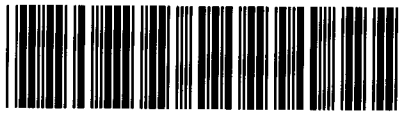


Control Number: 42867

Item Number: 88

Addendum StartPage: 0

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

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

SOAH DOCKET NO. 473-14-5138.WS
PUC DOCKET NO. 42867

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

TRAVIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 10'S RESPONSE TO CITY OF AUSTIN'S SECOND REQUEST FOR PRODUCTION OF DOCUMENTS

TO: City of Austin, by and through its attorneys of record, Stephen P. Webb and Gwendolyn Hill Webb, Webb & Webb, 712 Southwest Tower, 211 East 7th Street, Austin, Texas 78701.

COMES NOW, Travis County Water Control and Improvement District No. 10 ("Travis WCID," "Petitioner" or "District"), in the above-styled and numbered cause, and serves this, its Response to the City of Austin's Second Request for Production of Documents.

88

Respectfully submitted,

Randall B. Wilburn, Attorney at Law
State Bar No. 24033342
3000 South IH 35, Suite 150
Austin, Texas 78704
Telephone: (512) 535-1661
Fax: (512) 535-1678

John Carlton
State Bar No. 03817600
The Carlton Law Firm, P.L.L.C.
2705 Bee Cave Road, Suite 200
Austin, Texas 78746
Telephone: (512) 614-0901
Fax: (512) 900-2855

By:_____
JOHN J. CARLTON

COUNSEL FOR PETITIONER

CERTIFICATE OF SERVICE

I certify that I served a true and correct copy of the foregoing document on all parties of record in this proceeding on this 19th day of November, 2014 via hand delivery, facsimile, electronic mail, overnight mail, U.S. mail and/or certified mail.

_____
JOHN J. CARLTON

PRODUCTION REQUESTS

The following requests pertain to the written prefiled testimony of Thomas Arndt for Travis County Water Control and Improvement District No. 10.

11. Please provide any and all documents that Thomas Arndt reviewed and upon which he relied to calculate the maximum day peak factor of 1.53 psi that is used at page 10 of 13 of his prefiled testimony.

Response: Responsive documents will be produced.

12. Please provide any and all documents that Thomas Arndt reviewed and upon which he relied to conclude that Water Treatment Plant No. 4 will not be useful to WCID10.

Response: Responsive documents will be produced.

13. Please provide any and all documents that Thomas Arndt reviewed and that form the bases for his testimony that the decommissioned Green Water Treatment Plant could have been used to make up any treatment shortfall of the Davis Plant during repairs.

Response: Responsive documents will be produced.

14. Please provide any and all documents that Thomas Arndt reviewed and that form the bases for his conclusion that "...industry standard project management techniques could be used to make repairs, not the construction of new water plant that is not used or useful to the City's ratepayers."

Response: Responsive documents will be produced.

15. Please provide any and all documents that Thomas Arndt reviewed and that formed the bases for his conclusion that "...even if the City takes down the Davis plant completely, it should have no bearing on the water supply to WCID10, as the District receives all of its water from another plant, the Uhlrich Water Treatment Plant."

Response: Responsive documents will be produced.

16. Please provide any and all documents that Thomas Arndt reviewed and that form the bases for his statement: "A catastrophic failure of the entire Ulrich Plant is unlikely, a hazardous spill or hurricane causing water quality issues has the same likelihood on Lake Travis as on Lake Austin,"

Response: After a diligent search, no items were identified that are responsive to the request.

17. Please provide all documents that Thomas Arndt reviewed and that form the bases for his statement that the City does not provide the State minimum pressure to the Red Bud Pump Station at times, and that the issue was brought to the attention of the City in 2012.

Response: Responsive documents will be produced.

18. Please provide all statements, letters, briefs, or reports made by WCID10 representatives, individuals, or company's representing or working on behalf of the interests or positions of WCID10 about the need for or feasibility of Water Treatment Plant No. 4.

Objection: Travis WCID objects to this request because the request could include documents protected by attorney work product or attorney-client privileges;

Response: Notwithstanding and without waiving the objections noted above, responsive documents will be produced.

4

RESPONSE TO REQUEST NO. 11

TRAVIS COUNTY WC&ID NO. 10

WATER LOSS CHART

October 2013

TOTAL FROM CITY OF AUSTIN:		77,921,000
TOTAL CUSTOMER USAGE:		73,256,200
	Difference.	(4,664,800)
	Total Flushing:	20,700
	Total Unaccounted For:	(3,696,800)
PERCENTAGE TOTAL (GAIN) LOSS:		-4.74%

MONTH	BILLED BY C.O.A.	PUMPED	SOLD	OTHER	WATER LOST	ADJ	LOSS%
Oct-12	76,947,000	71,586,000	65,678,300	1,014,900	(4,975,400)	(65,600)	-6.93%
Nov-12	70,479,000	66,011,000	59,242,900	1,302,000	(5,545,500)	(79,400)	-8.40%
Dec-12	74,486,000	68,946,000	62,777,800	1,400,000	(5,177,900)	(409,700)	-7.51%
Jan-13	58,879,000	62,846,000	52,224,200	994,500	(9,731,400)	(104,100)	-15.48%
Feb-13	48,867,000	43,526,000	38,489,700	1,162,500	(4,061,200)	(187,400)	-9.33%
Mar-13	50,418,000	49,580,000	43,022,600	796,000	(6,044,100)	(282,700)	-12.19%
Apr-13	58,914,000	57,605,000	54,076,400	790,000	(2,877,400)	(138,800)	-5.00%
May-13	57,614,000	64,736,000	54,281,000	876,000	(9,795,200)	(216,200)	-15.13%
Jun-13	68,419,000	65,758,000	59,919,600	1,067,200	(4,944,700)	(173,500)	-7.52%
Jul-13	78,012,000	90,365,000	79,341,700	1,113,500	(9,928,700)	(18,900)	-10.99%
Aug-13	100,362,000	91,569,000	81,514,300	1,481,550	(8,723,650)	(150,500)	-9.53%
Sep-13	106 952,000	109,667,000	99,470,500	1,406,100	(8,815,700)	(25,300)	-8.04%
Oct-13	80,367,000	77,921,000	73,256,200	912,700	(3,696,800)	55,300	-4.74%
Totals:		1,608,737,000	1,426,532,200	24,649,300	(160,286,900)	(2,714,400)	-10.41%
Aug-13	**100,362,000**	**91,569,000**	**81,514,300**	**1,481,550**	**(8,723,650)**	**(150,500)**	**-9.53%**
Sep-13	**106,952,000**	**109,667,000**	**99,470,500**	**1,406,100**	**(8,815,700)**	**(25,300)**	**-8.04%**
Oct-13	**80,367,000**	**77,921,000**	**73,256,200**	**912,700**	**(3,696,800)**	**55,300**	**-4.74%**
Totals:		279,157,000	254,241,000	3,800,350	(21,236,150)	(120,500)	**-7.61%**

P-TC00103

WCID 10 Water Use Data

Fiscal Year 2013

Water Use	October	November	December	January	February	March	April	May	June	July	August	September	TOTAL
1000 Gallons (COA BILLED)	76,947	70,479	74,486	58,879	48,867	50,418	58,914	57,614	68,419	78,012	100,362	106,952	850,349
Days Per Month	31	30	31	31	28	31	30	31	30	31	31	30	
WCID 10 AVG DAY	2,482	2,349	2,403	1,899	1,745	1,626	1,964	1,859	2,281	2,517	3,237	3,565	27,927
												FY 13 AVG DAY	2,327
												FY 13 MAX DAY	3,565
												MAX DAY PEAK FACTOR	**1.53**

P-TC00104

RESPONSE TO REQUEST NO. 12

(E)

WE SAY: AUSTIN WATER

Resize text A A A

Questions await coming debate on water rates

Posted: 7:00 p.m. Tuesday, March 4, 2014

By Editorial Board

Our response to last week's American-Statesman story that Austin's successful water conservation efforts might force the city's water utility to significantly raise rates was similar to yours: Shouldn't we be saving money if we're using less water?

As the Statesman's Asher Price and Marty Toohey reported, Austin Water is losing revenue because its customers are using less water. The revenue decline – $27 million below budget projections in 2013 and $10 million below projections in the first quarter of this fiscal year, which began Oct. 1 – comes despite the doubling of rates over the past 12 years.

The utility is working out a rate-increase proposal to present to the City Council this spring. The water utility's director, Greg Meszaros, told Price and Toohey that rates might have to rise by double digits. This was stunning news.

Austin residents are to be commended for taking conservation seriously. Austin's single-day water use peaked in August 2001 at 240.3 million gallons, and has been declining ever since. Meanwhile, Austin's population has grown by 20.5 percent, from about 670,000 residents in 2001 to 843,000 today. To put it another way, as Price and Toohey reported, per-person water use in 2006 averaged 190 gallons a day; last year, daily per-person use was 136 gallons.

This is virtuous behavior to be encouraged and fostered. Yet our readers have told us in letters and online comments they feel as though

In this Section

Obama's workout video prompts jokes and security concerns

Texas GOP convention features Cruz vs. Perry presidential poll

UT could get wide latitude on spending tax money for medical school

Study shows [illegible] percent decline in expulsions in Texas

Judge David Peeples to decide Dietz school-case recusal

Testimony continues in Hays [illegible] judge case

Blind team defeats Seattle Police Department in beep baseball game

Gregory McQueen prostitution hearing wraps up [illegible]

Kourtney Kardashian reportedly pregnant with third child

Familiar judge to hear school-finance recusal case

P-TC00105

they are being punished for saving water

The utility says it understands our readers' response, but answers that everybody keeps using water even as they use less of it, and there are costs associated with getting water to every customer. The utility saves money on pumping and treatment costs when customers use less water, but other costs in the utility's budget — water and sewer line repairs, equipment maintenance and debt payments — are fixed.

