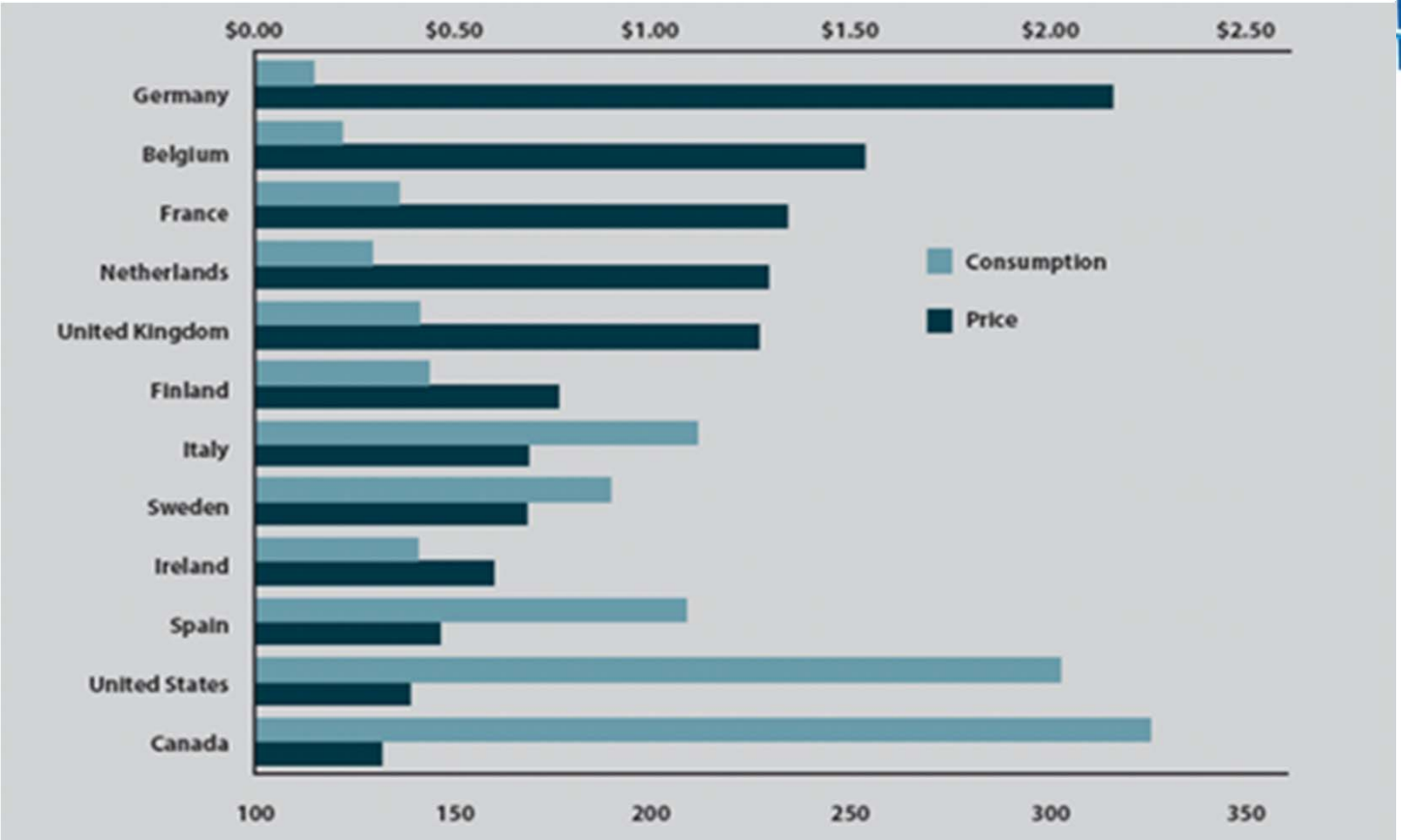
"Most Americans pay less for water than they do for cable television or cell phone service. Water is ridiculously cheap in the United States."

Robert Glennon, *Unquenchable*



"Water bills are so low. . . **If you had to pick one thing to fix about water**, one thing that would help you fix everything else – scarcity, unequal distribution, misuse, waste, skewed priorities, resistance to reuse, shortsighted exploitation of natural resources – **that one thing is price**."

Charles Fishman, *The Big Thirst*



Source: Council of Canadian Academies. (2009). *The Sustainable Management of Groundwater in Canada: Report of the Expert Panel on Groundwater*. Ottawa.

