



ASSOCIATION OF
METROPOLITAN WATER AGENCIES

WATER UTILITY EXECUTIVE

JANUARY – FEBRUARY 2017



Special Edition: 2016 Financial Survey Results

UFI Renamed INSIGHT: Record Participation Yields Robust Database

A decade after its inception, AMWA's Utility Financial Information (UFI) initiative has a new name: INSIGHT. The rebranding comes with the release of the data and analyses of the 2016 UFI survey, which attracted record participation by AMWA members.



INSIGHT was designed specifically for the largest drinking water utilities across the United States to provide comparable data on a wide range of financial topics.

This fifth biennial survey was conducted between September and December 2016 and officially closed with 117 utilities taking part, an increase of 15 percent over the 2014 survey.

Raftelis Financial Consultants, Inc. (RFC) assisted in executing the survey and has analyzed the raw data. Several key analyses are provided in this issue. RFC notes that trending analyses presented are not based on the same group of utilities from survey to survey, but their intent is to indicate potential trends for the industry as a whole.

These selected snapshots demonstrate the breadth and depth of possible analyses and represent a wide variety of data for comparison. It is, however, only a small fraction of the analyses possible. The full INSIGHT database was released on February 16 for use by all 2016 survey participants and is available for download from the AMWA website.

AMWA also launched a new INSIGHT dashboard to make the utility financial information more accessible to members. This innovative visualization application was created to help utility executives more quickly access and better understand the wealth of intelligence in the INSIGHT database.

And, on February 23 at 2:00 p.m. ET, AMWA will host a webinar featuring RFC representatives who will present key findings and trends from the 2016 data and will demonstrate how the dashboard can be a valuable management tool for water executives. The webinar will be recorded and made available on AMWA's INSIGHT webpage.

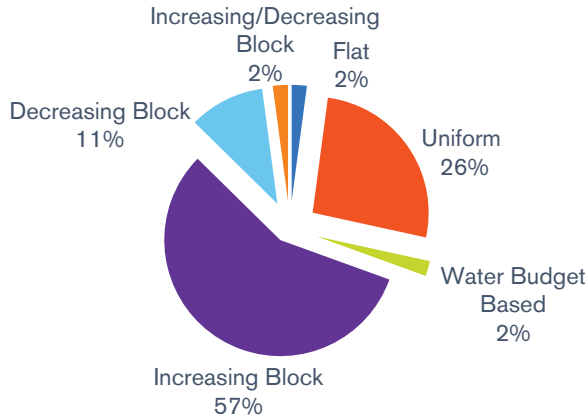
Data Analyses

1. Utility Rate Structure

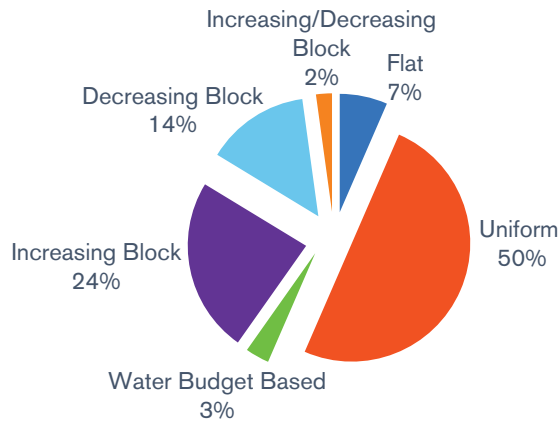
The majority of responding utilities use increasing block rate structures (57%) for residential customers, with uniform structures (26%) being the second most common structure. For those responding utilities with distinct charges for commercial customers, uniform rates were most common (50%) followed by increasing block structures (24%).