Which brings us to Water Treatment Plant No. 4, the controversial, $508 million facility being built near RM 620 and RM 2222 in Northwest Austin. Some opponents of the plant saw a told-you-so moment in Price and Toohey's report. Critics of the plant had argued that conservation could make Water Treatment Plant No. 4 unnecessary. A new treatment plant eventually would be needed, they said, but it could be smaller and built years from now after the utility first focused on replacing leaky pipes and encouraged even more conservation.

Critics said Water Treatment Plant No. 4 would result in a rate increase substantially larger than city officials were saying would be necessary. The Save Our Springs Alliance, for example, put out a report in June 2010 forecasting that residential water rates could nearly double by 2015 to pay for the new water treatment plant.

Supporters of the plant — we were among them — said the plant was needed to ensure a rapidly growing Austin had an adequate future water supply. There perhaps was existing treatment capacity for another couple of decades, but it was better to build a new plant now while construction costs were relatively low rather than wait.

Plus, it was argued, building a new plant now could stave off crisis should one of the city's two existing plants, built in 1954 and 1969, needed to be shut down for lengthy repairs. Once operational, the new treatment plant would allow Austin Water to make life-extending upgrades to its older plants.

We have been consistent supporters of the city's conservation efforts, and on a couple of occasions have criticized city officials for not going far enough — we favor making the city's lawn-watering restrictions permanent, for example. But we and others didn't think conservation ultimately would be enough to meet the city's future water needs.

It is pointless to reargue Water Treatment Plant No. 4. The plant is being built and remains on track to begin operating this year.

There is merit, however, in exploring questions surrounding how the plant was sold to the public. We also find merit in asking how utility officials failed to properly and adequately account for conservation's effect on demand. And a key question to get around as we begin to

debate a rate increase is, what happens when the utility raises it rates?

For one, people will use less water. As we now are fully aware, when people use less water the utility's bottom line suffers and the utility has to raise rates. A way has to be found to manage this spiral toward more burdensome rates.

We will be asking these and other questions as Austin Water moves toward a rate-increase proposal and the City Council begins debating it. The answers will be needed as we plan for the region's economic and water future.

Be sure to read Thursday's Viewpoints for our view on Tuesday's local and statewide primary election results or read us online at www.statesman.com.

PREVIOUS: NEWS

City of Austin in talks to buy Grey Rock Go...

By Marty Toohey - American-Statesman Staff

NEXT: CRIME & LAW

Police looking for cafe robber in North Au...

By Julie Chang - American-Statesman Staff

Popular on MyStatesman.com

Surge in property tax bills spurs push to reform tax appraisal

Concerns mount over proposed $60 million Austin Energy building

Top Texas energy official wants step back from wind power subsidy

New details emerge on Dell Medical School spending

X Games Austin 2014 competitions kick off at Congress halfpipe

All Comments (3)

Post a Comment

Comment(s) 1-3 of 3

Claire-Standish

Report

Perhaps the City should start giving hefty rebates to those proud Austin homeowners who install a property-wide automatic sprinkler system to keep their lawn full of thirsty non-indiginous St. Augustine grass beautiful and green all summer long.

7:07 p.m. Mar. 4, 2014

2) 24(E)

Austin American-Statesman

Why drop in water use could cost Austin customers more

Posted 5:17 p.m. Monday Feb 24 2014

By Asher Price and Marty Toohey - American-Statesman Staff

Austin officials say residents have done such a good job conserving water that the city faces a conundrum: People aren't buying enough water to keep the delivery system in the black.

The Austin Water Utility took a $10 million hit in water sales for the first few months of this fiscal year, on top of the $27 million loss it logged last year. Correcting that shortfall could require new, higher "drought rates" that raise more money even as people use less water, according to the city.

Utility executives told the American-Statesman they are discussing new rate structures that could be proposed this summer. One idea is rates that rise as the lakes that supply Austin's water shrivel, a concept similar to one Dallas has adopted. Asked whether the rate increase would be double-digits, water utility director Greg Meszaros didn't rule the possibility out. To balance its books, the water utility also may deepen internal cuts.

In a sense, Austin has been a victim of its own success: Austinites have been reducing their water consumption, which means the city has collected less money from them — which is leading city officials to conclude rates must rise to bring in the money necessary to fund the 80 percent of costs that utility executives say are "fixed," such as debt payments and some equipment maintenance.

"For a customer it can be counterintuitive" that water conservation causes higher rates, Meszaros said. "But as we reduce water demand we

In this Section

reduce revenue, and a lot of the costs of our operation cannot be cut. We're just not built to absorb $27 million in losses year after year."

This situation may sound vaguely familiar — after all, Austin has been steadily raising rates for more than a decade to pay off major investments, such as a $400 million, federally mandated upgrade of the sewer system. It is not unique to Austin, either: cities across Texas have also raised rates substantially as the drought took hold.

Anyone who has looked at Lake Travis lately saw a powerful argument for conservation. Lakes Travis and Buchanan, which are the main water supplies for Central Texas, are only about 38 percent full. That is approaching the all-time low of 30 percent, with summer yet to come. Nearly every water official says the region is in a crisis.

Largely because of conservation efforts, Austin homes and businesses have used less water each year since 2006, despite population growth and hard droughts. Utility officials say the main reason is the once-a-week watering restriction, which Meszaros said will probably not be lifted for years. Utility officials also credit public education, giveaways of low-flow toilets, rebate programs and the current rate structure, which includes progressive "tiered" rates intended to discourage profligate water use.

In the 2006 fiscal year, per-person water use in Austin averaged 190 gallons a day; in the 2013 fiscal year, daily use had dropped to 136 gallons per capita. A more sophisticated analysis, which uses a five-year average to smooth out unusually wet and dry years, shows a similar trend. Likewise, the total amount of water pumped by the water utility peaked in 2007.

Even the summer scorchers of recent years haven't changed the basic picture.

"It used to be that in dry years, water utility revenues would go up, and in wet years it would go down. It's still down in wet years, but now it also is down in dry years," said Daryl Slusher, an assistant director of the water utility who oversees its conservation efforts.

The revenue shortfall is happening despite rates that have more than doubled over the past 12 years. And it is happening despite one of Austin's worst-kept secrets: Some houses are watering during days on which watering is not allowed – and producing revenue the city would not be collecting were it enforcing its conservation rules more vigorously.

Fiscal conservatives question whether the utility should cut rebates and other programs that kneecap revenues. Environmental activists say the city should not have added nearly a billion dollars worth of debt, to be

? True?

Bond team defeats Seattle Police Department ... baseball game

Gregory McQueen prostitution hearing wraps up at Ft. Hood

Kourtney Kardashian reportedly pregnant with third child

Familiar judge to hear school finance lawsuit case

P-TC00109

paid back over 30 years for a water-treatment plant now under construction, particularly at a time when citywide use is declining.

For years the city had also given developers steep discounts on water and wastewater hookup fees, a practice the City Council recently concluded should be curtailed because it pushed water-utility costs onto everyone else.

Even Mayor Lee Leffingwell recently alluded to nonvital expenses while trying to persuade his City Council colleagues to be more cognizant of the city's bottom line. Leffingwell noted that a few years ago, the council decided to use Austin Water Utility revenue to maintain the Balcones Canyonlands Preserve, a high-profile nature conservation effort, "because that's where the money was."

To deal with the expected budget crunch, the water utility has begun cutting. Its plans include: reducing conservation advertising; hiring fewer consultants to help fashion conservation strategies; signing fewer contracts, such as those for leak detection and assessment of the utility's water distribution system; creating less-generous rebate programs; and deferring maintenance of pumps and other equipment. But utility executives expect those cuts to yield only about $4.5 million in savings.

Last year, the utility dealt with the $27 million shortfall partly by refinancing some of its outstanding debt, which saved about $5 million, said David Anders, an assistant director who oversees the utility's finances. The rest of the shortfall was covered by borrowing money to finance some construction projects, instead of paying for them with cash. Meszaros, the utility director, said it may do an even more pronounced shift from cash to borrowing in the coming years, which would save money in the short term but adds interest payments.

Meszaros added that the utility is looking to save more money by delaying more construction and maintenance projects.

"When we're in a cash crunch, that's one of the big knobs we can turn," Meszaros said.

Expert reporting

Marty Toohey has written about local government since 2005, and has reported on Austin City Hall since 2009. He has taken in-depth looks at how Austin Energy revenue supports the city budget, the rise in government pension and health care costs and the combined burden of various local tax entities on area property owners.

By the numbers

190: Average daily water use, in gallons, per person in Austin in 2006

136: Average daily water use, in gallons, per person in Austin in 2013

$27 million: Shortfall in Austin Water sales last year

$10 million: Shortfall in Austin Water sales for the first quarter of this year

Source: Austin Water Utility

PREVIOUS: CRIME & LAW
Memorial fund created for slain Chinese t...
By Julie Chang - American-Statesman Staff

NEXT: NEWS
Lake Travis High School band aces its nati...
By Melissa B. Taboada - American-Statesman Staff

Popular on MyStatesman.com

Surge in property tax bills spurs push to reform tax appraisal
Concerns mount over proposed $57 million Austin Energy building
Top Texas energy official wants step back from wind power subsidy
X Games Austin 2014 competitions kick off at Congress heliport
Texas GOP taking aim at parts of Perry's legacy

All Comments (9)

Post a Comment

Comment(s) 1-9 of 9

807swr

Report

I suspect this is the new norm. I sense a Hurricane bonus for those 1 in 10 year events where the lakes are recharged and AWU can revert back to conventional operations and maintenance costs.

