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SOAH DOCKET NO. 473-14-5138
PUC DOCKET NO. 42857

PETITION OF NORTH AUSTIN § BEFORE THE STATE OFFICE
UTILITY DISTRICT NO. 1, §
NORTHTOWN MUNICIPAL UTILITY §
DISTRICT, TRAVIS COUNTY WATER §
CONTROL AND IMPROVEMENT §
DISTRICT NO. 10 AND WELLS § OF
BRANCH MUNICIPAL UTILITY §
DISTRICT, FROM THE RATEMAKING §
ACTIONS OF THE CITY OF AUSTIN §
AND REQUEST FOR INTERIM RATES §
IN WILLIAMSON AND TRAVIS §
COUNTIES § ADMINISTRATIVE HEARINGS

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CITY OF AUSTIN'S OBJECTIONS TO PREFILED TESTIMONY
OF PETITIONERS AND PUC STAFF

COMES NOW, the City of Austin, (herein sometimes referred to as "City," "Austin" or "Respondent"), in the above styled and docketed wholesale water and wastewater rate appeal proceeding and serves this, its Objections to Prefiled Testimony of Petitioners and PUC staff.

I. INTRODUCTION AND BACKGROUND

1. The City of Austin was made a party to this whole sale water and wastewater rate appeal in Order No. 1 dated, June 17, 2013.

2. On July 14, 2014, the City of Austin filed its Prefiled Testimony and Exhibits.
3. On October 17, 2014, Petitioners filed their Prefiled Testimony and Exhibits. Petitioners' Prefiled Testimony included the direct written testimony of David Malish, Thomas C. Arndt and Jay Joyce.
4. On, December 12, 2014, the Public Utility Commission of Texas ("PUC") staff filed its Prefiled Testimony. PUC's Prefiled Testimony included the direct written testimony of Heidi Graham.
5. In accordance with Order No. 9, Objections for Prefiled Testimony is due December 22, 2014.

Pursuant to Order No. 3 Finding Jurisdiction under Texas Water Code Section 13.044 and Denying Petitioners' Motion to Establish Interim Rates:

1. The hearing on the merits shall be a cost of service evidentiary hearing under Texas Water Code § 13.044(b). The City of Austin shall have the burden of proof to show that its rates are just and reasonable.

The Administrative Law Judge(s) provided for an extended prehearing schedule to allow the parties a reasonable opportunity to resolve the cost of service issues which are the subject of this contested case hearing. Austin and Petitioners did engage in extensive structured and informal settlement negotiations, formal mediation, and renewed resolution attempts. At the time of this pleading, Petitioners' response to Austin's most recent settlement offer has been pending since at least December 7, 2014. During the extensive prehearing period allowed by the Administrative Law Judge, Austin and Petitioners have further defined the scope of this contested case hearing by identifying matters which are contested and matters which are not disputed. Petitioners largely dispute the City's cost of service in terms of whether various line items or cost centers of the City of Austin's annual revenue requirement should be allocated to Petitioners, or whether

those line items or cost centers are retail only. The portion of Austin's revenue requirement which is not associated with provided service to wholesale customers should not be included in Petitioners' cost of service. Austin has had two (2) additional rate settings¹ since February, 2013 when the protested rates went into effect. In each fiscal year, Austin has considered issues raised by Petitioners concerning whether costs were joint or retail only. Consequently, Austin has adjusted its revenue requirement in accordance with the City's agreement with Petitioners or in partial resolution of this contested case hearing.

Cost of service is defined in two ways under the applicable agency rules; cash basis or utility basis. Austin uses the cash basis which is defined as follows:

Chapter 24. Substantive Rules Applicable to Water and Sewer Service Providers.

Subchapter I. Wholesale Water or Sewer Service.

PUC Substan. R. § 24.129. Definitions. (3) Cash Basis calculation of cost of service – A calculation of the revenue requirement to which a seller is entitled to cover all cash needs, including debt obligations as they come due. Basic revenue requirement components under the cash basis generally include operation and maintenance expense, debt service requirements, and capital expenditures which are not debt financed. Other cash revenue requirements should be considered where applicable. Basic revenue requirements under the cash basis do not generally include depreciation.

Austin presented its water and wastewater utility revenue requirements; for the test year or reference year, (Fiscal Year 2012), which ended less than 12 months before the date the

¹ As detailed in the prefiled testimony of Greg Meszaros and David Anders, each annual consideration of the budget for Austin Water Utility is a separate rate setting. These annual considerations of the budget or revenue requirement for Austin Water are not phases of some past rate setting, as suggested in Order No. 9. Each rate setting is a stand-alone consideration of the current year's revenue requirement and the rates needed to generate that revenue requirement for each customer class.

protested rate went into effect; Fiscal Year 2013, the year of the protested rate; Fiscal Year 2014; and Fiscal Year 2015.

The basis for Austin's objections to Petitioners' prefiled testimony, as detailed below is that the testimony is not relevant (legal opinions given by lay witnesses), or that it is intended to deny Austin's rights under the SOAH Rules and the Texas Rules of Civil Procedure to "obtain a just, fair, equitable and impartial adjudication of Austin's rights under established principles of substantive law. Texas Rules of Evidence at TRE 401 defines relevant evidence as evidence having any tendency to make the existence of any fact that is of consequence to the determination of the action more probable or less probable than it would be without the evidence. TRE 402 states that relevant evidence is admissible and evidence which is not relevant is inadmissible. In other words, Austin's objections to statements which are mere speculation, are known to be untrue, and which, on their face do not make any fact material to the determination more or less probable should be sustained. TRE 701 states that lay witness testimony is only admissible if it is rationally based on the perception of the witness (such as matters within the witness' personal knowledge), or helpful to a clear understanding of the witness' testimony or the determination of a fact in issue. Legal opinions rendered by lay witnesses are usually not helpful or necessary to a clear understanding or determination of a fact in issue. Finally, as to expert witnesses: Under TRE 702, an expert may render an opinion if scientific, technical or other specialized expertise will assist the trier of fact to understand the evidence or to determine a fact in issue. A witness qualified as an expert may give an opinion because such an expert opinion may prove helpful to the trier of fact.

II. OBJECTIONS TO PETITIONERS' PREFILED TESTIMONY

While Petitioners brought forward some complaints and claims regarding cost of service in addition to the claims set forth in the July 31, 2013 Jay Joyce affidavit, Petitioners and PUC staff also took the opportunity to take Austin to task for agreeing with Petitioners regarding some cost of service issues which they raised. Additionally, Petitioners fault Austin for not addressing certain utility service related matters unrelated to a determination of cost of service. To the extent that Petitioners' testimony offers legal opinions from non-lawyers, faults Austin for

reaching agreement with Petitioners on disputed cost of service revenue requirements, suggests that Petitioners' failure to address concerns regarding Austin's water and wastewater revenue requests are based on Austin's failure to comply with Petitioners' discovery requests, and that Austin does not have the opportunity to rebut the Parties' claims through Austin's direct and rebuttal cases, Petitioners' prefiled testimony should not be considered. Austin objects to Petitioners' prefiled testimony based on TRE 401, 402 regarding the definition of relevant evidence and the inadmissibility of irrelevant evidence; TRE 701, regarding opinion testimony by lay witness; and TRE 702, 703 regarding opinion testimony by expert witnesses and the bases of opinion testimony by experts, as indicated below.

A. Prefiled Testimony of David Malish, P. E.

David Malish testifies on behalf of Petitioners to provide "technical and historical support information" on behalf of North Austin MUD No. 1, and Wells Branch MUD. (Prefiled Testimony of David Malish, P.E., Page 7 of 20, Lines 6, 7). Austin objects to David Malish's testimony as follows

1. From Page 9, Line 4, to Page 14, Line 17. This testimony concerns pressure problems North Austin MUD No. 1 had with the City of Austin and City of Austin facilities. There is no information in this testimony concerning any of Austin's revenue requirement in the test year or going forward or the allocation of costs to North Austin MUD No. 1 and Wells Branch MUD. This testimony regarding a dispute which far predates the time period of this cost of service inquiry is neither relevant, probative, nor material to a determination of the cost of wholesale water service to North Austin MUD under the Fiscal Year 2013 protested rate.
2. From Page 14, Line 28, beginning after the word "Drive" to Page 16, Line 16. This testimony concerns pressure problems Wells Branch MUD had with the City of Austin and/or City of Austin facilities. There is no information in this testimony concerning any of Austin's revenue requirement in the test year or going forward, or the allocation of costs to Petitioners. This testimony regarding a dispute which far predates the time period of this cost of service inquiry is neither relevant, probative, nor material to a determination of the cost of wholesale water service to Wells Branch MUD under the Fiscal Year 2013 protested rate.

3. From Page 16, Line 19, to Page 17, Line 24. This testimony comes under the heading "Water Treatment Plant No. 4 Not Used and Useful to Petitioners." Under the cash basis, which Austin uses, a utility is authorized to fund construction works in progress. Austin detailed its use of Water Treatment Plant No. 4 in its prefiled testimony. Additionally, the referenced portion of David Malish's testimony regarding Water Treatment Plant No. 4 is neither relevant nor probative to a determination of the cost of wholesale water service to Wells Branch MUD and North Austin MUD under the Fiscal Year 2013 protested rate, because it is contrary to the established facts of Austin Water Utility as an integrated regional utility. Nothing in the record supports the notion that either North Austin MUD No. 1 or Wells Branch MUD has been allocated any costs of wholesale water service on the basis of proximity to specific components of the Austin Water Utility, or direct assignment.

B. Prefiled Testimony of Thomas C. Arndt, P. E.

Thomas C. Arndt, P. E. testifies on behalf of Petitioners to provide "technical and historical perspective" on behalf of Travis County Water Control & Improvement District No. 10. (Prefiled Testimony of Thomas C. Arndt, P.E., Page 4 of 13, Lines 26, 27). Austin objects to Thomas C. Arndt's testimony as follows:

1. From Page 6, Line 25, to Page 10, Line 12. This testimony relates to Travis County Water Control & Improvement District No. 10's compliance with storage and pressure infrastructure standards of the TCEQ. District 10 asserts that Austin does not provide adequate pressure, storage, and fireflow within the District 10. However, these issues are regulated by the TCEQ, and the TCEQ has authorized District 10 to finance the construction of facilities within District 10 to address these issues, at a cost to District 10 and not Austin. And, District 10 intends to finance additional facilities within District 10 for increased fire flow. Contrary to Mr. Arndt's suggestion, the TCEQ has not held Austin responsible for the cost of providing the facilities within the district for storage, pressure and fireflow. Moreover, Mr. Arndt does not state that the City of Austin is or should be responsible for the costs of those facilities, Mr. Arndt simply offers technical information supporting regarding the costs to the District and broad statements regarding the need for those facilities. The need for those facilities was reviewed and approved by the TCEQ which has oversight over the expenditures of District 10. The distant past District 10 costs for

storage, pressure enhancement and fireflow within the district are neither probative nor relevant to a determination of the cost of wholesale water service to Travis County Water Control & Improvement District No. 10 under the Fiscal Year 2013 protested rate.

2. Page 10, Line 15 to Page 13, Line 3. These questions and answers come under the heading "Water Treatment Plant No. 4 Not Used and Useful to District." The limitation on physical facilities in service is not a limitation under the cash basis calculation of cost of service, which Austin uses. Under the cash basis, a utility is authorized to fund construction works in progress. There is no support for the notion that either Travis County Water Control & Improvement District No. 10 has been allocated any costs of wholesale water service based on its proximity to specific components of the Austin Water Utility or direct assignment of facilities. In order for Mr. Arndt's statements to be relevant or probative on the issue of the Fiscal Year 2013 cost of service for District 10, which is the subject of this hearing, then it would have to be shown that Austin did not operate an integrated, regional water utility. Additionally, Mr. Arndt's description of Water Treatment Plant No. 4 and his disputes with the City of Austin regarding the need for this facility and its use as part of Austin's integrated regional water utility is contrary to the positions of all the regulatory authorities which have permitted and authorized Water Treatment Plant No. 4.

