

Rate Restructuring and Business Model Changes resulting from Conservation and Drought – A Work in Progress

Daryl Slusher, Assistant Director
Austin Water

July 2014

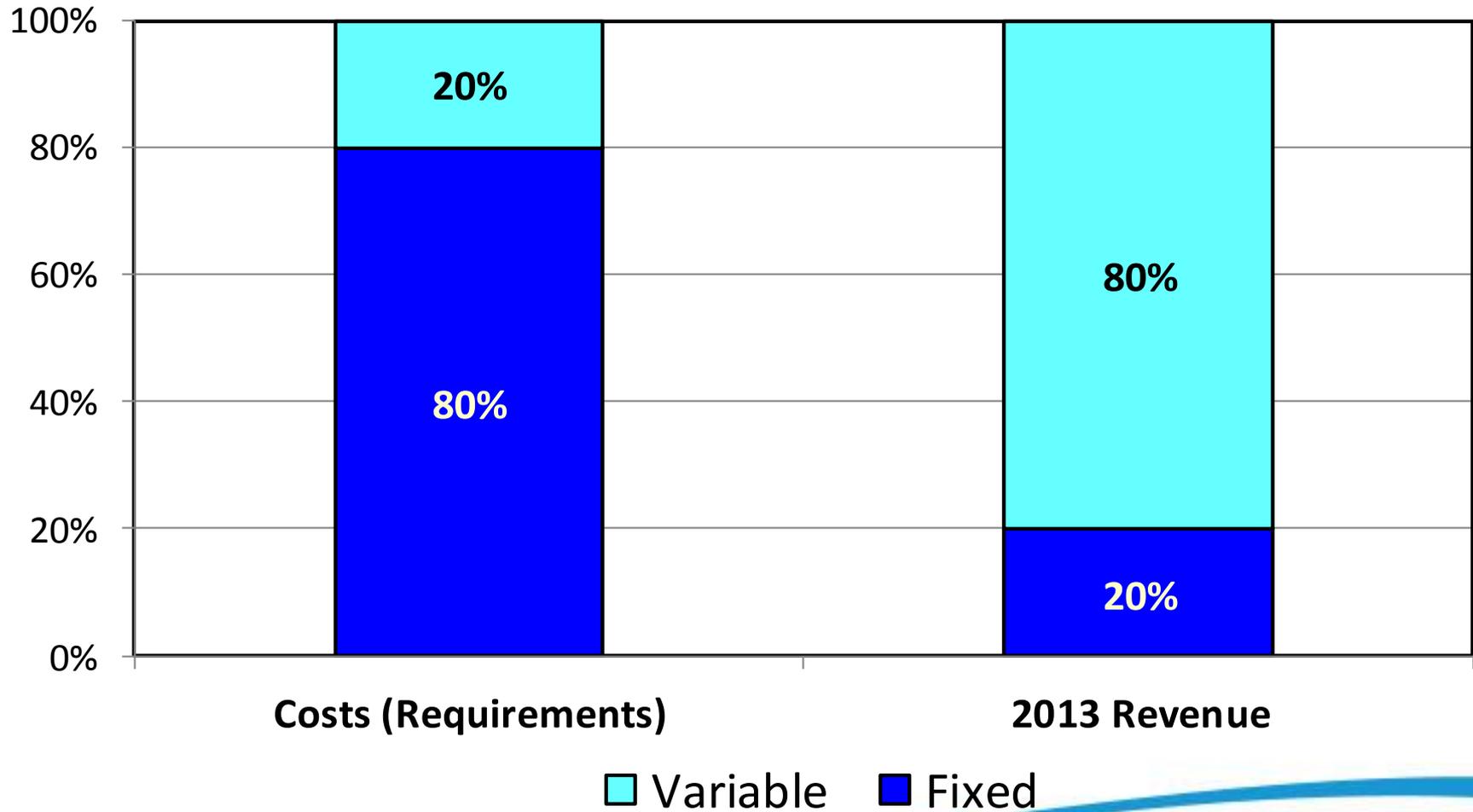
Austin Water supply and rate structure

- City of Austin's public utility
- Utility reports to City Manager, but City Council must approve all purchases over \$53,000 and also must approve rates.
- Water supply is surface water from the (other) Colorado River/Highland Lakes
- Serves almost a million people
- Rates are a mixture of fixed fees and per 1,000 gallon charges