Of course the developers will keep on building until we shut them off from water for sanitation and fire protection.

11:40 p.m. Feb. 24, 2014

OldBlowhard

Report

Lay off the deadwood in the administrative suites and cut the pay of the ones who keep jobs. Make Slusher

P-TC00111

the manager. He has succeeded. Don't even THINK about screwing the people for conserving precious water and hard-earned money. If the present City Council can't deal with it the new one will.

4:57 a.m. Feb. 25, 2014

Report

educated

Poor management and lack of foresight has sunk our boat

5:25 a.m. Feb. 25, 2014

Report

BillBunch

Austin a "victim of its own success"? This is what is called revisionist history.

Austin water ratepayers are victims of pork barrel politics at its worst and a failure of integrity and leadership from AWU director Greg Meszaros, from his boss, City Manager Marc Ott, and from his boss, a narrow 4-3 city council majority that includes sitting Mayor Leffingwell and councilmembers Mike Martinez and Sheryl Cole.

The "Save Water Save Money" coalition of SOS Alliance, Austin Sierra Club, Clean Water Action, and Environment Texas documented for two years running that water use was not increasing as Water Utility directors insisted, such that building the "Billion Dollar Mistake on the Lake" water plant was a total waste of ratepayer funds. We documented that it would lead directly to the rate trap that we are in right now. It was all crystal clear from 2009 through 2011, before construction on the plant began. It was clear that Austin Water had a finance and water waste problem, not a treatment problem.

But the Austin Chamber, the Real Estate Council, the contractors, and the Statesman editorial board all ignored the facts that were clear in the Water Utility's own data and fell for the scare tactics and misrepresentations of Meszaros and Company.

Austinites are saving water because rates have skyrocketed and they care about our city and our planet. They are saving despite the incompetence of city management. With Water Treatment Plant No. 4, Meszaros, Ott and Leffingwell led Austin over a cliff. Someone should be held accountable. Price and Toohey should tell the truth.

8:12 a.m. Feb. 25, 2014

Report

Gritsforbreakfast

Gee, if only this could have been predicted when the Statesman, Chronicle and city council were pushing a half billion dollars in debt for a water treatment plant we didn't need. Oh wait, it was, in detail.

http://www.sosalliance.org/file-library/doc_view/250-the-perfect-storm-setting-priorities-at-the-austin-water-utility-in-a-time-of-fiscal-crisis

To blame massive rate hikes on the pittance spent on rebates or the Balcones Canyonlands Preserve is shockingly disingenuous. Some enterprising reporter should compare Leffingwell and Meszaros' comments today on the topic of water rates with the mendacious foolishness they were spewing when they wanted to

'The Perfect Storm':

Setting priorities at the Austin Water Utility in a time of fiscal crisis

By Scott Henson

June 9, 2010

'The Perfect Storm': Setting priorities at the Austin Water Utility in a time of fiscal crisis

BY SCOTT HENSON

Executive Summary

Austinites are using less water per capita Conservation is working. That should be cause for celebration. Saving water saves ratepayer money. It also means lower energy use and lawn-chemical consumption.

But at the Austin Water Utility (AWU) they're calling it a "Perfect Storm" of disaster because if people use less water, AWU won't generate enough revenue to pay for Water Treatment Plant 4 (WTP4), not to mention long-overdue maintenance costs This analysis by the Save Our Springs Alliance demonstrates that residential water rates could nearly double if the City continues along its present path

In the book and movie, "The Perfect Storm," a fishing boat captain (played on the big screen by George Clooney) steered his ship directly into the tempest in search of a big catch and everyone died So city staff's use of the dire term is instructive Like the sea captain in the story, AWU has recommended that the City Council charge ahead with WTP4 – costing ratepayers $1.2 billion over the life of the project - regardless of the fiscal danger. But this is not a movie Austin families can't afford large rate hikes during a recession and the City has alternatives to this expensive boondoggle.

Just last month AWU officials informed the City Council of an expected $43.2 million revenue shortfall in FY 2010 due to lower than projected water sales The water utility's revenue model had somehow failed to predict the "perfect storm" of reduced water use by residences and businesses due to rain and conservation. If current reduced water sales levels persist Austin could be required to nearly double residential water rates by 2015, mostly to pay for the Water Treatment Plant #4.

Despite years of controversy and debate surrounding the project, residential rate payers have never been given a realistic estimate of WTP4's hit to consumer pocketbooks, particularly when combined with other ongoing debt-funded projects and the City Council's unpublicized decision to shift water-rate burdens from commercial to residential customers. This report attempts to quantify these global residential rate impacts.

Investment in WTP4 has been touted as Austin's "stimulus" for the local business community, albeit one financed by local rate payers instead of the federal government.[1] But Austin could also add jobs – real, long-term jobs - by repairing massive leaks in our existing water system—leaks that allow nearly 10 million gallons of water a day to just seep into the ground. It could and should also invest in "green jobs" in water conservation and efficiency that would pay long-term dividends while drought-proofing our economy.

Recommendations:

- Estimate proposed rate increases based on data that includes implementation of new water conservation goals and the 2008 cost-of-service study, then tell residential rate payers exactly what their overall rate hikes will be through 2015.
- Constructing expensive new infrastructure while simultaneously shifting costs from commercial to residential customers puts too high a burden on residential water customers. Put off new construction until the cost-of-service adjustments are complete to avoid piling onto residential rate payers all at once.
- Before beginning construction on WTP4, evaluate cheaper plant options that would replace the decommissioned "Green Water Treatment plant" with a new plant located in the Desired Development Zone and drawing water from Lady Bird Lake
- Continue to implement water conservation, including aggressive, summertime lawn watering restrictions, to limit peak-day water use and achieve recently adopted city-wide conservation goals
- Prioritize fixing leaky pipes over a new intake for new revenue bond indebtedness so that millions of gallons of water aren't uselessly seeping into the ground each day.

Introduction: The Perfect Storm and Austin Water Rates

At a recent meeting of the Water-Wastewater Commission Budget Subcommittee, Austin Water Utility (AWU) officials told commissioners they were experiencing a "Perfect Storm" of reduced water sales and income because of recent rain, the effects of conservation programs, and the economic downturn Revenues are down more than 10% and AWU expects to take in $43.2 million less this fiscal year than they'd budgeted. If, in that environment, the Austin City Council moves forward with construction of Water Treatment Plant 4, as they are scheduled to do at their meeting on Thursday, June 10, there's every reason to believe they'll be steering residential ratepayers into a hurricane of future water-rate hikes.

Austin homeowners already face large, projected rate hikes to pay for Water Treatment Plant #4, and if this "Perfect Storm" continues, they will be much larger than anyone has so far admitted. In 2009, the City of Austin began a series of multi-year water rate hikes aimed in large part at paying for the WTP4 project – dubbed the Billion Dollar Mistake on the Lake by local environmental groups with its massive, miles-long tunnels under the Balcones Canyonlands Preserve AWU has suggested raising rates continuously over six years beginning with a 10.1% residential rate increase approved and implemented last fall But public discussions of rate hikes have *largely failed to consider the disparate impact on residential ratepayers,* and they certainly don't take into account AWU's new revenue reality in the short-to-medium term. If the utility sells less water and has the same debts to pay, they must charge consumers more per unit of water.

Projected Homeowner Water Rate Hikes Already Onerous

For residential consumers, proposed increases in the cost of water will rise much faster in the near future than implied by aggregated estimates from the utility

AWU says that combined water-wastewater rates increased 4 5% overall in the FY 2010 budget, but that number is deceiving because residential customers took the brunt of the increase, witnessing a 10.1% boost in single-family residential water rates [3]

The disparate impact on homeowners results from a city-sponsored cost of service study[4] which placed Austin on a multi year path toward shifting rate burdens from commercial and wholesale customers to residential users. AWU plans "to continue to phase out the remainder of the water rate subsidy of the residential customer class over the next 5-7 years,"[4] meaning similar adjustments can be projected going forward

Table 1 shows the aggregated "combined" water and wastewater rate increases for all classes suggested by AWU recently to the Budget Subcommittee of Austin's Water-Wastewater Commission[5].

Table 1: Projected Combined Water Rate Hikes (2010 – 2015)

	2010	2011	2012	2013	2014	2015	Total
Water	5.70%	6.80%	5.50%	6.60%	5.70%	2.50%	34.19%
Wastewater	3.30%	2%	3.50%	4.30%	3.10%	2.50%	20.20%
Combined	4 50%	4.50%	4.50%	5.50%	4.50%	2.50%	28.96%

On its face, that results in a 28.96% overall increase. However, residential ratepayers took the brunt of the hit in the first year, seeing their water rates increase by 10.1%, not 5.7%. So residential water rates went up 77% more than the averaged amount because of the shift in burden from commercial and wholesale customers. If residential rates increase disproportionately over the next five years at the same rate as in last year's budget, then logically residential increases will be higher than "combined" rate increases. How much higher? Assuming the shift in burden continues at the same pace as in 2010[6], here are the projected residential water-rate increases over the same period:

Table 2: Residential Rate Hikes Including Cost of Service Adjustment (2010 - 2015)

	2010	2011	2012	2013	2014	2015	Total
Residential Water	10.10%	12.05%	9.75%	11.69%	10.10%	4.43%	73.82%

So between overall rate hikes and the shift in burden from industrial to residential ratepayers, Austin homeowners could see a 74% rate increase over this period – a number city staff have scrupulously avoided estimating by projecting forward only "combined" increases instead of including details about the cost-of-service reallocations.

AWU Revenue Models Flawed, Over-Optimistic

No one has told Austin's residential water consumers their rates are scheduled to rise as much as 74% to pay for cost reallocations and Water Treatment Plant 4, but that's already in the works. On top of that, the utility based those rates on the assumption that people would buy more water than has generally turned out to be the case.