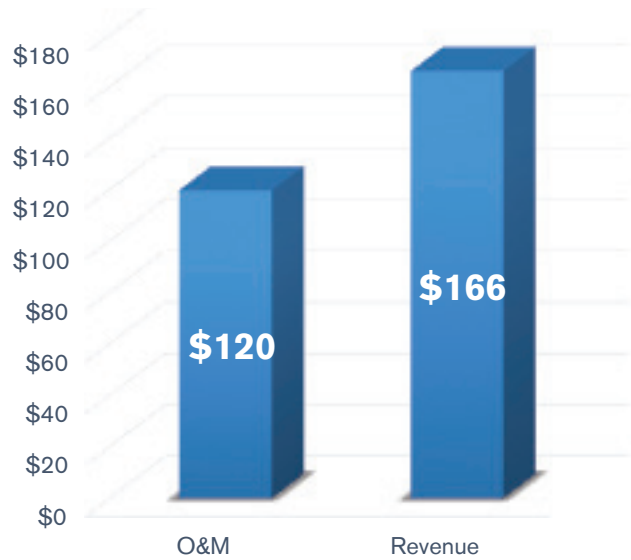
Residential Rate Structure



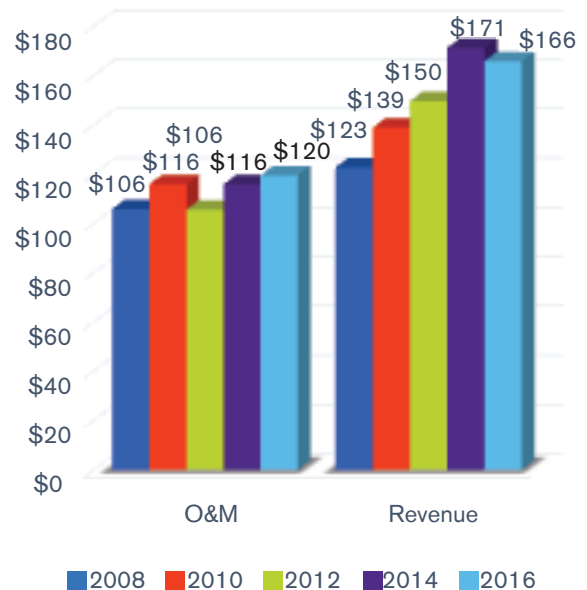
Commercial Rate Structure



Median Operating Costs and Revenue per Capita



Median Operating Costs and Revenue per Capita

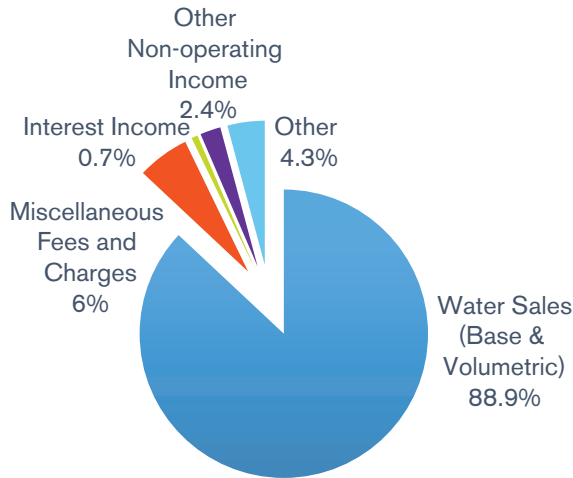


2. Operating Costs and Revenue

For the responding utilities, revenue per capita declined slightly from 2014 and O&M costs per capita increased slightly. Overall, the results were very similar to 2014 results. These results may indicate that utilities are experiencing growth in their services areas, as many utilities have had to increase their operating expenses, rates and overall revenue recovery during the past two years to continue providing sustainable service. Thus, to keep these metrics at similar levels, the denominator, or total customers, must also have increased.

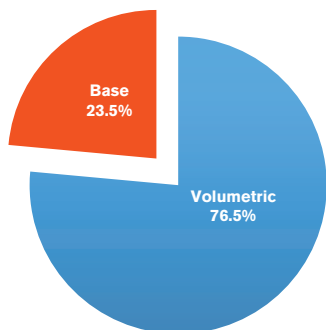
3. Water Revenue

Average Percentages of Water Revenue



Nearly 89% of a utility's water revenue is generated from base and volume charges while approximately 6% is collected from miscellaneous charges, interest income, etc. Also of interest are the proportions of water sales, which are recovered from base and volumetric charges. Generally, base charges provide more stable revenues but afford the customer less control over their bill, whereas volumetric revenues are often more volatile yet provide the customer incentive to consider the impacts of their usage. For the utilities that responded to this question, the average breakdown of total water sales revenue is 76.5% from volumetric and 23.5% from base, or fixed, charges.

