



**WATER AND WASTEWATER COMMISSION RECOMMENDATION  
20160810-E1**

Date: August 10, 2016

Subject: Budget Committee Report

Motioned By:

Seconded By:

**Recommendation**

Budget Committee Report & Recommendations

**Description of Recommendation to Council**

*See Attached Report*

**Rationale:**

Budget Committee Report & Recommendations to Council on FY 2017 Austin Water Budget

**Vote**

For:

Against:

Abstain:

Absent:

Attest: *[Staff or board member can sign]*

---

## **Water & Wastewater Commission 2016 Budget Committee**

*Report to Commission at August 10, 2016 Meeting*

***The Committee appreciates the opportunity to provide a report to the full Commission. However in the future, we strongly appeal to City Management to adopt a more collaborative approach to providing draft initial proposed budget documents to the Committee (by mid-June) to provide sufficient time for the Committee to perform a thorough and responsible review on behalf of the rate payers.***

### 1. Budget Committee Members & Meetings

- The Budget Committee included Commissioners Mickey Fishbeck Maia (Chair), Susan Turrieta (Vice-Chair), Christianne Castleberry, Travis Michel & Melissa Blanding.
- The Committee met May 16, 2016, June 1, 2016, June 20, 2016, June 27, 2016 & August 3, 2016 to review the proposed Austin Water budget and rates for FY2017.
- The Committee scheduled, but did not meet on July 13, 2016, because the Budget Office had not released proposed budget and rate information to the Commission.
- The agenda for the Committee's June 20, 2016 meeting included the "Draft 2017 Budget Submittal". Austin Water Staff announced at that meeting that the City Budget Office had contacted AW Staff 30 minutes prior to the posted meeting and told AW not to present the budget to our Committee until after public release on July 27, 2016.
- Because of Budget Office delay in releasing the proposed budget to the Budget Committee, members had only one meeting at which they could both review the budget and compose a Committee report (August 3, 2016). Committee members were not provided with the Proposed 2017 Budget until August 1, 2016, thus allowing Committee members inadequate time to responsibly review and comment on the proposed budget.
- Accordingly, this report to the full Water and Wastewater Commission primarily addresses other information that the Committee was provided by AW Staff, and not the Proposed 2017 Budget that was withheld until immediately before our last meeting.

### 2. Matters Considered by Budget Committee

- Growth, Inflation and Service Demand Assumptions used by Staff to develop the FY2017 Budget
- Financial Forecast

- Capital Improvement Program (CIP), including debt service and cash transfers related to CIP spending and the proposed CIP spending plan
- Status of Austin Water with bond rating agencies (removed from watch list and listed as financially stable)
- Existing and Projected Debt Service, including 2016 bond refinancing savings.
- Continued growth of cash reserves and Revenue Stability Reserves
- The possibility of budgeting for reclaimed water within the Water Utility rather than a stand-alone reclaimed water utility
- Proposed 2017 Water and Wastewater Rates and bill impacts for regular and CAP residential customers, Multifamily, Commercial and Large Customers.
- Reclaimed Water System Rates
- Drought Rates and Structure
- Changing rating agency considerations relative to:
  - Operating reserves (increasing operating reserves from 173 days to 378 days);
  - Times coverage (increasing times coverage goal from 1.69 to 1.84); and
  - Percent of CIP funded with cash rather than debt (goal increasing from 36% to 46% by 2021, with an ultimate goal of 50%).

### 3. Water & Wastewater Budget and Rates

- The proposed budget and rate structure information was provided to the Budget Committee on August 1, 2016. The Committee had 2 days for detailed review. Therefore, the Committee's conclusions and recommendations are primarily related to residential rate impacts.
- According to AW Staff presentations, the average residential usage (for both non-CAP customers and CAP customers) is assumed to be approximately 5,800 gallons of water service monthly, and 4,000 gallons of sewer service monthly.
- Based on these consumption figures and the proposed rate increases, the average non-CAP residential customer will experience an increase of \$1.33 for water (3.3%) and \$1.62 for sewer (4.1%), for a combined bill increase of \$2.95 (3.7%).
- The average use residential customer (at 5,800 gallons of water) pays 8.8% below cost of service.

