



# Austin Water Utility

## Joint Subcommittee on Financial Plan

January 4, 2012

# New Handouts

## New Handouts

- Presentation
- Draft Council Resolution
- Draft Evaluation Matrix
- Question Responses

# Draft Council Resolution Discussion

# Water Research Foundation Project Rates and Revenues

What Others are Doing –  
Results of the Water  
Research Foundation Project  
#4405 Rates and Revenues

Joint Subcommittee Meeting  
January 4, 2012

# Water Research Foundation Project #4405 Rates and Revenues

- Working group established – Utility Executives
- Strategies to bridge revenue gap faced by water utilities to address
  - Public Health
  - Environmental
  - Community Development
- Challenge Faced
  - Gap between future needs and revenues
  - Continued decreased water use per account

# Water Research Foundation Project #4405 Rates and Revenues

- **Strategies**
  - Pricing and Sales Innovation
  - Financial Policies and Guidelines
  - Enhanced Integrated Planning and Cost Control
  - Community Outreach
  - Communication



# Water Research Foundation

## Project #4405 Rates and Revenues

- Pricing and Sales Innovation
  - Dallas Water relies on upper tiers for “extra program funding”
  - El Paso fixed water replacement charge
  - Targeted affordability and leak detection programs
  - Discount rates to encourage off-peak use
  - Communication

# Water Research Foundation Project #4405 Rates and Revenues

- Financial Policies and Guidelines
  - Credit Ratings
  - Debt Service Coverage Ratio
  - Cash Financing Policy
  - Reserve Targets
  - Rate Comparisons

Financial Policies “...not a one size fits all”

# Water Research Foundation Project #4405 Rates and Revenues

## Formal Financial Policies – A Mixed Bag?

Effectiveness of Financial Policies				
	Very Effective	Somewhat Effective	Not Effective at All	Not Applicable / Not Tested
Board-approved Policy	6	5	4	4
Rate Stabilization Fund or Reserves	6	7	4	3

# Revenue Stability Fee Structure Evaluation Matrix Discussion

# Evaluation Criteria and Matrix Decision Points

- Discuss and decide on evaluation criteria for the revenue stability fee structure
- Discuss and decide on evaluation matrix scoring methodology
- Discuss and decide on process for developing evaluation matrix scores

# Draft Evaluation Criteria

## Revenue Stability Fee Structure

- 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

# Evaluation Matrix Scoring Methodologies

- Options for evaluation matrix scoring
  - Positive / Negative Impact: + or –
  - 3-Point Scale – Impact to Current Status
    - 1 = Negative Impact
    - 2 = No Impact
    - 3 = Positive Impact
  - 5-Point Scale – Impact to Current Status
    - 1 = Strong Negative Impact
    - 2 = Negative Impact
    - 3 = No Impact
    - 4 = Positive Impact
    - 5 = Strong Positive Impact

## Process for Developing Scores

- AWU develop draft scores for Subcommittee review
- Subcommittee develop draft scores for compiling by AWU
- Subcommittee and AWU develop scores during discussion within meetings



# Questions & Discussion?

## Evaluation Matrix

# New Topic: Fixed Revenue Goals

# Fixed Revenue Goals

Joint Subcommittee Meeting  
December 7, 2011

# What Is the Right Fixed Revenue Goal for Water and Wastewater Utilities?

California PUC (2006) – up to 50% of fixed costs

CUWCC BMP 1.4 – no more than 30% of total revenue

NYC DEP Survey – up to 25% of total revenue

MWDSC Survey – 1% to 93% of total revenue (most in 20% to 65% range)