C. Prefiled Testimony of Jay Joyce, Witness for Petitioners

Jay Joyce testifies on behalf of Petitioners North Austin MUD No. 1, Northtown MUD, Travis County Water Control & Improvement District No. 10 and Wells Branch MUD stating:

"The purpose of my testimony is to discuss the errors in the City of Austin's cost of service determinations for the Petitioners, which are all wholesale customers of the City of Austin. I will identify certain adjustments that are required to the City of Austin's requested water and wastewater costs of service filed before the Commission."

To the extent that Mr. Joyce identifies and quantifies those "certain adjustments" he advocates on behalf of Petitioners, Austin does not argue that Mr. Joyce's testimony is not relevant or irrelevant and probative to the matters at issue in this contested cost of service case, though, of course, subject to dispute and rebuttal. To the extent that Mr. Joyce offers legal opinions and commentary on the legal and procedural aspects of this case, Mr. Joyce's testimony as a lay

person who has not been offered as a legal expert, is gratuitous and not probative. At the same time, Austin's failure to object to some of Jay Joyce's incorrect statements cannot be considered as the City of Austin's agreement with adjustments and recommendations which are properly the subject of this contested case hearing. Austin will rebut Jay Joyce's disputed testimony and recommended adjustments in its rebuttal case. The objections set forth below are restricted to testimony offered that is not relevant, probative and/or which is unnecessarily inflammatory and misleading.

Attached to this testimony as Exhibit C is a copy of Jay Joyce's testimony with the testimony Austin objects to redacted, or stricken. Austin objects to Jay Joyce's testimony as follows:

1. Page 9, Line 3, after "review," and ending with the words "I assumed." Austin objects to the statement "and even though the City does not provide any evidence of the reasonableness of necessity of true costs that are included in the cost of service study." This clause denies the testimony of Greg Meszaros, Director and David Anders, Assistant Director, who testified regarding the costs of water and wastewater utility service, as shown on Exhibits A and B² to these objections. Every single line item of the Austin Water Utility's annual revenue requirement was explained. Also, Richard Giardina, the project manager of the 2008 Cost of Service Rate Study, and a nationally recognized expert in rate matters, testified regarding the reasonableness of the process and the methodology for allocating the costs of Austin's revenue requirement.
2. Page 9, Line 11, 12. Austin objects to the statement: "Although the City objected to virtually every request," and the word "limited." Comments on the discovery process are inappropriate and are not relative or probative. Moreover, the City provided thousands of pages of data for Mr. Joyce's review even before this contested case hearing was convened, during discovery, and during informal settlement discussions. It is both inaccurate and non-probative for Mr. Joyce to state that Austin did not provide the information requested by Petitioners at all times. *See*, TRE 401, 402 regarding the definition of relevant evidence and the inadmissibility of irrelevant evidence.

² Exhibits A and B hereto are the Bates stamped pages from the prefiled testimony of Greg Meszaros, Director and David Anders, Assistant Director of Austin Water Utility as indicated. These Exhibits relate to the Fiscal Year 2012-2013 Approved Budget, but similar documentation was provided for the Fiscal Year 2011-2012, the test year, Fiscal Year 2013-2014, and Fiscal Year 2014-2015.

3. Page 9, Line 24, through Page 10, Line 2, ending just before the words, "In my testimony, . . ." Mr. Joyce gives his impressions as a non-lawyer of whether Austin "grasped the fact that it has the burden of proof." His speculations and comments on what it means to have the burden of proof in a contested rate case are not relevant or probative.
4. Page 10, Line 4, 5. Austin objects to the clause, "given the City's unwillingness to cooperate with discovery" for the reasons stated above.
5. Page 10, Line 6, the word, "secretive." Mr. Joyce deliberately mischaracterizes the public ratemaking procedures Petitioners have enjoyed. As a public agency, and as stated elsewhere in Mr. Joyce's testimony, Austin's water and wastewater rates have been set through an open, inclusive and participatory process in accordance with the Texas Government Code, the Texas Local Government Code, and the rules of the TCEQ and now the PUC.
6. Page 12, Lines 16 and 17. Austin objects to Jay Joyce's statement that David Anders admits the AWU water and wastewater rates are not based on the cost of service. This statement is rank hyperbole, and, as such is neither relevant nor probative. The remainder of the response contains an appropriate characterization of David Anders' testimony that, while the Petitioners rates were based on the 2008 Cost of Service Rate Study, which Petitioners' participated in with their own rate consultant, some costs were identified by Petitioners in this current proceeding which Austin could agree should not be included in Petitioners' cost of service.
7. Page 14, Line 12, the words "unfairly over." Jay Joyce's characterization of reclaimed water utility costs and subsidization is not probative, because the issue of whether the burden of the reclaimed water utility costs should be borne by water and wastewater customers is a legal issue to be decided by the ALJs.
8. Page 19, Lines 2, 3, the clause "and is simply another hidden tax on the water and wastewater utilities." Jay Joyce never defines his concept of tax, and the drainage fee charge obviously was not hidden from Petitioners.
9. Page 19, Lines 6, 7, the clause and buy-out home of Austin resident located in floodplains. Jay Joyce claims that these purposes of the Watershed Protection Department are stated on the City's website. Instead, the City website states:

“Watershed Protection protects lives, property and the environment of our community by reducing the impact of flood, erosion and water pollution.” Deliberate and gratuitous inflammatory hyperbole and inflammatory misinformation is neither relevant nor probative on the question of whether watershed protection costs should be included in Petitioners’ cost of service.

10. Page 19, Line 24, the phrase, “It is a phantom tax.” Calling a Public Improvement District assessment a “phantom tax” is not helpful to the determination of whether the Public Improvement District should be included in Petitioners’ cost of service. Mr. Anders agreed to remove that expense from Petitioners’ cost of service; however, Mr. Giardina noted that the Public Improvement District costs related to Austin Water Utility’s headquarters location in downtown Austin was appropriately included in Petitioners’ cost of service.
11. Page 24, Line 23, to Page 25, Line 4. Austin objects to the question and answer regarding the Austin Energy rate case. Austin and Petitioners in that case resolved their differences and reached settlement on all matters, including the General Fund Transfer. The settlement was approved in a Final Order issued by the PUC. Jay Joyce’s attempt to re-litigate the settled issue of the Austin Energy General Fund Transfer in this water and wastewater rate case is barred by *res judicata*.
12. Page 26, Lines 11, 12. Austin objects to the sentence: “Once again, AWU’s ratepayers are used to make up a shortfall in general government funding.” This statement is not relevant or probative on the issue of whether costs associated with the Radio Communications Fund should be included in Petitioners cost of service.
13. Page 26, Lines 24 through 26. Austin objects to the sentence: “It appears that this is just another excuse for the water and wastewater utilities to fund Austin’s general government.” This statement is not relevant or probative on the issue of whether costs associated with the AFD Transfer for Hazmat Protection Fund should be included in Petitioners cost of service.
14. Page 27, Lines 17 through 19. Austin objects to the sentence: “It appears that this is just another excuse for the water and wastewater utilities to fund Austin’s general government.” This statement is not relevant or probative on the issue of whether costs associated with the AFD Transfer for Hazmat Protection Fund should be included in Petitioners cost of service.

15. Page 29, Lines 3 lines above Line 5 through Line 11. Jay Joyce's comments on the status of discovery regarding City of Austin rate case expenses which he agrees should be allocated to Petitioners, at least in part, are not relevant or probative on the question of whether rate case expenses should be included in Petitioners' cost of service.
16. Page 31, Lines 18, 19. Austin objects to Jay Joyce's statement: "since transfers to other departments are not reflective of real costs and are subject to manipulation by the City." This statement is contrary and inconsistent with other testimony provided by Jay Joyce which notes that the Austin Water is entitled to include transfers to other departments in payment for services rendered in the cost of service to wholesale customers.
17. Page 32, Line 17 through Page 33, Line 2. Austin objects to Jay Joyce's deliberate misrepresentation of Austin's review of its personnel. Review of personnel costs and expenses is part of every annual ratesetting by Austin, which takes place in public. Moreover, Jay Joyce's statements regarding discovery, and the fact that Austin Water has not commissioned an outside agency to perform a staffing review supporting a recommendation that Austin is 10% overstaffed is simply not responsive to the question asked and nonsensical.
18. Page 33, Lines 19 and 20. Austin objects to Jay Joyce's deliberate misrepresentation of any support for his recommendation that the City overpays its employees by 5% and that the City should justify the compensation paid to its employees in its next rate case. According to Jay Joyce, the "evidence that the City overpays its employees" is "On the City's website, it states, "The Austin Police Department pay schedule is one of the highest in the State of Texas and the nation." This statement has nothing to do with the personnel costs of Austin Water Utility staff and is not responsive to the question asked. Jay Joyce's adjustments in this excerpt of his testimony are based on such spurious information as to render it wholly immaterial.
19. Page 33, Line 23. Austin objects to Jay Joyce's statement: "The City has not supported its compensation levels at all" as being simply not a correct legal conclusion from a lay witness. Personnel costs are included in the budget detail of every City of Austin budget, and are considered as part of Austin's annual rate setting.

20. Page 34, Line 10, the word “hidden.” The General Fund Transfer included in Austin Energy electric rates cannot be considered “hidden”. As stated in Item 11, above, Austin objects to Jay Joyce attempting to undo the approved settlement in the Austin Energy rate case. Austin and Petitioners in that case resolved their differences regarding cost of energy services and reached settlement on all matters, including the General Fund Transfer. The settlement was approved in a Final Order issued by the PUC. It is *res judicata* for Jay Joyce to attempt to re-litigate the settled issue of the Austin Energy General Fund Transfer in this water and wastewater rate case.
21. Page 38, Line 24. Austin objects to Jay Joyce’s statement that the Revenue Stability Reserve Fund is a “slush fund”. This statement deliberately mischaracterizes the protection from rate shock afforded wholesale customers of Austin Water. Moreover, the concept of a “slush fund” might indicate that these funds are available for use by Austin Water for purposes other than protection from unexpected rate spikes, which is not the case. Accordingly, this clause is known by Jay Joyce to be neither relevant nor probative.
22. Page 41, Lines 9 and 10. Austin objects to the question and answer about whether the allocation of costs to transmission (to be included in Petitioners’ wholesale cost of service) versus distribution (retail only costs) system based on net asset values of those facility components is consistent with industry standards. Jay Joyce states that the cost allocation based on net asset values is not standard industry practice. However, the M1, states this method of cost allocation based on net asset value is appropriate.
23. Page 49, Line 6. Austin objects to Jay Joyce’s statement, “Due to the City’s failure to adequately respond to our discovery in a timely manner,” as the basis for his failure to complete changes to the wastewater cost of service model. As stated above, comments on the discovery process are inappropriate and are not relative or probative. Moreover, the City provided thousands of pages of data for Mr. Joyce’s review even before this contested case hearing was convened, during discovery, and during informal settlement discussions. It is both inaccurate and non-probative for Mr. Joyce to state that Austin did not provide the information requested by Petitioners at all times.

III. OBJECTIONS TO WRITTEN PREFILED TESTIMONY OF HEIDI GRAHAM ON BEHALF OF THE PUBLIC UTILITY COMMISSION OF TEXAS

A. Factual Background of PUC Staff Participation in This Contested Case Hearing

Heidi Graham provided prefiled testimony on the part of the Public Utility Commission staff. Ms. Graham's testimony was preceded by no discovery requests to or from the City of Austin, and no substantive participation in this case since agreement on the hearing schedule at the May 15, 2014 prehearing conference, which was the first prehearing conference concerning the wastewater appeal and marked the consolidation of the two cases. Because the expectation was that this rate dispute might be resolved without a hearing, the City of Austin did not burden PUC staff with any discovery. In fact, when City of Austin counsel requested a meeting between City of Austin staff and PUC staff on October 26, 2014, counsel for PUC stated that the PUC staff would not agree to meet with Austin. Additionally, counsel for PUC had spoken with counsel for Austin and Petitioners separately, before a scheduled meeting between Austin and PUC counsel on October 25, 2014, requesting additional time to prepare prefiled testimony. Counsel for Austin and Petitioners agreed with counsel for PUC that the parties would not object to the additional month for PUC staff to prepare its prefiled testimony. Then, without explanation, counsel for PUC notified the parties on November 26, 2014 "that Commission Staff will not be pursuing an extension to file its prefiled testimony after all." Correspondence documenting this sequence of events is attached to these objections as Exhibit "D."