The bonded indebtedness to pay for Water Treatment Plant 4 and other AWU projects is secured by revenues from AWU water sales,[7] which are the only available revenue source to pay off the debt. If water sales don't meet projected levels, bondholders can force the City to raise rates through a writ of mandamus,[8] or bond houses might lower the ratings on City of Austin debt. Houston this year increased their combined water-wastewater rates by 30% because of an expanding bond-debt burden. Reported the Houston Chronicle, "Had [Houston] failed to raise rates, many noted, the system likely would face a

downgrade in its debt, increasing costs and leading the city to continue running a deficit in the water-sewer utility. This year that shortfall is expected to exceed $100 million "[9]

Austin could easily find itself in the same situation. AWU's assumptions underlying the written solicitation of bond debt for Water Treatment Plant 4 anticipate water sales and revenue rising indefinitely, but this year's revenue decline belies those assumptions. AWU's projected $43.2 million shortfall demonstrates what happens when conservation combines with higher rainfall levels, a development that took AWU budget officials by surprise.

AWU's budget and financial manager Rusty Cobern recently told an industry publication that "Rising conservation has contributed to revenue volatility at AWU" explaining that "We would have expected a revenue windfall during the [recent] drought" but that didn't happen. He concluded that "Aggressive conservation pricing models can eliminate windfall opportunities."[10]

So if AWU's revenue model failed to predict the current shortfall, projecting just one year into the future, how firmly can we rely on their projections several years out? If current, lower usage levels persist into the future, thanks to expanded conservation and/or the alleviation of record drought conditions, rates must increase even more.

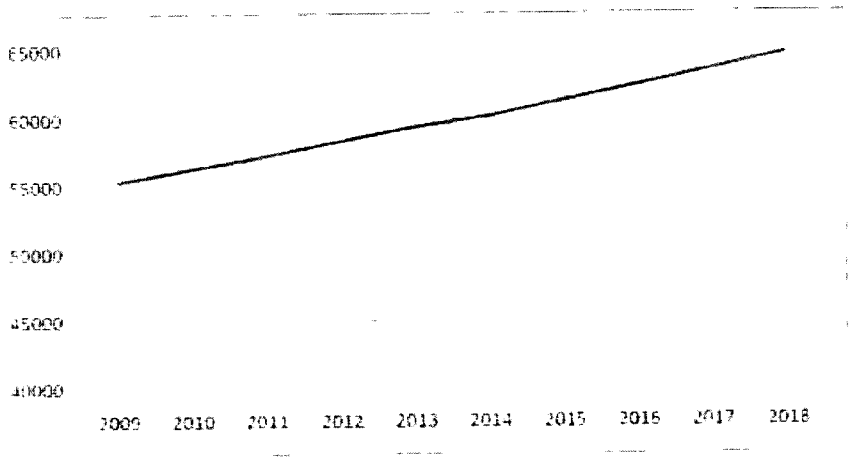
Austin recently adopted aggressive new water conservation goals which, upon implementation, will significantly reduce the total amount of water sold. Water-demand projections presented to the City Council in 2009 showing the need for WTP4 assumed Austinites would use 162 gallons per capita per day (gpcd) in 2020.[11] On May 13, 2010, the Austin City Council approved conservation goals aiming to reduce water use to 140 gpcp by 2020[12], thereby also reducing the volume of water sold and thus the revenue available to pay for Water Treatment Plant 4. What's more, single-family residential water use per account has been declining, from a high of 10,258 gallons per month in 1999-2000 to 6,287 gallons in the 2008-2009 Fiscal Year.[13]

Overestimating Water Sales

These trends create a dilemma if WTP4 is constructed. If water use doesn't increase steadily, then even the already-high projected rate hikes described above probably underestimate the amount AWU needs to cover WTP4-related debt, which will cost ratepayers $1.2 billion including interest. AWU's projected shortfall in the current fiscal year is 10.2% of projected revenue. The utility has sufficient reserves to cover that amount for one year[14], but going forward if the situation continues, rates must increase even higher. In that case, instead of a 74% rate increase by 2015 for homeowners, *93.6% would be required*.[15] Rates could go up even further depending on how badly AWU has overestimated future water use (and/or underestimated the cost of WTP4).

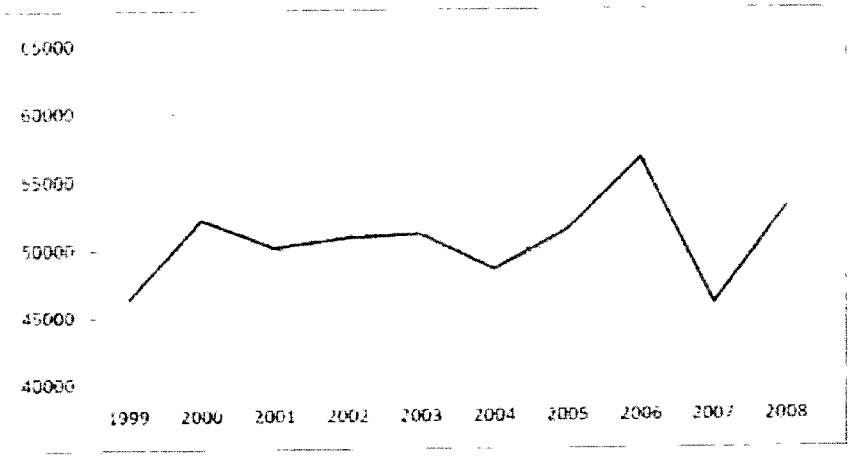
Using data derived from the bond prospectus associated with WTP4[16], Chart 1 depicts the increases in total pumpage AWU told bondholders will occur to generate sufficient revenue to pay its debt.

Chart 1. Projected Total AWU Pumpage: 2009 - 2018



These projections certainly don't jibe with a $43 2 million dip in 2010 water sales, but the trend also seems unrealistic compared to actual total pumpage data from the past decade, as reported by the City in the same source. According to the data depicted in Chart 1, AWU believes total pumpage will increase steadily over time. But that contradicts the City's recent experience, even during a period marked by dramatic economic and population growth, depicted in Chart 2:

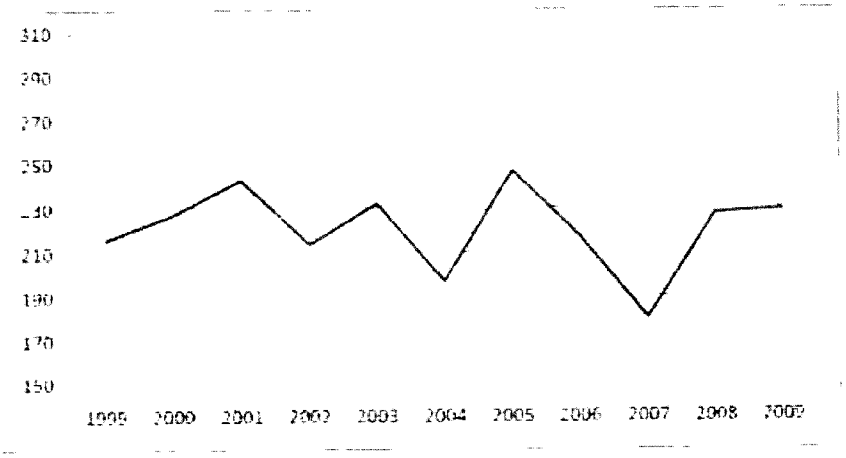
Chart 2. Total AWU Annual Pumpage: 1999 – 2008



AWU has consistently overestimated Austinites' water use to project demand for water treatment facilities that never materialized. In 2002, when the Austin City Council first authorized hiring Carollo

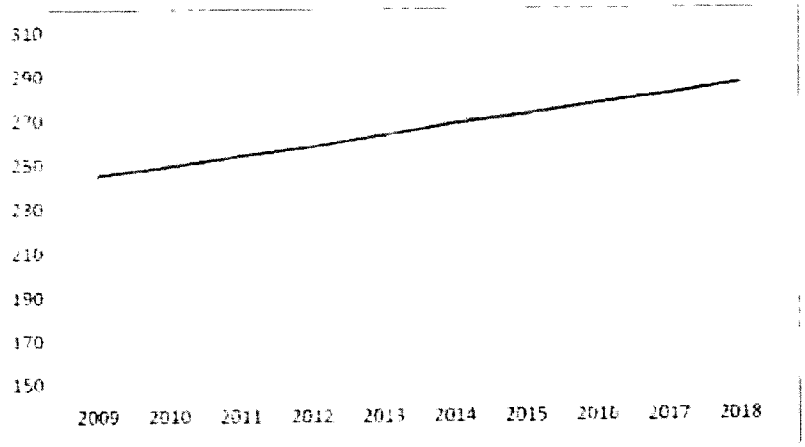
Engineering for the WTP4 project, AWU staff estimated that Austin's peak summer water use would reach 281 million gallons per day (mgd) by 2009.[17] That turned out to be a dramatic overestimate. Chart 3 shows the actual peak use over this period:

Chart 3. Actual Peak Water Use Per Day 1999 - 2009



Even so, similar to its overall pumpage projections, AWU told bondholders that peak use will climb steadily in the near future despite these recent, countervailing trends

Chart 4. Projected Peak Water Use Per Day: 2009 – 2018



Given the inflated estimates from 2002, there's little reason to believe from recent experience that the steep upward curve depicted to bondholders represents a realistic expectation of real-world events These exceedingly optimistic "forward looking statements" assume current revenue shortfalls are an anomaly and future water sales will increase at steady, predictable rates. However, AWU's long term projections have been consistently overstated, while conservation has proven to work

Bottom line: Several situations could conceivably cause water rates to rise much higher than AWU officials have so far projected, including successful conservation efforts, more rain, and a real property glut that has reduced the number of new residential and commercial hookups. By contrast, as AWU's Mr Cobern noted, summertime conservation measures – particularly restrictions on lawn watering – have eliminated "windfall opportunities" from higher summer water use that AWU previously anticipated. So if water sales aren't as high as AWU optimistically projected, the utility must either increase rates or reduce the General Fund transfer from the utility (which this fiscal year runs about $29 million[28]) and make up the difference with property tax increases

Steering the AWU Away from the Perfect Storm

The Austin environmental community has argued that AWU should wait before launching WTP4 to perform necessary environmental assessments of the transmission lines, save money in the short-term, and to determine before borrowing a half-billion dollars whether conservation measures could forestall new construction even longer. Now, facing unprecedented revenue shortfalls , lower water use through conservation, and this so-called "Perfect Storm," the logic of environmentalists' argument resonates even more strongly.

