

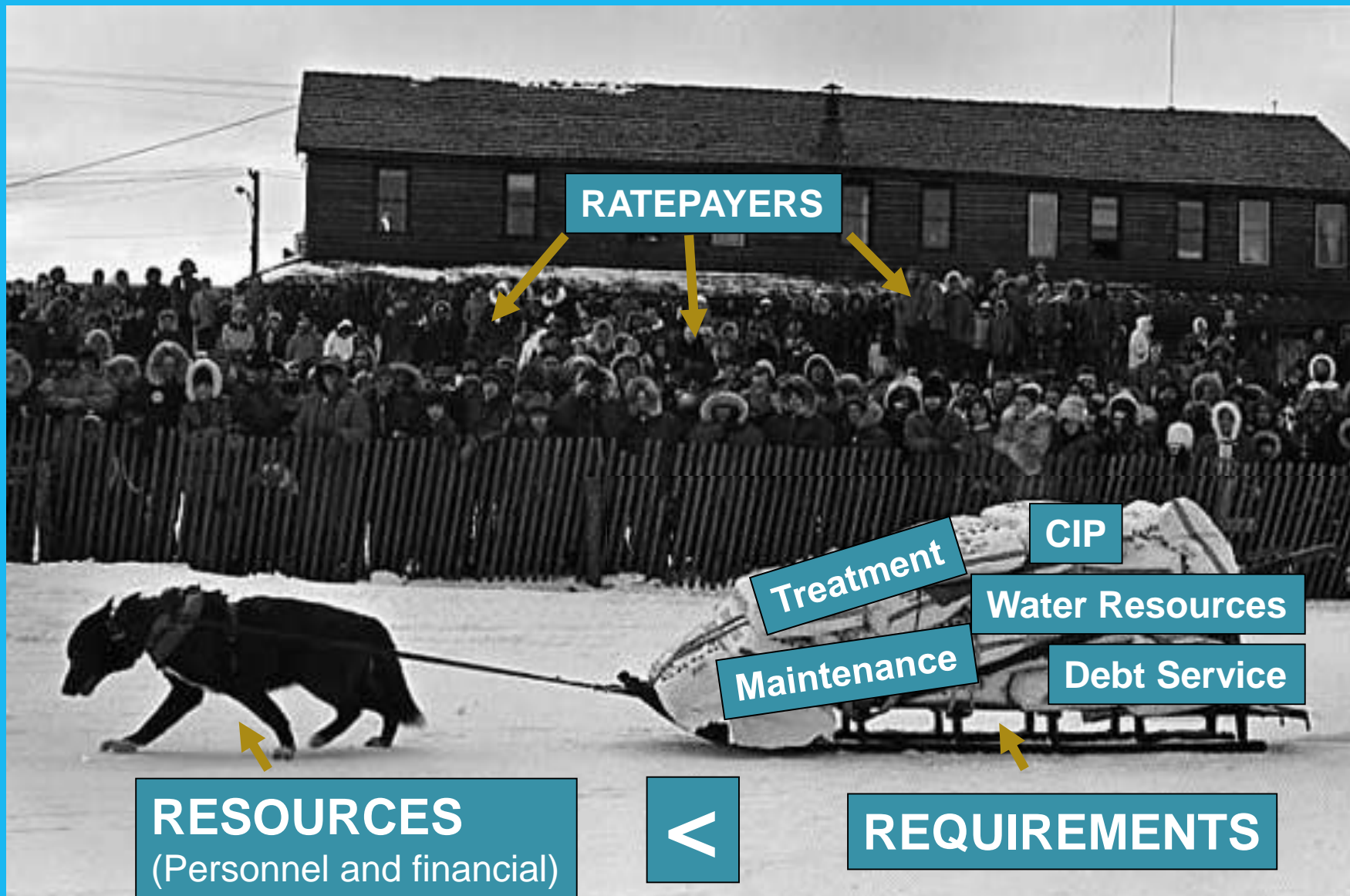
10-Steps to Revenue Stability



8 Feb 2018

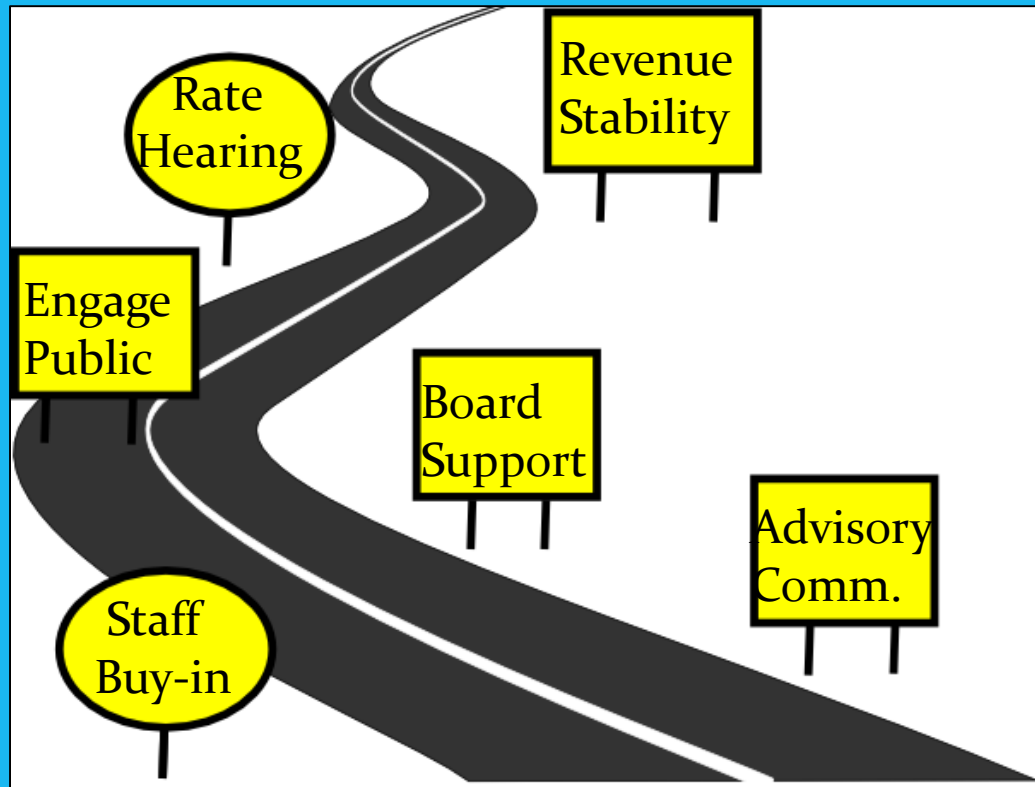
Joe Olsen, P.E.
General Manager
Metro DWID

Resources vs. Requirements



Roadmap

- Revenue stability your customers can comprehend
- Metro's multi-year revenue stability journey
- Expectations and results
- 10-Step process



Fixed/variable costs?

- Fixed Costs = Expenses that must be paid regardless of the amount of water delivered to our customers