Note: Comparing water use statistics among countries presents challenges. However, the data used above are reasonably accurate and sufficient to illustrate that Canadians use more water than people in other developed countries and that there is a strong correlation with pricing.

"In order to operate effectively and realistically in the future the utility must assume long-term conservation in its revenue projections and budget accordingly."

August 25, 2011 letter from 20 Austin "consumer, environmental, low-income, and faith-based advocates"

"Water is currently managed as if it were worthless instead of the life-sustaining, valuable, and increasingly scarce resource that it is. **A key step in moving toward more rational water management is to place a price on water that reflects its value and scarcity. This can, of course, result in substantial price increases that particularly hurt low-income families. The best way to avoid this problem is to use a block rate pricing system** where a low level of consumption—that required to satisfy basic needs—is very cheap, while prices increase at higher levels of consumption. . ."

Edwin H. Clark, II
Water Prices Rising Worldwide,
Earth Policy Institute
March 07, 2007

Austin Water
Clearly Reliable

Questions or Discussion?

Staff Briefings

AWU's Preliminary Financial Forecast

David Anders
Assistant Director
Finance and Business Services

Presentation Outline

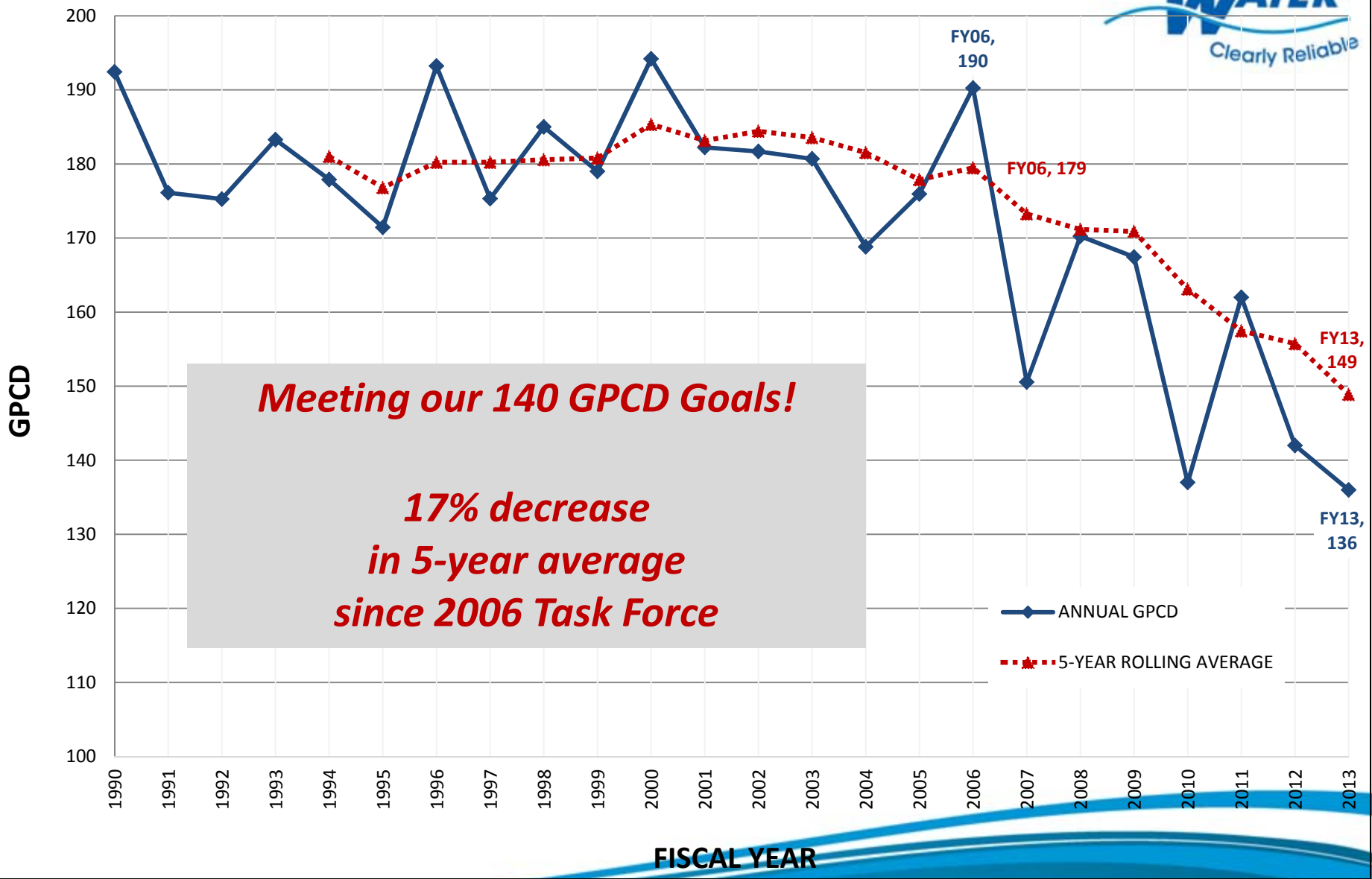
- Financial Forecast Process
- Financial Trends
- Requirements Forecast
- Revenue and Rates Forecast
- Capital Spending
- Fund Summary

