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

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Austin Water

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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

Costs (Requirements) 2013 Revenue

- Variable
- Fixed

80%
20%

80%
20%

20%
80%

Variable
Fixed

www.austintexas.gov/water
FY 2014 Water Rates: Residential

Residential Volume Rate Per 1,000 Gallons:
Uniform vs. Block Rates

Average Cost of Service Volume Rate: $4.94

<table>
<thead>
<tr>
<th>Block</th>
<th>Volume Rate Per 1,000 Gallons:</th>
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<tbody>
<tr>
<td>Block 1 (0-2k)</td>
<td>$1.84</td>
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<tr>
<td>Block 2 (2 - 6k)</td>
<td>$3.39</td>
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<td>Block 3 (6 - 11k)</td>
<td>$6.20</td>
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<td>Block 4 (11 - 20k)</td>
<td>$9.95</td>
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<td>Block 5 (20k - Over)</td>
<td>$12.84</td>
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Block Rates (Non-CAP) Uniform Rate
Austin Conservation, Drought Response, and Financial Impact
Total Pumpage in Gallons Per Capita per Day (GPCD)

Meeting our 140 GPCD Goals

17% decrease in 5-year average since 2006 Task Force
Total Annual Pumpage and Population

- FY 06: 56.6 MG
- FY 13: 45.9 MG

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>Total Treated Water Pumpage (MG)</th>
<th>Population</th>
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<tbody>
<tr>
<td>1990</td>
<td>30,000</td>
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<td>2013</td>
<td>145,000</td>
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Before the drought

Lake Travis

Image Courtesy of LCRA
After the Drought
Cumulative Inflow to Lakes Buchanan and Travis

Uncharted Territory
~1.7 MAF behind the 1950s Drought of Record
Water Service Revenue Loss

Fiscal Effect of Weather, Economy, and Conservation

- Estimated Revenue Variance FY 2007-13 (7 Yrs) $130 Million*
- Estimated Revenue Variance FY 2014-19 (6 Yrs) $364 Million*

*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**

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<thead>
<tr>
<th></th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
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<tbody>
<tr>
<td>Water:</td>
<td>13.9%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
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<tr>
<td>Wastewater:</td>
<td>2.3%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>2.5%</td>
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<tr>
<td>Combined:</td>
<td>8.3%</td>
<td>3.0%</td>
<td>3.0%</td>
<td>3.0%</td>
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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
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
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)

- **Average since 1942**: 1,230,284
- **2008**: 284,462
- **2009**: 499,732
- **2010**: 977,722
- **2011**: 127,802
- **2012**: 393,163
- **2013**: 215,138