- Variable Costs = Expenses that fluctuate with how much water is used



Power to
Deliver Water =
Variable Cost

Fixed Cost = Water Infrastructure

Fixed/variable revenue?

- Fixed Revenue = Water Availability Rate
- Variable Revenue = Water Consumption Charges (amount paid for water used)



Water Availability Rate

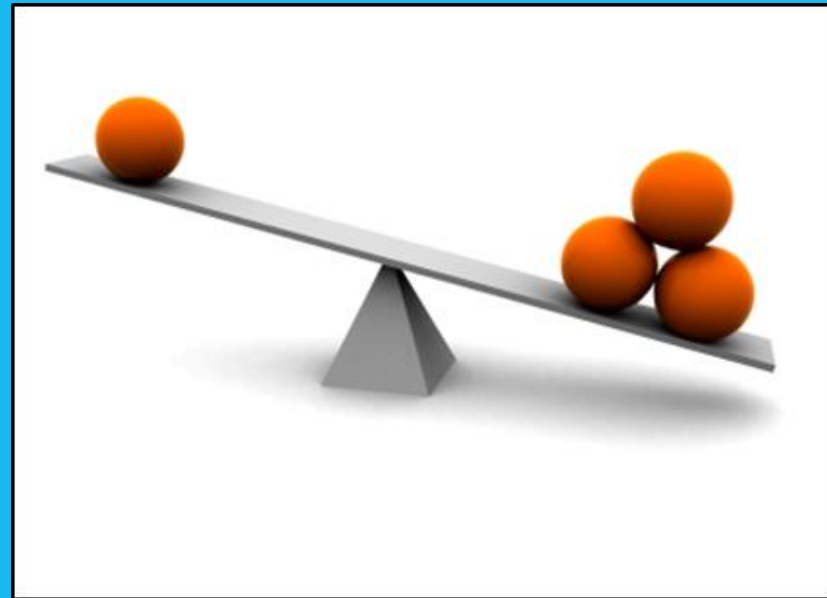


Water
Consumption
Charges

Revenue Stability

- A balance of fixed/variable revenue to meet fixed/variable costs in order to ensure delivery of safe, reliable water