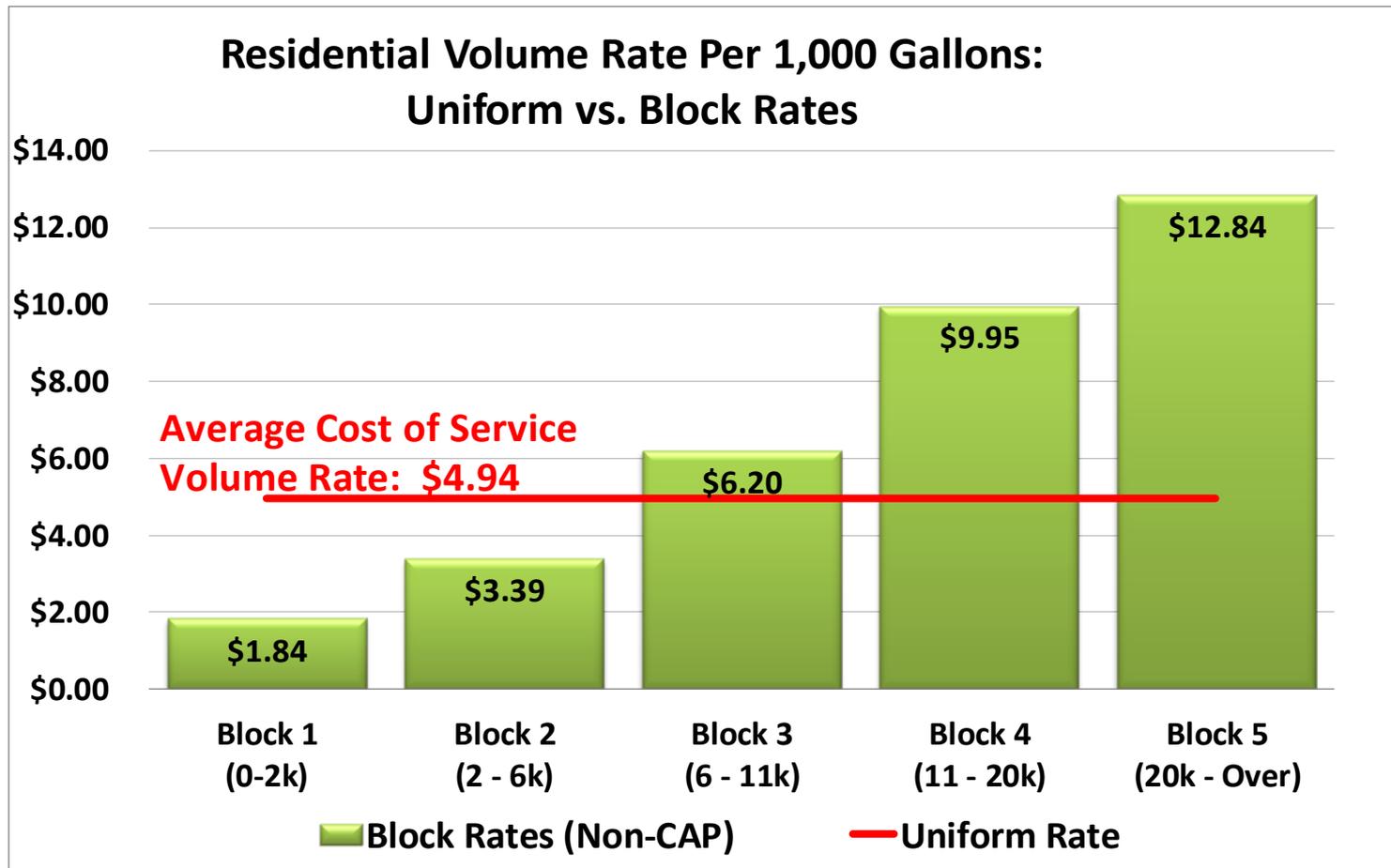
Philosophy behind Austin Water rate structure

- Low cost for low use
- Safety net for low-income people at low usage (CAP Program) – waiving fixed fees provides some relief on usage at low levels
- Incentivize conservation through steep five tier ascending block rates based on consumption
- Fixed fees as percentage of overall revenue = 20%
- Manage revenue volatility