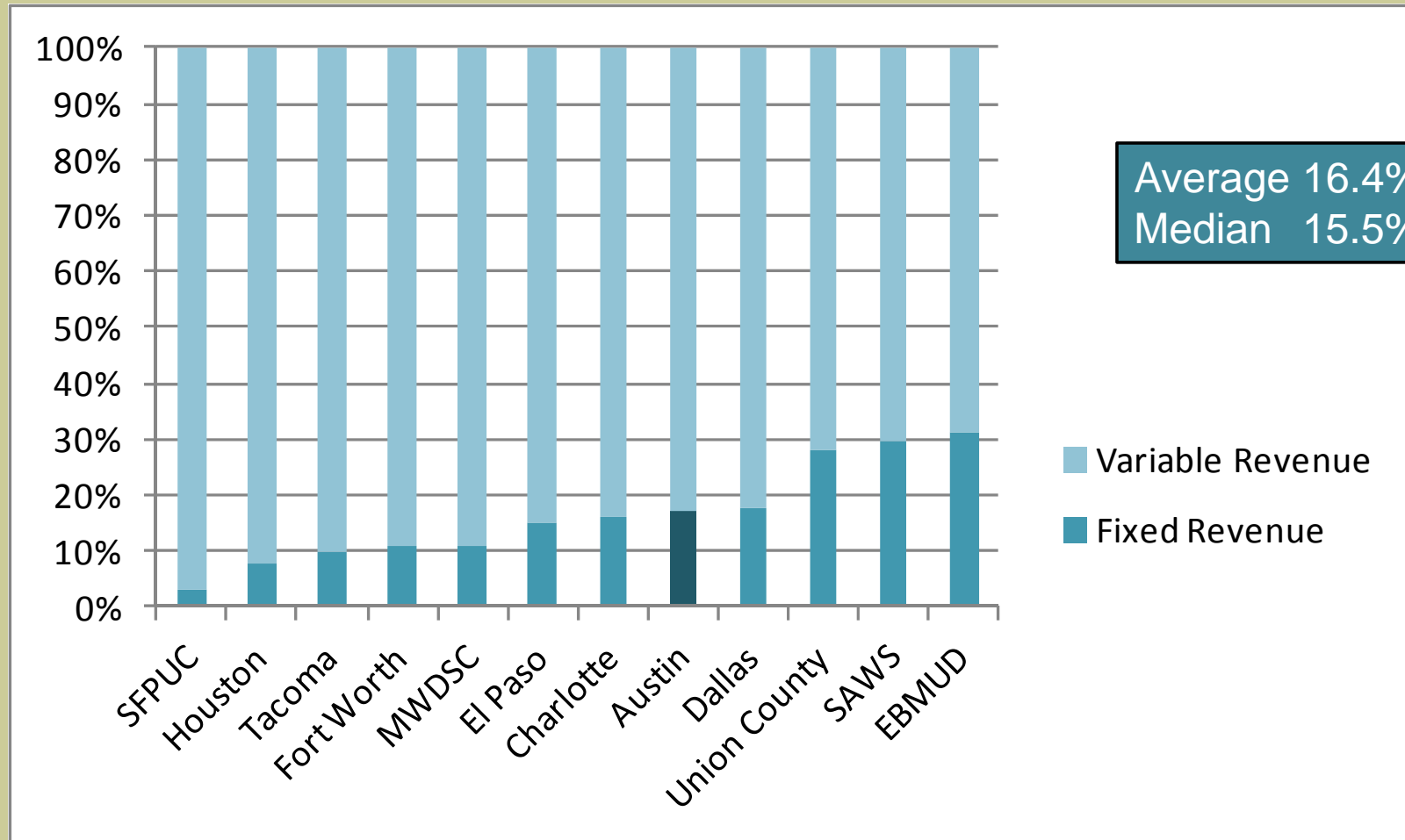
# What Is the Right Fixed Revenue Goal for Water and Wastewater Utilities?

Most utilities have no set goal for fixed revenue as percentage of total revenue

Charlotte-Mecklenburg adopted policy of recovering minimum of 20% of debt service costs from fixed revenues

Union County, VA, is proposing fixed revenue goal of at least 20% of total revenue