Without revenue stability,
changes in customer demand
add financial uncertainty



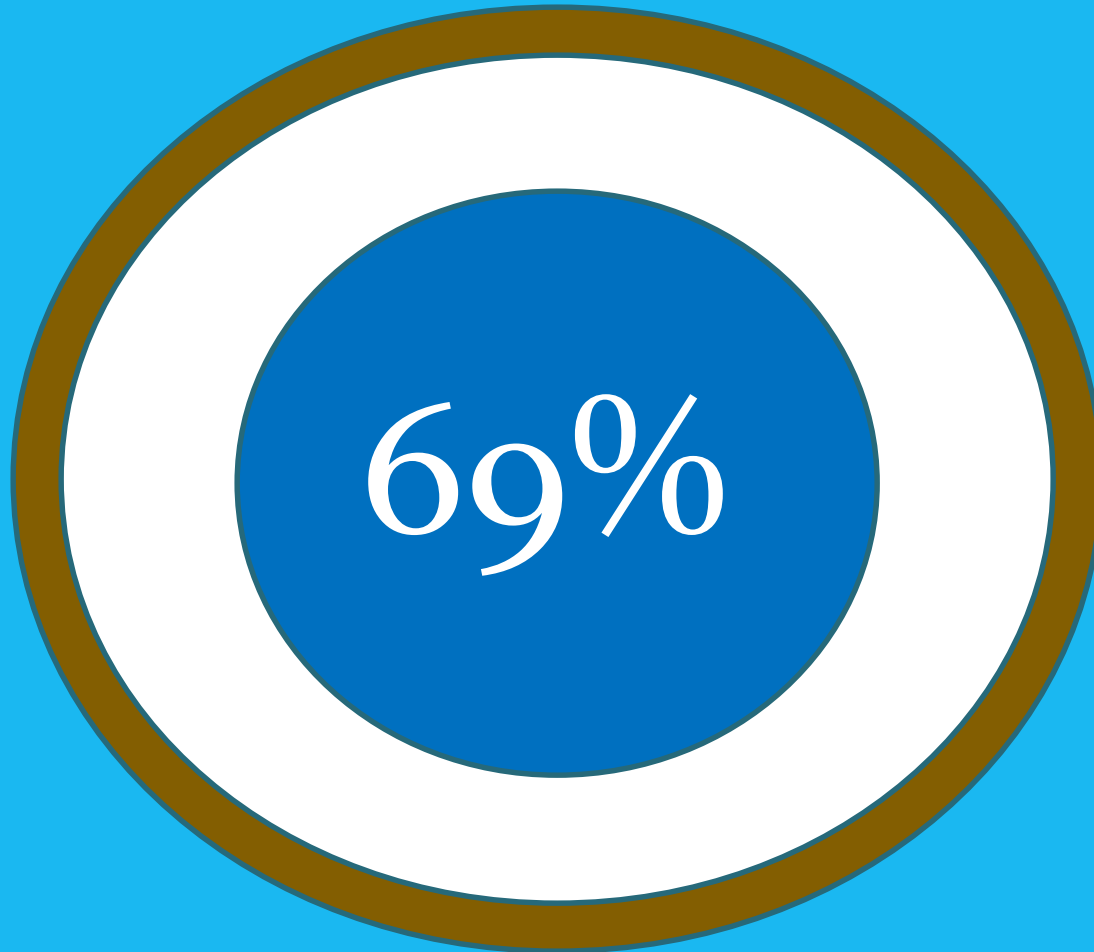
Two-Step Revenue Stability Plan

Goals included all of the following:

- Achieve revenue stability
- Phased implementation of base rate adjustment
- Restructuring use tiers w/ minimal customer impact
- Ensure conservation message maintained
- Buy-in and support across the spectrum