Financial Forecast Process

- Financial Forecast is first step in budget development process for Council
- Assumptions are high level as specific operating budgets are not yet completed
- City Manager presents forecast in late April each year
- After forecast is presented, focus turns to finalizing the upcoming fiscal year proposed budget (2015)
- Changes between forecast and proposed budget are expected
- AWU proposed budget and rate increases will likely change as a result of continued development of specific proposed budget

Financial Trends

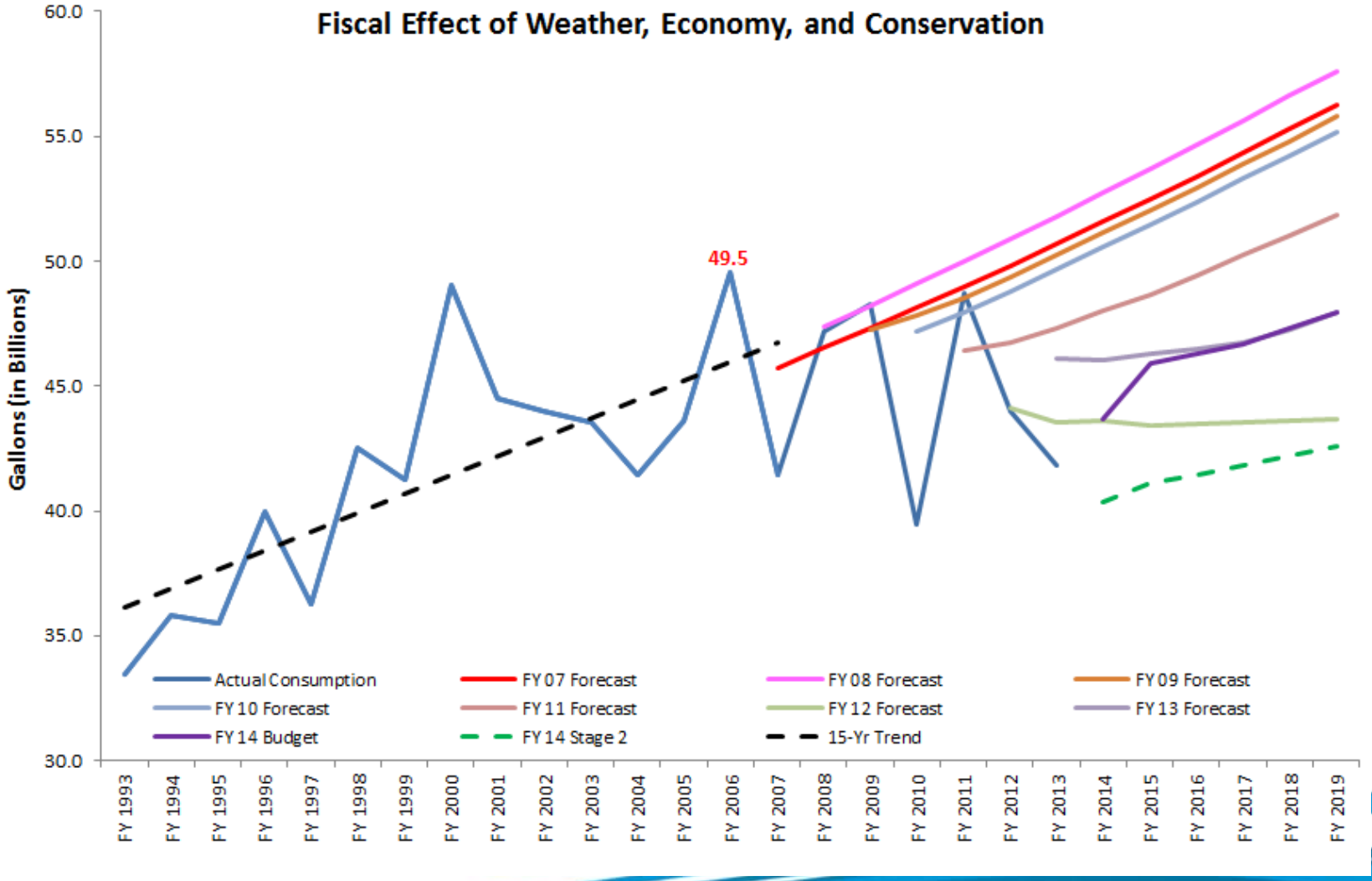
Total Pumpage in Gallons Per Capita per Day (GPCD)