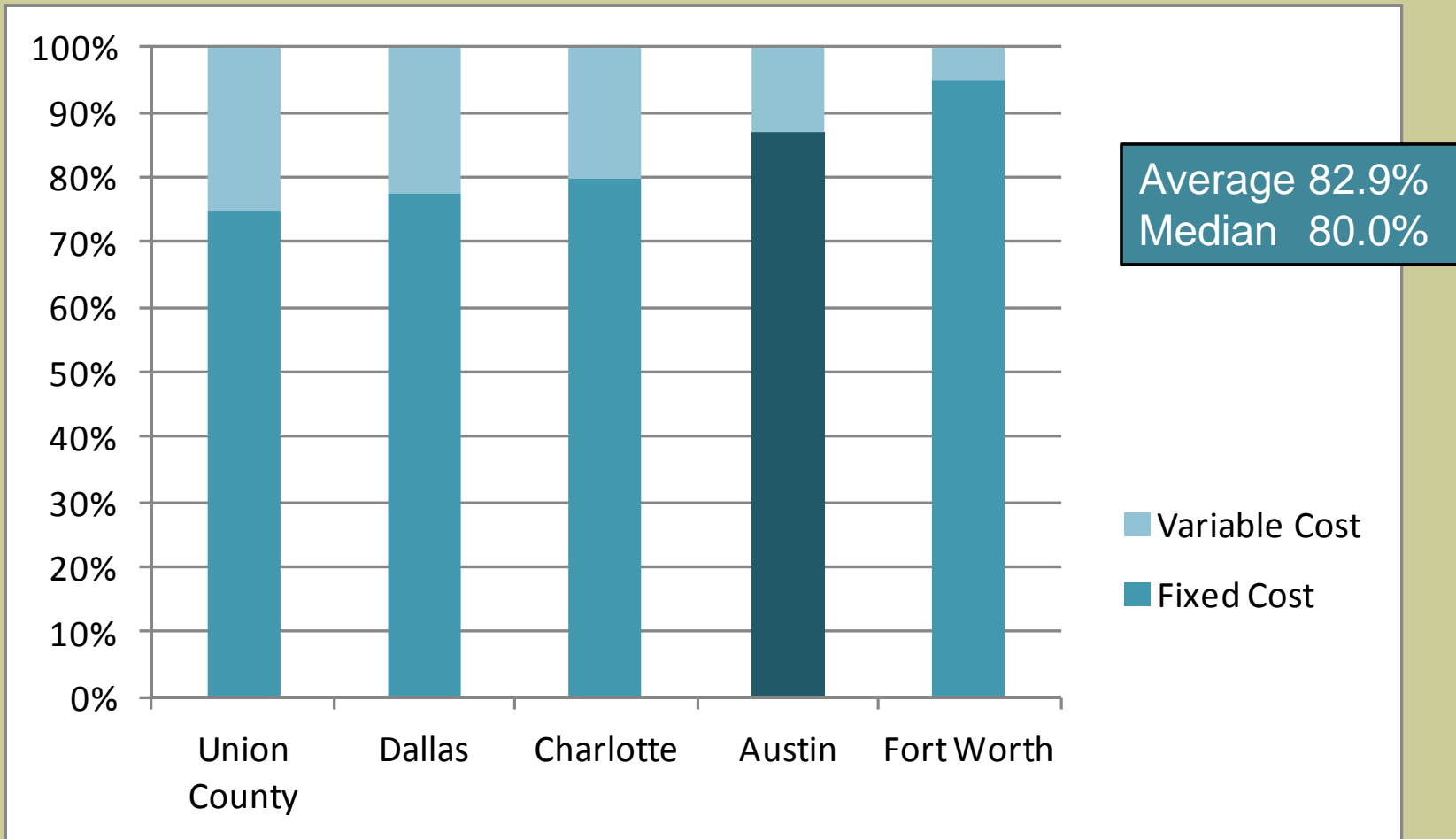
# Comparison of Fixed Revenues



# Volumetric Rate Structure Will Impacts Need for Fixed Revenue

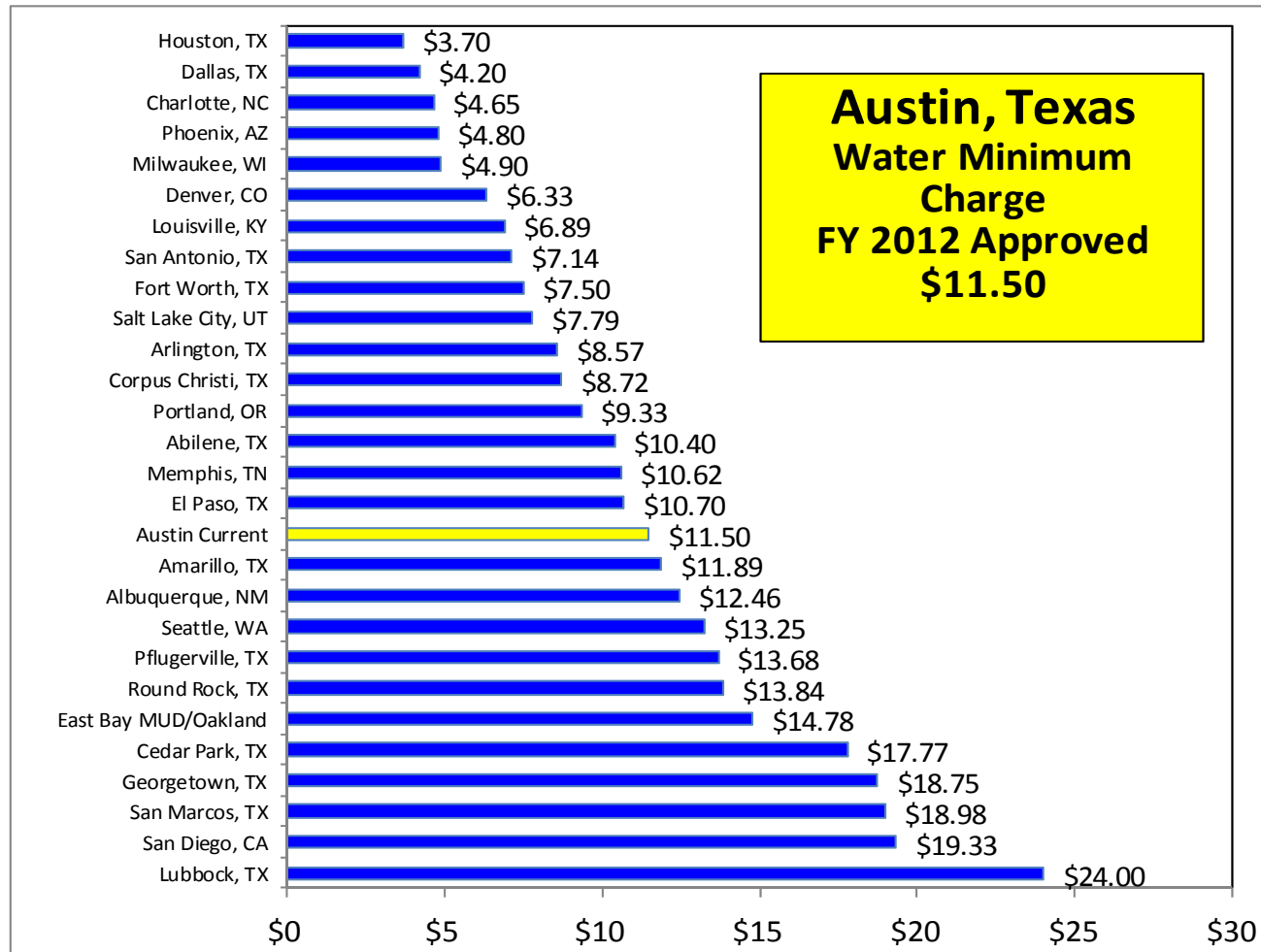
- More revenue volatility in volumetric rates impacts the need for more fixed revenue
- Residential Volumetric Water Block Rates
  - SFPUC \$3.47 to \$4.63 per 1,000 gallons
  - Tacoma \$1.82 to \$2.27 per 1,000 gallons
  - Fort Worth \$2.62 to \$5.59 per 1,000 gallons
  - El Paso \$1.93 to \$6.48 per 1,000 gallons
  - Dallas \$1.68 to \$6.25 per 1,000 gallons
  - San Antonio \$0.94 to \$4.60 per 1,000 gallons
  - Austin \$1.17 to \$12.19 per 1,000 gallons

# Comparison of Fixed Costs





# Residential Fixed Charge Comparison



\* Austin Texas FY 2012 rate (includes RSF).  
Other utility minimum fixed charges based  
on rates as of January 2012.

# Fixed vs. Variable Revenue History

## FY 2011 Actual Water Service Revenue\*:

Fixed Revenue:	\$23.7 M	10.2%
