

Altoona Water Authority

Current Condition of Revenues

and

Future Revenue Needs Assessment

October 2017

Existing Conditions and Needs Assessment

1. Revenue Stability to Address:

- * Chronic revenue shortfalls
- * Declining consumption
- * Escalating costs
- * Impact of future rate increases

Existing Conditions and Needs Assessment

2. Finding Alternative Revenue Sources

- * Increase customers
- * Fixed Cost Recovery
- * Non-Consumption Related Income
- * Service Charges

Existing Conditions and Needs Assessment

3. Infrastructure Renewal/Capital Needs

- * How to Fund Basic Infrastructure Needs (Lines, Mains)
- * Required Regulatory Projects
- * Short and Long-term Funding Methods
- * Address Historically Underfunded Capital Budget

1. Revenue Stability

Causes of Revenue Erosion

2003 Water Rate Study

- * Revisions to consumption block rate schedule partially corrected a customer class imbalance (residential)
- * Unintended consequences: consumption rate schedule was vulnerable to a decline in consumption
- * **In fact, a drastic 10% decline in consumption occurred (2006-2016: loss of 170 million gallons/year)**
- * **Consumption has 25% declined over the last 35 years (consumption loss of 556,000,000 gallons per year)**

Consumption has never recovered and is not expected to in the future

Causes of Revenue Erosion (cont.)

Many Causes...

- * **Water-saving plumbing fixtures**
- * **Ongoing effects of 2008 recession**
- * **Loss of population**
- * **Industry-wide water conservation movement**
- * **Rate increases result in water conservation**
- * **Minimum usage (1,667 gallons) set in 1982; should be 1,250 gallons to reflect decline in consumption (-25%)**
- * **Industrial process water recycling**

Causes of Revenue Erosion (cont.)

A National Phenomena...

American Water Works Association in a 2010 nationwide rate survey said,

“... declining consumption and revenues are the “new normal” ... the decline in capital water consumption is one of the most prevailing ongoing trends and can have significant revenue implications for utilities now and into the future...”

“... the vast majority of utility costs are fixed... rates need to increase to ensure sufficient revenue... declining consumption is, to a degree, self-perpetuating...”

“... it is unlikely that the lower limits of this “new normal” usage has yet to be reached...”

Causes of Revenue Erosion

Comparison of Budgeted vs. Actual Revenues

	Water	Wastewater
Total Budgeted, 2010-17	\$ 124,961,090	\$ 71,830,640.00
Total Actual, 2010-2017	\$ 123,771,293	\$ 70,003,083.13
Variance	\$ (1,189,797.09)	\$ (1,827,556.87)
% Difference	-1.0%	-2.5%

1. Revenue Stability Conclusion

Statement of Fact

The primary cause of water revenue instability is decreased water consumption and the resulting decline in consumption-related revenue.

Principal Means of Correction

Address revenue decline by dedicating more cost recovery toward fixed charges (minimum) and less toward consumption charges.

Revenue Stability Methods

Recover Fixed Costs

- * **Customer Charge** (meter reading, billing, accounting, collection, customer services)
- * **Service Charge** (meter replacement, AMR, testing, repairs)
- * **All Debt Service** (per trust indenture and loan agreements)
- * **City Lease Payments**
- * **Labor Contract – Fixed Costs** (benefits, pension)

Revenue Stability Methods

Other Methods

- * Modify “Minimum” Consumption Baseline
(1,667 gallons - unchanged since 1982)
- * Reassess Consumption Charges
- * Based on Reallocation of Fixed Charges

2. Infrastructure Renewal/Capital Needs

Infrastructure Renewal Program

AWA 20-Year Capital Needs Assessment

- * Water Projects: \$88 Million
- * Wastewater Projects: \$89 Million
- * Total: \$177 Million
 - * Projected Long Term Financing: \$122 Million
 - * Balance to be Financed: \$55 Million (\$3 Million/Year)

Source: AWA January 2016 Capital Program

Infrastructure Renewal Program Funding

Funding the IRP

- * **Rates** - Consumption & Minimum Charges
- * **Other Revenue Sources**
 - * Surcharges
 - * Include “Depreciation” as a “Minimum Charge”
 - * Alternative Revenue Sources (Supplemental Revenue Enhancements to Offset Rate Increases and Surcharges)

Revenue Alternatives – Surcharges

- * **Definition (per AWWA)** – “... a temporary charge designed to generate revenues for a specific purpose over and above existing rate levels...”
- * **Experience** - Commonly used by Pennsylvania utilities including private water companies
- * **Regulatory Precedence** – PA Public Utility Commission has approved surcharges for private utilities
- * **Distribution System Improvement Charges (DSIC)**
(based on a percentage of consumption)

Advantages of Surcharges

- * **Implementation** – Easy to calculate, understand, implement and administer
- * **Targeted and Specific Program** – Focus on service improvements
- * **Equity** – a reasonable relationship between the amount of surcharge revenue to be collected and the benefits that accrue.

Alternative Revenue Sources (cont.)

- * **Residential Fire Protection**
 - * Higher “Readiness to Serve” Capacity Factors
- * **Update Connection & Capacity Charges**
 - * Last study done in 2005
- * **System Extensions to Unserved Areas**
- * **Wastewater Pretreatment Surcharge System**
- * **Dedicate Plant Costs/Production to Municipalities only**
- * **State/Federal Infrastructure Grant Programs**

Alternative Revenue Sources

- * **Reassess Capacity Charge** – Using AMR, identify residential & commercial customers that use more water than their allocated capacity allowance
- * **Identify Sub-Classes** - AMR may provide data on certain “classes within rate classes” that have different usage profiles such as multi-tenant buildings, student housing, senior living apartments, etc.
- * **Contracted Services**