Any average Austinite whose income is declining would think twice about purchasing an expensive new home that commits the family to high, ongoing debt payments, but that's how AWU suggests Austin respond in the face of its current, unexpected decline in revenue.

The "Perfect Storm" behind lower 2010 water revenues stems primarily from three sources, according to AWU: New conservation measures, the end of the recent record setting drought, and the current economic downturn Of those, the conservation measures aren't going away, some years will inevitably be rainier than others, and even though Austin's economy remains better than most, few believe the effects of the economic crunch will be over anytime soon Meanwhile, conservation measures have eliminated opportunities for revenue "windfalls" the utility previously expected during periods of drought

So this isn't necessarily a temporary condition; some or all of these situations may continue for some time, making now the worst possible moment for AWU to take on large amounts of new, rate-secured debt

The Perfect Storm: *Setting priorities at the Austin Water Utility in a time of fiscal crisis*, June 9, 2010

Misplaced Priorities: Fix Leaky Pipes Instead of Building New Intake

In the meantime, AWU continues to put off critical maintenance on older water lines in the central city which are responsible for leaks that drain billions of gallons of water per year from the system. The city parks department recently announced it would stop building new facilities until it could afford to pay for maintenance on the ones it already has[19], but AWU has not yet learned that basic lesson of fiscal prudence in lean economic times.

Some have argued for WTP4 based on the jobs created through a large, debt-financed public works project. AWU Director Greg Meszaros even said he considered WTP4 a "local stimulus" project that would create thousands of short-term jobs[20], though in this case ratepayers, not the Obama Administration, will pick up the tab. But if Austin wants to create jobs through AWU, it's focused on the wrong project.

According to the City Auditor, AWU lost 9.85 million gallons of water per day in 2007 through leaky pipes which have never been fixed.[21] That's 3.5 billion gallons of water per year the City just allows to seep into the ground. It makes little sense to build 50 mgd in new capacity while letting nearly 10 mgd leak out of the system every day.

Responding last summer to questions submitted by Councilmember Bill Spelman, AWU revealed that out of 3,600 miles of pipe that it operates, 900 miles are deteriorated and there are 250 miles of "highly deteriorated" pipe where the majority of leaks are located.[22] During a cold snap in January, reported the Austin Chronicle, those old cast-iron sections of the system accounted for 91% of water main breaks.[23]

No water system is leak-proof, but the City could start by fixing the 250 miles of identifiably deteriorated pipe, a task which would cost $330 million, city staff told Councilmember Spelman. That's a significant amount which would require a nine-figure bond issue, not to mention generating employment lasting many years beyond WTP4's scheduled construction. But that's not where AWU's priorities lie. Instead AWU plans to spend just $81.8 million fixing leaks over the next five years, AWU told Spelman, by which time even more pipe will inevitably deteriorate.

The Water Utility's "Perfect Storm" was easily predicted. Both peak-day and total water use have been flat to slightly declining since 2001. Per-household use is down. Both residents and businesses are saving water and saving money. These trends will likely continue. Rather than increase the damage to ratepayers and the environment, it's time for a midcourse correction and a return to safe harbor.

Recommendations:

The Save Our Springs Alliance offers these common-sense recommendations in the face of AWU's mounting fiscal crisis and misplaced priorities:

- Estimate proposed rate increases based on data that includes implementation of new water conservation goals and the 2008 cost-of-service study, then tell residential rate payers exactly what their overall rate hikes will be through 2015.
- Constructing expensive new infrastructure while simultaneously shifting costs from commercial to residential customers puts too high a burden on residential water customers. Put off new construction until the cost-of-service adjustments are complete to avoid piling onto residential rate payers all at once.
- Before beginning construction on WTP4, evaluate cheaper plant options that would replace the decommissioned "Green Water Treatment plant" with a new plant located in the Desired Development Zone and drawing water from Lady Bird Lake.
- Continue to implement water conservation, including aggressive, summertime lawn watering restrictions, to limit peak-day water use and achieve recently adopted city-wide conservation goals.
- Prioritize fixing leaky pipes over a new intake for new revenue bond indebtedness so that millions of gallons of water aren't uselessly seeping into the ground each day.

Appendix: The following data associated with the charts in this report was taken from the City of Austin Bond Prospectus dated November 5, 2009, p 21.

Data for Chart 1: Projected total annual pumpage (in millions of gallons)

2009	55,385
2010	56,289
2011	57,270
2012	58,301
2013	59,350
2014	60,155
2015	61,242
2016	62,349
2017	63,477
2018	64,624

Data for Chart 2: Historic Annual Pumpage (in millions of gallons):

1999	46,422
2000	52,194
2001	50,140
2002	50,883
2003	51,111
2004	48,469
2005	51,374
2006	56,603
2007	45,868
2008	53,066

Data for Chart 3: Historial Annual Peak Day Use (in millions of gallons per day)

1999	216
2000	227
2001	243
2002	214
2003	232
2004	197
2005	247
2006	217
2007	180
2008	227
2009	229

Data for Chart 4: Projected Peak Use (in million of gallons per day)

2009	245
2010	249
2011	254
2012	258
2013	263
2014	268
2015	272
2016	277
2017	281
2018	286

Note: This documented was edited June 10 to correct non substantive typographical and editing errors

---

ENDNOTES:

[i] Also unlike the federal stimulus, Austin ratepayers will see immediate rate increases to pay for it while debt accrued in Washington can be put off until future generations

[ii] "2009-2010 PROPOSED BUDGET RESPONSE TO REQUEST FOR INFORMATION," Response to City Councilmember Chris Riley, Request #30, September 9, 2009

[iii] Study Report, Austin Water Utility Cost of Service Rate Study 2008, Red Oak Consulting

[iv] Backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee

[v] Ibid

[vi] All projections are within the 5-7 year period during which AWU says it will shift its cost-of-service allocations.

[vii] "Utility bills likely to increase," City and County Beat Blog, Austin American Statesman, April 28, 2010.

[viii] Bond Prospectus, "Official Statement," Dated November 5, 2009, p 14

[ix] "Water-sewer rates to climb 30% over next three years," Houston Chronicle, April 22, 2010

[x] "US Urban Residents Cut Water Usage, Utilities Are Forced to Raise Prices," Circle of Blue WaterNews, April 19, 2010.

[xi] Spreadsheet obtained under the Public Information Act from the Austin Water Utility by Bill Bunch, October 2009.

[72] Austin City Council Agenda Item 35, May 13, 2010 The "Fiscal Memo" accompanying the agenda item stated the financial impact to the Austin Water Utility is "unknown" beyond the need to hire more conservation personnel, but the fiscal impact of selling less water is clear from the 2010 revenue shortfall AWU will receive less revenue than would otherwise be anticipated

[73] Backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee. "Historical & Projected Accounts (FY Average)"

[74] Backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee.

[75] Assume from the calculation in Table 2 that the amount required to pay off WTP4 debt and other obligations is 1.7382 times the 2009 rate, or a 73 82% increase for residential ratepayers from pre-WTP4 rates at projected levels of use. Now assume water sales continue to underperform compared to AWU projections, currently revenues are at 89.78% of projected amounts If lower water use and sales continue along these lines, to achieve the same revenue level will require a rate equal to 1 7382/ 8978, or a 93 6% overall rate increase from 2009 levels

[76] Bond Prospectus, "Official Statement," Dated November 5, 2009, p. 21

[77] "Recommendation for Council Action," Backup material, Austin City Council, Agenda Item 32, 4/4/02

[78] Really an extra $ 28,967,464," according to backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee

[79] "Parks and Rec If you build it," Austin Chronicle, May 28, 2010 Said PARD director Sara Hensley, ""We have to say we can't build it if we can't maintain it."

[80] Comments recorded in author's notes from a public meeting April 20 at Concordia University

[81] Office of the City Auditor, "Audit Report Austin Water Utility Water Loss," April 28, 2009

[82] Memorandum to Councilmember Bill Spelman from Assistant City Manager Rudy Garza, "Response to WTP4 questions," July 22, 2009, pp. 10-11

[83] "Frozen Assets: AWU and the Busted Pipes," Austin Chronicle, January 22, 2010

RESPONSE TO REQUEST NO. 13

SAVE WATER, SAVE MONEY STOP THE BILLION $$$ MISTAKE ON THE LAKE

FACTS About Austin's Water Supply and Usage

Did you know that Austin's water use peaked almost ten years ago when Austin used a total of 240.3 million gallons on a single day?

15 facts you need to know about where our water comes from and how much we use.

1. **Austin's water use peaked almost ten years ago**, on August 13, 2001, when Austin residents and businesses used a total of 240.3 million gallons on a single day.

2. **Every summer since 2001 our peak day of water use has been lower.** In the drought summer of 2009 Austin water use peaked at 228 million gallons (MG), the day before the one-day per week drought water restrictions were to begin. In 2010, a relatively wet year, Austin water use peaked at 193 MG on a single day.

