

**Combined Utility System  
Recommendation for Rate Increase**

---

**Budget and Fiscal Affairs Committee  
April 19, 2010**



# Combined Utility System

## Initial Recommendations and Discussions

- **On April 6, 2010, presentation about rate study was made to Budget & Fiscal Affairs Committee**
- **Recommendations at that time were:**
  - Set rates at Best Practices CIP rates to ensure long term health and sustainability of the system
  - Set all non-city rates at cost of service
  - Implement Water & Wastewater rate adjustment June 1<sup>st</sup>
  - Change annual automatic rate increase to be based on PPI, not to exceed annual CPI plus population index, in compliance with Proposition 1
- **BFAC recommended moving the item to City Council accepting the recommendations, but requested the Administration further review the multi-family rates**



# Combined Utility System

## Best Practices Case – Key Measures April 6th Case

### CIP Annual Investment \$370m

- \$50m annual to provide funds for “pay as you go”

### Customer classes were at following cost of service

- Single Family      84.8%      Cost of Service
- Multi Family      103.8%      Cost of Service
- Commercial      111.1%      Cost of Service

### Monthly increases for average user were projected

#### as follows:

- |  |                                |                         |
|--|--------------------------------|-------------------------|
| <input type="checkbox"/> Single Family | \$46.87/month to \$52.74/month | \$5.87 average increase |
| <input type="checkbox"/> Multi Family  | \$26.34/month to \$35.44       | \$9.10 average increase |
| <input type="checkbox"/> Commercial    | No “average” bill              | 20.1% average increase  |



# Combined Utility System

## Principals Used For Long Range Plans and Rate Structure

- Retain the role of long range regional supplier of water to the region**
  - A competitive advantage for all
- Utilize best practice investment program to sustain a viable and sustainable utility treatment and distribution system**
  - Require \$370m annual capital investment
- Maintain aggressive efficiency/procurement program**
  - Currently have identified over \$10m annual savings
- Move, whenever possible, customer classes to 100% cost of service**
- Generate sufficient cash to satisfy all bond covenants**
  - Move longer term towards some component of “pay as you go” capital financing
- Encourage conservation and responsible “re-use programs”**



## Combined Utility System

### Issues Raised at Committee and Since

- Multi family rates above cost of service
- Multi family rates for HUD tax credit properties
- High water consumption at older multi family complexes
- Commercial rates above cost of service
- Single family rates below cost of service



# Combined Utility System

## Houston Apartment Association Survey on Properties in Houston

**Which range best describes the average monthly water usage PER UNIT at your property?**

Answer Options	How would you classify your property?				Response Percentage
	A	B	C	D	
Under 2,000 gallons	2	8	12	2	15.1%
2,000 – 3,000 gallons	15	7	4	3	18.2%
3,000 – 4,000 gallons	6	16	14	4	25.5%
4,000 – 5,000 gallons	4	3	12	2	13.2%
5,000 – 6,000 gallons	3	2	10	0	9.4%
6,000 – 7,000 gallons	0	1	4	0	3.1%
7,000 – 8,000 gallons	1	1	4	0	3.8%
8,000 – 9,000 gallons	2	2	4	1	5.7%
9,000 – 10,000 gallons	2	0	1	1	2.5%
More than 10,000 gallons	1	4	0	1	3.8%

Average 4000 gal/month



# Combined Utility System

## Multi Family Rates

**Propose to bring multi family rates to 100% cost of service**

- Will remove \$8m revenue from April 6th case
- Equivalent monthly increase as follows

	<u>Current</u>	<u>1st Proposal</u>	<u>New Proposal</u>	<u>↔New Proposal</u>
	\$26.34	\$35.44	\$34.07	\$7.73
Memo (SFR)	\$46.97	\$52.74	-	\$5.87

**Propose to create a \$14m conservation rebate program**

- Will design specifics with participation of HAA/initially targeted at complexes with >200% average consumption
- Conservative plan will be to City Council by June 1 – 3 year program

**Propose to also utilize this fund to control increases on HUD projects to allow for 3 years to get to full multi family rates**

- Current estimate of cost is \$3m/will include in Council Presentation prior to June 1



## Combined Utility System

### **Proposed rates to commercial customer class considerations**

- Commercial class to be reduced from 111.1% (in April 6th presentation) to 100%
- Overall rate increase to this class will be 8.1%





# Combined Utility System

## Single Family Residents

- Currently have single family residents at 84.8% cost of service**
  - Revenue short of full cost of service by \$44m

