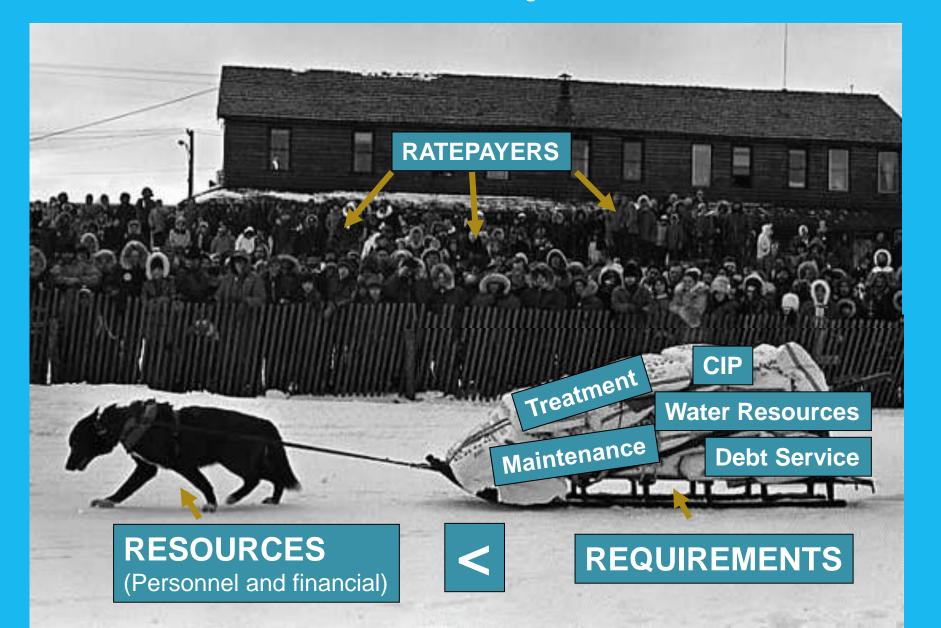
## 10-Steps to Revenue Stability



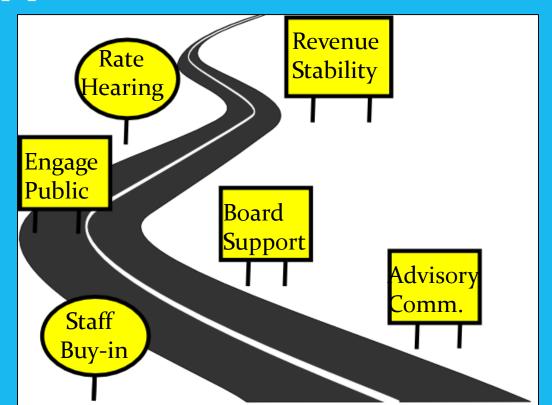
Joe Olsen, P.E. General Manager Metro DWID

### 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)





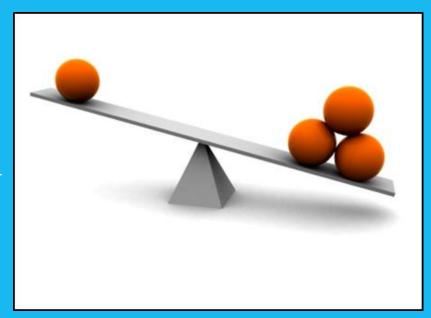
Water Consumption Charges

Water Availability Rate

#### **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



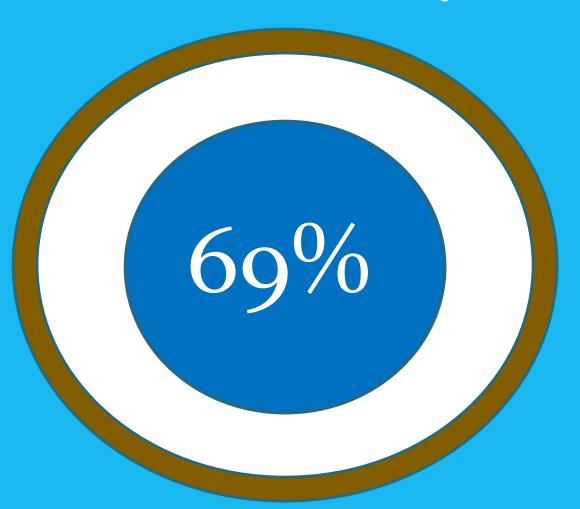
#### **Two-Step Revenue Stability Plan**