B. General Objection to Testimony of PUC Staff as Expert Opinion

Austin objects to PUC staff prefiled testimony presented by Heidi Graham based on TRE 702, 703 regarding opinion testimony by expert witnesses and the bases of opinion testimony by experts, as indicated below. PUC staff was charged with providing an expert opinion to assist the ALJs with technical knowledge, but PUC staff elected not to do so.

Austin objects to the testimony of Heidi Graham beginning on Page 5, Line 19, and ending on Page 9, Line 10 as expert opinion because, by her own admission, she simply did not

review the documents provided regarding the revenue requirement, and she did not understand, as Jay Joyce did, the mathematical formulas embedded in the cost of service rate models which assigned costs to Petitioners under the base excess capacity model based on whether such costs could fairly be determined to be joint or retail only. The Austin Water Utility revenue requirement in FY 2013 was over \$500 million, across hundreds of cost centers. Nothing in Heidi Graham's listed experience was similar in complexity of the Cost of Service Rate Model for either water or wastewater. While it would be pointless to assign blame for Heidi Graham's lack of understanding, clearly her opinions, which begin on Page 5, Line 19, and end on Page 9, Line 10 are not an appropriate PUC staff recommendation. Heidi Graham's statement of her own lack of understanding of the city of Austin revenue requirement and cost allocations to the wholesale customer class renders her expert opinion of no probative value. If an expert states that she did not understand the information provided, or found it inadequate to form an opinion, then, in recognition of that lack of understanding and perceived inadequacy, an expert opinion should not be offered, or if offered, it should be disregarded by the trier of fact on the basis that it is not credible, relevant or probative.

As stated above, PUC staff did not actively participate in this contested case hearing, or in Austin's and Petitioners' efforts to resolve this matter. From the standpoint of allocation of scarce regulatory resources, the PUC staff approach in this case makes perfect sense, assuming, as Austin did, that this case would be resolved before hearing. Additionally, it made sense for the PUC staff to request additional time for preparation of their prefiled testimony as PUC staff became aware that many thousands of pages of information and model output had been presented as to which staff did not have time to review and/or develop a position. Austin does not object to PUC staff taking an additional opportunity to review the documentation and develop a qualified expert opinion regarding the cost of service for Austin's wholesale customers. Austin does object to PUC staff refusing to render a qualified expert opinion until after the hearing is underway, depriving Austin of the opportunity to rebut the PUC staff case.

In light of the PUC technical staff's limited participation in this case and failure to meet with the City of Austin staff, it was more than surprising that PUC staff testified that the City provided inadequate and incomplete information, and offered comprehensive statements:

“There is no written testimony supporting the actual numbers for the revenue requirement. The City provided numbers used for a revenue requirement in attachments [to its witness' prefiled testimony] as a part of the process, but the information in the attachment did not substantiate the reasonableness and necessity of the increased rate, except for the contested items brought forward by Appellants.”

In fact, the City of Austin provided thousands of pages of prefiled testimony, including attachments, detailing and explaining the Austin's annual costs for water and wastewater service, supporting its revenue requirement. The testimony of Joe Healy was in support of the mathematical validity of the model, not the validity of the revenue requirement. This testimony denies the testimony of Greg Meszaros, Director and David Anders, Assistant Director, who testified regarding the costs of water and wastewater utility service. Greg Meszaros and David Anders testified regarding the Austin Water Utility revenue requirement. Every single line item of costs included in the Cost of Service Rate Model was detailed and explained, as shown on Exhibits A and B³ to these objections. Also, Richard Giardina, the project manager of the 2008 Cost of Service Rate Study, and a nationally recognized expert in rate matters, provided additional testimony regarding the reasonableness of the process and the methodology for allocating the costs of Austin's revenue requirement.

C. Additional Specific Objections to Heidi Graham's Prefiled Testimony

1. Page 6, Line 5 to Line 13, regarding the basis of the City's increase in its wholesale water and sewer rates. Heidi Graham's testimony uses a few sentences out of the

³ Exhibits A and B hereto are the Bates stamped pages from the prefiled testimony of Greg Meszaros, Director and David Anders, Assistant Director of Austin Water Utility as indicated. These Exhibits relate to the Fiscal Year 2012-2013 Approved Budget, but similar documentation was provided for the Fiscal Year 2011-2012, the test year, Fiscal Year 2013-2014, and Fiscal Year 2014-2015.

testimony of David Anders as the basis for her analysis. This is a gross over simplification of David Anders' presentation and quantification of the Austin Water Utility revenue requirement in Fiscal Year 2013. Because Heidi Graham considered David Anders' summarizing discussion as a basis for a water or wastewater rate increase, she did not review the cost of service documentation provided by the City of Austin. Therefore, any position she states regarding the revenue requirement cannot be a qualified expert opinion.

2. Page 7, Lines 3 to 11. Here again, PUC staff complains about data they did not request from the City of Austin. Unlike Petitioners, PUC staff was unable to determine the mathematical formulas which support the cost of service rates developed under the cost of service model. Clearly, it is not impossible to determine the allocation factors which lead to the cost of service rates. The mathematical validity of the model, which no other party has questioned, is substantiated by the fact that it can be used to develop rates for each of the Petitioners. That is, when you understand it and know how to use it, you can confirm its mathematical integrity as shown on Joe Healy's exhibits.
3. Page 7, Line 12 to Page 8, Line 18. Here again, PUC staff complains that the City failed to provide separate mathematical formulas for each of the allocations made to Petitioners. Although, PUC staff did not request such analysis, it could overburden the record to include every formula included in what is a standard cost of service model for a complex water utility. This case is not in any way similar to the City of Austin's previous case where the wholesale customers rates were simply a factor of the inside city retail rates.

D. Summary of Austin's Position Regarding Prefiled Testimony of Heidi Graham

Clearly, PUC staff needs more time to develop a qualified expert opinion on the City of Austin cost of service for water and wastewater, because the testimony provided by Heidi Graham on December 12, 2014 is simply a statement of lack of understanding and information regarding the City of Austin position. Because the parties have been unable to resolve the matters in dispute to date, the parties have continued their hearing preparations. And, PUC staff should be willing to meet with Austin staff to obtain additional information as needed to do so, in

the same manner as it might have, if this contested case hearing were still at TCEQ where it began.

IV. RELIEF REQUESTED

THEREFORE, CONSIDERING THE FORGOING, AUSTIN RESPECTFULLY REQUESTS THE HONORABLE ADMINISTRATIVE LAW JUDGES sustain these objections and strike the testimony to which theses objections have been made as set forth herein above, and grant Austin such other and further relief, including the right to rebut disputed items of its water and wastewater cost of service to which it may show itself justly entitled.

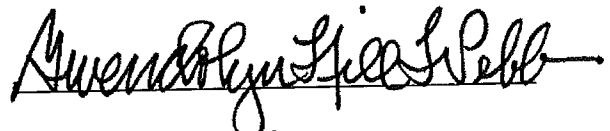
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ATTORNEYS FOR CITY OF AUSTIN

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document has been served via hand delivery, facsimile, electronic mail, overnight mail, US mail and/or Certified Mail Return Receipt Requested on all parties whose names appear on the mailing list below on this 22nd day of December, 2014.

FOR THE PUBLIC UTILITY COMMISSION:

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Austin, Texas 78711-3326
Via Electronic Upload

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Administrative Law Judge

Honorable Beth Bierman
Administrative Law Judge

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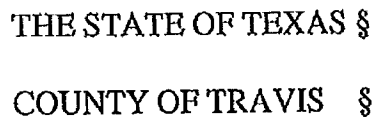
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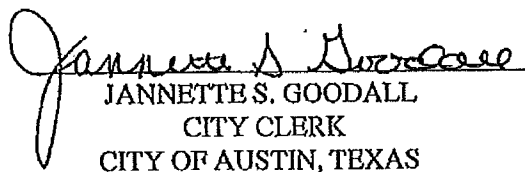
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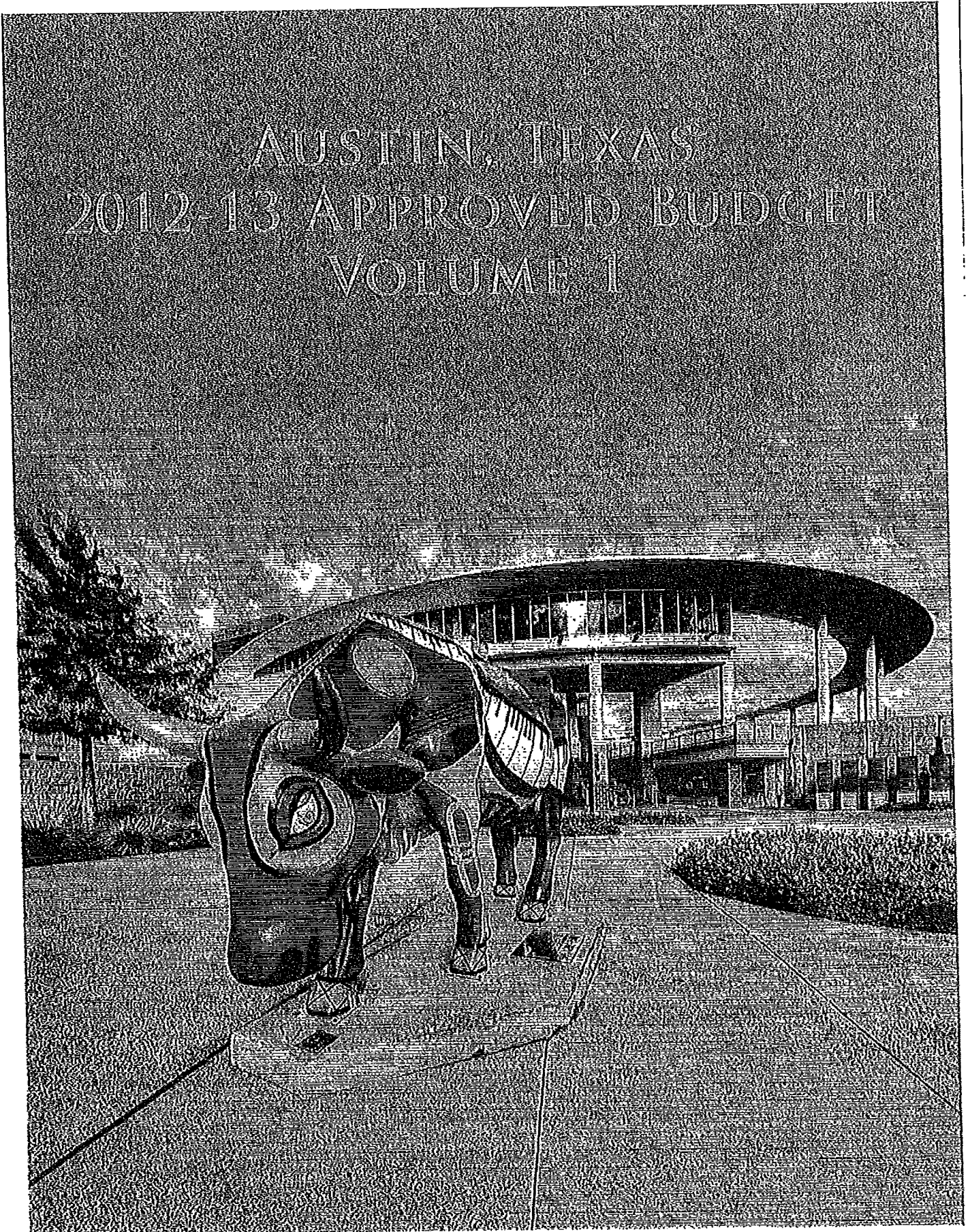


WITNESS my hand and official seal of the City of Austin at Austin, Texas, this 11th
day of June, 2014.