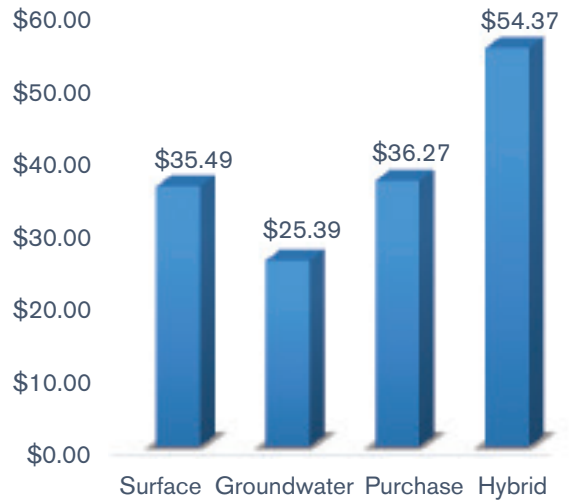
Average Breakdown of Water Sales Revenue



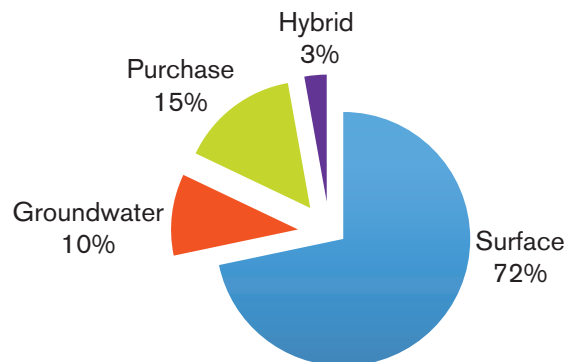
4. Water Source

In 2016, when considering water sources and median customer bills, utilities using a hybrid approach yielded the highest customer bill, whereas utilities utilizing more groundwater tended to produce lower customer bills. The median monthly bill is based on 10 hundred cubic feet (Ccf) or approximately 7,480 gallons. To classify utilities, it was assumed the utility must obtain over 75% of its water from the particular source to fall in the respective category. If there is no predominant source, the utility is classified as hybrid.