Metro's Fixed Costs Captured by Base Rate in FY15 (Year 0)



Step 1: Reduce Variable Rate Increase Base Rate

Water Availability Rate

\$22.00  \$27.00

Water Consumption Charges

1st Tier (0–4,000 gal) \$2.00  99¢

2nd Tier (4,001–11,000 gal) \$2.70  \$2.66

Small adjustments to Tiers 3-5

Impact to the Average Customer

Avg. Monthly Usage: 8,000 gallons

Cost for 8,000 gallons:

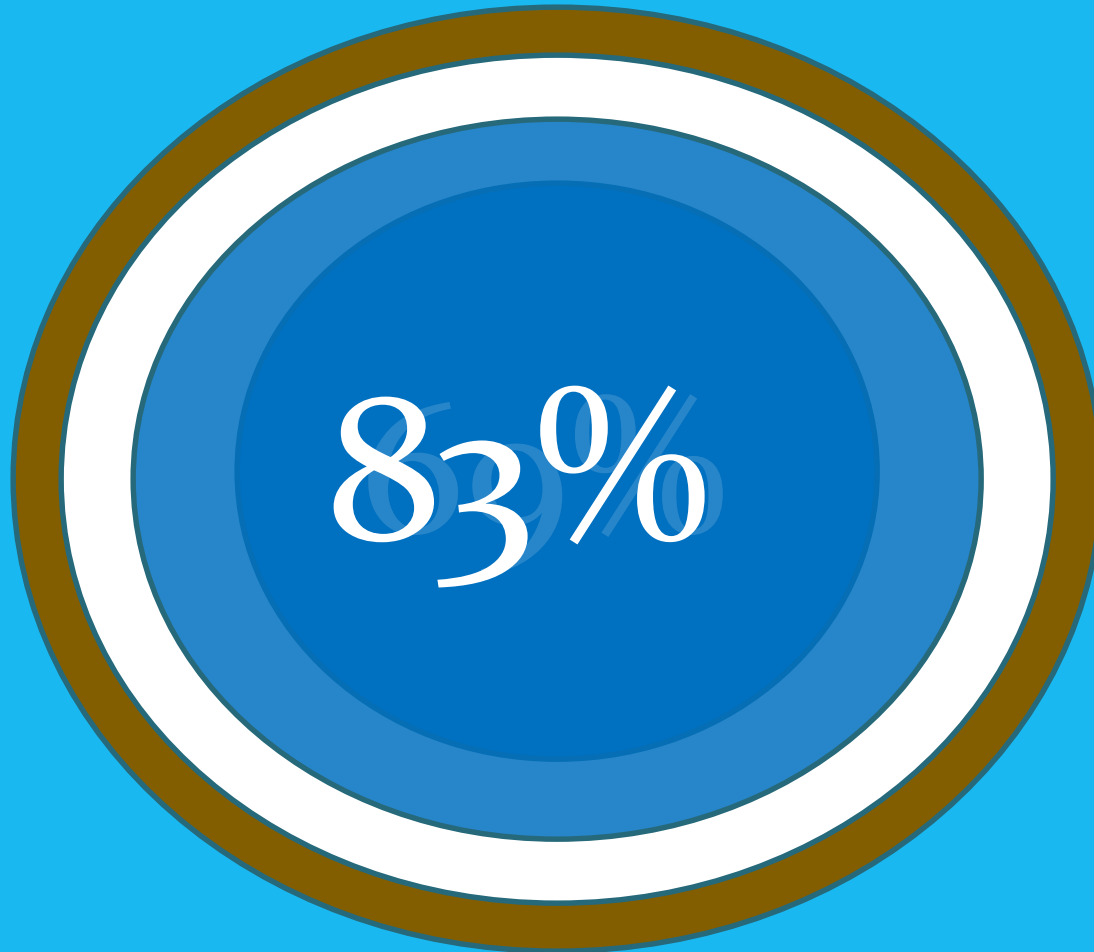
\$40.80 **→** **\$41.60**

Cost Increase per Month: 80¢ (2%)



Metro's Revenue Stability; FY16 (Year 1)