- Alternate case considered to restore desirable “pay as you go” to fully set single family residents at 100% cost of service**

<u>Current average monthly bill</u>	46.87	<u>Proposed average monthly bill</u>	52.74	<u>Average</u>	5.87
-------------------------------------	-------	--------------------------------------	-------	----------------	------

### **Theoretical full cost recovery case**

<u>Current average monthly bill</u>	46.87	<u>Proposed average monthly bill</u>	60.00	<u>Average</u>	13.13
-------------------------------------	-------	--------------------------------------	-------	----------------	-------

- While desirable to get all customer classes to 100% cost of service, do not recommend changing residential rate from 84.8% cost of service



# Combined Utility System

## Financial Implications

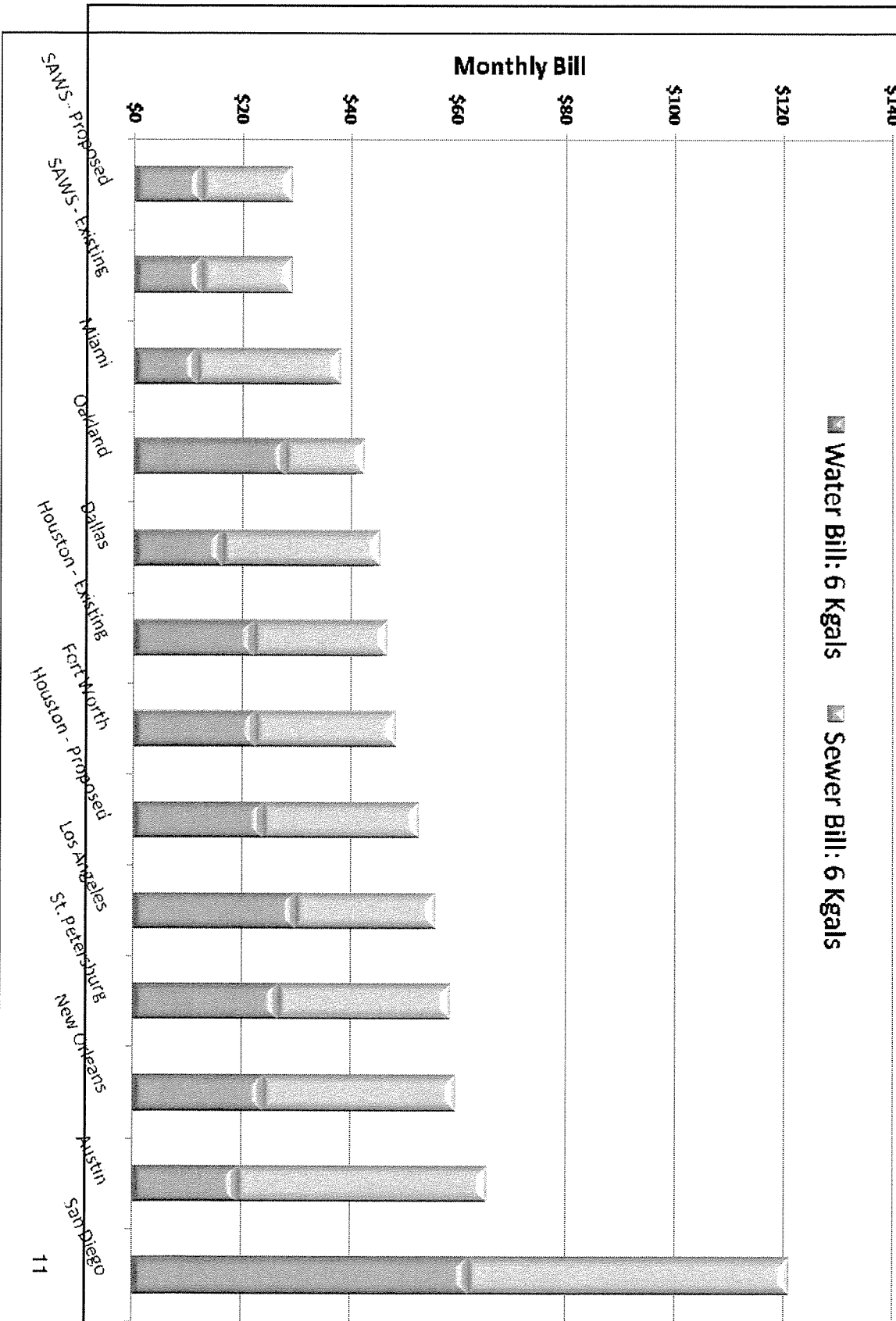
- Remove \$50m “pay as you go”** **\$50m**
  