Variable Revenue:	\$207.9 M	89.8%
Total Revenue:	\$231.6 M	100.0%

## FY 2012 Budget Water Service Revenue:

Fixed Revenue:	\$40.2 M	17.2%
Variable Revenue:	\$194.1 M	82.8%
Total Revenue:	\$234.3 M	100.0%

\* FY 2011 actual water service revenue Close 2 unaudited

# Fixed Revenue By Customer Class

AWU 2012 Approved Water Budget (In Millions)

		<u>Fixed Revenue</u>	<u>Variable Revenue</u>	<u>Total Revenue</u>
Residential	\$	\$ 26.2	\$ 77.5	\$ 103.7
	%	25.3%	74.7%	100.0%
Multifamily	\$	\$ 5.7	\$ 37.1	\$ 42.8
	%	13.3%	86.7%	100.0%
Commercial	\$	\$ 7.9	\$ 55.1	\$ 63.0
	%	12.5%	87.5%	100.0%
Large Volume	\$	\$ 0.3	\$ 12.7	\$ 13.0
	%	2.3%	97.7%	100.0%
Wholesale	\$	\$ 0.1	\$ 11.7	\$ 11.8
	%	0.8%	99.2%	100.0%
Total Revenue	\$	<u>\$ 40.2</u>	<u>\$ 194.1</u>	<u>\$ 234.3</u>
	%	17.2%	82.8%	100.0%
Total Non-Residential	\$	\$ 14.0	\$ 116.6	\$ 130.6
	%	10.7%	89.3%	100.0%