More Fixed Costs covered by Water Availability Rate



Revenue Stability Results

Customer demand

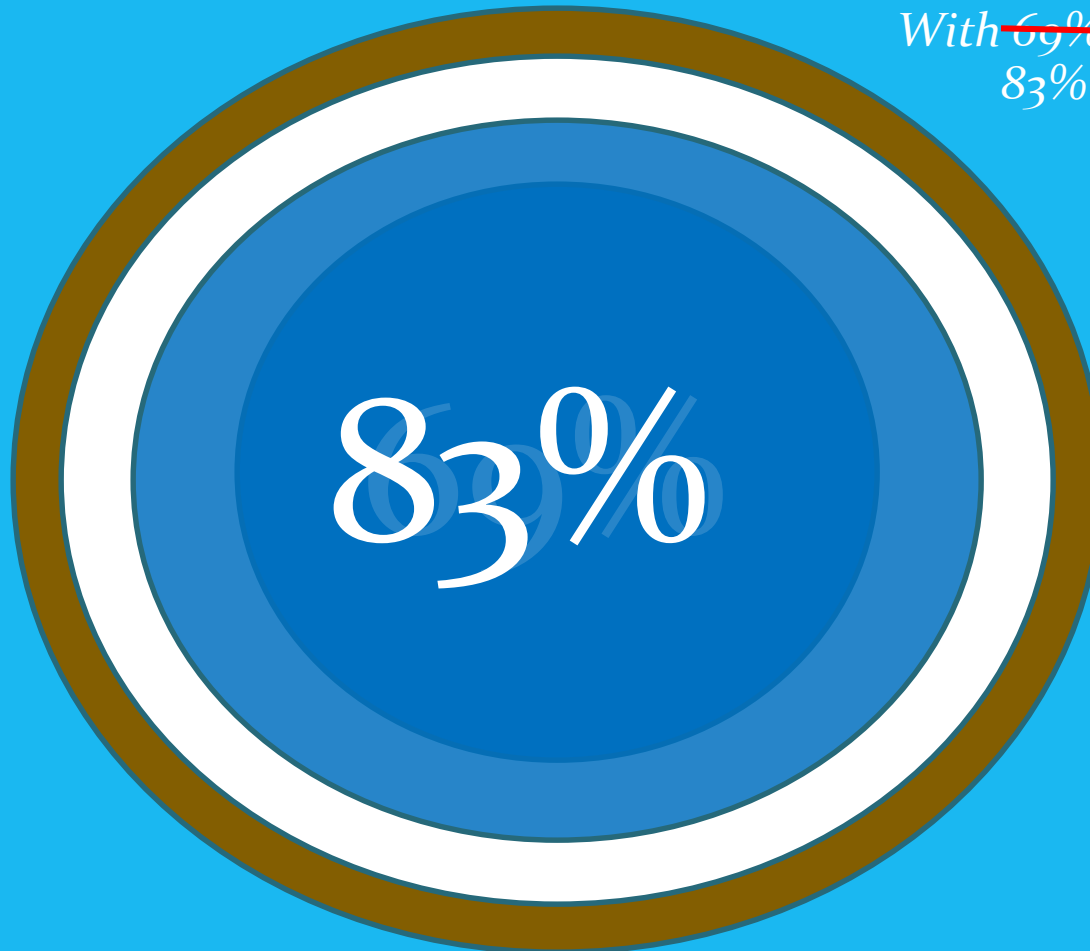
↓ 3.5%

(FY 2016)

Revenue for fixed costs

↓ ~~1.1%~~ 0.6%

With ~~69%~~ revenue stability
83%



Step 2: Incorporate 1st Tier within Base Rate

Water Availability Rate

\$27.00  \$29.50 (*includes first 3,000 gallons*)

Water Consumption Charges

1st Tier (0–3,000 gallons)

\$2.97



0¢

2nd Tier (3,001–10,000 gallons)

\$2.66



\$2.75

Slight adjustments to upper Tiers

Impact to the Average Customer

Avg. Monthly Usage: 8,000 gallons

Cost for 8,000 gallons:

\$44.80  \$46.45
= \$1.65 (3.7%)



Not including adjustment for Water Resource Utilization Fee (10 cents/1000 gal)

Year 2:
(FY17)



Balancing fixed and variable revenue improves revenue stability, affordability, and the conservation message. Revenue from fixed charges means more financial stability to meet costs.