140 GPCD Plan Financial Impacts

- **Total Water Rate Impact of Achieving 140 GPCD by 2020** — **25% to 35%**
  - In 2020, revenue will be reduced by approximately $100 million on an annual basis
- **Less: Rate Impacts Included In Previous Forecast** — **7% to 11%**
  - Reclaimed Water
  - Other Conservation Programs
- **Net Additional Water Rate Increase Through 2020** — **18% to 24%**
- **Average Residential Customer Water Bill Impact by 2020** — **$9 to $10 /mo**

Shifting Water Consumption



Water Service Revenue Loss

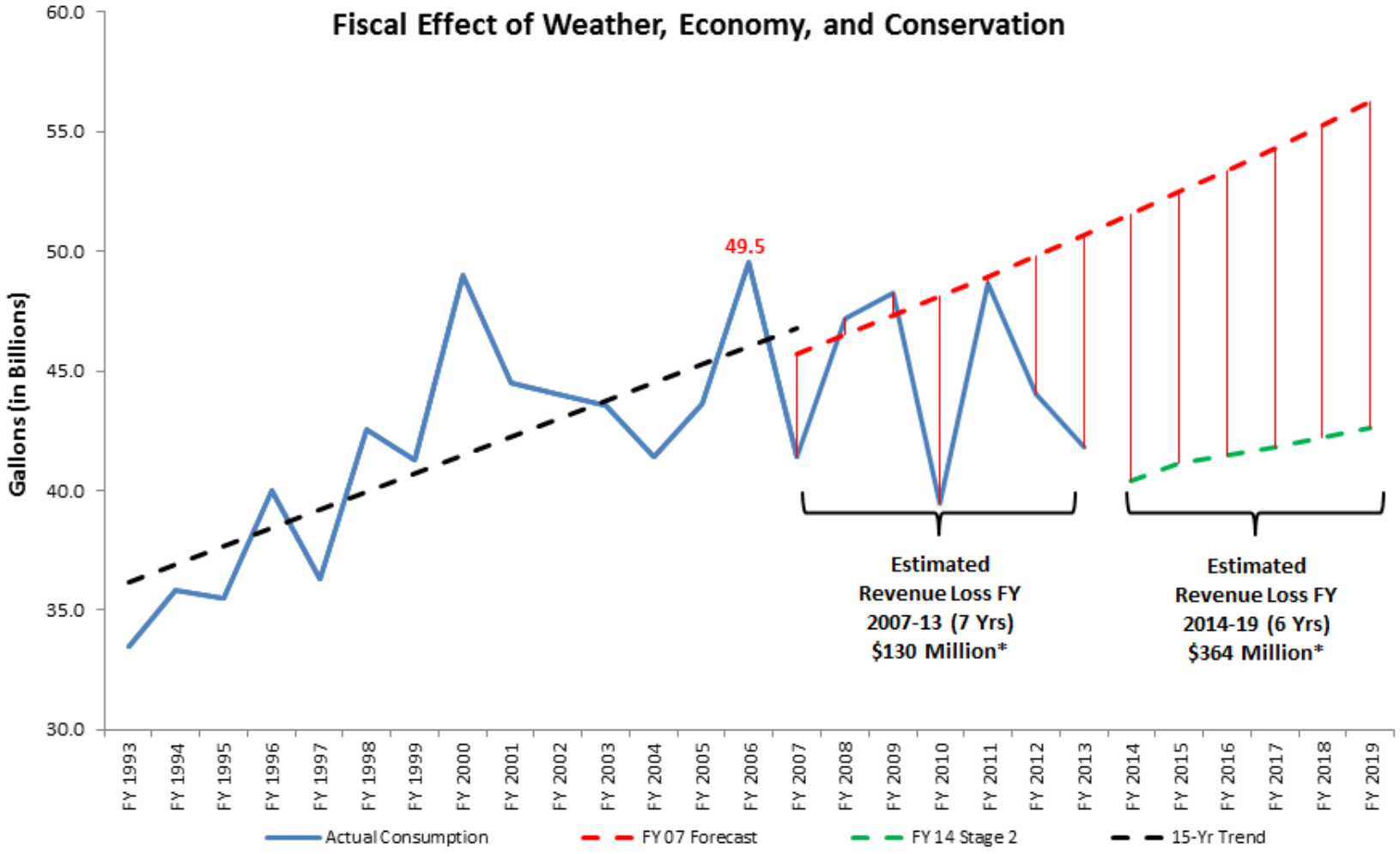
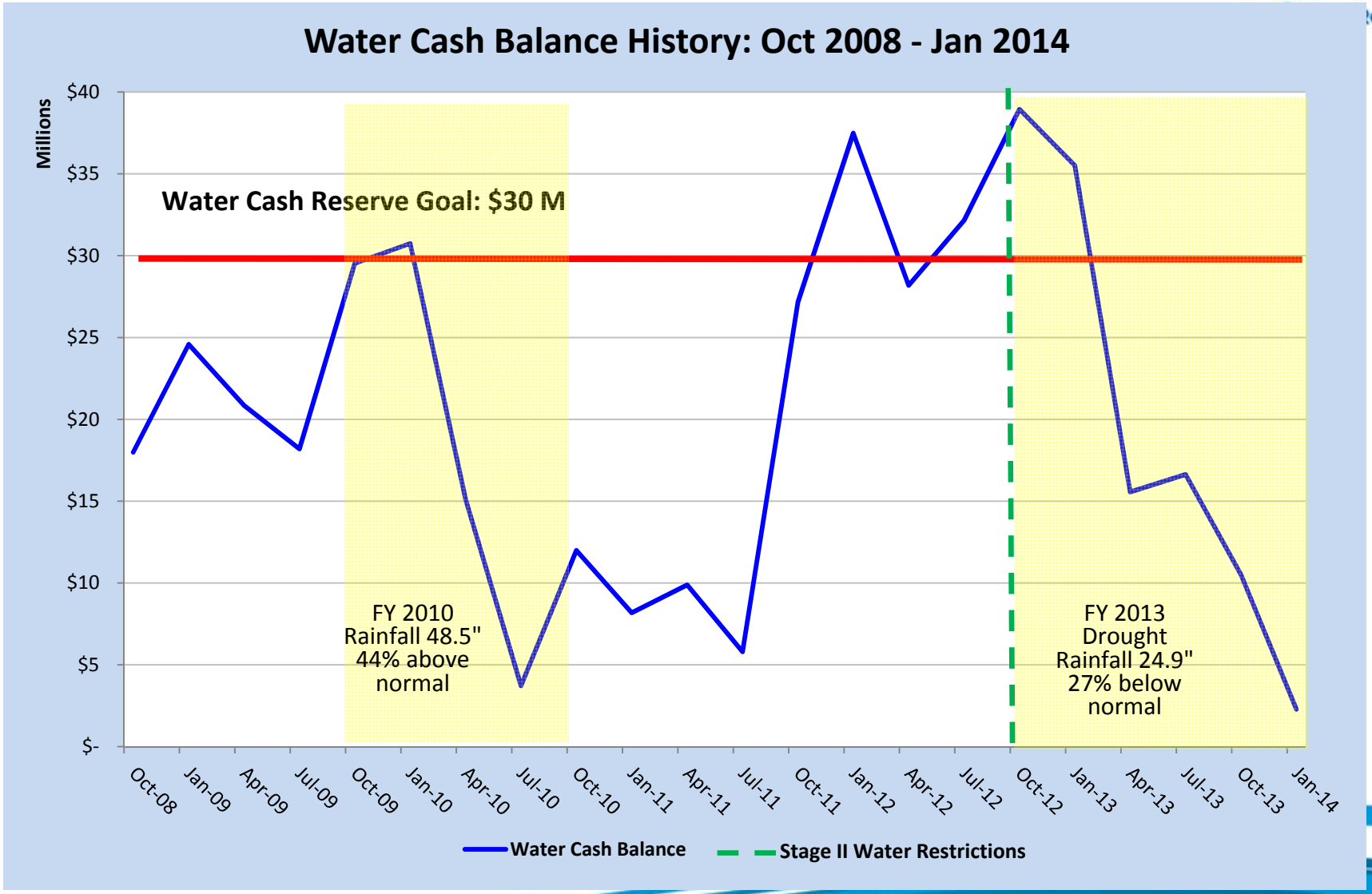


