

## 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 Revenue Stability Fee**

- AWU should ~~redesign 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.
- The current revenue stability fee for non-residential customers would be ~~eliminated-redesigned~~ and replaced with a ~~new fixed tiered~~ fee that would be sufficient to meet target fixed revenue for the class.

##### **Residential Tiered ~~Fixed Revenue Stability Fee~~**

- AWU should ~~redesign the Revenue Stability Fee ("RSF") as a create a new residential~~ tiered ~~fixed~~ fee 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~~ RSF should be based on monthly water usage. The ~~new tiered fixed fee~~ RSF would be a set charge 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~~ RSF would be smaller for the lower water use blocks and larger for the higher water use blocks.
  - ~~Blocks 1-3 will have different fixed fees, and blocks 4-5 will have the same fixed fee. This will reduce volatility of the tiered fixed fee revenue.~~
  - The amounts for the ~~tiered fixed fees~~ RSF would start at approximately \$1.50 for block 1 and increase to approximately \$10.00 for blocks 4-5. See Attachment A, "Option 27" for an example of the RSF design and application that is proposed. These amounts would adjust accordingly to maintain target fixed revenue for the class.
- ~~The target fixed revenue for the residential class is %.~~

##### **Non-Residential ~~Fixed Fees~~ RSF**

- Multifamily and commercial customers would continue with a meter size based fixed fee that would be sufficient to meet target fixed revenue for the classes.
- ~~Since large volume and wholesale customers have individual water rates for each customer, a new monthly fixed fee~~ RSF would be determined for each customer that would be sufficient to meet the target fixed revenue for the class.
- The target fixed revenue for Multifamily is %; the target fixed for commercial is %; and the target fixed revenue for wholesale is %.
- AWU should monitor the design and application of the RSF for non-residential classes to determine if the fee has any conservation dis-incentive, and if there are other methods that could be applied which would incorporate a conservation incentive for non-residential users.

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#### Fixed Revenue Goals

- ~~The overall Utility wide fixed revenue goal for the AWU should be 20% of the total water revenues 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 minimum charge revenue, to meet the 20% fixed water revenue goal will be allocated to each customer class based on the customer classes' cost of service percentage of total cost.

**Comment [SFAU1]:** I do not understand the fixed revenue to be recovered through the tiered fee to be targeted towards 20% of total utility revenue, but only water utility revenue. This committee has not addressed wastewater revenue.

#### Volumetric Rates

- The current volumetric rate block consumption intervals will be replaced with new volumetric rate block intervals.
- The new rate block intervals will be as follows:
  - 0 – 2,000 gals.
  - 2,001 – 6,000 gals.
  - 6,001 – 11,000 gals.
  - 11,001 – 20,000 gals.
  - 20,001 – over gals.
- Block 1 rates will be set at approximately \$1.25 and block 5 rates will be set at approximately \$12.25, a \$12.00 variance between blocks 1 and 5. These amounts would adjust accordingly for rate increases and to maintain cost of service.
- 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.

#### Revenue Stability Reserve Fund

- AWU should create a Revenue Stability Reserve Fund to be used to offset revenue shortfalls where actual revenue is less than budgeted revenue.
- 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 \$xx,xxx,xxx.xx
- Upon creation of the Reserve Fund, the goal to reach the target funding level will be no later than 5 years. In FY 2019, 120 days of operating and maintenance and other operating transfers equals \$xx,xxx,xxx.xx
- 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 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 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.

**Comment [SFAU2]:** I think the Joint S/C has only expressed support for a volumetric Reserve Fund Surcharge.

- 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.~~
- 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.
- The maximum use of the Reserve Fund in any fiscal year is 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 be replenished to the target levels within 5 years.

#### Reserve Fund Surcharge

- A volumetric Reserve Fund Surcharge per 1,000 gallons water used ~~may shall~~ 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.
- The surcharge revenue collected to build or replenish the Reserve Fund ~~should shall~~ not be included in the general fund transfer calculation for Austin Water Utility.

#### **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.
- The portion of capital projects that serve existing customers should be funded through a combination of cash, referred to as pay-as-you-go financing, and debt funding with a cash funding ratio of 30% to 50%. For the portion of capital projects that serve new growth, cash funding ratios should be decreased so that more of the burden will be shared with new customers in the future. 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: The water meter equivalency factors should be changed to be consistent with AWWA standards and impact fee meter equivalency factors.

Item 3.2: Service Extension Requests (SER): Revise the SER Ordinance to align Austin's policies with other Central Texas cities, 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: Impact Fees: Adopt an impact fee policy that calculates the maximum impact fee allowed by law, and eliminate the current zone discount policy that has the effect of subsidizing infrastructure for new development.

Item 3.24: 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 3.35: Green WTP sale proceeds: Revise Resolution 2008214-054 regarding the sale of the Green WTP land in order that proceeds from the sale are 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.  
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Item 3.4: Fluoride .....

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

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