AUSTIN, TEXAS
2012-13 APPROVED BUDGET
VOLUME 1



2012 - 13
APPROVED BUDGET
VOLUME I

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Reflective of the City's desire to be responsible stewards of the planet's resources, the City of Austin's budget document uses paper made from 100% recycled post-consumer fiber, is acid- and lignin free, and Green Seal® and Forest Stewardship Council (FSC) certified. Additionally, the typeface is Ecofont®, designed specifically to use less toner. The Office continues to look for ways to bring additional environmentally-responsible practices into the production of the Budget document.



GOVERNMENT FINANCE OFFICERS ASSOCIATION

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Budget Presentation
Award*

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**City of Austin
Texas**

For the Fiscal Year Beginning

October 1, 2011

Linda C. Dandson Jeffrey R. Egan

President

Executive Director



Leaders at the Core of Better Communities

This
CERTIFICATE OF EXCELLENCE

is presented to

Austin, TX

for exceeding the standards established by the ICMA Center for Performance Measurement™
in the identification and public reporting of key outcome measures, surveying of both
residents and employees, and the pervasiveness of performance measurement in the
organization's culture.

Presented at the 97th ICMA Annual Conference
Milwaukee, Wisconsin
19 September 2011

A handwritten signature in black ink, appearing to read "Robert J. O'Neill Jr.".

ROBERT J. O'NEILL JR.
ICMA EXECUTIVE DIRECTOR

A handwritten signature in black ink, appearing to read "David M. Childs".

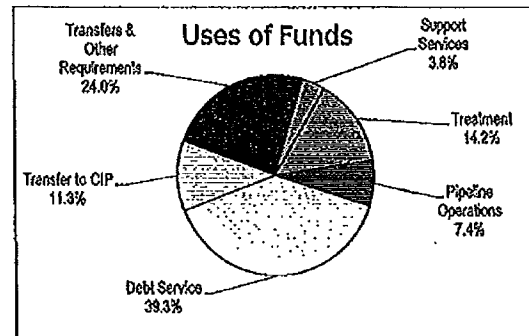
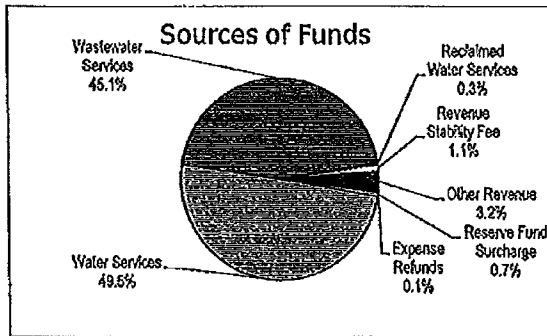
DAVID M. CHILDS
ICMA PRESIDENT

A handwritten signature in black ink, appearing to read "Michael Lawson".

MICHAEL LAWSON
DIRECTOR
ICMA CENTER FOR PERFORMANCE MEASUREMENT



Austin Water Utility



Budget Overview

	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Austin Water Utility Fund					
Revenue	\$361,765,152	\$439,812,711	\$458,784,504	\$459,844,640	\$506,898,540
Transfers In	\$18,186,255	\$5,100,582	\$4,600,582	\$4,600,582	\$7,020,582
Requirements	\$386,441,530	\$432,431,804	\$465,898,838	\$463,542,127	\$518,152,577
Full-Time Equivalents (FTEs)	1,070.10	1,070.10	1,069.10	1,069.10	1,094.10
Expense Refunds	\$311,641	\$470,956	\$355,513	\$398,259	\$413,859
Total Budget	\$386,753,171	\$432,902,760	\$466,254,351	\$463,940,386	\$518,566,436

Austin Water Utility Organization by Program and Activity for 2013

Engineering Services

- Collection Engineering
- Distribution Engineering
- Facility Engineering
- Pipeline Engineering

Environmental Affairs and Conservation

- Regulatory Support
- Special Services
- Water Conservation
- Wildland Conservation

One Stop Shop

- Inspection, Review, and Support

Pipeline Operations

- Collection System Services
- Construction and Rehabilitation Services
- Distribution System Maintenance
- Management Services
- Water Meter Operations

Reclaimed Water Services

- Reclaimed Water Services Support

Treatment

- Laboratory Services
- Lift Stations and Remote Facilities
- Maintenance Services
- Process Engineering
- Pump Stations and Reservoir Maintenance
- Treatment Support
- Wastewater Treatment
- Water Treatment

Water Resources Management

- Systems Planning
- Utility Development Services
- Utility Strategic Resources

Support Services

- Departmental Support Services

Transfers and Other Requirements

- Debt Interest and Commission
- Debt Transfers
- Interfund Transfers
- Other Requirements

Austin Water Utility Mission and Goals for 2013

Mission

The mission of the Austin Water Utility is to provide safe, reliable and high quality water services to our customers so that all community needs for water are met.

Goals

Strengthen customer value and stakeholder relationships:

- Minimize loss of water. Maintain real loss volume of treated drinking water below 10%.
- Reduce customer service complaints. Keep customer complaint rate below 1%.
- Improve customer confidence. Increase customer satisfaction survey results to an average of 75%.

Protect the environment through sustainable practices:

- Reduce greenhouse gas emissions through the City's Climate Protection Plan. Maintain average annual carbon footprint below target of 6,347.
- Reduce combined single-family and multi-family water consumption per capita per day. Work to reduce per capita daily combined residential water consumption to 86 gallons.
- Reduce growth of non-residential potable water demand relative to projection. Work to reduce water consumption per capita per day to 156 gallons.

Protect the public health and safety by providing high quality water services:

- Maintain quality of water and wastewater system. Maintain zero notices of violations or enforcement actions.
- Reduce the number and volume of Sanitary Sewer Overflows. Keep number of reported wastewater repeat overflows per 100 miles of sewer lines below 1.
- Improve pressure, capacity, velocity, fire protection, and valve shutout capability within water distribution system. Keep peak day water usage as a percentage of water treatment system capacity at 80%.

Maintain strong financial position to ensure improved cost structure and competitive rates:

- Maximize utility revenue from all available sources. Keep dollar amount of revenue recovery from accounts with meter problems, needing wastewater averaging rate changes, or leak and other adjustments above \$1 million dollars.
- Reduce operations and maintenance costs. Keep O&M spending to 98% of budget.
- Minimize utility debt. Keep percentage of cash contributed to CIP above 20%.

Optimize life cycle cost of existing and future assets:

- Improve effectiveness and efficiency of Capital Improvement Program project delivery. Maintain CIP funds spent compared to budget at 90%.
- Achieve approved service levels at optimal life cycle costs, minimal environmental impact and maximized social value. Reduce kWh per MG across entire utility to 2,475 target.

Austin Water Utility

Message from the Director

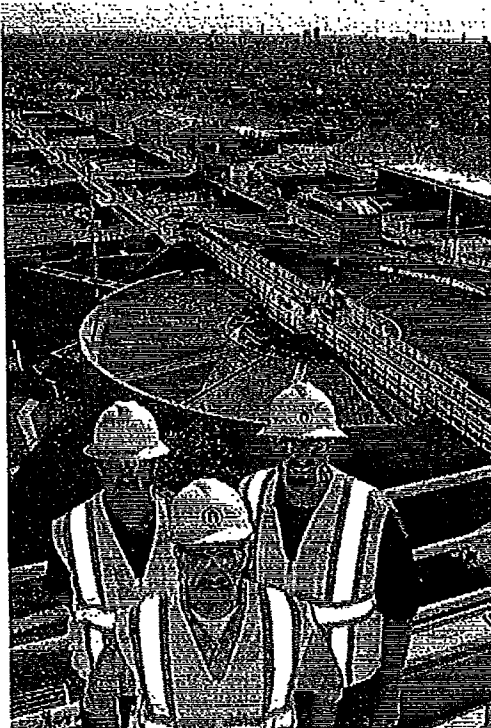
The Austin Water Utility (AWU) provides retail water and wastewater services to a population of approximately 900,000 inside and outside the city limits. AWU also provides wholesale services to about twenty customers, including the communities of Rollingwood, Sunset Valley, Manor, Westlake Hills, two water control and improvement districts, five municipal utility districts, and several water supply corporations and private utilities. AWU draws water from the Colorado River into two water treatment plants that have a combined maximum capacity of 285 million gallons per day. Drinking water is pumped from the plants into Austin's water distribution system, which has a total reservoir storage capacity of approximately 167 million gallons. AWU also operates a collection system that brings wastewater to two major treatment plants where it is treated before being returned to the Colorado River. A biosolids facility at Hornsby Bend receives sludge generated by the treatment processes at AWU's wastewater plants and uses it to create compost. This facility has gained national recognition for its management of the waterways and lands, leading to its recognition as a national birding sanctuary. In addition, AWU manages the City's wildlands and Balcones Canyonlands Preserve (BCP), which conserve habitat for endangered species. AWU also promotes water conservation through educational and incentive programs.

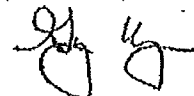
Reliable water and wastewater service are essential to the health and welfare of the community, and continued investment in the utility system is a prerequisite for economic growth and prosperity in the future. The Utility has been recognized for the excellence of utility services and management practices, but the Utility faces important challenges in continuing to serve the community. These challenges include financial stability, staffing to address core service functions, implementation of our capital improvement program, and the revenue and cost impacts as a result of increased water conservation awareness.

Current projections for the Utility's financial condition show increases in costs exceeding the increases in revenue. The Utility is proposing increases in rates and changes to our rate structures for FY 2012-13 to ensure adequate funding of the water and wastewater operations and capital needs, while meeting Council and community conservation values, addressing sustainability issues, and meeting all financial policies.

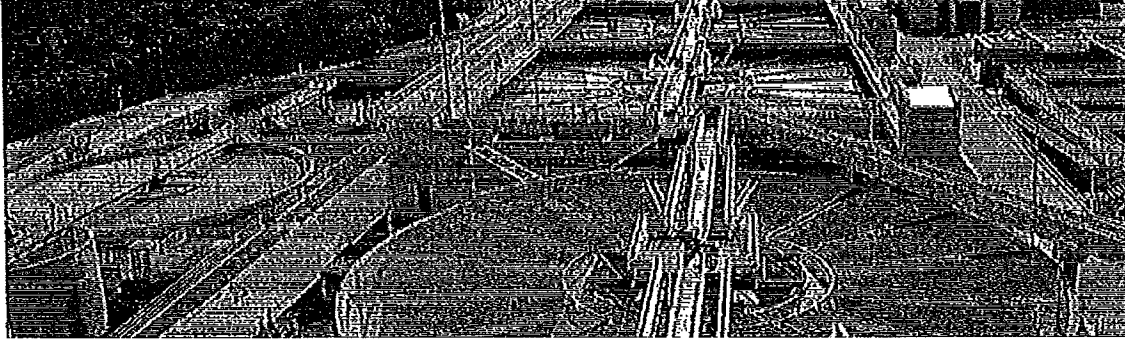
While the Utility is proposing a rate increase for FY 2012-13 to close this gap, it is important for the ratepayers to know that the Utility has taken significant steps to control costs and enhance revenue. In the preparation of the FY 2012-13 Budget, the Utility continues to develop budget spending targets which have significantly reduced the increase in controllable operating costs. The revenue recovery effort to review billing anomalies continues to increase the amount of revenue collected.

The AWU is confident we will meet all of the challenges we face. We continue to be a leader in our industry and will adapt to changing conditions. Our vision is to be recognized as the best water utility in the nation, in a city that is the best managed city in the nation. Our team is committed to achieving these lofty goals, while providing safe, reliable, and high quality water services to our customers.




Greg Meszaros, Director
Austin Water Utility

Budget Highlights



The FY 2012-13 Budget for the AWU addresses major operating and capital improvement issues while allowing the utility to continue to provide high quality service. The Utility continues to focus on a reliable water supply, quality customer service, and appropriate investment in infrastructure while minimizing rate increases. However, the next fiscal year continues to present challenges for the Utility to address revenue volatility due to extreme weather patterns and the recent success of water conservation initiatives.