- AWWA Journal, E165

Revenue Stability Results

FY 2017 Rate Model Projections

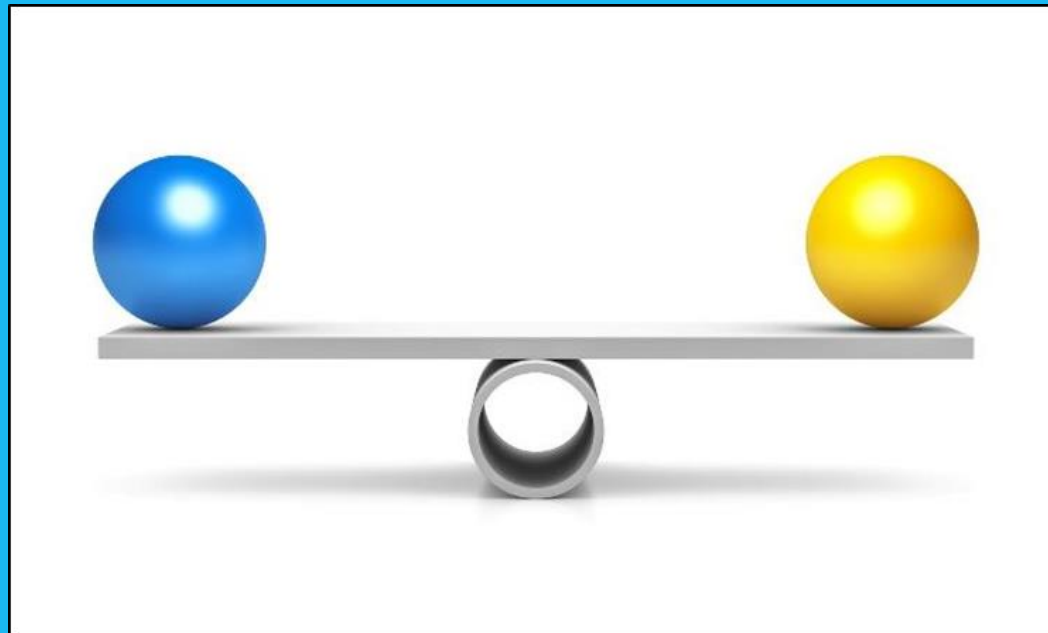
Fixed:	\$9,030,359	(53.0%)
Variable:	\$8,029,165	(47.0%)
Total:	\$17,059,524	

FY 2017 Audited Actuals

Fixed:	\$9,109,569	(52.9%)
Variable:	\$8,065,167	(47.1%)
Total:	\$17,263,784	

FY 2017 Revenue Stability Results

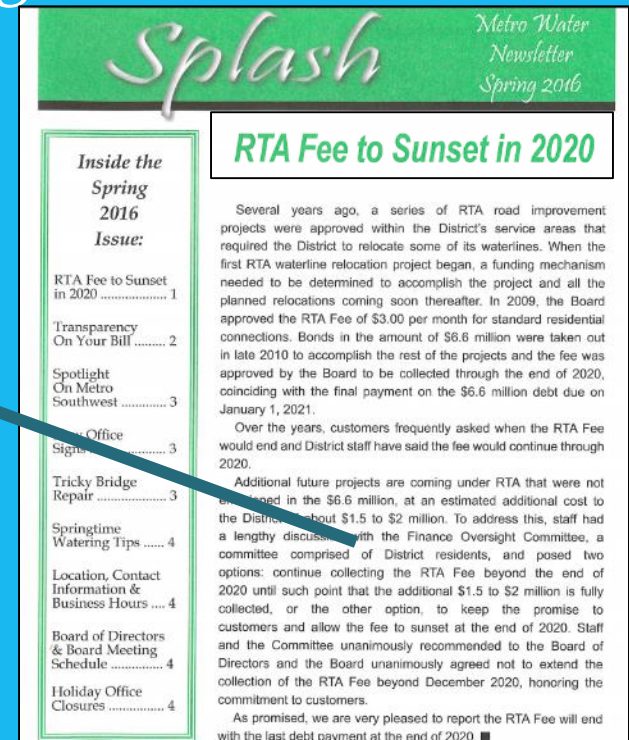
- Model accurately predicted results
- Actual fixed/variable revenue ratio w/i 0.1%
- Actual revenue was w/i 0.6% of model with \$114,000 additional revenue than projected