Fixed Costs, Variable Revenue

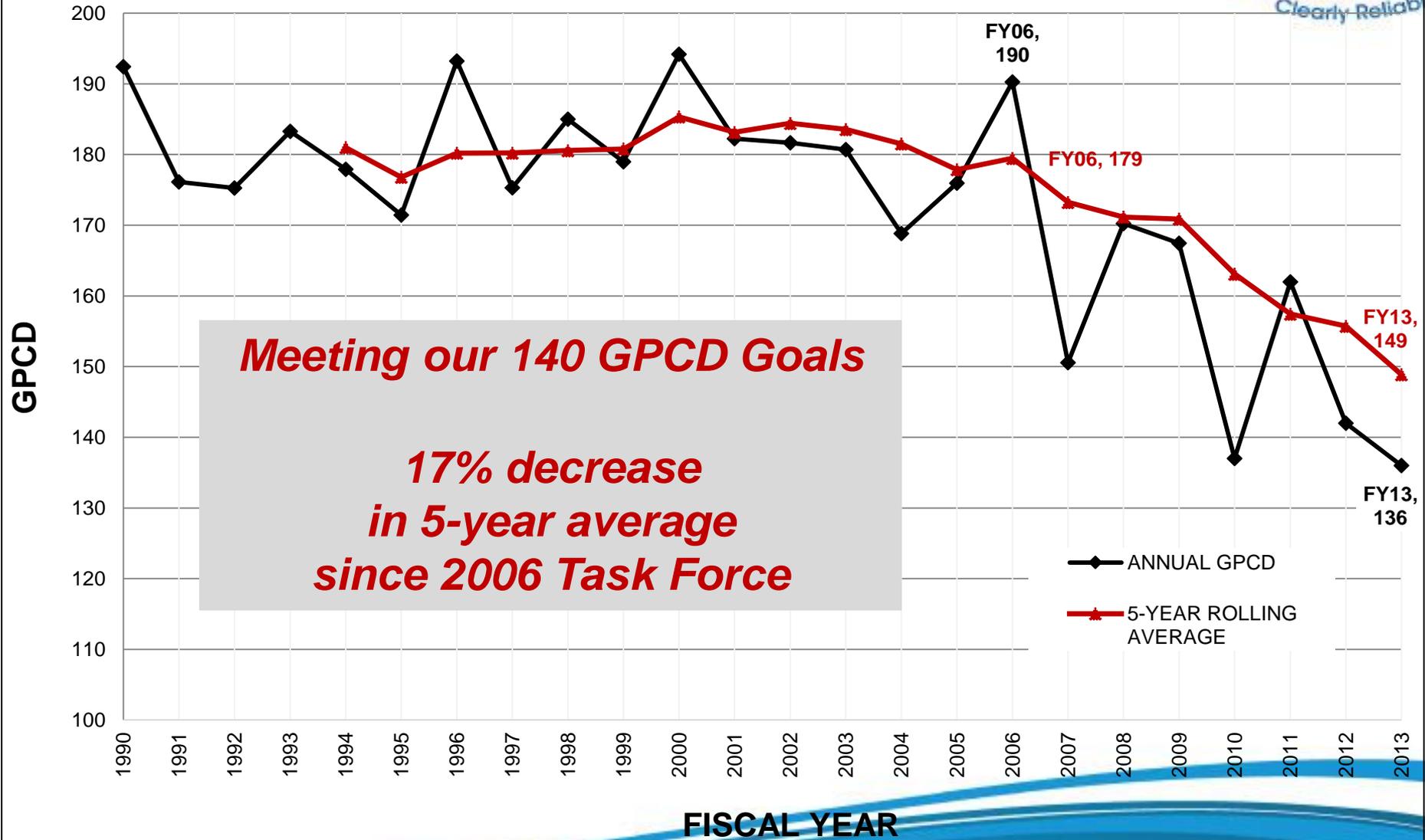


FY 2014 Water Rates: Residential

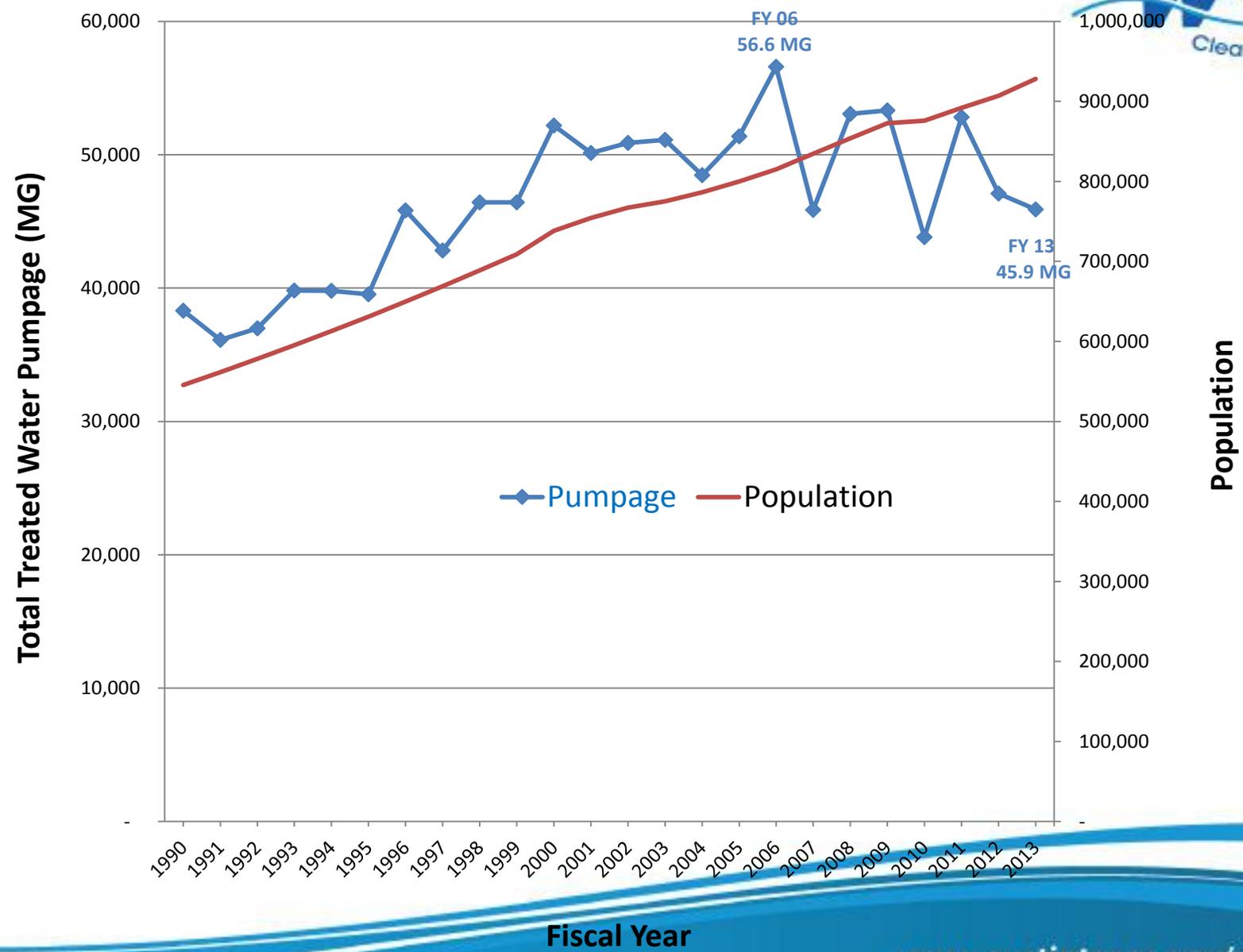


Austin Conservation, Drought Response, and Financial Impact

Total Pumpage in Gallons Per Capita per Day (GPCD)