The projected cost increase needed to cover operating requirements, debt service, and transfers out is higher than projected increases in base revenues, necessitating increases in water, wastewater, and reclaimed water rates. The FY 2012-13 Budget projects total available funds of \$513.9 million and total requirements of \$518.2 million.

Revenue

According to the Lone Star Sierra Club, the City of Austin has one of the most aggressive water conservation programs in Texas, and AWU aspires to lead the state, and the nation, in innovative ways to sustain our natural resource. Water conservation initiatives could prolong the "trigger" to purchase additional water under the existing Lower Colorado River Authority (LCRA) supply agreement and defer the need to expand capital infrastructure in the long term, a goal the Utility genuinely supports. However, more than 80% of the Utility's costs are fixed and conservation activities create revenue volatility that is unsustainable in the short term.

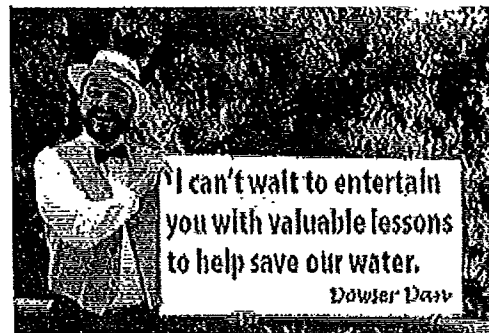
Subsequent to the FY 2011-12 Budget approval, the City Council passed Resolution No. 20110922-052 which directed the City Manager to work with a Joint Committee of the Water and Wastewater Commission, Resource Management Commission, and the Impact Fee Advisory Committee, with input from the public, to develop recommendations for short-term and long-term financial plans to strengthen the financial stability of the AWU. The FY 2012-13 Budget includes implementation of the recommendations from the Joint Committee regarding the current Revenue Stability Fee, changes to the volumetric rate block structure, and the creation of a new water revenue stability reserve fund.

The FY 2012-13 Budget also includes an increase in the number of residents participating in the Customer Assistance Program, from approximately 4,900 in FY 2011-12 to 18,000 by the end of the FY 2012-13.

Rates

AWU is proposing a two-phased change to the current rates for FY 2012-13 in order to implement the recommendations from the Joint Committee. The first phase will be effective November 1, 2012, and include a 6.0% increase for wastewater service and a 10.8% system-wide reclaimed water increase.

The second phase of the rate proposal will be effective February 1, 2013, and includes the following changes to the water rate structure: eliminate the current Revenue Stability Fee and redesign the fixed revenue structures for all customer classes; integrate new volumetric rate block intervals that more accurately reflect actual customer



Dowser Dan educates school kids about water and water conservation.

usage; and create a new water revenue stability reserve fund to offset revenue shortfalls.

A new tiered minimum fixed water charge for the residential customer class will be based on the customer's monthly consumption, with lower users paying a lower charge and higher water users paying a higher charge. The new monthly tiered minimum water charge is intended to promote conservation and will model the 5 tier volumetric rate block structure by assigning a tiered charge for each block. The amounts of the tiered minimum water charge will start at \$2.00 for block 1 and increase to \$12.55 for blocks 4-5. The multifamily and commercial customer classes will be assessed a meter-sized-based fixed charge, while the large volume and wholesale customer classes will be assessed a minimum water charge based on annual fixed revenue targets for each class.

The AWU has a residential 5 tier inclining block rate structure as a means to encourage conservation through water pricing, and changing the volumetric rate block intervals will provide further incentive for customers to conserve this essential resource. The new volumetric rate block intervals will ensure that the bottom 10% of residential water customers based on volumes purchased remain in the first tier and pay a discounted rate, while the top 10% of residential water customers based on the volumes purchased remain in the fifth tier and pay a premium rate.

The AWU also proposes to create a new water revenue stability reserve fund that will be funded by a volumetric reserve fund surcharge per 1,000 gallons of water used, as well as excess operating cash balances. A new financial policy stipulates that the reserve fund can only be used to offset revenue shortfalls in excess of 10% from the budgeted level.

The table below reflects the estimated average residential customer annualized bill impact for FY 2012-13. The FY 2011-12 versus FY 2012-13 rate comparison is based on an average residential customer using 7,727 gallons of water and 4,699 gallons of wastewater per month with a 5/8" meter. In addition, the water service rate includes a 1% transition to cost of service for the residential customer class. City Council approved a Cost of Service recommendation in FY 2009-10 to transition the residential class to the actual cost of service over a 5 - 7 year period.

Average FY 2012-13 Residential Customer Bill Impact

	Current 2012 Rates	Approved 2013 Rates	\$ Variance	% Variance
Water Service	\$28.82	\$30.14	\$1.32	4.6%
Water Stability Fee	\$4.40	\$0.00	(\$4.40)	0.0%
Water Tiered Fee	\$0.00	\$5.95	\$5.95	0.0%
Water Reserve Fund	\$0.00	\$0.65	\$0.65	0.0%
Wastewater Service	\$39.45	\$42.70	\$3.25	8.2%
Total Revenue	\$72.67	\$79.44	\$6.77	9.3%

Notes:

1. Includes a 1% transition to cost of service for the residential customer class.
2. Assumes wastewater increase in November 2012 and water increase in February 2013.

Staffing Plan

The FY 2012-13 Budget includes 26 new Full Time Equivalents (FTE) as part of an overall strategic plan to meet basic core services while continuing to incorporate and integrate environmental consciousness and sustainability into all utility operations. Below is a breakdown of the staffing proposal:

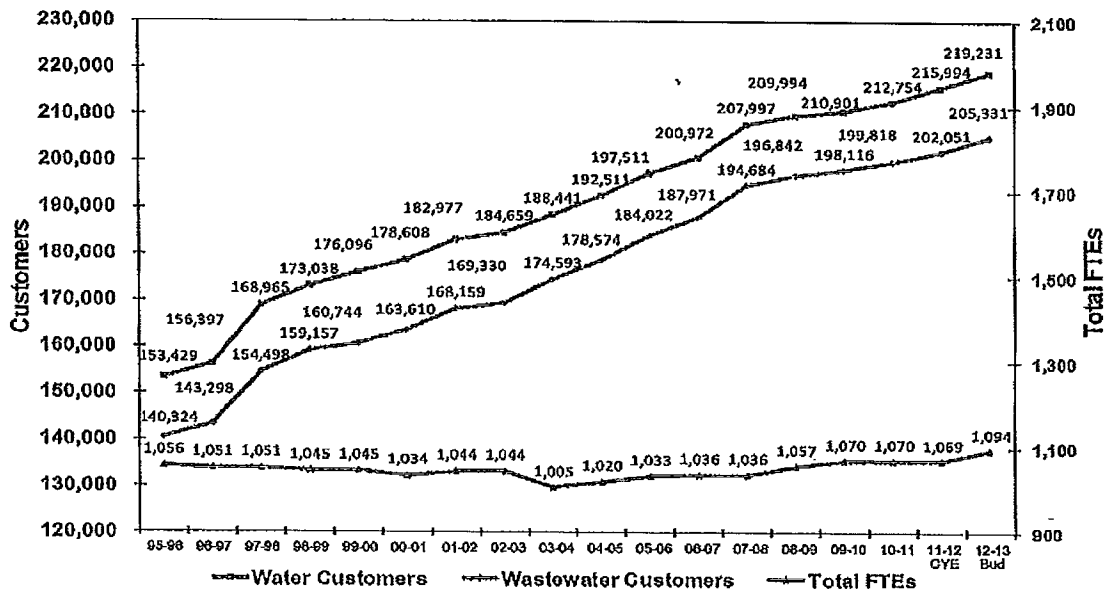
- Managing a Growing System & Staffing New Facilities
 - Positions for the operations and maintenance of Water Treatment Plant 4 (13 FTEs)
 - AWU Electrician II positions to provide electrical diagnostics, maintenance, repairs and installation on motors and motor controls, substation switchgear, electrical distribution systems and lighting systems (2 FTEs)
 - Treatment O & M Tech Senior position to support operations and maintenance of five newly constructed facilities (1 FTE)
 - Project Coordinator position to coordinate facility projects and assist in the development of long term plans for facility infrastructure maintenance and replacement (1 FTE)

- Enhance Water Conservation, Reclaimed Water, Water Accountability & Water Quality
 - Scheduler Analyst position responsible for developing, scheduling and monitoring maintenance schedules and activities for the treatment plants as well as providing work order quality control and quality assurance (1 FTE)
 - Water Meter Technician Senior positions to support meter related work demand increases generated by Reclaimed Water and Revenue Recovery Programs (2 FTEs)
 - Engineer C position to provide engineering support for the Renewing Austin Water Main Replacement program (1 FTE)
 - Engineer C position for the Regulatory Support division to handle permitting and compliance with air and hazardous wastes regulations (1 FTE)
- Planning for the Future
 - Engineer C position for the System Planning division to support and expedite the Capital Improvement Program (CIP) Management program, plan development, on-going CIP Project Action Reviews (CIPAR) for director approval, performance measurement, and coordination with Budget Office and Capital Planning Office (1 FTE)
- Ensure Solid Business Practices
 - Occupational Health & Safety Coordinator position to develop and implement safety programs throughout the Utility to address higher risk employee safety concerns (1 FTE)
 - Utility Emergency Management Coordinator position responsible for the design, development, coordination, implementation and maintenance of the utility's emergency response plan (1 FTE)
 - Facilities Supervisor position for the Wildland Conservation division to supervise 6 employees and coordinate facility actions (1 FTE)

Since FY 1995-96, Austin Water Utility has increased the number of new customers served by 60,000 or 40%. In that same time period, the total number of positions has increased by 13. Additionally, over 700 miles of new water lines and over 500 miles of new sewer mains have been added. New responsibilities have also been added to the department including: Water Conservation, Wildland Conservation, Liquid Waste Haulers Program, and HVAC maintenance from Austin Energy.

The Austin Water Utility has identified additional staffing requirements over the next five years. Over the next several months, the Utility will continue to analyze, prioritize and justify its additional staffing requirements. We expect to provide a report to Council in FY 2012-13 detailing our proposed staffing plan so Council can consider it prior to our FY 2013-14 forecast and budget.

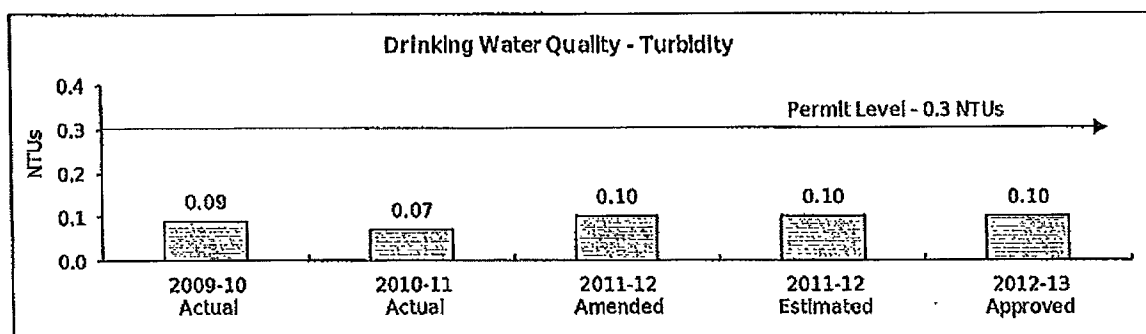
FTEs vs. Customer Growth



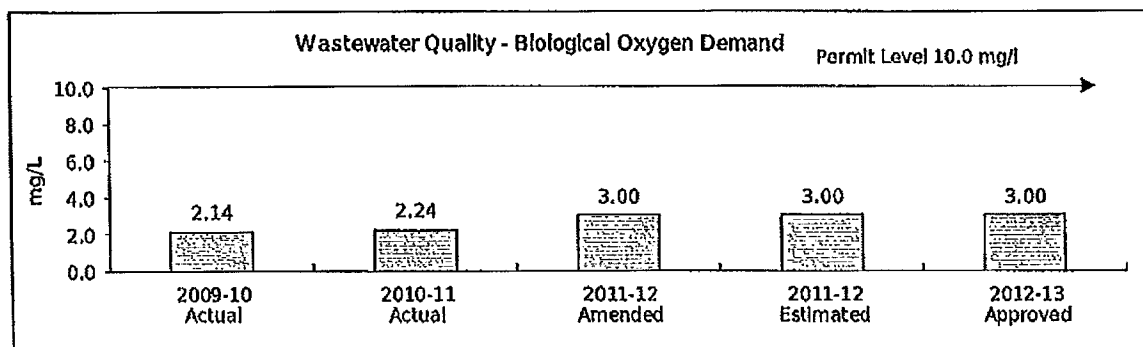
During FY 2009-10 significant revenue shortfall resulting from primarily wetter than normal weather conditions, Austin Water Utility implemented cost containment efforts including increasing our position vacancies. Our vacancies increased to a high of over 140. Since earlier in 2012, we have aggressively initiated the hiring of our vacant positions. Over the months of May and June, the Utility has hired over 60 positions. Within the next several months, it is expected our number of vacancies would level out between 50 and 75 positions, which is generally our minimum levels due to turnover and retirements.

