

Austin: Decline in water use could force rate hikes by Marty Toohey

Austin American-Statesman
February 25, 2014 12:00 PM

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 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 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, using 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 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.

BY THE NUMBERS

Average daily water use,

190 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



The city of Austin's water conservation efforts – which include limiting the use of automatic irrigation systems to late-evening and early-morning hours to reduce evaporation – have in effect contributed to a revenue shortfall, since customers are buying less water than in past years. LAURA SKELDING / AMERICAN-STATESMAN

Is Water Conservation Really Bankrupting Texas Cities, or Are They Just Bad at Planning?

by Amy Silverstein

Dallas Observer
February 19, 2014 12:00 AM

By [Amy Silverstein](#) Wed., Feb. 19 2014 at 9:55 AM

The people of Fort Worth have been doing a good job of using their water sparingly, and that has the Fort Worth Water Department very, very worried.

Recent news reports claim that Fort Worth has been bleeding cash because of its noble water conservation efforts. The city lost \$11 million "because of water conservation," [the Texas Tribune reports](#), or as the *Fort Worth Star-Telegram* figures, the city simply made \$11 million less [than it had anticipated](#) because of water conservation.

Either way, Fitch Ratings last year downgraded Fort Worth's credit rating, partly blaming it on "reduced water sales." City leaders now see water conservation as a "a double-edged sword," as one city councilman [described it to WFAA](#) on Tuesday.

Water usage has dropped about 26 percent per resident since 1999. But the city still buys a lot of water. So when people don't use it, things get expensive. "This business is extremely weather-dependent," complained Mary Gugliuzza, the spokeswoman for Fort Worth's water department, [to the Texas Tribune](#), in a report claiming that water conservation is also bankrupting other cities across Texas.

But it's not that simple, environmentalists say.

"I think that just saying water conservation means higher rates is not telling the whole story," says Jennifer Walker, a water specialist at the Sierra Club's Texas chapter. "Costs are going up whether you conserve water or not, and that is what a lot of utilities are really struggling with these days."

Water, like everything else, gets more expensive when it's in short supply, but experts say that most cities aren't planning for droughts or the resulting conservation efforts.

"Government agencies and utilities often project future demands for water without regard to price," [writes the NRDC](#), "as though every drop of consumption was virtually priceless to its current user. We know from our own experience that this is not true."

Even as people use less, many governments don't conserve that much and continue to find expensive ways to get more and more water. In a similar vein, the Sierra Club and the National Wildlife Federation have been lobbying against Texas' proposal to build 26 more reservoirs, [arguing](#) that the drought-stricken state is overestimating how much water it will need. They say that the state would be better off investing in conservation.

The advocacy groups point to San Antonio as a model city. It nearly killed off its blind salamander population after pumping too much out of its aquifer in the early 1990s. Facing an Endangered Species Act lawsuit, the city began aggressively looking for ways to stop depending on so much water, including polling citizens to find out if they'd prefer steep rate increases or stricter drought laws. People preferred to the second option.

Now, while other water utilities complain about losing money, the San Antonio Water System proudly champions conservation as a source of savings. "SAWS now includes water savings from conservation as a significant and separate 'supply' to recognize its true contribution and value to our diverse portfolio of water supply projects," [the agency says](#). For the last few years the city had considered pumping billions of gallons of water out of West Texas and other areas, but officials recently dropped the idea in favor of more desalination, explaining that residents weren't using enough water to justify the original plan.

But San Antonio's a bit of an anomaly. Much like Fort Worth, Dallas has struggled with high water costs and blamed it on poor sales. Water utilities director Jody Puckett [recently proposed](#) charging more when reservoirs are low. "When you have a drought and you're not selling any water, you need higher" prices to offset the cost, she said.

To be sure, almost everyone, from independent experts to water utilities, agree that water rates need to increase, and Sierra Club's Walker says basing rates on reservoir levels sounds like a reasonable plan. But the Sierra Club argues that basic-needs type water for stuff like drinking, showering and toilet-flushing should still be priced somewhat affordably.

"It's the people that use more than that that are really driving costs," Walker says. "So those are the folks that need to pay more because they need to help keep the system going."

In that case, those homeowners in Austin [who drill private wells](#) to water their lawns and the corporations across the state accused of hogging groundwater would probably all be good candidates to foot the bill.

Texans' Water Conservation Reward: Higher Rates by NEENA SATIJA

Texas Tribune
February 10, 2014 12:00 AM

The drought-stricken city of Wichita Falls could soon give its residents more bad news.

Even though the 100,000 residents of this northwest Texas city have substantially cut their water use, their dry lawns may no longer continue to save them money on their water bills. Instead, they will be asked to pay more; the city lost \$4.5 million in water sales last year because of the conservation efforts.

"It's tough to tell the consumer that 'Yeah, well, you guys did a great job out there conserving water, but lo and behold, we got hurt financially, so we've got to raise your rates,'" the assistant city manager, Jim Dockery, said.

Wichita Falls, whose rainfall over the last three years was 33 inches below normal, is not alone in its water conservation conundrum. Several Texas cities have collectively lost tens of millions of dollars by restricting outdoor water use, which has been a main source of revenue. At the same time, most of their expenses, like paying off debt and infrastructure maintenance, have increased, forcing utilities to raise rates for everyone, regardless of their water use.

The losses have prompted credit ratings agencies to look closer at the finances of public utilities in Texas. One agency, Fitch, downgraded some of Fort Worth's water and sewer debt last year, and last week the firm downgraded the debt of the city's wholesale water supplier. Fort Worth lost \$11 million last year because of water conservation.

"This business is extremely weather-dependent," said Mary Gugliuzza, the Fort Worth water utility's spokeswoman. Rainy summers can also hurt a city's bottom line because residents do not need to water their lawns as much.

Fort Worth's goal, like that of many other cities in Texas, is to change its rate structure to avoid such ups and downs. Today, about 17 percent of the utility's revenue comes from fixed monthly charges that all water customers pay regardless of how much they use; by 2018, Gugliuzza said, 25 percent of its revenue will come from such charges. Dockery said Wichita Falls is considering a similar transition.

Still, the changes will be hard to swallow politically. Consumers have underpaid for water for decades, said Sharlene Leurig, a program director at Ceres, a nonprofit sustainability advocacy group with which many Texas cities have consulted on water rate structures.

"People truly don't understand that the cost of having reliable water is not the cost of the water itself," Leurig said. "It's the cost of all the infrastructure you have to put in place to provide that water reliably and safely."

Wichita Falls is spending about \$1 million on a pipeline that will deliver treated wastewater to a large manufacturing company, and the city will lose an additional \$100,000 a year by selling the reused water at a discount. "We're paying to save water, is what we're doing," Dockery said. He added that the city has had to defer important maintenance projects because of the lost revenue.

Cities across Texas hope that utility revenues will bounce back once the rain returns. But even if the drought lifts, officials know that water users' habits have changed. They will never be the water-guzzlers they might have once been.

While that is good news for conservationists, the phenomenon that credit ratings agencies call a "drought shadow" will result in higher costs for all users, even the most water-conscious.