Total Annual Pumpage and Population



Before the drought



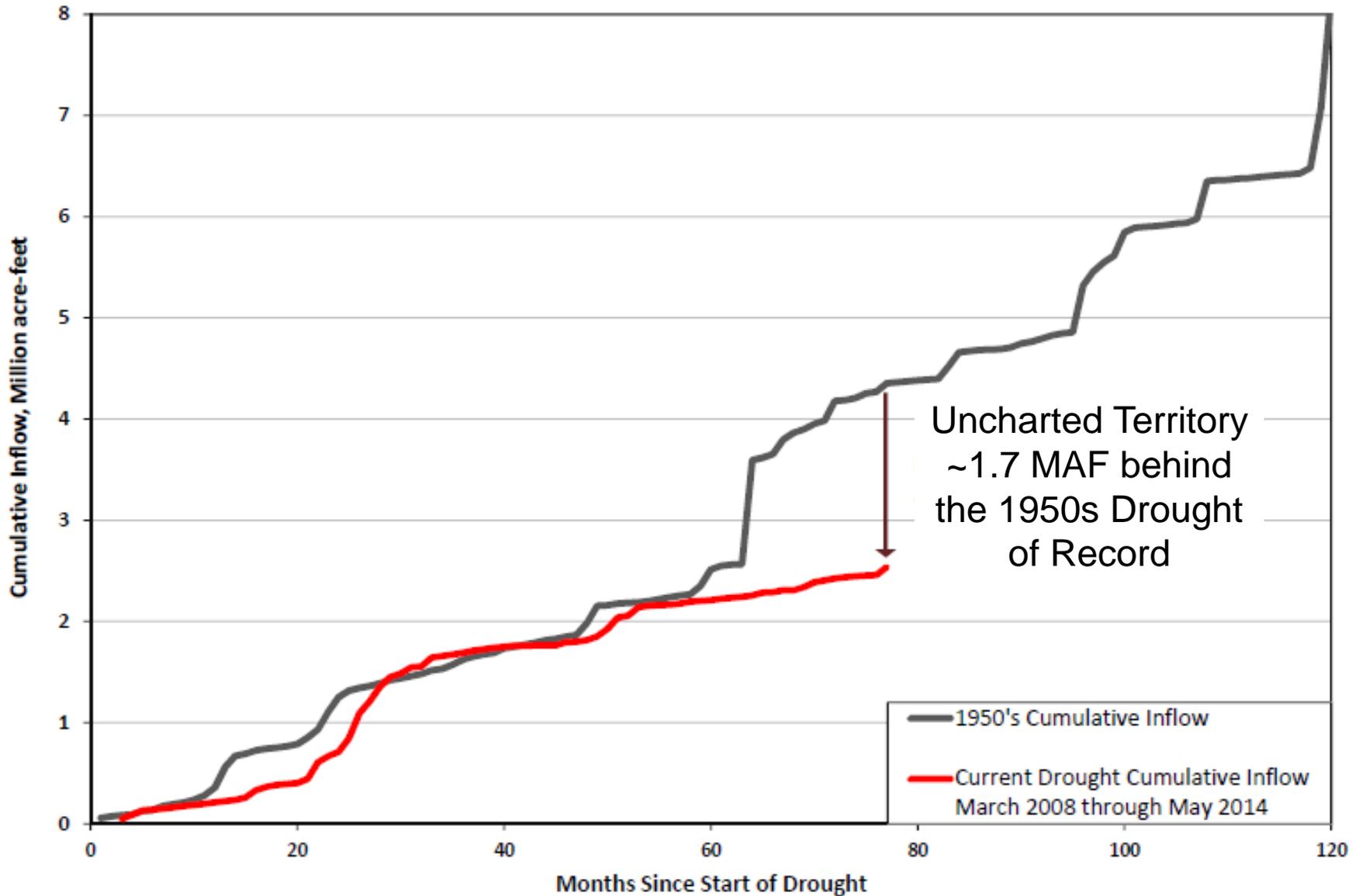
Lake Travis

Image Courtesy of
LCRA

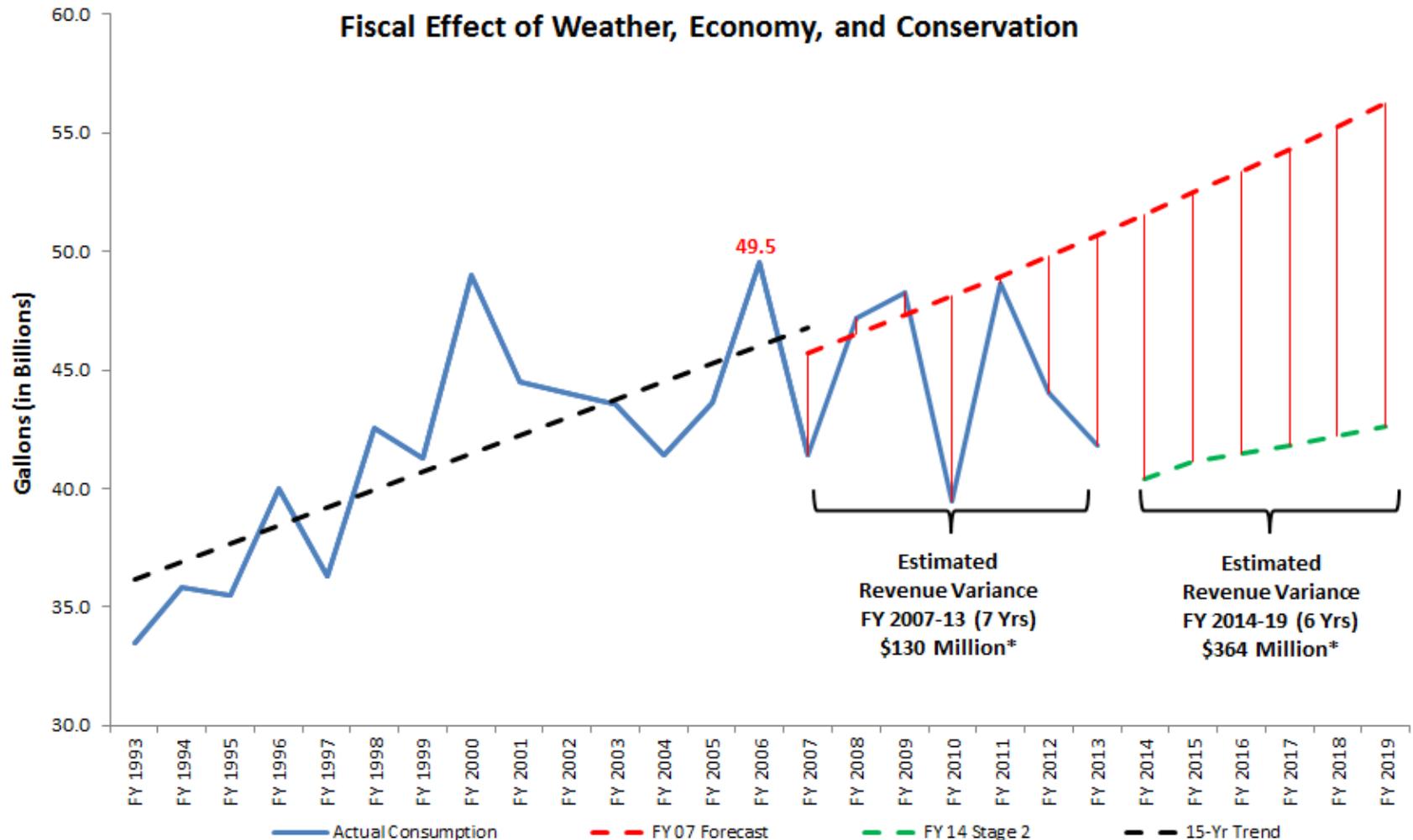
After the Drought



Cumulative Inflow to Lakes Buchanan and Travis



Water Service Revenue Loss



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

Other Factors and Cost Drivers

- Major infrastructure necessary to serve one of America's fastest growing cities:
 - New water treatment plant (WTP4): \$523 million, opening this year (mostly in rate base already)
 - EPA order to remedy sanitary sewer overflows: \$400 million Austin Clean Water Program, completed in previous decade (already in rate base)
- Utility transfers significant funds not directly related to water to other departments

Budget Reductions & Rate Increases

- Budget Reductions
 - FY 2014 Budget: \$538.8 M
 - FY 2015 Forecast: \$513.4 M
 - Variance 2014 vs. 2015: (\$25.4) M or 4.7% reduction

- Rate Increases

	2015	2016	2017	2018	2019
Water:	13.9%	3.0%	3.0%	3.0%	3.0%
Wastewater:	2.3%	3.0%	3.0%	3.0%	2.5%
Combined:	8.3%	3.0%	3.0%	3.0%	3.0%

Austin Water's Approach to Rates and Changing Business Model – A Work in Progress

Austin Water's approach and lessons learned – and still learning

- Be transparent
 - Post detailed information online
- Tell everyone, including your critics, that you want them to examine your expenses
 - Mean it
- Citizen Committee on Finance and Rates
- Be open to the press, offer detailed private briefings
- Utilize both traditional outlets and social media

Austin Water's approach - 2 - Communication

- Emphasize the value of water, the real cost of water i.e. water is underpriced relative to its essential nature
 - This is a fundamental shift
- Put the situation in a national context – the “conservation conundrum” is not confined to any one locality
- At the same time emphasize specific local factors
 - for example, in Austin, conservation gains and the drought
- Emphasize the specific value provided by the utility
 - Start emphasizing value early