Key Performance Indicators

The following graphs indicate the anticipated impacts of the Budget on key indicators. Both water and wastewater qualities exceed state standards.



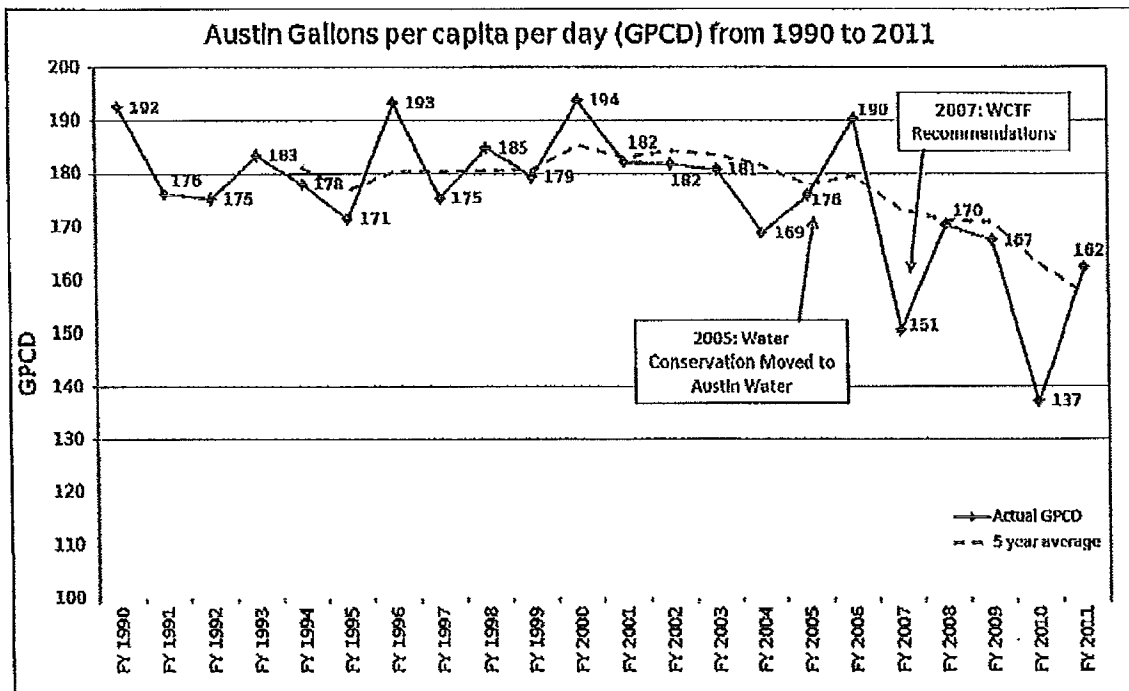
One way of assessing drinking water quality is to examine its turbidity, or the relative clarity of a liquid. Turbidity is measured in Nephelometric Turbidity Units (NTU) and it is an excellent measure of plant optimization to ensure maximum public health protection. NTUs of 1.0 or less generally are not detected by the naked eye. Per the Safe Water Drinking Act, the permit level for drinking water Turbidity is less than 0.3 NTUs 95% of the time.



One way of assessing the quality level of treated wastewater effluent is to compare the actual level of Biochemical Oxygen Demand (BOD), in milligrams per liter, to the permitted level mandated by the Environmental Protection Agency (EPA) and the Texas Commission on Environmental Quality (TCEQ). In 2007, there was a change in the reporting for BOD in order to be in compliance with EPA parameters based on Quality Assurance/Quality Control (QA/QC). Values less than 2.00 are considered less reliable due to the accuracy of the tests. Therefore, values less than 2 will be reported as < 2.00 mg/L. Austin's wastewater treatment measures have historically been well below the permitted level of 10.00 mg/L.

Water Conservation

New Initiatives in the Water Conservation program for FY 2012-13 include funding to assist with water-saving repairs in low-income homes, additional rebates to reduce water use in landscaping and irrigation systems, and funding for research to verify conservation savings and explore new conservation technologies. Water conservation helps preserve environmental flows in the Lower Colorado River, saves money for customers by reducing usage, helps delay the need for additional capital infrastructure, and postpones payments to the LCRA for additional water under the existing supply agreement. Conservation is a priority of the Utility and an important community value. Following is a graph showing historical gallons per capita per day (GPCD). Since 2008, mandatory water restrictions for all customer classes have been in place based on recommendations of the Water Conservation Task Force. As seen in the following graph, the GPCD has dropped over the last 5-6 years. Even in 2011, when the city of Austin experienced the hottest and driest summer on record, the GPCD was the 3rd lowest ever.



Capital Budget

The Capital Improvement Program provides funding for capital projects necessary to serve new growth, ensure system reliability, comply with regulatory requirements, and accommodate roadway improvements in our service area. With an estimated \$3.0 billion in fixed assets, AWU is a very capital-intensive enterprise, which requires continuous investment in extensive above and below ground infrastructure. The five year Capital Improvement Program (CIP) spending plan for FY 2013-17 is \$1,017.4 million. AWU has carefully evaluated each CIP project to determine the impact of any project reprioritizations. The five year CIP spending plan is designed to balance investments in rehabilitation and/or



Water Treatment Plant 4 Construction Site

replacement projects to reduce risks associated with aging infrastructure with investments in major infrastructure system improvement projects to support growth and development. The spending plan for FY 2012-13 is \$258.6 million, or 25.4 percent of the 5-year spending plan. However, only \$2.25 million in new appropriations is being requested which is for vehicle purchases and \$40.28 million in reallocations which is for wastewater improvements and reclaimed water projects. This year's appropriations request is much less than previous years because of three factors. First, major on-going projects such as WTP4 received full appropriations in prior years. Of the \$258.6 million in planned spending for next fiscal year, \$124.2 million or 48.0% is for WTP4 and the related Jollyville Transmission Main. Secondly, the Utility has worked diligently the last three years to close completed projects and move remaining appropriation balances to other projects. Thirdly, we are requesting that unused appropriation for the Austin Clean Water Program be reallocated to the Wastewater Utility current revenue fund and the new Reclaimed Water Utility commercial paper fund.

These CIP expenditures are necessary to ensure the ongoing integrity of the City's water and wastewater systems. The program is financed largely by the issuance of short-term commercial paper that is later refinanced with long-term debt serviced by AWU's revenue. Additional funding is provided by transfers from operating accounts, and subdivision fees. The FY 2012-13 Budget includes transfers of \$58.4 million from the operating funds to the capital improvement program as cash funding of the projects to reduce issuance of additional debt.

Items Approved by Council at Budget Adoption

- Increase transfers out to the Environmental Remediation Fund in the amount of \$287,000.
- Decrease water service revenue in the Customer Assistance Program by \$900,000 to provide for water volumetric rate discounts.
- Increase transfers out to the Sustainability Fund in the amount of \$383,465.

Austin Water Utility Significant Changes

Austin Water Utility Fund

Revenue Changes

Dollars

Water service revenue is increasing by \$26,767,466 due to the combined impact of 1) an increase in base revenue of \$14,567,466 from revised projections related to customer growth and the elimination of Stage 2 Water restrictions in FY 2013, and 2) an increase in revenue of \$12,200,000 resulting from the 5.0% water rate increase.

\$26,767,466

Wastewater service revenue is increasing by \$15,453,773 due to the combined impact of 1) an increase in base revenue of \$2,253,773 from revised projections related to customer growth and the change to a 3-month wastewater average policy, and 2) an increase in revenue of \$13,200,000 resulting from the 6.0% wastewater rate increase.

\$15,453,773

Reclaimed Water Service revenue is increasing by \$551,907 due to an increase in reclaimed water use by UT Austin and commercial customers once capital improvements are completed. The increase is also due to a 15.0% system-wide base reclaimed water rate increase, which generates \$140,000 of the increase.

\$551,907

New Water Revenue Stability Reserve Fund Surcharge is to be implemented in February 2013 and will collect \$3,809,300 through a volumetric charge per 1,000 gallons for all customer classes through the remainder of the fiscal year. Revenue from this surcharge will be placed into a separate reserve fund to be used for future water revenue shortfalls according to a new AWU financial policy.

\$3,809,300

Miscellaneous revenue is increasing by \$2,488,164. This is primarily due to the \$1.9 million Build America Bonds (BAB) interest subsidy, with the remaining amount generally due to an inflationary fee increase of 2%.

\$2,488,164

Interest income is decreasing by \$56,574 due to a further decrease in interest rate assumptions for FY 2012-13.

(\$56,574)

Transfers in from Capital Recovery Fees increased by \$500,000 due to the projected impact of revised impact rate fees.

\$500,000

Transfers in from the Reclaimed Utility Fund of \$1,920,000 are transfers from the water and wastewater utility funds to the new reclaimed water utility fund to cover reclaimed utility costs that are not recovered through reclaimed service revenue.

\$1,920,000

The following change was approved by Council at Budget Adoption:

Decrease water service revenue in the Customer Assistance Program by \$900,000 to provide for water volumetric rate discounts.

(\$900,000)

Expenditure Changes

FTEs Dollars

Citywide

The Budget includes \$1,892,118 for salary increases associated with wage adjustments in FY 2013. An additional \$323,752 is included in the Budget for increased City contributions for health insurance.

\$2,215,870

The Budget includes funding for the Employees' Retirement System that is equivalent to 2% of payroll for non-civil service employees to help improve the funded status of the pension system.