*Figure based on FY 2014 COS average volumetric rate per 1,000 gallons.


Water Cash Balance History: Oct 2008 - Jan 2014
Millions
$40
$35
$30
$25
$20
$15
$10
$5
$-
Water Cash Reserve Goal: $30 M
FY 2010
Rainfall 48.5"
44% above
normal
FY 2013
Drought
Rainfall 24.9"
27% below
normal
Oct-08
Jan-09
Apr-09
Jul-09
Oct-09
Jan-10
Apr-10
Jul-10
Oct-10
Jan-11
Apr-11
Jul-11
Oct-11
Jan-12
Apr-12
Jul-12
Oct-12
Jan-13
Apr-13
Jul-13
Oct-13
Jan-14
Water Cash Balance
Stage II Water Restrictions

Requirements Forecast

Cost Containment Efforts

- 5% savings to non-personnel costs for 2014 with savings included in 2015 base budget
  - $4.5 million in savings for 2014
- Staffing plan deferral
- Capital spending plan prioritization
  - Delaying infrastructure upgrades
- Refinancing existing revenue bond debt
- Travel and training
- Purchase deferrals
- Impact fee revenue increases
- Additional cost containment efforts as AWU progress through the budget process

Forecast Cost Assumptions

- $4.5 million in savings from 2014 rolled into 2015
- Staffing plan deferred 1 year – No new FTEs in 2015
- Budget office annual increase assumptions
- 1.5% inflationary increase to non-personnel operating costs
- 5% increase in AE Customer Care costs
- 14.5% increase in Sustainability Fund (1% of revenue)

Operations and Maintenance Summary

(In Millions)	Amended 2014	Forecast 2015	2016	2017	2018	2019
Treatment	$ 80.1	$ 78.3	$ 80.9	$ 83.4	$ 86.1	$ 90.4
Pipeline Operations	41.7	41.2	43.5	45.5	46.8	51.4
Engineering Services	11.3	11.2	11.7	12.3	12.5	12.8
Water Resources Mgmt	7.5	7.5	7.8	8.2	8.6	8.9
Environ. Affairs & Cons	12.8	12.5	13.4	14.0	14.6	14.9
Support Services - Util	23.7	23.4	25.0	26.4	27.7	28.7
Reclaimed Water Serv	0.4	0.4	0.4	0.4	0.4	0.4
One Stop Shop	0.6	0.6	0.6	0.6	0.6	0.6
Other Operating	11.3	13.7	14.9	16.3	17.9	19.7
Total O & M	**$ 189.4**	**$ 188.8**	**$ 198.2**	**$ 207.1**	**$ 215.2**	**$ 227.8**
Full Time Equivalents	1,157	1,157	1,220	1,248	1,272	1,294

Proposed Staffing Additions

	Amended 2014	Forecast 2015	2016	2017	2018	2019	Total
Approved Positions	**1,157**	1,157	1,157	1,217	1,248	1,272	
Forecasted Additional Positions		0	60	31	24	22	137
Total Positions	**1,157**	**1,157**	**1,217**	**1,248**	**1,272**	**1,294**	

New Position Costs ($ in Millions)		$0.0	$5.5	$3.0	$2.2	$1.8	$12.5
Rate Impact		**0.0%**	**1.1%**	**0.6%**	**0.5%**	**0.4%**	**2.7%**

Other Operating Cost Summary

- Assumptions
  - 5% increase to AE Billing and Customer Care
  - 1.5% compensation adjustment in 2015 and 3% in future years