- A CAP customer using 5,800 gallons of water pays 45.0% below cost of service.
- The breakeven point for cost of service for non-CAP residential customers is projected to be 9,200 gallons in FY2017 (down from approximately 10,000 gallons in FY2016). Non-CAP customers using less than 9,200 gallons of water will pay less than full cost and will be subsidized by higher-use customers.
- The average volumetric cost for all residential customers is \$5.84, according to AW Staff. Roughly two-thirds of residential gallons will be sold below cost in FY2017 with proposed rates. (In FY2016, approximately 69% of residential gallons have been sold below cost.)
- For retail customers, the Revenue Stability Reserve Fund Surcharge will remain at \$0.19 per 1,000 gallons in FY2017.
- Proposed bill increases for the average Multifamily customer, based on 129,000 gallons of water service and 108,000 gallons of sewer service, amount to \$52.27 (2.9%) for the combined bill. This increase includes a \$22.03 (2.8%) water bill increase and a \$30.24 (3.0%) sewer bill increase.
- Proposed bill increases for the average Commercial class customer, based on 67,000 gallons of water service and 44,000 gallons of sewer service, amount to \$19.28 (2.1%) for the combined bill. This increase includes a \$9.60 (1.9%) water bill increase and a \$9.68 (2.3%) sewer bill increase.
- Proposed Large Volume rates for NXP-Ed Bluestein will decrease in FY2017, while rates for Novati will remain the same as FY2016. The remaining Large Volume customer rates are proposed to be increased. Rates for customers in the Large Volume rate class are determined individually based on AW's cost of service model, based on the usage characteristics of each customer. Thus the amount of rate increases varies by customer.
- Proposed wholesale rates were not presented to the Committee. According to AW Staff, most wholesale rates will remain unchanged until AW completes its new cost of service study. Four wholesale customers, which appealed their rates to the Texas Public Utility Commission, will have rates determined by the PUC decision or District Court rulings.
- Drought rates (\$1.00 per 1,000 gallons in Stage 3 and \$3.00 per 1,000 gallons in Stage 4) are unchanged in the proposed budget. (The Joint Committee had requested the \$3.00 charge at Stage 4 be reconsidered for CAP customers, which was not reflected in FY2017 proposed rates).

- Proposed rates for FY2017 deviate from Joint Committee/Staff recommendations:
  - The Joint Committee had adopted Staff recommendations that fixed revenues increase from 22.5% to 25% in FY2017. Instead, AW Staff recommends that fixed revenue sources remain at 22.5% of revenues for FY2017.
  - The Joint Committee had also adopted Staff recommendations to increase Tier 2 of non-CAP residential rates to full cost in FY2017. Instead, AW Staff recommends that Tier 2 be increased, but not to full cost in FY2017.

#### 4. Budget Committee Comments

- Austin Water Staff provided general background information regarding the proposed FY2017 Budget, as well as proposed rate structures.
- Budget Committee members scheduled meetings to review the proposed FY2017 Budget in June and July. However, the City Budget Office ordered AW Staff to withdraw budget documents from the Committee's first scheduled review 30 minutes before the posted meeting. Moreover, the Committee was not provided the proposed budget documents until August 1, 2016, 2 days prior to the Committee's last scheduled meeting and 9 days prior to the Committee's scheduled report to the full Commission.
- Accordingly, the Budget Committee makes no findings and has no recommendation regarding the Proposed FY2017 Budget because the Committee was not provided reasonable time for review.

#### The Budget Committee recommends further review and analysis on the following:

- Magnitude of rate increases as impacted by "Other Requirements" & "Transfers Out" (charges from other Departments to Austin Water for support services). The Committee recommends that Austin Water examine other alternatives for these services to reduce costs.
- The Committee continues to have concerns regarding the magnitude of increases from Austin Energy for meter reading and billing. The Committee supports the executive agreement with Austin Energy to review the customer care allocation methodology to ensure costs and allocation among all departments are reasonable and fair.
- Reconsideration of Stage 4 Drought Rates as applied to CAP Customers, as recommended in the Budget Committee report of August, 2015.
- Further consideration of budget structure relative to the reclaimed water system and recovery of reclaimed water costs, in particular consideration of including

reclaimed water as a component of the water utility in the budget, rather than being operated as a stand-alone utility.

- Further consideration of including reclaimed water capital improvements in the next impact fee update.
- Staff continues to use varying volumes of water and sewer service for historical residential bill comparisons, making it difficult to determine bill changes for a consistent amount of service. This manner of presenting information has been used tactically in the past to misrepresent large bill increases (presenting a residential bill increase of approximately 3% when the real increase for a constant amount of service was approximately 23%). Transparency in presenting customer bill impacts remains a concern.
- In an effort to minimize average residential bill impacts, AW did not fully implement recommendations of the Joint Committee related to fixed charges and raising Tier 2 rates to full cost of service. The Committee supports AW's continued efforts to implement those recommendations as soon as is reasonable.