3. **Austin currently has 285 MG per day (MGD) water treatment capacity and 167 MG of storage capacity.** Treatment and storage must combine to meet "peak" demands on a reliable basis.

4. **In 2007 Austin completed a 67 MGD capacity expansion to its Ullrich water treatment plant, for a total of 167 MGD at the Ullrich plant.** Austin's "Davis" plant can treat 118 MGD. Both plants are segmented, so that parts of the plant may be shut down for maintenance and repair without shutting down the entire plant.

5. **The 67 MGD Ullrich expansion was completed at a cost of $85 million. Compare to the City's estimated cost of building a 50 MGD "Water Treatment Plant No. 4" for $508 million (not counting interest).**

6. **In 2008 Austin shut down the 42 MGD capacity "Green" water plant years ahead of schedule in order to make way for Town Lake redevelopment.** The plant could have been refurbished to operate effectively for decades into the future; doing so would have been far cheaper than building a new plant at a new site for the simple reason that the City's water distributions system was built to take water in at the Green plant site.

7. **The City rejected a proposal by Corollo Engineering, the same company that ended up with the WTP4 engineering contract, that would have redeveloped the "Green" plant to a 90 MGD treatment capacity for a cost of only $122 million.**

8. **On hot summer days, when water use peaks, roughly half of the water used in Austin is for outdoor, non-essential lawn and landscape watering.** Total Austin water usage in winter months averages between 95 and 115 MGD.

9. **From 2001 to 2009, Austin added over 200,000 people to its water service population, yet peak demand dropped slightly.**

10. **Total Austin water use in 2010 was lower than any other year since 1997, despite population growth.**

11. **Austin is not alone: many growing cities in the American west are seeing water usage decline at rates faster than population growth rates, year after year.**

12. **Across the board, residents and businesses are reducing their water use for 3 simple reasons:** to save money in light of increasing water rates, because affordable and reliable conservation measures are readily available (and/or are being mandated), and to help protect their families and the environment in light of climate change and the health benefits of landscaping with native, drought tolerant plants that require less water and no pesticides, herbicides or synthetic fertilizers.

13. **In May 2010 a unanimous Austin City Council approved a policy to reduce Austin's per capita water use to below 140 gallons per capita per day (gpcd) by 2020.** This is in an "average" year – not a "wet" or "dry" year. Several cities, including San Antonio, are already below this very reasonable usage goal. See Austin's initial "140 GPCD Plan" here.

14. **Factoring in the Council approved 140 gpcd by 2020 goal and projected population growth, Austin will not match its 2008 total water usage until 2022 or later.**

15. **All of the City of Austin's water supply comes from the Colorado River,** through water rights held by the City of Austin and contracts for storage in the Highlands Lakes and water sharing with the Lower Colorado River Authority. Most of Austin's suburbs also get their water from storage in LCRA's Highland Lakes, though Buda and Kyle and other areas on the Austin's southern border get their water from the Barton Springs segment of the Edwards Aquifer.

RESPONSE TO REQUEST NO. 14

'The Perfect Storm':

Setting priorities at the Austin Water Utility in a time of fiscal crisis

By Scott Henson

June 9, 2010

'The Perfect Storm': Setting priorities at the Austin Water Utility in a time of fiscal crisis

BY SCOTT HENSON

Executive Summary

Austinites are using less water per capita. Conservation is working. That should be cause for celebration. Saving water saves ratepayer money. It also means lower energy use and lawn-chemical consumption.

But at the Austin Water Utility (AWU) they're calling it a "Perfect Storm" of disaster because if people use less water, AWU won't generate enough revenue to pay for Water Treatment Plant 4 (WTP4), not to mention long-overdue maintenance costs. This analysis by the Save Our Springs Alliance demonstrates that residential water rates could nearly double if the City continues along its present path.

In the book and movie, "The Perfect Storm," a fishing boat captain (played on the big screen by George Clooney) steered his ship directly into the tempest in search of a big catch and everyone died. So city staff's use of the dire term is instructive. Like the sea captain in the story, AWU has recommended that the City Council charge ahead with WTP4 – costing ratepayers $1.2 billion over the life of the project - regardless of the fiscal danger. But this is not a movie. Austin families can't afford large rate hikes during a recession and the City has alternatives to this expensive boondoggle.

Just last month AWU officials informed the City Council of an expected $43.2 million revenue shortfall in FY 2010 due to lower than projected water sales. The water utility's revenue model had somehow failed to predict the "perfect storm" of reduced water use by residences and businesses due to rain and conservation. If current reduced water sales levels persist, Austin could be required to nearly double residential water rates by 2015, mostly to pay for the Water Treatment Plant #4.

Despite years of controversy and debate surrounding the project, residential rate payers have never been given a realistic estimate of WTP4's hit to consumer pocketbooks, particularly when combined with other ongoing debt-funded projects and the City Council's unpublicized decision to shift water-rate burdens from commercial to residential customers. This report attempts to quantify these global residential rate impacts.

Investment in WTP4 has been touted as Austin's "stimulus" for the local business community, albeit one financed by local rate payers instead of the federal government [1] But Austin could also add jobs – real, long-term jobs - by repairing massive leaks in our existing water system—leaks that allow nearly 10 million gallons of water a day to just seep into the ground. It could and should also invest in "green jobs" in water conservation and efficiency that would pay long-term dividends while drought-proofing our economy.

Recommendations:

- Estimate proposed rate increases based on data that includes implementation of new water conservation goals and the 2008 cost-of-service study, then tell residential rate payers exactly what their overall rate hikes will be through 2015
- Constructing expensive new infrastructure while simultaneously shifting costs from commercial to residential customers puts too high a burden on residential water customers. Put off new construction until the cost-of-service adjustments are complete to avoid piling onto residential rate payers all at once.
- Before beginning construction on WTP4, evaluate cheaper plant options that would replace the decommissioned "Green Water Treatment plant" with a new plant located in the Desired Development Zone and drawing water from Lady Bird Lake
- Continue to implement water conservation, including aggressive, summertime lawn watering restrictions, to limit peak-day water use and achieve recently adopted city-wide conservation goals
- Prioritize fixing leaky pipes over a new intake for new revenue bond indebtedness so that millions of gallons of water aren't uselessly seeping into the ground each day

Introduction: The Perfect Storm and Austin Water Rates

At a recent meeting of the Water-Wastewater Commission Budget Subcommittee, Austin Water Utility (AWU) officials told commissioners they were experiencing a "Perfect Storm" of reduced water sales and income because of recent rain, the effects of conservation programs, and the economic downturn Revenues are down more than 10% and AWU expects to take in $43 2 million less this fiscal year than they'd budgeted. If, in that environment, the Austin City Council moves forward with construction of Water Treatment Plant 4, as they are scheduled to do at their meeting on Thursday, June 10, there's every reason to believe they'll be steering residential ratepayers into a hurricane of future water-rate hikes.

Austin homeowners already face large, projected rate hikes to pay for Water Treatment Plant #4, and if this "Perfect Storm" continues, they will be much larger than anyone has so far admitted. In 2009, the City of Austin began a series of multi-year water rate hikes aimed in large part at paying for the WTP4 project – dubbed the Billion Dollar Mistake on the Lake by local environmental groups with its massive, miles-long tunnels under the Balcones Canyonlands Preserve AWU has suggested raising rates continuously over six years beginning with a 10.1% residential rate increase approved and implemented last fall But public discussions of rate hikes have *largely failed to consider the disparate impact on residential ratepayers,* and they certainly don't take into account AWU's new revenue reality in the short-to-medium term. If the utility sells less water and has the same debts to pay, they must charge consumers more per unit of water

Projected Homeowner Water Rate Hikes Already Onerous

For residential consumers, proposed increases in the cost of water will rise much faster in the near future than implied by aggregated estimates from the utility

AWU says that combined water-wastewater rates increased 4 5% overall in the FY 2010 budget, but that number is deceiving because residential customers took the brunt of the increase, witnessing a 10.1% boost in single-family residential water rates [3]

The disparate impact on homeowners results from a city-sponsored cost of service study[4] which placed Austin on a multi year path toward shifting rate burdens from commercial and wholesale customers to residential users. AWU plans "to continue to phase out the remainder of the water rate subsidy of the residential customer class over the next 5-7 years,"[4] meaning similar adjustments can be projected going forward.

Table 1 shows the aggregated "combined" water and wastewater rate increases for all classes suggested by AWU recently to the Budget Subcommittee of Austin's Water-Wastewater Commission[5]

Table 1: Projected Combined Water Rate Hikes (2010 – 2015)

	2010	2011	2012	2013	2014	2015	Total
Water	5.70%	6.80%	5.50%	6.60%	5.70%	2.50%	34.19%
Wastewater	3.30%	2%	3.50%	4.30%	3.10%	2.50%	20.20%
Combined	4 50%	4.50%	4.50%	5.50%	4.50%	2.50%	28.96%

On its face, that results in a 28.96% overall increase. However, residential ratepayers took the brunt of the hit in the first year, seeing their water rates increase by 10.1%, not 5.7%. So residential water rates went up 77% more than the averaged amount because of the shift in burden from commercial and wholesale customers. If residential rates increase disproportionately over the next five years at the same rate as in last year's budget, then logically residential increases will be higher than "combined" rate increases. How much higher? Assuming the shift in burden continues at the same pace as in 2010[6], here are the projected residential water-rate increases over the same period:

Table 2: Residential Rate Hikes Including Cost of Service Adjustment (2010 - 2015)

	2010	2011	2012	2013	2014	2015	Total
Residential Water	10.10%	12.05%	9.75%	11.69%	10.10%	4.43%	73.82%

So between overall rate hikes and the shift in burden from industrial to residential ratepayers, Austin homeowners could see a 74% rate increase over this period – a number city staff have scrupulously avoided estimating by projecting forward only "combined" increases instead of including details about the cost-of-service reallocations.