(In Millions)	Amended 2014	Forecast 2015	2016	2017	2018	2019
Accrued Payroll	$ 0.5	$ 0.5	$ 0.6	$ 0.6	$ 0.6	$ 0.7
Public Impr. District	0.1	0.1	0.1	0.1	0.1	0.1
AE Billing & Cust. Care	17.2	18.1	19.0	19.9	20.9	22.0
311 System Support	0.3	0.3	0.3	0.3	0.3	0.3
Compensation Adj.	-	0.8	1.6	1.7	1.7	1.7
Total Requirements	**$ 18.1**	**$ 19.8**	**$ 21.6**	**$ 22.6**	**$ 23.6**	**$ 24.8**

Debt Service Summary

- Assumptions
  - $550 million in bonds projected to be sold over forecast period
    - $200 million planned for May 2014
  - 5% interest rate for 30 years

(In Millions)	Amended 2014	Forecast 2015	2016	2017	2018	2019
Total Debt Service	**$214.3**	**$216.7**	**$222.4**	**$230.5**	**$244.0**	**$234.5**

Transfers Out Summary

(In Millions)	Amended 2014	Forecast 2015	2016	2017	2018	2019
CIP Funds	$ 42.2	$ 38.6	$ 54.9	$ 50.6	$ 55.1	$ 56.0
General Fund	37.9	39.0	41.8	44.7	47.8	50.1
Rev Stability Res Fund	8.1	7.7	9.4	10.0	10.5	2.6
Sustainability Fund	4.8	5.5	5.9	6.1	6.4	6.5
Economic Dev Dept	0.6	1.2	1.9	2.6	2.7	2.7
Reclaimed Water Fund	3.8	2.9	3.2	3.0	2.5	2.8
Admin Support - City	13.1	14.4	15.9	17.5	19.2	21.4
Comm Tech Mgmt	3.5	3.9	4.3	4.7	5.2	5.7
Liability Reserve	0.4	0.4	0.4	0.4	0.4	0.4
Workers' Comp	1.4	1.6	1.8	2.0	2.2	2.4
Enviro. Rem. Fund	0.5	0.5	0.5	0.5	0.5	0.5
Other Transfers Out	0.8	0.7	0.6	0.6	0.6	0.5
Total Requirements	**$ 117.1**	**$ 116.4**	**$ 140.6**	**$ 142.7**	**$ 153.1**	**$ 151.6**

Total Requirements Summary

(In Millions)	Amended 2014	Forecast 2015	2016	2017	2018	2019
Operating Requirements	$ 207.5	$ 208.6	$ 219.8	$ 229.7	$ 238.8	$ 252.6
Debt Service	214.3	216.7	222.4	230.5	244.0	234.5
Transfers Out	117.1	116.4	140.6	142.7	153.1	151.6
Total Requirements	**$ 538.9**	**$ 541.7**	**$ 582.8**	**$ 602.9**	**$ 635.9**	**$ 638.7**
$ Increase from Prior Year		$ 2.8	$ 41.1	$ 20.1	$ 33.0	$ 2.8
% Increase from Prior Year		1%	8%	3%	5%	0%

Revenue and Rates Forecast

Revenue Forecast Assumptions

- Water service
  - Current year projections below budget
  - Stage 2 assumed for all forecast years
- Wastewater service
  - Reduced wastewater averages impacting April 2014 to March 2015
- Reclaimed water
  - Conservative increases in reclaimed water use projected
  - PARD rates increased by 25% to 27% over the forecast period to achieve system-wide rate level by 2019

Revenue Summary

- Total revenue is projected to increase by $122.9 million or 22.6% from the amended budget over the next 5 years

(In Millions)	Amended 2014	Forecast 2015	2016	2017	2018	2019
Water Service	$ 270.7	$ 292.2	$ 306.2	$ 319.0	$ 332.3	$ 344.6
Wastewater Service	244.5	244.3	259.3	270.1	281.5	292.0
Reclaimed Service	0.9	1.2	1.4	1.6	2.0	2.4
Reserve Fund Surcharge	6.6	7.7	9.4	10.0	10.5	2.6
Misc. and Interest Income	8.5	9.0	9.2	9.7	10.2	10.2
Transfers In	13.7	12.5	13.9	14.5	15.0	16.0
Total Revenue	**$544.9**	**$566.9**	**$599.4**	**$624.9**	**$651.5**	**$667.8**