\$1,343,524

2012-13 Approved Budget, Austin, TX

Expenditure Changes	FTEs	Dollars
The Budget Includes \$639,337 for wage adjustments associated with implementing the City's recently completed market study.		\$639,337
In the Budget, fleet maintenance charges are increasing by \$407,310 and fleet fuel charges department-wide are decreasing by \$36,385.		\$370,925
Department-wide A decrease in vacancy savings is included in the Budget which is attributed to a lower Utility-wide vacancy rate of 5%.		\$1,176,342
The Budget Includes an increase in overtime to meet the increased demands for services.		\$291,591
An increase in temporary employees is included in the Budget.		\$284,066
Treatment The Budget Includes 13 new Full Time Equivalent (FTE) positions for the operations and maintenance of Water Treatment Plant 4: 1 Treatment Superintendent; 2 Treatment O & M Supervisors; 8 Treatment O & M Tech Senior; 1 Stores Coordinator; and 1 Engineer C.	13.00	\$1,058,675
A new Scheduler Analyst position responsible for developing, scheduling and monitoring maintenance schedules and activities for the treatment plants as well as providing work order quality control and quality assurance is included in the Budget.	1.00	\$97,606
The Budget Includes a new Utility Emergency Management Coordinator position. This position will be responsible for the design, development, coordination, implementation and maintenance of the utility's emergency response plan.	1.00	\$102,832
Two new AWU Electrician II positions are included in the Budget to provide electrical diagnostics, maintenance, repairs and installation on motors and motor controls, substation switchgear, electrical distribution systems and lighting systems.	2.00	\$159,033
The Budget Includes a new Treatment O & M Tech Senior position to support operations and maintenance of five newly constructed facilities.	1.00	\$76,224
A transfer in of a 0.5 FTE position to the Treatment program area from the Support Services program is included in the Budget.	0.50	\$27,439
The Budget Includes a transfer of an Administrative Supervisor position to the Management Services Department.	(1.00)	(\$66,055)
An increase of \$101,449 for testing services is included in the Budget to comply with new State mandates.		\$101,449
The Budget Includes an increase of \$500,000 for the sludge hauling contract.		\$500,000
A decrease of \$975,893 in electrical services is included in the Budget due to projected reductions in flows.		(\$975,893)
The Budget Includes a \$250,000 increase for a generator maintenance contract.		\$250,000
An increase of \$364,605 in non-CIP capital for laboratory equipment is included in the Budget.		\$364,605
Pipeline Operations The Budget Includes 2 new Water Meter Technician Senior positions to support meter related work demand increases generated by the Reclaimed Water and Revenue Recovery Programs.	2.00	\$134,572

<u>Expenditure Changes</u>	<u>FTEs</u>	<u>Dollars</u>
An Increase in Interdepartmental charges for street cut repairs is included in the Budget.		\$1,334,703
Engineering Services		
The Budget includes a new Engineer C position to provide engineering support for the Renewing Austin Water Main Replacement program.	1.00	\$121,520
An increase of \$176,017 is included in the Budget for the Cleaning and TV Inspection contracts for pipeline maintenance.		\$176,017
Water Resources Management		
The Budget includes 1 new Engineer C position for the System Planning division to support and expedite the Capital Improvement Program (CIP) Management program, plan development, on-going CIP Project Action Reviews (CIPPAR) for director approval, performance measurement, and coordination with Budget Office and Capital Planning Office.	1.00	\$121,520
Environmental Affairs & Conservation		
The Budget includes a new Engineer C position for the Regulatory Support division to handle permitting and compliance with air and hazardous wastes regulations.	1.00	\$121,520
A new Facilities Supervisor position is included in the budget for the Wildland Conservation division to supervise six employees and coordinate facility actions for all buildings, roads, fences, gates, wells, and fire breaks.	1.00	\$79,518
Support Services		
The Budget includes a new Occupational Health & Safety Coordinator position to develop and implement safety programs throughout the Utility to address higher risk employee safety concerns.	1.00	\$92,690
A new Project Coordinator position is included in the Budget to coordinate various facility projects and assist in the development of long term plans for facility infrastructure maintenance and replacement.	1.00	\$92,690
The Budget includes a transfer of a 0.5 Admin Associate position from Support Services program to the Treatment program area.	(0.50)	(\$22,753)
An increase is included in the Budget to provide security guard services at the Water Plants.		\$565,000
The Budget includes an increase of \$140,000 for completion of the Customer Care & Billing integration services.		\$140,000
Transfers & Other Requirements		
An increase of \$180,298 is included in the Budget for legal fees.		\$180,298
An increase in interlocal water services is included in the Budget to purchase wholesale water from Riverplace per the Glenlake Inter-local agreement.		\$295,000
The Budget includes an increase of \$126,359 in Accrued Payroll, an increase of \$172,631 to the Workers' Compensation Fund, a reduction of \$50,000 to the Liability Reserve Fund, an increase of \$322,169 for CTM Support and an increase of \$1,123 to the CTECC Emergency Operations Center.		\$572,282
The Budget includes an increase of \$4,009,803 for Administrative Support.		\$4,009,803
The Budget also includes an increase of \$1,940,048 for Billing & Customer Care.		\$1,940,048

2012-13 Approved Budget, Austin, TX

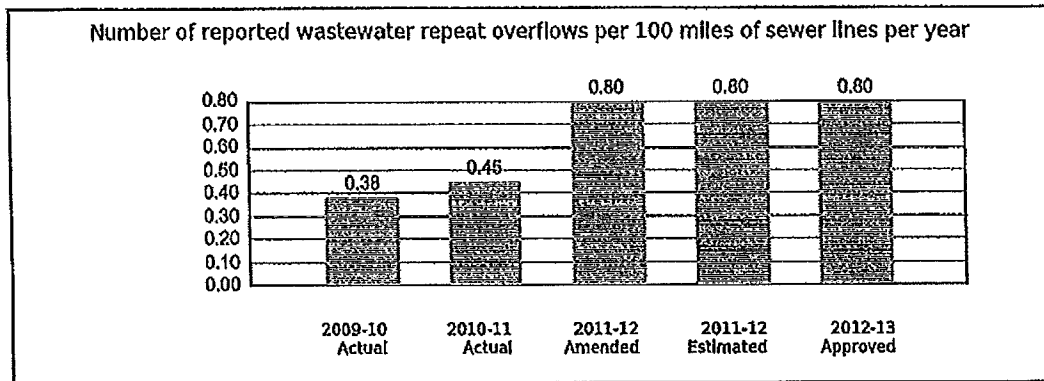
<u>Expenditure Changes</u>	<u>FTEs</u>	<u>Dollars</u>
Revenue Bond Debt Service requirements are expected to increase by \$15,518,312 due to the net impact of changes to payment schedules for existing debt.		\$15,518,312
The budget includes a reduction of \$200,171 in General Obligation Debt Service, \$125,546 in Commercial Paper Debt Service, and \$3,934 in Water District Bonds.		(\$329,651)
There is also an increase of \$8,500,000 to Capital Improvement Program Funds, raising the percent of cash-funded CIP to assist meeting the goal of funding at least 20% of capital spending in cash.		\$8,500,000
The transfer to the General Fund is increasing \$2,628,828, maintaining the 8.2% transfer policy per City Council.		\$2,628,828
The transfer to the Radio Communications Fund is increasing by \$22,961.		\$22,961
Transfers are increasing by \$5,516,300 to the new Revenue Stability Reserve Fund as part of the new rate structure recommended by the joint sub-committee and by \$1,920,000 to the Reclaimed Utility Fund to increase available funds.		\$7,436,300
The Budget is decreasing by \$169,062 due to a decrease in AWU's contribution to the Sustainability Fund.		\$162,062
The following changes were approved by Council at Budget Adoption:		
Increase transfers out to the Environmental Remediation Fund in the amount of \$287,000.		\$287,000
Increase transfers out to the Sustainability Fund in the amount of \$383,465.		\$383,465

Austin Water Utility Budget Detail by Activity

Program: Engineering Services

Activity: Collection Engineering

To provide the necessary engineering, project management, and technical support to the Collection pipeline infrastructure in order to reduce wastewater overflows and to transport raw wastewater safely through the collection system to the treatment plants.



	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Requirements					
Austin Water Utility Fund	4,059,457	4,432,584	4,943,048	4,565,185	5,183,301
Total Requirements	\$4,059,457	\$4,432,584	\$4,943,048	\$4,565,185	\$5,183,301
Full-Time Equivalents					
Austin Water Utility Fund	20.00	20.00	20.00	20.00	25.00
Total FTEs	20.00	20.00	20.00	20.00	25.00
Performance Measures					
Number of SSOs per 100 miles of sewer line per year	New Meas	20.38	30	30	30
Number of repeat SSOs per year	New Meas	83	110	110	110
Number of SSOs per year less than 10,000 gallons	New Meas	534	750	750	750
<i>Number of reported wastewater repeat overflows per 100 miles of sewer lines per year</i>	<i>0.38</i>	<i>0.45</i>	<i>0.80</i>	<i>0.80</i>	<i>0.80</i>
Number of linear feet of wastewater main replaced or rehabilitated	New Meas	55,706	25,000	25,000	25,000
Number of SSOs per year greater than 10,000 gallons	New Meas	7	20	20	20

Services

Engineering technical services for the Collection pipeline system, Design reviews and comments, Project management, Engineering consulting, Investigative research and reporting

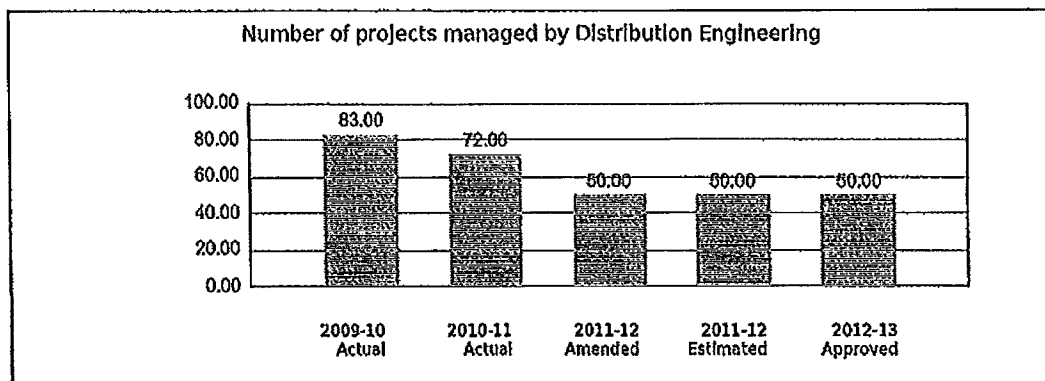
Bold/Italicized Measure = Key Indicator

Austin Water Utility Budget Detail by Activity

Program: Engineering Services

Activity: Distribution Engineering

To provide the necessary engineering, project management, and technical support to the Distribution pipeline and reclaimed water infrastructure and control systems in order to reduce water leaks and continuously deliver safe and adequate supplies of drinking water from the treatment plants to the customers.



	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Requirements					
Austin Water Utility Fund	923,278	1,122,708	1,870,744	1,564,061	2,309,229
Total Requirements	\$923,278	\$1,122,708	\$1,870,744	\$1,564,061	\$2,309,229
Full-Time Equivalents					
Austin Water Utility Fund	14.00	14.00	14.00	14.00	9.00
Total FTEs	14.00	14.00	14.00	14.00	9.00
Performance Measures					
Linear feet of leak detection performed on large diameter water transmission lines	New Meas	20,635	10,000	10,000	13,000
Number of projects managed by Distribution Engineering	83	72	50	50	50
Percent of linear feet of deteriorated water mains rehabilitated, abandoned, or replaced for that year	New Meas	0.85	1.33	1.33	1.33
Percentage real loss volume of treated drinking water	New Meas	8.31	8.50	8.50	8.50
Percentage unavoidable real loss of treated water	New Meas	3.31	2.70	2.70	2.70
Services					
Engineering technical services for the Distribution pipeline and reclaimed water systems, Design reviews and comments, Project management, Engineering consulting; Engineering services for the Distribution system and reclaimed water program; Investigative research and reporting					

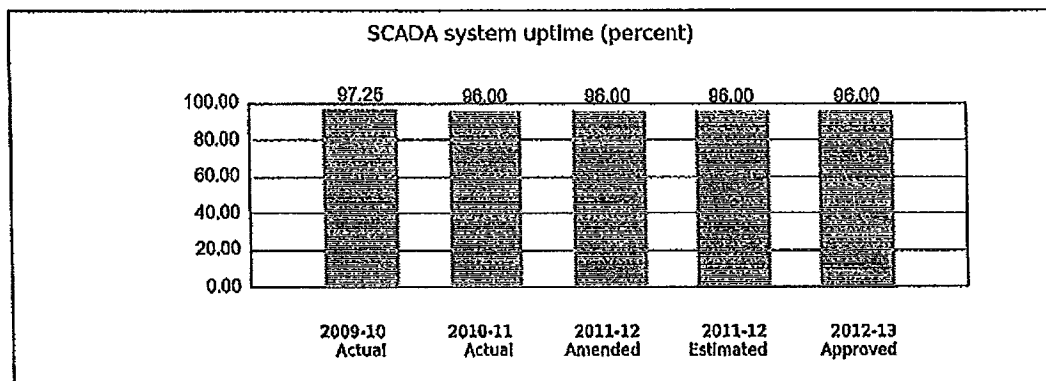
Bold/italicized Measure = Key Indicator

Austin Water Utility Budget Detail by Activity

Program: Engineering Services

Activity: Facility Engineering

To provide the necessary engineering, project management, and technical support for the Utility's treatment plants in order to meet community water needs, regulatory requirements, operate plant control systems to treat wastewater, manage biosolids, and safely discharge the effluent.