AWU Revenue Models Flawed, Over-Optimistic

No one has told Austin's residential water consumers their rates are scheduled to rise as much as 74% to pay for cost reallocations and Water Treatment Plant 4, but that's already in the works. On top of that, the utility based those rates on the assumption that people would buy more water than has generally turned out to be the case.

The bonded indebtedness to pay for Water Treatment Plant 4 and other AWU projects is secured by revenues from AWU water sales,[7] which are the only available revenue source to pay off the debt. If water sales don't meet projected levels, bondholders can force the City to raise rates through a writ of mandamus,[8] or bond houses might lower the ratings on City of Austin debt. Houston this year increased their combined water-wastewater rates by 30% because of an expanding bond-debt burden. Reported the Houston Chronicle, "Had [Houston] failed to raise rates, many noted, the system likely would face a

downgrade in its debt, increasing costs and leading the city to continue running a deficit in the water-sewer utility. This year that shortfall is expected to exceed $100 million "[9]

Austin could easily find itself in the same situation. AWU's assumptions underlying the written solicitation of bond debt for Water Treatment Plant 4 anticipate water sales and revenue rising indefinitely, but this year's revenue decline belies those assumptions. AWU's projected $43.2 million shortfall demonstrates what happens when conservation combines with higher rainfall levels, a development that took AWU budget officials by surprise.

AWU's budget and financial manager Rusty Cobern recently told an industry publication that "Rising conservation has contributed to revenue volatility at AWU" explaining that "We would have expected a revenue windfall during the [recent] drought" but that didn't happen. He concluded that "Aggressive conservation pricing models can eliminate windfall opportunities."[10]

So if AWU's revenue model failed to predict the current shortfall, projecting just one year into the future, how firmly can we rely on their projections several years out? If current, lower usage levels persist into the future, thanks to expanded conservation and/or the alleviation of record drought conditions, rates must increase even more.

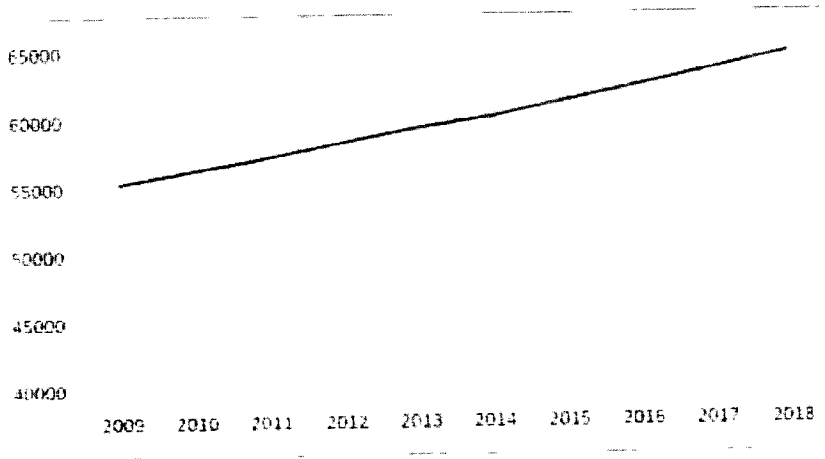
Austin recently adopted aggressive new water conservation goals which, upon implementation, will significantly reduce the total amount of water sold. Water-demand projections presented to the City Council in 2009 showing the need for WTP4 assumed Austinites would use 162 gallons per capita per day (gpcd) in 2020 [11] On May 13, 2010, the Austin City Council approved conservation goals aiming to reduce water use to 140 gpcp by 2020[12], thereby also reducing the volume of water sold and thus the revenue available to pay for Water Treatment Plant 4. What's more, single-family residential water use per account has been declining, from a high of 10,258 gallons per month in 1999-2000 to 6,287 gallons in the 2008-2009 Fiscal Year [13]

Overestimating Water Sales

These trends create a dilemma if WTP4 is constructed. If water use doesn't increase steadily, then even the already-high projected rate hikes described above probably underestimate the amount AWU needs to cover WTP4-related debt, which will cost ratepayers $1.2 billion including interest AWU's projected shortfall in the current fiscal year is 10.2% of projected revenue. The utility has sufficient reserves to cover that amount for one year[14], but going forward if the situation continues, rates must increase even higher In that case, instead of a 74% rate increase by 2015 for homeowners, *93 6% would be required* [15] Rates could go up even further depending on how badly AWU has overestimated future water use (and/or underestimated the cost of WTP4).

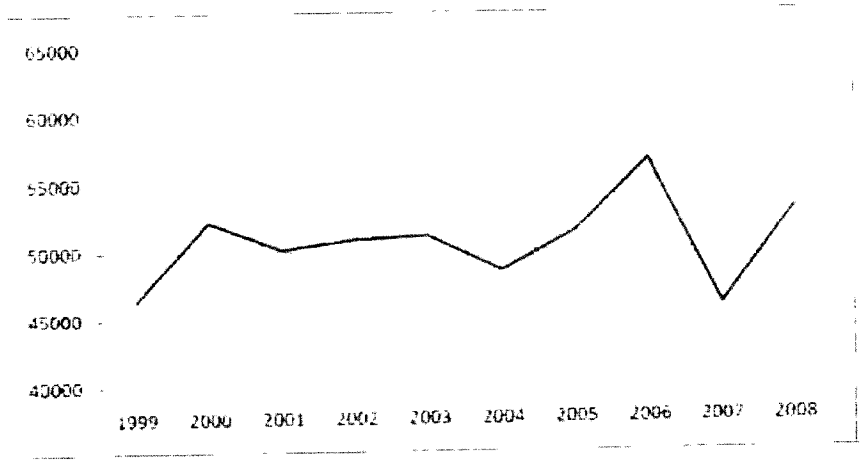
Using data derived from the bond prospectus associated with WTP4[16], Chart 1 depicts the increases in total pumpage AWU told bondholders will occur to generate sufficient revenue to pay its debt.

Chart 1. Projected Total AWU Pumpage: 2009 - 2018



These projections certainly don't jibe with a $43 2 million dip in 2010 water sales, but the trend also seems unrealistic compared to actual total pumpage data from the past decade, as reported by the City in the same source. According to the data depicted in Chart 1, AWU believes total pumpage will increase steadily over time. But that contradicts the City's recent experience, even during a period marked by dramatic economic and population growth, depicted in Chart 2:

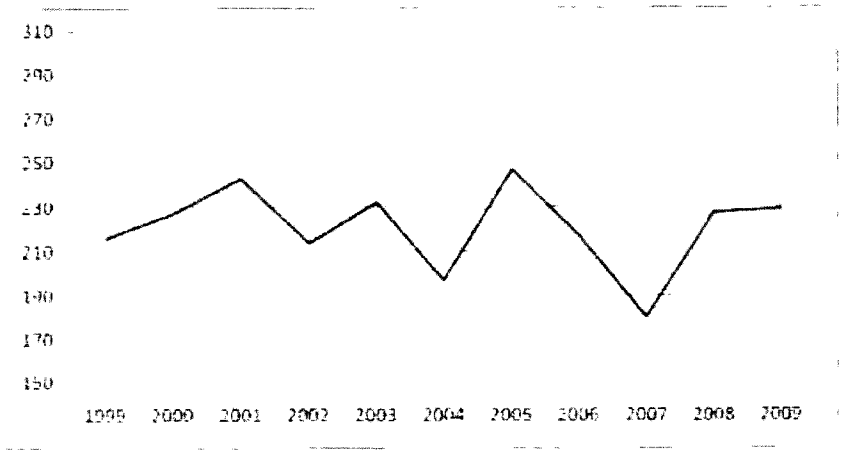
Chart 2. Total AWU Annual Pumpage: 1999 – 2008



AWU has consistently overestimated Austinites' water use to project demand for water treatment facilities that never materialized. In 2002, when the Austin City Council first authorized hiring Carollo

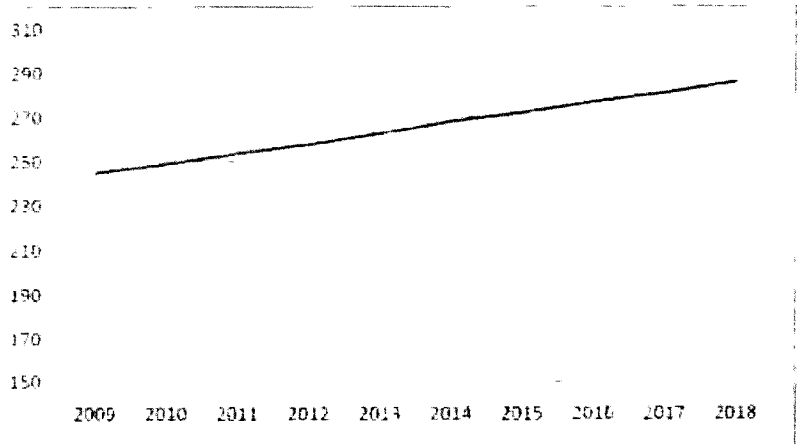
Engineering for the WTP4 project, AWU staff estimated that Austin's peak summer water use would reach 281 million gallons per day (mgd) by 2009.[17] That turned out to be a dramatic overestimate. Chart 3 shows the actual peak use over this period:

Chart 3. Actual Peak Water Use Per Day 1999 - 2009



Even so, similar to its overall pumpage projections, AWU told bondholders that peak use will climb steadily in the near future despite these recent, countervailing trends.