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

**Water Consumption Charges** 

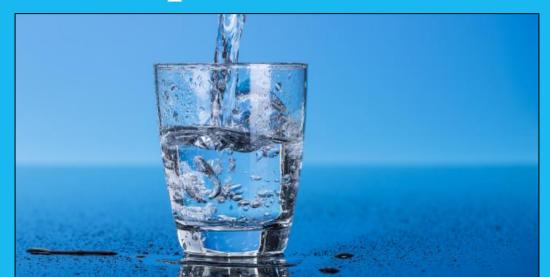
Small adjustments to Tiers 3-5

### Impact to the **Average Customer**

Avg. Monthly Usage: 8,000 gallons Cost for 8,000 gallons:

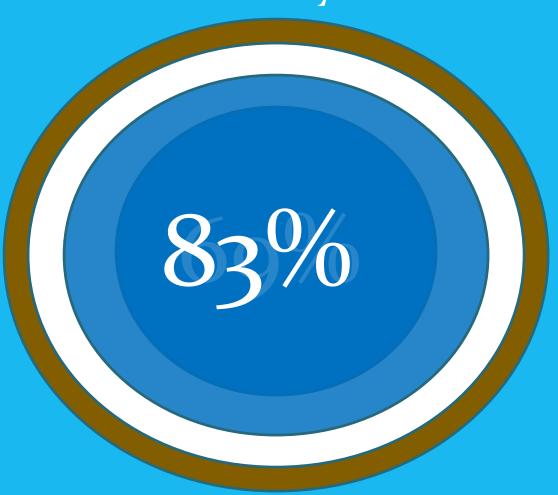


Cost Increase per Month: 80¢ (2%)



### Metro's Revenue Stability; FY16 (Year 1)

More Fixed Costs covered by Water Availability Rate



### **Revenue Stability Results**

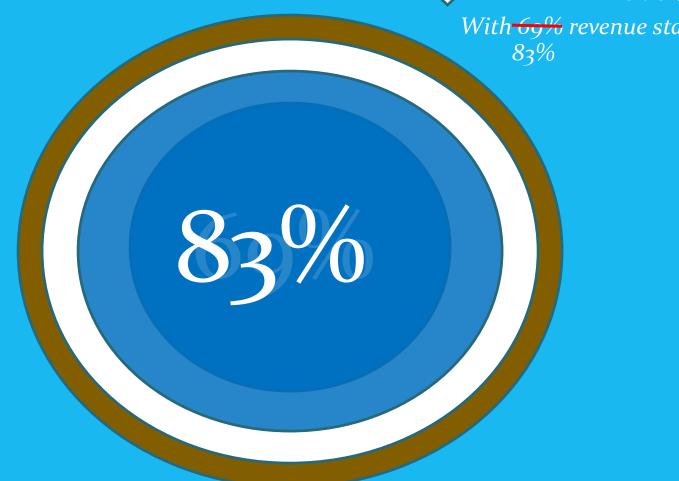
**Customer demand** 

(FY 2016)

Revenue for fixed costs



With 69% revenue stability



### 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<sup>nd</sup> Tier (3,001–10,000 gallons)

Slight adjustments to upper Tiers

### Impact to the Average Customer

Avg. Monthly Usage: 8,000 gallons Cost for 8,000 gallons:



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**

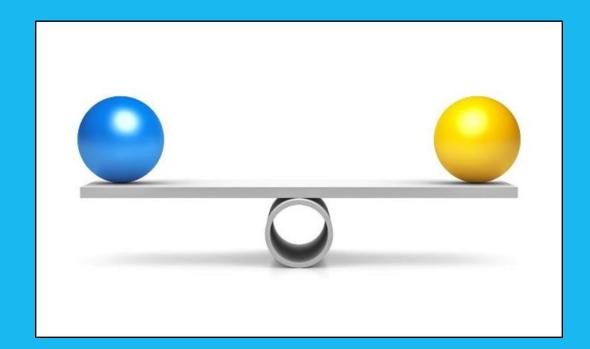
Fixed: \$9,109,569 (52.9%)