	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Requirements					
Austin Water Utility Fund	2,652,683	2,583,554	2,989,570	3,008,318	3,279,502
Total Requirements	\$2,652,683	\$2,583,554	\$2,989,570	\$3,008,318	\$3,279,502
Full-Time Equivalents					
Austin Water Utility Fund	29.00	28.00	28.00	28.00	27.00
Total FTEs	29.00	28.00	28.00	28.00	27.00
Performance Measures					
Percent of completion (water plant 4)	New Meas	16.20	35	35	55
SCADA system uptime (percent)	97.25	96	96	96	96

Services

Project management and coordination for water and wastewater treatment plants; Engineering technical services for water and wastewater treatment plant processes and equipment systems; Design Reviews and comments for water and wastewater treatment plant engineering projects; Process trouble shooting; SCADA program administration; SCADA technical/ engineering services for water treatment plant control systems; Investigative research; Reporting; Dillo Dirt Outlet; SCADA technical/engineering services for wastewater treatment plant control systems; Investigative research

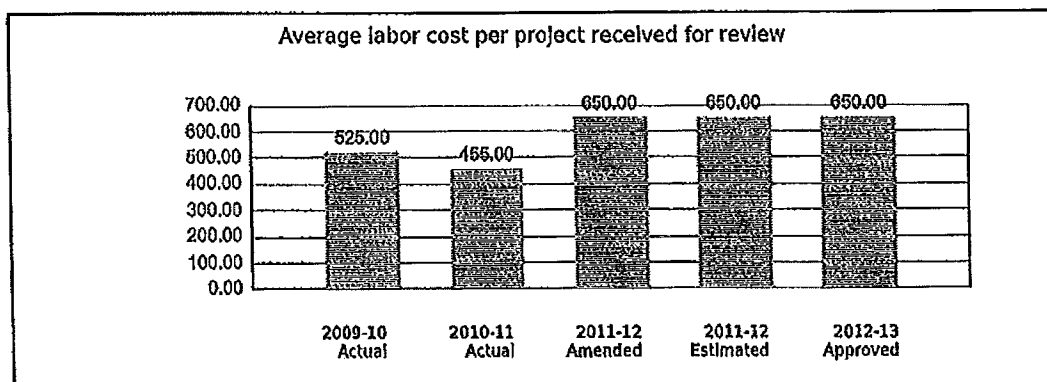
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Austin Water Utility Budget Detail by Activity

Program: Engineering Services

Activity: Pipeline Engineering

To provide the necessary engineering, project management, and technical support to the pipeline infrastructure and control systems in order to reduce water leaks and wastewater overflows and continuously deliver safe and adequate supplies of drinking water from the treatment plant to the customers and to transport raw wastewater safely through the lift stations to the treatment plants.



	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Requirements					
Austin Water Utility Fund	2,362,362	2,187,863	2,254,517	2,223,262	2,556,619
Total Requirements	\$2,362,362	\$2,187,863	\$2,254,517	\$2,223,262	\$2,556,619
Full-Time Equivalents					
Austin Water Utility Fund	26.00	27.00	26.00	26.00	26.00
Total FTEs	26.00	27.00	26.00	26.00	26.00
Performance Measures					
Average labor cost per project received for review	525	455	650	650	650
Number of new easements reviewed per year; broken down by site, subdivision, and CIP	New Meas	220	220	220	220
Number of projects reviewed	454	548	400	400	400
Percent of as built projects completed	No Data	35	60	60	60

Services

Project management; Lift Stations support, engineering consulting, and construction projects; Engineering technical services; Design reviews and comments; Pump Stations/Reservoirs support; Surveying Services; Development and administration of Infrastructure CIP programs; Oversight of design and project management services; SCADA technical/engineering services for control systems.

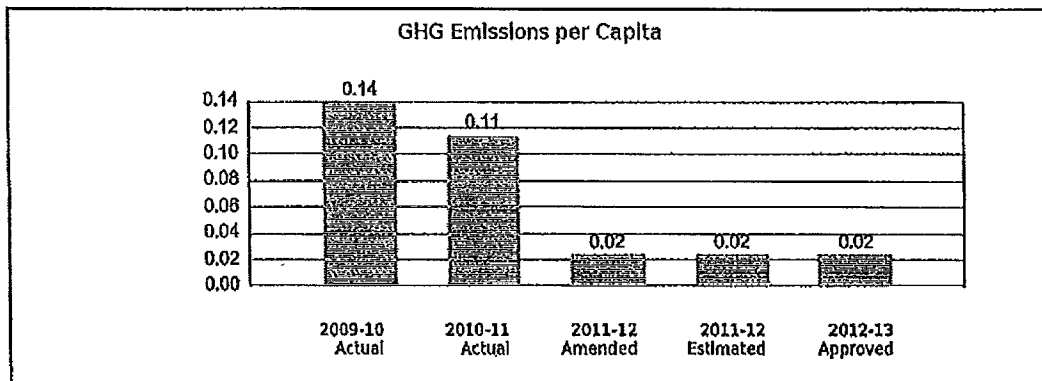
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Austin Water Utility Budget Detail by Activity

Program: Environmental Affairs and Conservation

Activity: Regulatory Support

To track proposed and enacted rules and regulations and provide information to Utility management in order to allow the Utility to be proactive in its regulatory compliance.



	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Requirements					
Austin Water Utility Fund	1,238,087	1,162,030	1,035,122	1,071,493	1,302,132
Total Requirements	\$1,238,087	\$1,162,030	\$1,035,122	\$1,071,493	\$1,302,132
Full-Time Equivalents					
Austin Water Utility Fund	10.00	10.00	10.00	10.00	11.00
Total FTEs	10.00	10.00	10.00	10.00	11.00
Performance Measures					
GHG Emissions per Capita	0.14	0.11	0.02	0.02	0.02
Percent of samples with chlorine residuals less than 0.5 mg/l	New Meas	0.27	3	3	3
kWh per million gallons (MG) across entire Utility	New Meas	2,445	2,475	2,475	2,475
Services					
Liaison with State and Federal regulators; State legislation monitoring; Water and wastewater treatment alternatives and methods research; Compliance reporting					

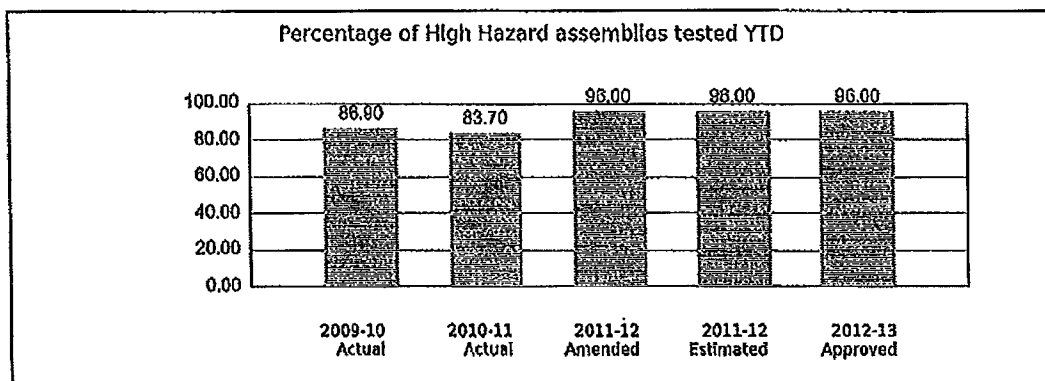
Bold/italicized Measure = Key Indicator

Austin Water Utility Budget Detail by Activity

Program: Environmental Affairs and Conservation

Activity: Special Services

To provide timely water quality surveys/investigations, backflow assembly testing, and private fire hydrant maintenance for customers in order to reduce the probability of a backflow incident and to control pollutant levels being discharged to the wastewater collection system so that pollutants do not affect worker health and safety, pass through or interfere with treatment plants, cause permit violations or keep biosolids from beneficial reuse.



	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Requirements					
Austin Water Utility Fund	2,027,443	2,072,769	2,092,232	2,043,796	2,382,534
Expense Refunds	0	70	0	0	0
Total Requirements	\$2,027,443	\$2,072,839	\$2,092,232	\$2,043,796	\$2,382,534
Full-Time Equivalents					
Austin Water Utility Fund	26.00	27.00	26.00	26.00	26.00
Total FTEs	26.00	27.00	26.00	26.00	26.00
Performance Measures					
Percentage of High Hazard assemblies tested YTD	86.90	83.70	96	96	96
Percentage of Industrial users with surcharges assessed	99.60	98.70	98	98	98
Services					
Water Quality surveys/investigations; Backflow assembly testing; Private fire hydrant maintenance; Pretreatment Ordinance enforcement; Regulation of Sanitary sewer Industrial users; Review of Site plans and pretreatment design plans and specifications; Implementation of pretreatment and Interlocal agreements with other political subdivisions					

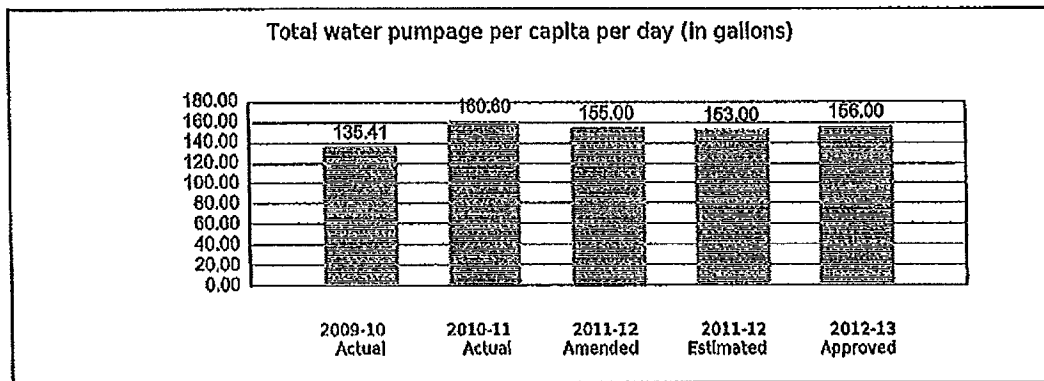
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Austin Water Utility Budget Detail by Activity

Program: Environmental Affairs and Conservation

Activity: Water Conservation

To provide conservation services to Austin water customers to reduce water usage in order to slow the increase in peak day demand and defer the start date of water payments to the LCRA. To reduce Austin's peak day water use by 1% per year until 2017 through conservation and reuse.



	2009-10 Actual	2010-11 Actual	2011-12 Amended	2011-12 Estimated	2012-13 Approved
Requirements					
Austin Water Utility Fund	6,247,885	4,604,386	6,644,349	4,359,163	6,526,427
Total Requirements	\$6,247,885	\$4,604,385	\$6,644,349	\$4,359,163	\$6,526,427
Full-Time Equivalents					
Austin Water Utility Fund	25.00	20.00	19.00	19.00	19.00
Total FTEs	25.00	20.00	19.00	19.00	19.00
Performance Measures					
Combined Single-Family & Multi-Family Water Consumption per Capita per Day (in gallons)	80	96	86	86	86
Peak gallons per day saved based on participation in Water Conservation Programs, and estimated savings per measure or metered savings by program.	1,279,197	782,073	1,200,000	620,000	620,000
<i>Total water pumpage per capita per day (in gallons)</i>	<i>135.41</i>	<i>160.80</i>	<i>155</i>	<i>153</i>	<i>156</i>

Services

To implement Council's water conservation ordinance; Toilet retrofit program; Irrigation audits; Clothes washer rebates; Rainwater collection; ICI audits & rebates; Irrigation permitting & inspections

Bold/italicized Measure = Key Indicator