- Costs for changes identified**
  - Multi family to 100% cost of service (\$8.2m)
  - Multi family conservation/HUD related program (\$14.0m)
  - Commercial class to 100% cost of service (\$23.3m)
  - Additional Cost of Debt Service (\$4.0m)

\$49.5m

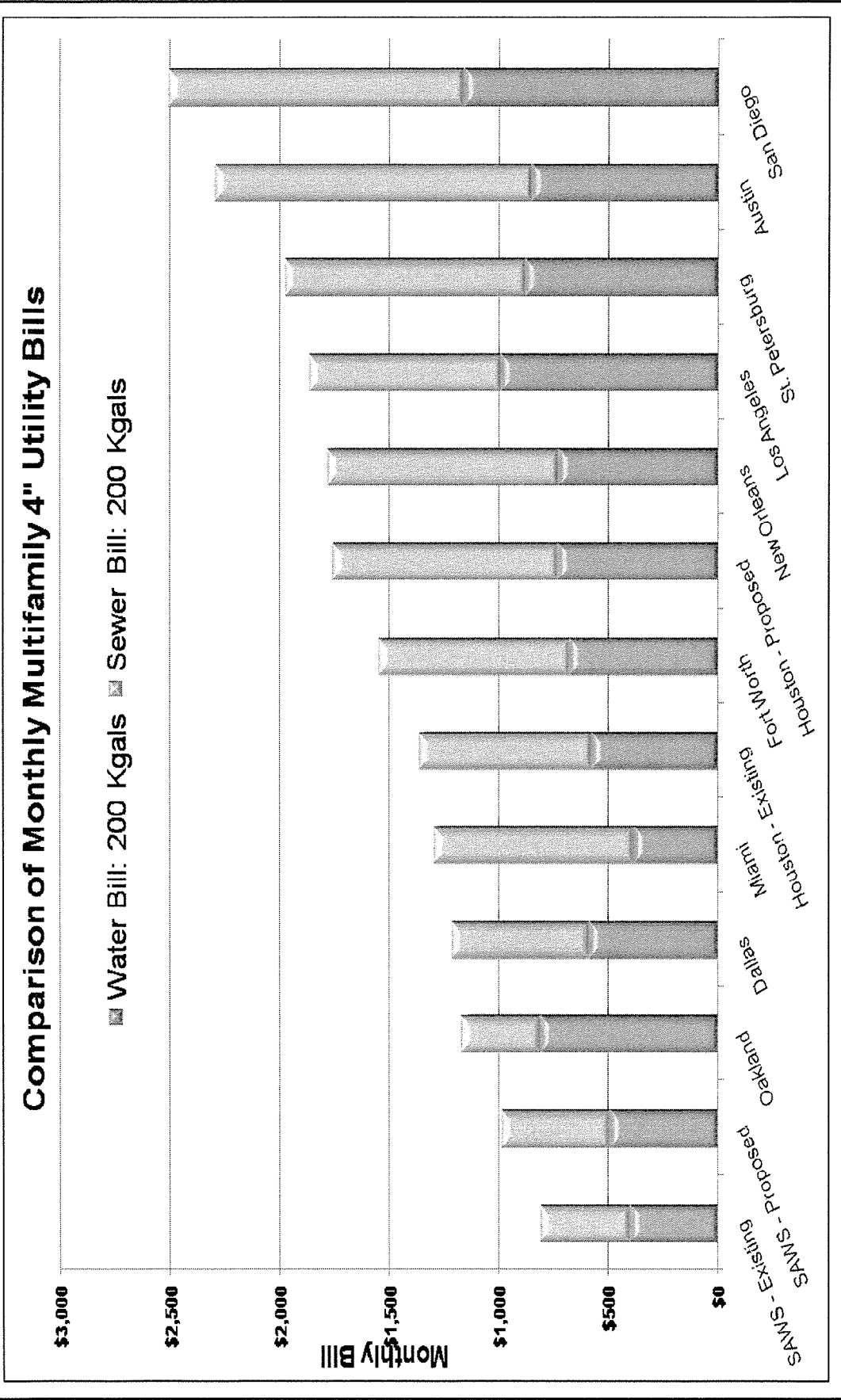


# Water & Wastewater Rate Comparison Residential 6,000 Gallons

## Comparison of Monthly Single Family Utility Bills

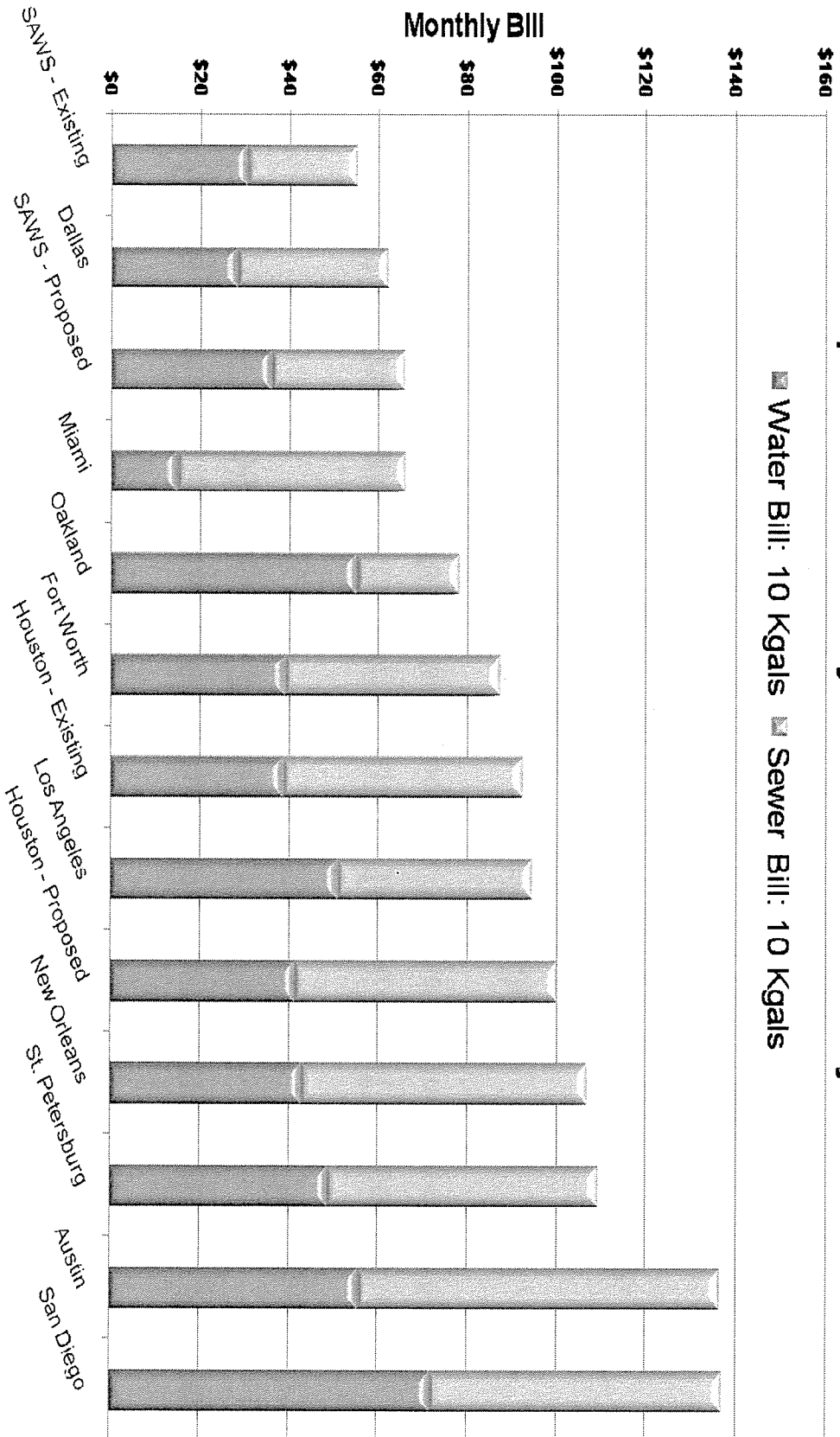


# Water & Wastewater Rate Comparison Multifamily 200,000 Gallons



# Water & Wastewater Rate Comparison Commercial 10,000 Gallons

## Comparison of Monthly Commercial 1" Utility Bills



# Combined Utility System

## Conclusions/Recommendations

- **In order to retain viable and sustainable long term utility system adopt best practices case (\$370m/year CIP)**
- **Move multi family and commercial to 100% cost of services**
  - Create \$14m conservation/HUD “rebate pool” for 3 years and include requirement in ordinance
  - Return to Council for specifics of this program prior to June 1
- **Retain single family residents at 84.8% of cost of service**
  - Removes “pay as you go” financing component
- **Develop longer term strategies to move single family residential pricing to cost of service and increase “pay as you go”**