Austin Water's approach - 3

- Also pay attention to internal communication
 - Goal is for employees to understand need for rate increases and/or business model restructuring
 - To understand that some cuts may be necessary
 - To be able to answer questions from the public i.e. especially friends and acquaintances
- Go forward having clearly scrutinized utility budget and having made cuts
 - challenge is to do that and still be telling the truth when you talk about the value the utility provides

Value provided by water utilities

Stress the value that the utility and its workers provide

- Inform the public about your utility and the value you provide
 - Try to break through the fact that water is taken for granted
- Austin example: ‘Value’ brochure in annual Drinking Water Quality Report and community newspapers – describing the broad level of high quality services provided by Austin Water)
- Start early

Exceptional Value and Reliability

Day in and day out, Austin Water provides safe, high-quality drinking water to over 900,000 citizens and works to ensure reliable service for the future, including during times like this historic and ongoing drought.

2013 Drinking Water Quality Report enclosed.

Water Infrastructure

Our water distribution system carries the lifeblood of our community and our wastewater system helps keep us safe from disease and protects the Colorado River. In order to dependably deliver service to our customers each and every day, Austin Water is responsible for operating and maintaining an incredible amount of infrastructure, including not only over 3,700 miles of water lines, and almost 2,700 miles of sewer mains, but also two existing water treatment plants, two major wastewater treatment plants, 124 lift stations, and 41 pump stations and boosters. Every month, Austin Water crews respond to an average of over 3,000 water and wastewater infrastructure repair requests. Austin Water also maintains more than 26,000 fire hydrants. In addition to this infrastructure providing reliable water services, it is also the backbone of public safety when it comes to fire fighting.

Treatment and Distribution

Water is pumped from Lake Austin into the treatment plants and goes through several treatment steps including screening, disinfection, softening and filtration. The process takes about 6 to 10 hours to complete and the clean, treated water is then sent to homes and businesses through our extensive network of underground pipes. After that, wastewater is collected into sewer mains and treated to standards higher than those required by the state, so much so that the segment of the Colorado River downstream of Austin's wastewater discharge is rated exceptional under Texas Commission on Environmental Quality (TCEQ) standards approved by the Environmental Protection Agency (EPA).

Renewing Austin

In 2012, Austin Water launched Renewing Austin, a five-year program to upgrade aging water lines to keep pace with the infrastructure demands of a growing city. The utility has identified the most vulnerable pipes in the system by analyzing breaks and leaks over the past several years and many of the pipes being replaced are over 60 and even 80 years old. Renewing Austin is part of a sustained, long-term approach to ensuring the reliability of Austin's water distribution system.

ie plant,
i with room
additional
s and
wns and
critical to
ning process

www.austintexas.gov/water

Example of presentation given to community groups, particularly environmental groups