# Fixed Revenue Goals – Decision Points

## Basis for Goal

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

## Determination of Goal

- Target level by customer class

## Funding Timeline

- Number of years to reach targeted level

# Basis for Fixed Revenue Goal

## Specific Costs

- Fixed revenue based on the levels of specifically identified costs or a percentage of those costs
  - Percentage of debt service or operations costs
- Fixed revenue goals would adjust as those costs increase or decrease over time

## Percentage of Total Revenue

- Fixed revenue goal based on a specific percentage of total revenue
  - 20% of total revenue
- Current overall fixed revenue is 17% of total revenue
- Fixed revenue goal would adjust as total revenue increases over time

# Fixed Revenue Goal Summary

	<b>Fixed Revenue</b>	<b>Variable Revenue</b>	<b>Total Revenue</b>	<b>Current Fee Equivalent (5/8" Meter)</b>
<b>FY 2012: Budget</b>				
\$ Revenue	\$ 40.2	\$ 194.1	\$ 234.3	\$ 4.40
% Revenue	17.2%	82.8%	100.0%	
<b>FY 2012: 20% Fixed Option</b>				
\$ Revenue	\$ 46.9	\$ 187.4	\$ 234.3	\$ 6.10
% Revenue	20.0%	80.0%	100.0%	
<b>FY 2012: 25% Fixed Option</b>				
\$ Revenue	\$ 58.6	\$ 175.7	\$ 234.3	\$ 9.10
% Revenue	25.0%	75.0%	100.0%	
<b>FY 2012: 30% Fixed Option</b>				
\$ Revenue	\$ 70.3	\$ 164.0	\$ 234.3	\$ 12.10
% Revenue	30.0%	70.0%	100.0%	



## Percentage of Fixed Costs

- Similar to percentage of total revenue but based on percentage of fixed costs
  - 30% of fixed costs
- Fixed costs make up between 80% to 90% of total costs
- Would need to define fixed and variable costs more specifically

# AWU 2012 Fixed Costs Summary

	<u>Fixed Costs</u>	<u>Variable Costs</u>	<u>Total Costs</u>
Personnel Costs	\$ 78.1	\$ 5.3	\$ 83.4
Contractuals	\$ 50.1	\$ 39.0	\$ 89.1
Commodities	\$ 0.1	\$ 16.5	\$ 16.6
Expense Refunds	\$ -	\$ (0.4)	\$ (0.4)
Non-CIP Capital	\$ -	\$ 0.6	\$ 0.6
Debt & Transfers	<u>\$ 276.5</u>	<u>\$ -</u>	<u>\$ 276.5</u>
Total Costs	<u>\$ 404.8</u>	<u>\$ 61.0</u>	<u>\$ 465.8</u>
Percentage of Total	86.9%	13.1%	100.0%

## Set Dollar Amount

- Fixed revenue goal set at a specific dollar amount
  - \$50 million in fixed revenue
- Relationship to total revenue would decrease over time unless specific dollar amount adjusted over time

# Questions and Discussion?

## Basis for Goal

# Determination of Goal

# Fixed Revenue Goal Determination

- Target level dependent on choice of basis of goal
- Should be easily calculated and understood by customers
- Customer class goal determination needed

## Customer Class Goals

- More revenue volatility in rates could require higher fixed revenue goals
  - Residential has volatile rates and revenue and therefore could have a higher fixed revenue goal
  - Large volume customers have less volatile rates and revenue and could have a lower fixed revenue goal
- Each customer class could have their own fixed revenue goals based on revenue volatility of class

# Questions and Discussion?

## Determination of Goal



# Timeline to Achieve Goal

# Timeline for Fixed Revenue Increases

- One Year Implementation Timeline
  - FY 2013 Budget proposal could include changes
- Multi-Year Transition
  - Any large fixed revenue increases for customer classes could be transitioned over several years to minimize bill impacts
  - Large volume customers could be implemented in a shorter time frame since these customers have individualized rates
  - Wholesale customers with individualized cost of service rates could be implemented in a shorter time frame

# Questions & Discussion? Timeline to Achieve Goal

# Evaluation Criteria

## Fixed Revenue Goal

# Draft Fixed Revenue Goal Evaluation Criteria

- Increase in fixed revenue
- Equitable customer class goals
- Rate stability
- Understandable by customers
- Sustainable over time without having to reassess or change goal
- Ease of calculation
- Ease of implementation / transition

## Future Meetings

- January 18<sup>th</sup>
  - Review evaluation matrix results for revenue stability fee structure
  - Evaluation criteria process for fixed revenue goals
  - New topic: Revenue Stability Reserve Fund
- February 1<sup>st</sup>
  - Review evaluation matrix results for fixed revenue goals
  - New topic: Revenue Volatility

# End of Presentation