Chart 4. Projected Peak Water Use Per Day: 2009 – 2018



The Perfect Storm. *Setting priorities at the Austin Water Utility in a time of fiscal crisis*, June 9, 2010

P-TC00135

Given the inflated estimates from 2002, there's little reason to believe from recent experience that the steep upward curve depicted to bondholders represents a realistic expectation of real-world events These exceedingly optimistic "forward looking statements" assume current revenue shortfalls are an anomaly and future water sales will increase at steady, predictable rates. However, AWU's long term projections have been consistently overstated, while conservation has proven to work

Bottom line: Several situations could conceivably cause water rates to rise much higher than AWU officials have so far projected, including successful conservation efforts, more rain, and a real property glut that has reduced the number of new residential and commercial hookups. By contrast, as AWU's Mr. Cobern noted, summertime conservation measures – particularly restrictions on lawn watering – have eliminated "windfall opportunities" from higher summer water use that AWU previously anticipated. So if water sales aren't as high as AWU optimistically projected, the utility must either increase rates or reduce the General Fund transfer from the utility (which this fiscal year runs about $29 million[18]) and make up the difference with property tax increases

Steering the AWU Away from the Perfect Storm

The Austin environmental community has argued that AWU should wait before launching WTP4 to perform necessary environmental assessments of the transmission lines, save money in the short-term, and to determine before borrowing a half-billion dollars whether conservation measures could forestall new construction even longer. Now, facing unprecedented revenue shortfalls , lower water use through conservation, and this so-called "Perfect Storm," the logic of environmentalists' argument resonates even more strongly.

Any average Austinite whose income is declining would think twice about purchasing an expensive new home that commits the family to high, ongoing debt payments, but that's how AWU suggests Austin respond in the face of its current, unexpected decline in revenue.

The "Perfect Storm" behind lower 2010 water revenues stems primarily from three sources, according to AWU: New conservation measures, the end of the recent record setting drought, and the current economic downturn Of those, the conservation measures aren't going away, some years will inevitably be rainier than others, and even though Austin's economy remains better than most, few believe the effects of the economic crunch will be over anytime soon. Meanwhile, conservation measures have eliminated opportunities for revenue "windfalls" the utility previously expected during periods of drought

So this isn't necessarily a temporary condition; some or all of these situations may continue for some time, making now the worst possible moment for AWU to take on large amounts of new, rate-secured debt

The Perfect Storm: *Setting priorities at the Austin Water Utility in a time of fiscal crisis*, June 9, 2010

E

Misplaced Priorities: Fix Leaky Pipes Instead of Building New Intake

In the meantime, AWU continues to put off critical maintenance on older water lines in the central city which are responsible for leaks that drain billions of gallons of water per year from the system. The city parks department recently announced it would stop building new facilities until it could afford to pay for maintenance on the ones it already has[19], but AWU has not yet learned that basic lesson of fiscal prudence in lean economic times.

Some have argued for WTP4 based on the jobs created through a large, debt-financed public works project. AWU Director Greg Meszaros even said he considered WTP4 a "local stimulus" project that would create thousands of short-term jobs[20], though in this case ratepayers, not the Obama Administration, will pick up the tab. But if Austin wants to create jobs through AWU, it's focused on the wrong project.

According to the City Auditor, AWU lost 9.85 million gallons of water per day in 2007 through leaky pipes which have never been fixed.[21] That's 3.5 billion gallons of water per year the City just allows to seep into the ground. It makes little sense to build 50 mgd in new capacity while letting nearly 10 mgd leak out of the system every day.

Responding last summer to questions submitted by Councilmember Bill Spelman, AWU revealed that out of 3,600 miles of pipe that it operates, 900 miles are deteriorated and there are 250 miles of "highly deteriorated" pipe where the majority of leaks are located.[22] During a cold snap in January, reported the Austin Chronicle, those old cast-iron sections of the system accounted for 91% of water main breaks.[23]

No water system is leak-proof, but the City could start by fixing the 250 miles of identifiably deteriorated pipe, a task which would cost $330 million, city staff told Councilmember Spelman. That's a significant amount which would require a nine-figure bond issue, not to mention generating employment lasting many years beyond WTP4's scheduled construction. But that's not where AWU's priorities lie. Instead AWU plans to spend just $81.8 million fixing leaks over the next five years, AWU told Spelman, by which time even more pipe will inevitably deteriorate.

The Water Utility's "Perfect Storm" was easily predicted. Both peak-day and total water use have been flat to slightly declining since 2001. Per-household use is down. Both residents and businesses are saving water and saving money. These trends will likely continue. Rather than increase the damage to ratepayers and the environment, it's time for a midcourse correction and a return to safe harbor.

Recommendations:

The Save Our Springs Alliance offers these common-sense recommendations in the face of AWU's mounting fiscal crisis and misplaced priorities:

- Estimate proposed rate increases based on data that includes implementation of new water conservation goals and the 2008 cost-of-service study, then tell residential rate payers exactly what their overall rate hikes will be through 2015.
- Constructing expensive new infrastructure while simultaneously shifting costs from commercial to residential customers puts too high a burden on residential water customers. Put off new construction until the cost-of-service adjustments are complete to avoid piling onto residential rate payers all at once.
- Before beginning construction on WTP4, evaluate cheaper plant options that would replace the decommissioned "Green Water Treatment plant" with a new plant located in the Desired Development Zone and drawing water from Lady Bird Lake.
- Continue to implement water conservation, including aggressive, summertime lawn watering restrictions, to limit peak-day water use and achieve recently adopted city-wide conservation goals.
- Prioritize fixing leaky pipes over a new intake for new revenue bond indebtedness so that millions of gallons of water aren't uselessly seeping into the ground each day.

Appendix: The following data associated with the charts in this report was taken from the City of Austin Bond Prospectus dated November 5, 2009, p 21.

Data for Chart 1: Projected total annual pumpage (in millions of gallons)

2009	55,385
2010	56,289
2011	57,270
2012	58,301
2013	59,350
2014	60,155
2015	61,242
2016	62,349
2017	63,477
2018	64,624

Data for Chart 2: Historic Annual Pumpage (in millions of gallons)

1999	46,422
2000	52,194
2001	50,140
2002	50,883
2003	51,111
2004	48,469
2005	51,374
2006	56,603
2007	45,868
2008	53,066

Data for Chart 3: Historial Annual Peak Day Use (in millions of gallons per day)

1999	216
2000	227
2001	243
2002	214
2003	232
2004	197
2005	247
2006	217
2007	180
2008	227
2009	229

Data for Chart 4: Projected Peak Use (in million of gallons per day)

2009	245
2010	249
2011	254
2012	258
2013	263
2014	268
2015	272
2016	277
2017	281
2018	286

Note: This documented was edited June 10 to correct non substantive typographical and editing errors

---

ENDNOTES:

[i] Also unlike the federal stimulus, Austin ratepayers will see immediate rate increases to pay for it while debt accrued in Washington can be put off until future generations

[ii] "2009-2010 PROPOSED BUDGET RESPONSE TO REQUEST FOR INFORMATION," Response to City Councilmember Chris Riley, Request #30, September 9, 2009

[iii] Study Report, Austin Water Utility Cost of Service Rate Study 2008, Red Oak Consulting

[iv] Backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee

[v] Ibid

[vi] All projections are within the 5-7 year period during which AWU says it will shift its cost-of-service allocations.

[vii] "Utility bills likely to increase," City and County Beat Blog, Austin American Statesman, April 28, 2010.

[viii] Bond Prospectus, "Official Statement," Dated November 5, 2009, p. 14

[ix] "Water-sewer rates to climb 30% over next three years," Houston Chronicle, April 22, 2010.

[x] "US Urban Residents Cut Water Usage, Utilities Are Forced to Raise Prices," Circle of Blue WaterNews, April 19, 2010.

[xi] Spreadsheet obtained under the Public Information Act from the Austin Water Utility by Bill Bunch, October 2009.

[12] Austin City Council Agenda Item 35, May 13, 2010. The "Fiscal Memo" accompanying the agenda item stated the financial impact to the Austin Water Utility is "unknown" beyond the need to hire more conservation personnel, but the fiscal impact of selling less water is clear from the 2010 revenue shortfall. AWU will receive less revenue than would otherwise be anticipated.

[13] Backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee. "Historical & Projected Accounts (FY Average)"

[14] Backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee.

[15] Assume from the calculation in Table 2 that the amount required to pay off WTP4 debt and other obligations is 1.7382 times the 2009 rate, or a 73.82% increase for residential ratepayers from pre-WTP4 rates at projected levels of use. Now assume water sales continue to underperform compared to AWU projections, currently revenues are at 89.78% of projected amounts. If lower water use and sales continue along these lines, to achieve the same revenue level will require a rate equal to 1.7382/.8978, or a 93.6% overall rate increase from 2009 levels.

[16] Bond Prospectus, "Official Statement," Dated November 5, 2009, p. 21

[17] "Recommendation for Council Action," Backup material, Austin City Council, Agenda Item 32, 4/4/02

[18] Really an extra $ 28,967,464," according to backup material for Water-Wastewater commissioners provided to the author by city staff from the June 3 meeting of the Budget Subcommittee

[19] "Parks and Rec: If you build it," Austin Chronicle, May 28, 2010. Said PARD director Sara Hensley, ""We have to say we can't build it if we can't maintain it."

[20] Comments recorded in author's notes from a public meeting April 20 at Concordia University.

[21] Office of the City Auditor, "Audit Report: Austin Water Utility: Water Loss," April 28, 2009

[22] Memorandum to Councilmember Bill Spelman from Assistant City Manager Rudy Garza, "Response to WTP4 questions," July 22, 2009, pp. 10-11

[23] "Frozen Assets: AWU and the Busted Pipes," Austin Chronicle, January 22, 2010

RESPONSE TO REQUEST NO. 15