



WATER AND WASTEWATER COMMISSION RECOMMENDATION
20180214-E1

Date: February 14, 2018

Subject: Budget Committee Report on Austin Water Cost of Service Study and Proposed Retail Water and Sewer Rate Decreases

Motioned By: Commissioner Ho

Seconded By: Commissioner Castleberry

Recommendation

See Attached Report

Description of Recommendation to Council

See Attached Report

Rationale:

Austin Water faced considerable financial challenges during the recent drought. The Utility's customers both secured the water resource through their conservation efforts and endured steep rate increases needed to offset drought-related revenue losses. Because of sacrifices by our customers, efforts by Austin Water Staff and citizen volunteers, and Council policy support, Austin Water has now been found to be in sound financial condition with enhanced budgetary safeguards in place for the future. Now that financial security has been restored, the Utility can re-prioritize affordability for its customers. The Water and Wastewater Budget Committee recommends that the Council adopt the retail rate decreases proposed by AW Staff for the remainder of FY2018, and supports the Utility's intentions to keep rates stable through FY2020. Moreover, the Budget Committee supports the recommendation by AW Staff and the Cost of Service Study Public Involvement Committee (PIC) to discontinue efforts for an Independent Hearing Examiner process due to its high projected costs (approximately \$1.2 million) and the one-year delay it would cause in lowering customer rates. The Budget Committee also advises the Council that the full-cost-recovery impact fees (capital recovery fees) that were adopted by Council in 2014 are the primary reason that the Utility is now able to lower its debt service costs sufficiently to offer lower rates to its customers, and recommends that Council continue to support full-cost fees with limited fee waivers in order to continue to enhance affordability for existing customers.

Vote 8-0

For: Commissioners Ho, Castleberry, Penn, Maia, Moriarty, Lee, Michel & Parton

Against: 0

Abstain: Commissioner Bell

Absent: Commissioners Kellough & Turrieta

Attest: Liaison

Felicia Cancino

Felicia Cancino, W&WW Commission Liaison

REPORT OF THE BUDGET COMMITTEE TO THE WATER AND WASTEWATER COMMISSION

Austin Water Cost of Service Study And Proposed Retail Rate Reductions

The Budget Committee of the Water and Wastewater Commission met on February 8, 2018 to review:

- the results of the Water and Wastewater Cost of Service Study conducted by Austin Water (AW);
- the recommendations of the Public Involvement Committee (PIC) for retail customers (in concert with AW) related to that study; and
- the recommendations (especially regarding affordability of water/sewer service for all customers) of NewGen Strategies & Solutions, a firm engaged by Austin Water to act as a rate advocate for residential customers.

The purpose of this document is to make recommendations to the Water and Wastewater Commission as a whole so that the Commission can advise the City Council on proposed water and sewer rate decreases and related matters.

We commend and thank Austin Water Staff, other City Staff and consultants, and members of the retail PIC and wholesale WIC (Wholesale Involvement Committee) for their many months of demanding work in developing a cost of service study designed to result in fair cost-based rates for all customers.

The following are our observations and recommendations:

1. The Budget Committee recommends that AW re-orient Utility priorities as recommended by NewGen Strategies & Solutions in their report “Austin Water Rate Review: Report by the Residential Rate Advocate” (October 2017, page 8).

New Gen suggests improving financial metrics should no longer be the highest priority of AW at the cost of affordability. Instead, it is prudent at this point for AW to refocus on affordability.

2. All rates should be based on the cost of providing service.
3. All data and processes used in calculating cost of service should be available to the public. A potential Independent Hearings Examiner (IHE) process should not be necessary for transparency and input for the public.
4. AW should discontinue establishing an IHE process.

5. It is recommended that all retail water and wastewater rates be lowered immediately as shown in AW's rate and budget adjustments proposed to the Budget Committee on February 8, 2018. (See "2017-18 RCA Fee Schedule Amendment.pdf", attached.)
6. The Budget Committee recommends that all retail rates adopted immediately for FY2018 remain unchanged in FY2019.
7. The Budget Committee also supports AW Staff's intention to leave rates for all retail customer classes unchanged in FY2020.
8. Revenue from full cost Capital Recovery Fees (Impact Fees) have made it financially possible to lower rates immediately due to reductions in debt service costs. The Budget Committee recommends that Capital Recovery Fees remain at full cost levels in future years, with minimal waivers in order to protect that revenue stream.
9. Ammonia surcharges should be based on cost of service and should not be negotiated.
10. Two types of financial metric measures play into costs: Formal City financial policies, and AW financial metric goals (which are greater than City official policies). NewGen found that AW metric goals are more than adequate to achieve the highest bond ratings, and thus should not be increased beyond current levels since customers will not receive the benefit of better financing terms by paying for excessive metric goals.
11. Various financial metrics are significant drivers for rate increases. Accordingly, the Budget Committee recommends that no rates be increased directly due to AW Staff increasing financial metric goals included in Austin Water's FY 2017 budget, as set forth in the NewGen report:
 - 1.71 Debt Service Times Coverage
 - 216 Days of Cash on Hand
 - 35.8% Cash Funding of CIP

12. Moreover, official City Financial policies for the same metrics should not be revised upward to any measure higher than the level needed to achieve the highest grade possible from S&P Ratings Services or other similar agency relied upon by AW for rating for bond purchases. According to NewGen, those levels are currently:

1.60 Debt Service Times Coverage (as calculated by S&P) which is roughly equivalent to 1.85 times coverage as calculated by Fitch and Moody's and in Austin Water's budget.

150 Days of Cash, with \$75 million in cash on hand

CIP funded with cash should be based on the useful lives of funded facilities.

13. Calculation of financial metrics by AW should use the same methodologies as the ratings services used by AW.

14. The Budget Committee supports the "Joint Recommendation to the Austin City Council" from AW and PIC members, with the following exceptions:

Item 14 – We do not recommend unchanged Wholesale rates, but rather recommend wholesale rates based on their identified cost of service.

Item 21 – The meaning of this recommendation is unclear as written. Based on explanations by AW staff, the Budget Committee included item 15 below which we think addresses the PIC's concerns.

15. AW should include current financial metric measurements, including unrestricted and restricted reserve balances, in AW's monthly financial reports.