Impact of Water Source on Median Customer Bill

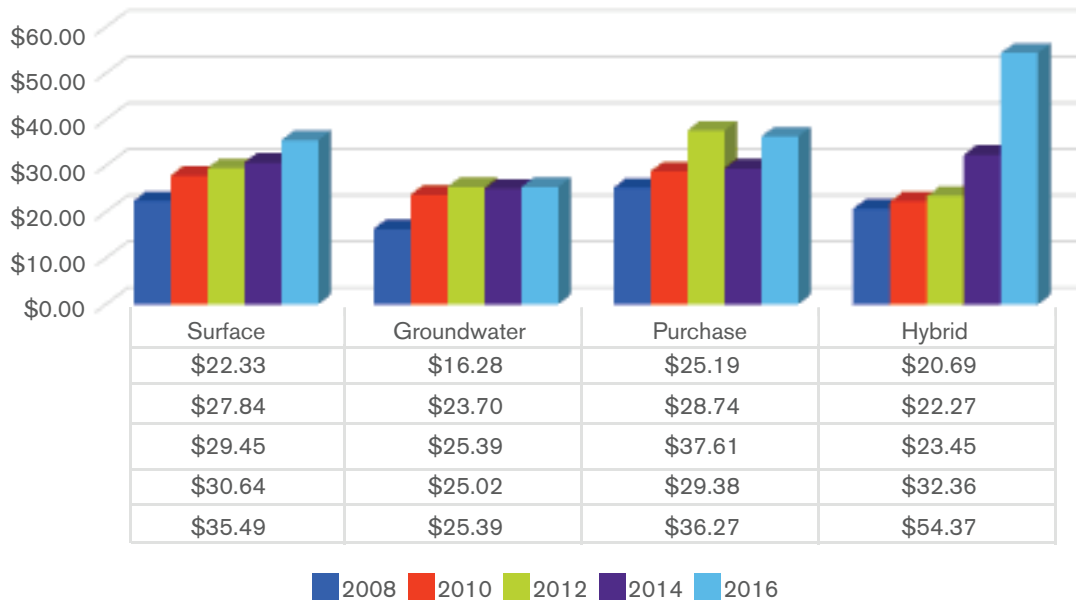


Percentage of Utilities by Water Source





Impact of Water Source on Median Customer Bill



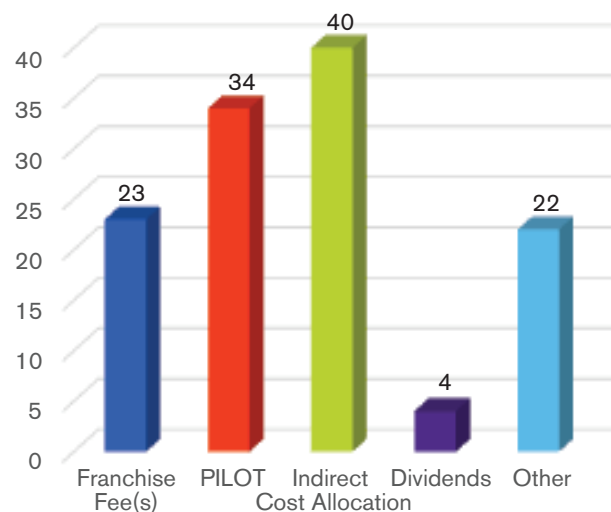
The results of the trending analysis for the impact of water source on the median customer bill show consistent or stable customer bills from 2010 for utilities on groundwater. For utilities using surface, purchased and hybrid water sources, utilities experienced significant increases in residential customer bills from 2014 to 2016.

5. Budgeted Transfers

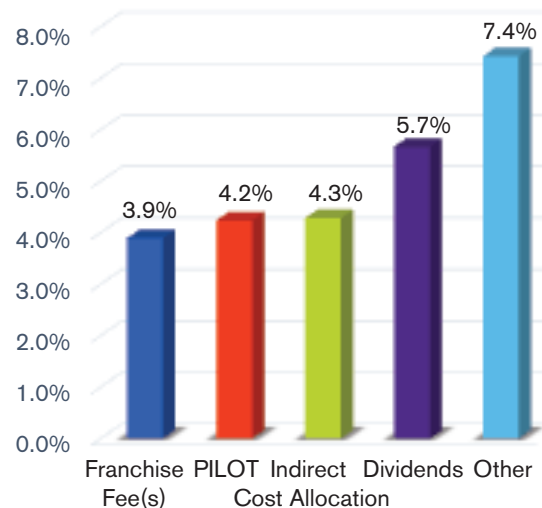
Many utilities must include transfers to governing municipalities in their overall revenue requirements. PILOTs (payments in lieu of taxes) and indirect cost allocations are the most prevalent types of transfers.

While dividends appear to be the second most sizeable type of transfer, only four responding utilities included dividend payments. Consequently, though not insignificant, this type of transfer is less representative of the responding utilities.

Number of Utilities with Type of Transfer

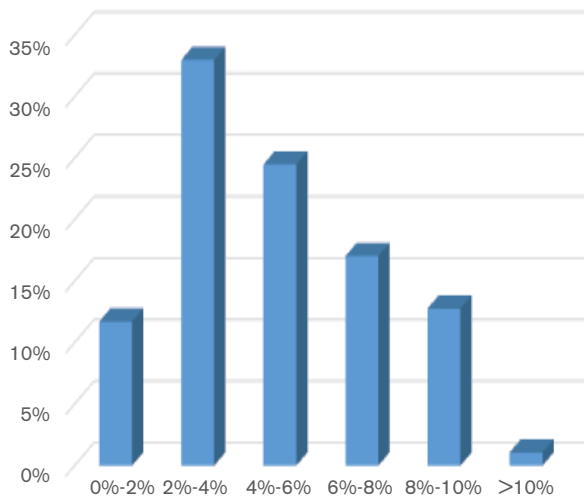


Average % of Transfers of Total O&M



6. Previous Rate Increases

Percentage of Utilities with Average Annualized Rate Increases Since 2006



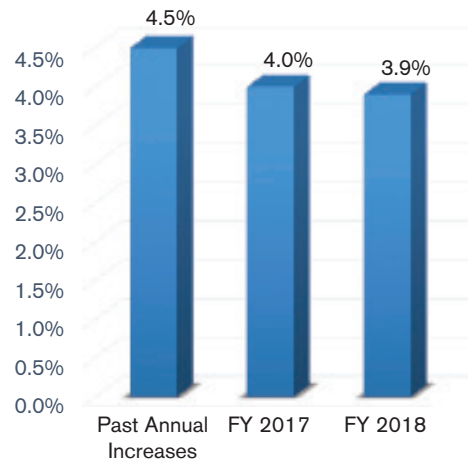
Median Average Annualized Rate Increase = 4.5%

The chart indicates the distribution of the average annual rate increases experienced by utilities from 2006 to 2016. Note that the responses were collected as the cumulative increases over this time period and for this analysis, the average annualized increases were calculated for the ten-year period. The distribution centers on 2 to 4% per year increases with the modal response indicating the increase in the 4 to 6% range. While the typical annual increases have been in the 2 to 4% range, there is a significant amount of variability from year to year. Some utilities may have no increase for five years and then increase rates 15%, while others may consistently increase rates 3% per year over that same five-year period.