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 o.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



Splash

Inside the Spring

2016

Issue:

RTA Fee to Sunset

On Your Bill

Spotlight On Metro

Southwest

Tricky Bridge

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Board of Directors

& Board Meeting

Holiday Office

Metro Water Newsletter Spring 2016

#### RTA Fee to Sunset in 2020

Several years ago, a series of RTA road improvement projects were approved within the District's service areas that required the District to relocate some of its waterlines. When the first RTA waterline relocation project began, a funding mechanism needed to be determined to accomplish the project and all the planned relocations coming soon thereafter. In 2009, the Board approved the RTA Fee of \$3.00 per month for standard residential connections. Bonds in the amount of \$6.6 million were taken out in late 2010 to accomplish the rest of the projects and the fee was approved by the Board to be collected through the end of 2020, coinciding with the final payment on the \$6.6 million debt due on January 1, 2021.

Over the years, customers frequently asked when the RTA Fee would end and District staff have said the fee would continue through 2020.

Additional future projects are coming under RTA that were not on toged in the \$6.6 million, at an estimated additional cost to the District, shout \$1.5 to \$2 million. To address this, staff had a lengthy discuss the with the Finance Oversight Committee, a committee comprised of District residents, and posed two options: continue collecting the RTA Fee beyond the end of 2020 until such point that the additional \$1.5 to \$2 million is fully collected, or the other option, to keep the promise to customers and allow the fee to sunset at the end of 2020. Staff and the Committee unanimously recommended to the Board of Directors and the Board unanimously agreed not to extend the collection of the RTA Fee beyond December 2020, honoring the committeent of customers.

As promised, we are very pleased to report the RTA Fee will end with the last debt payment at the end of 2020.

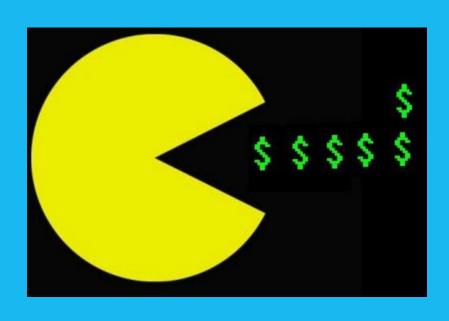
### Step 2 Determine Vision and End-State

- 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



Designed by Jcomp - Freepik.com

### Step 5 **Advisory Committee Ownership**

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



Designed by Joomp - Freepik.com

### 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

WATER CONSERVATION ALLIANCE OF SOUTHERN ARIZONA

waterfolks@watercasa.or 520 237-923



Dear Joe.

RE: Proposed Rate Restructuring

I have taken a close look at Metro's current and proposed residential rates, and believe you have structured the charges to continue with a strong conservation message while increasing the financial stability of the utility. This is not an easy thing to do. You have captured the art and the science of ratemaking.

#### Observations:

Of the 14 western water utilities that I regularly track, three of them now include 3,000 or 4,000 gallons in their base rates. Just 3-5 years ago none did so. This confirms the trend I see toward capturing fixed costs as an effective method to enhance financial stability for water utilities.

You have avoided rate shock by keeping the total bill increases well below 10%, with the majority of your customers slated to see an increase of 6% or less (see attached charts). This reasonable increase coupled with a promise of no increases next year is an excellent outcome for Metro's ratepayers.

Since this is the first year rates are proposed to include a minimal gallonage in the base fee it is good to note that customers who use less than the included 3,000 gallons will pay less than they would if the structure of your rates did not include a basic or lifeline amount of water in the base (see attached comparison figures).

You and Metro staff have managed to thread the needle of adequate revenue generation, more solid fiscal footing, and sending a strong efficient consumption message.

Thanks for the opportunity to comment.

quate revenue ent consumption

 Rates still send strong conservation message

Avoids customer rate shock

 Increases financial stability of the utility

Director

### 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



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Board of Directors & Board Meeting Schedule ......4

Holiday Office Closures ...... 4

#### 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 VALLER DISTRICT