Step 1

Build Trust and Confidence

- Transparent expenditures (priority driven process)
- Keep promises on projections and sun-setting fees
- Proactive messaging; not just damage control



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Step 2

Determine Vision and End-State

- What level of revenue stability to you seek
- What is realistic given your organization
- Decide based on the unique realities you face
- Try to envision obstacles/hurdles; plan to overcome



Step 3

Crunch the Numbers

- Leverage rate models and revenue projections to refine possible pathways
- Internal analysis first if rate consultant will be utilized
- Let your data drive how you will reach your end-state



Step 4

Gain Staff Support; Validate

- Share model and results with staff
- Ensure staff support the effort, adjust based on input
- Let their passion help drive the initiative



Step 5

Advisory Committee Ownership

- “Community Experts,” incorporate refinements
- Now becomes Committees Plan that staff supports



Step 6

Educate “Electeds”

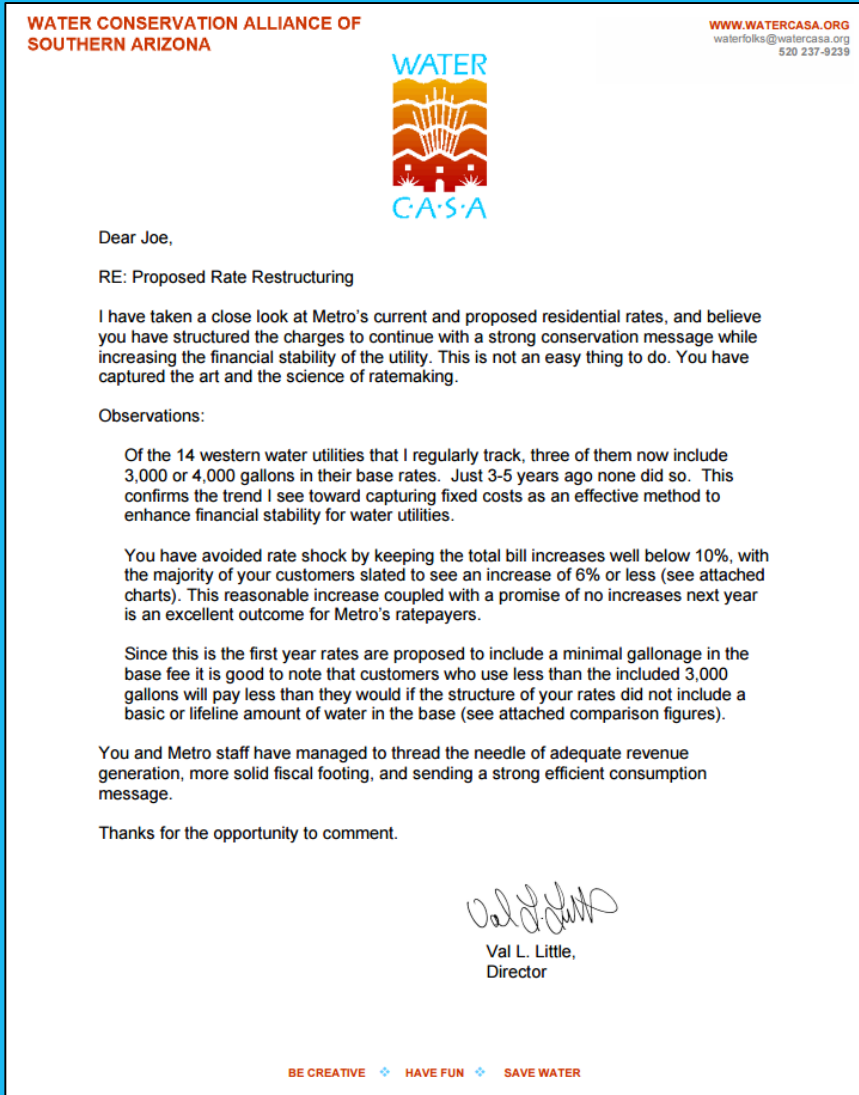
- One-on-One discussions to provide background
- Share Advisory committee perspective
- Study Session to get vector check



Step 7

Conservation Message

Feedback:



- Rates still send strong conservation message

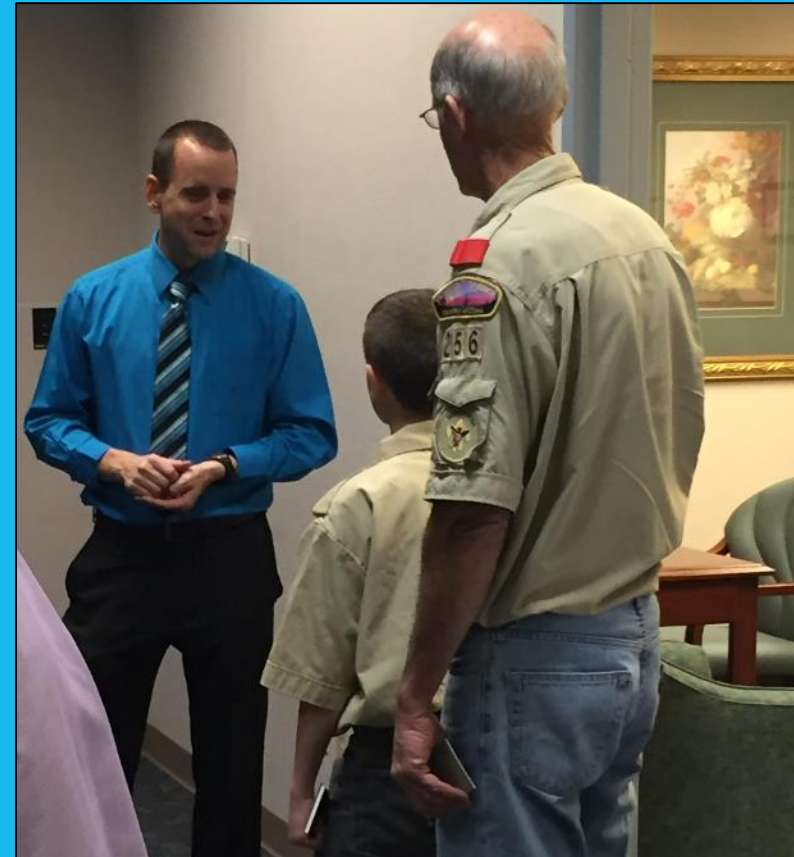
- Avoids customer rate shock

- Increases financial stability of the utility

Step 8

Educate Public

- Extensive outreach
- Newsletters, inserts, social media
- Information Meetings
 - Give a detailed overview 1st
 - Ensure Advisory committee speaks in support of the plan



Step 9

Rate Hearing

- Formal presentation, address previous concerns
- Advisory Committee discussion
- Stakeholder (conservation) perspective
- Previous steps give “Electeds” cover to support



Step 10 Follow-up

- Follow-up on actual results with customers

*Metro Water
Newsletter
Summer 2016*

Splash

*Inside the
Summer 2016
Issue:*

Revenue Stability Achieved	1
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Site Improvements in Metro Hub	3
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Board of Directors & Board Meeting Schedule	4
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Revenue Stability Achieved

A public Information Meeting was held on May 18, 2016 to give the public a preview of proposed adjustments to the rates and fees, as well as provide an opportunity for customers to ask questions in an informal setting. Customers in attendance had positive comments about the proposed plan and asked a few general questions to learn more about the District's operations and long range planning.

For the past couple of years, the District has taken steps to balance revenue for fixed and variable costs by restructuring the rates amid declining consumption with minimal impact to the average customer. Fixed costs are defined as expenses that are incurred regardless of the amount of water used. Variable costs are those tied to the amount of water pumped and delivered.

The Board of Directors has supported the concept of having the Water Availability Rate (base rate) capture more of the District's fixed costs to increase financial stability. The Water Availability Rate presently covers about 83% of the District's fixed costs.

At the May 23, 2016 Rate Hearing, the Board of Directors adopted the proposed rate adjustments which increases revenue stability to nearly 90%. The average customer will see a \$2.45 increase to their water bill and the new rates are effective July 1, 2016.

The adopted rate structure includes the first 3,000 gallons of consumption within the Water Availability Rate, acknowledging those who conserve while still enhancing revenue stability.

The rate adjustment was structured so that staff can recommend a 0% increase next fiscal year due to the revenue stability achieved in the new rate structure. ■

Further validating and building support (Step 1)

Final Thoughts

- Don't fear the base rate
- Revenue stability is not a competition
- The longer you wait, the tougher to achieve



METRO
WATER
DISTRICT