Revenue and Rates

Projected Service Rate Increases

	2015	2016	2017	2018	2019
Water:	16.6%	3.0%	3.0%	3.0%	2.5%
Wastewater:	2.6%	3.0%	3.0%	3.0%	2.5%
Reclaimed:	13.9%	17.4%	18.0%	20.2%	18.6%
Combined:	9.8%	3.0%	3.0%	3.0%	2.5%

- Reserve Fund Surcharge
  - Increase from $0.15 to $0.19 per 1,000 gallons in 2015
  - Reach 120 days of Operations & Maintenance in 2018

Revenue From Rate Increases - 2015

- Water Service
  - $41.2 million in new rate increase revenue from 16.6% rate increase
- Wastewater Service
  - $6.2 million in new rate increase revenue from 2.6% rate increase
- Reclaimed Water
  - $143,855 in new rate increase revenue from 13.9% rate increase
    - 15% increase on system-wide rates
    - 25% increase on PARD rates

Bill Impacts

- Cost of Service analysis and rate design is currently proceeding and will be available at next meeting
- Base option will be consistent with the Joint Committee recommendations on rate design
- Additional options will be completed as needed for Committee consideration

Capital Spending

Capital Improvement Program

$839.8 Million 5-Year Capital Spending Plan

$ in millions

	2015	2016	2017	2018	2019	Total
Water	$91.4	$79.3	$56.9	$66.8	$71.4	$365.8
Wastewater	83.2	79.5	90.9	93.6	91.7	438.9
Reclaimed	7.2	8.7	9.3	3.9	6.0	35.1
Combined	$181.8	$167.5	$157.1	$164.3	$169.1	$839.8

Capital Improvement Program

Major Capital Projects for FY 2015-19 (Millions)

• WTP4 and associated transmission mains	$15.5
• Existing treatment plant improvements	$333.6
• Water & wastewater system rehabilitation	$137.9
• Other distribution & collection system improvements	$135.3
• Pump stations, reservoirs, and lift stations	$ 82.2
• Annexed areas, vehicles, equipment, and other projects	$ 42.7
• Service extension requests	$ 32.3
• System relocations	$ 26.5
• Reclaimed water projects	$ 33.8

Fund Summary

(In Millions)	Amended 2014	CYE 2014	Forecast 2015	2016	2017	2018	2019
Beginning Balance	**$ 52.0**	**$ 58.2**	**$ 43.2**	**$ 68.5**	**$ 85.2**	**$ 107.3**	**$ 122.8**
Revenue	531.2	495.1	554.4	585.5	610.4	636.5	651.8
Transfers In	13.7	13.7	12.5	13.9	14.5	15.0	16.0
Available Funds	**$ 544.9**	**$ 508.8**	**$ 566.9**	**$ 599.4**	**$ 624.9**	**$ 651.5**	**$ 667.8**
Operating Requirements	207.4	203.9	208.5	219.7	229.6	238.9	252.5
Debt Service	214.3	213.9	216.7	222.4	230.5	244.0	234.5
Transfers Out	117.1	106.0	116.4	140.6	142.7	153.1	151.6
Total Requirements	**$ 538.8**	**$ 523.8**	**$ 541.6**	**$ 582.7**	**$ 602.8**	**$ 636.0**	**$ 638.6**
Excess (Deficiency)	**6.1**	**(15.0)**	**25.3**	**16.7**	**22.1**	**15.5**	**29.2**
Ending Balance	**$ 58.1**	**$ 43.2**	**$ 68.5**	**$ 85.2**	**$ 107.3**	**$ 122.8**	**$ 152.0**
Debt Coverage	1.53	1.31	1.54	1.58	1.58	1.55	1.61

Forecast complies with all Council approved financial policies.

Questions or Discussion?

Drought Rates

Drought Rate Discussion

- Recent Dallas drought rate approval
- Cedar Park increased rates tied to implementation of one day per week water restrictions
- Fort Worth's bond rating was recently downgraded as a result of declining water use and associated revenue losses
- Information from previous Joint Committee (handout)
- AWU current work
  - Have identified projected consumption and revenue losses for stage 3 and stage 4 water restrictions
  - Determination of how to recover the reduced revenue has not been finalized, possible options include
    - Fixed charges – tiered fee increases
    - Volume charges – surcharge per 1,000 gallons

Austin Water
Clearly Reliable

Questions or Discussion?

Future Agenda Items