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

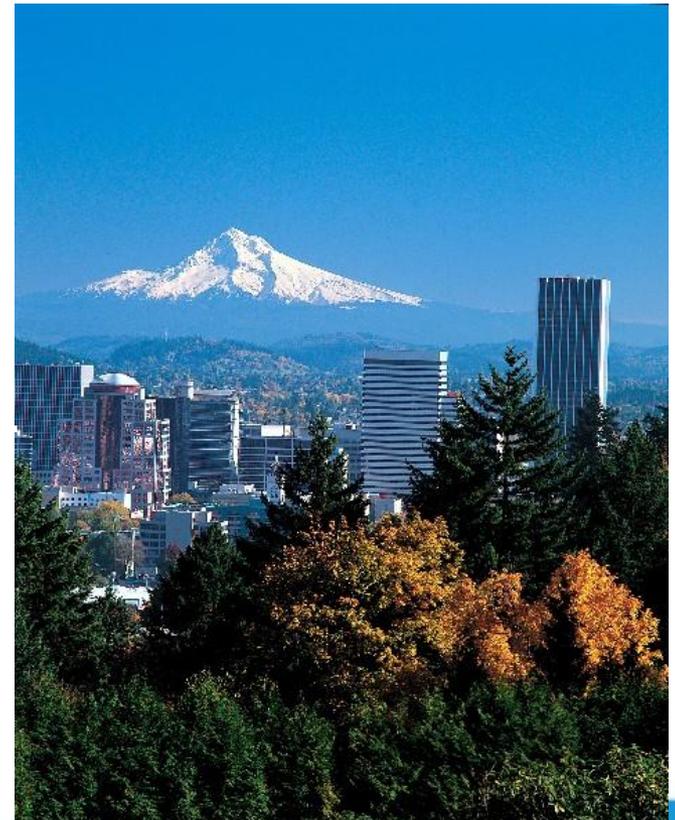


South Austin Regional Wastewater Treatment Plant



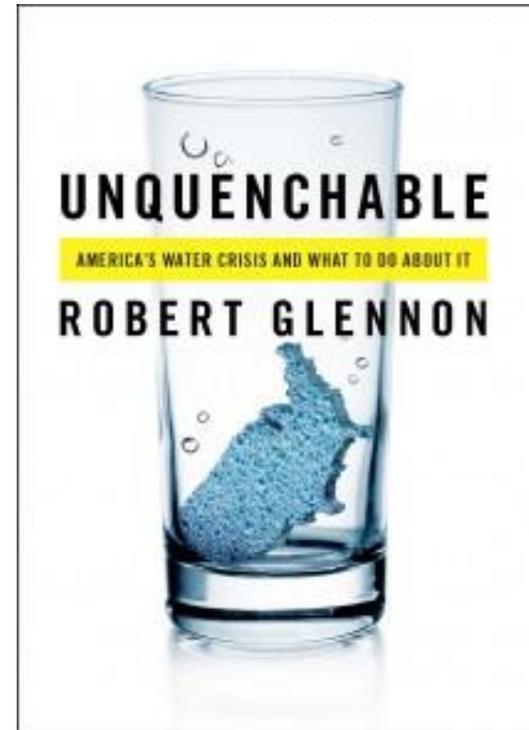
Inside Portland's rising utility rates: Less water consumption means higher prices *(Headline from Oregonian website)*

“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



“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*

Citizen Committees/Advisory Groups/Task Forces

Task Forces and Advisory Groups

- Advisory groups can be painful and time consuming, but also valuable
 - They bring an outside perspective
 - Usually respected by those voting on rates
 - Often eventually bring support for utility

Approach to Task Forces and Advisory Groups (not always in utility's control)

- Try to represent as many constituencies and interests as possible
- At the same time too large a task force can be unwieldy and even paralyzed
 - Austin has found 7 to be a good number, but has worked successfully with up to 11.
- Begin by getting members acquainted with, or more acquainted with, finances and operations of the utility
 - This can take time and cause restlessness among members, so be attuned to their moods, ask them to tell you when it's too much
 - Encourage them to examine utility expenses
- Quietly display talents and commitment of staff

Major Recommendations of 2012 Joint Committee on Austin Water's Financial Plan

- Raise fixed revenues to 20%
- Establish strategic reserve fund through rate surcharge and excess funds when that occurs
- Change additional fixed fee, recently approved, to five volumetric groups/pay scales
- [Recommendations helped, but revenues continued to decline and committee was called back in 2014]

Major Recommendations of 2014 Joint Committee on Austin Water's Financial Plan

- Adopt ~\$30 million in cuts brought forward by Austin Water
- Use more conservative assumptions when budgeting
- Increase percent of fixed revenues from 20% to 25% over 2-year period
- Transition to new volumetric rates that only subsidize service for Block 1 (and not Block 2 also)
- Implement drought rates in Stages 3 and 4 (per 1000 gallons)
- Eliminate funding transfers not related to utility service except for 8.2% General Fund transfer
- In Stage 2 limit General Fund transfer to 6%
- Suspend General Fund transfer in Stages 3 and 4

Going directly to the public

Determine the lay of the land

- Tune in to community values
- Austin example:
 - Concerns about affordability, particularly as rapid growth drives up property values, property taxes, housing prices and rents
 - Strong history of environmental activism and public support for environmental causes
 - Strong, if seldom expressed, support for a public water utility as opposed to a private water supplier

Conduct strategic conversations

- Identify and communicate with opinion shapers
 - Environmental groups
 - Business interests
 - Consumer interest groups
 - Social service groups
 - Others
- Also communicate with as wide a swath of the general public as possible
- Conduct one-on-one conversations

Strategic conversations - 2

- Present to community groups
 - Leave time for questions
- Have consistent themes, but tailor your message to your audience when that audience is concerned about specific issues
 - Austin example: Environmental activists: strong advocates for conservation and often also opposed to rate increases

Inflows to Austin's Water Supply Since Start of Drought (in acre feet)