7. Previous and Projected Future Rate Increases

In the 2016 survey, responding utilities indicated enacted rate increases that were less than past annual increases. This is similar to the trend observed in the 2014 survey.

Median Past vs. Median Future Rate Increases



8. Capital Improvement Costs

This chart indicates consistency in projected capital improvement program (CIP) expenditures in the near-term, but increasing volatility in the long-term, as forecasting becomes less comprehensive. Note that the median utility is projected to spend around \$27 million per year or \$270 million over the 10-year period, which is \$2 million per year higher than the 2014 results. This indicates that utilities may be forecasting higher future CIP budgets.

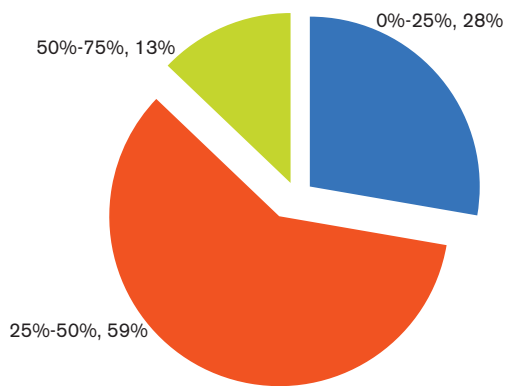
Trend of Median Projected CIP Costs





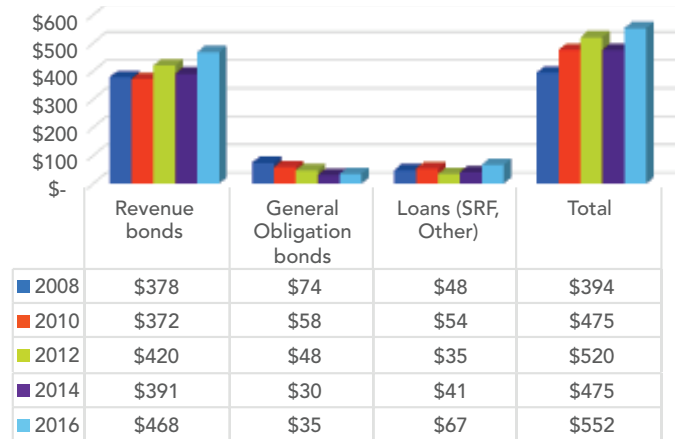
9. Ratio of Capital Cost to Total Budgeted Costs

Capital Spending % of Total Budget



This data shows that more than half of the utilities that responded earmarked 25 to 50% of their budget for capital projects or payments.

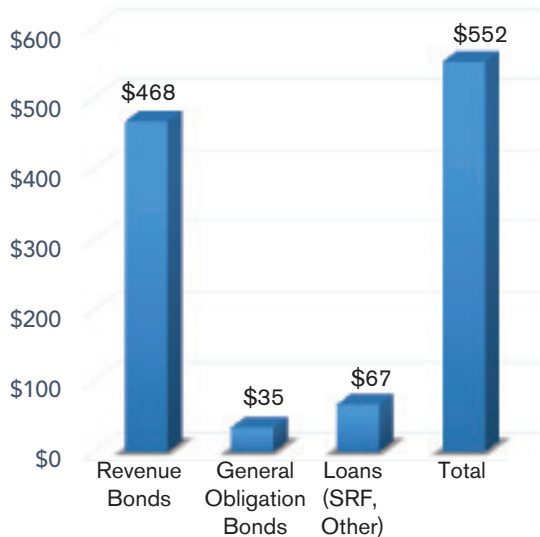
Median Debt per Capita (by Survey Year)



Revenue bonds are the primary means of funding for capital projects. General obligation bonds and loans account for only a small percentage of capital funding used by utilities. In general, median debt per capita appears to be increasing, and that trend continues in 2016.

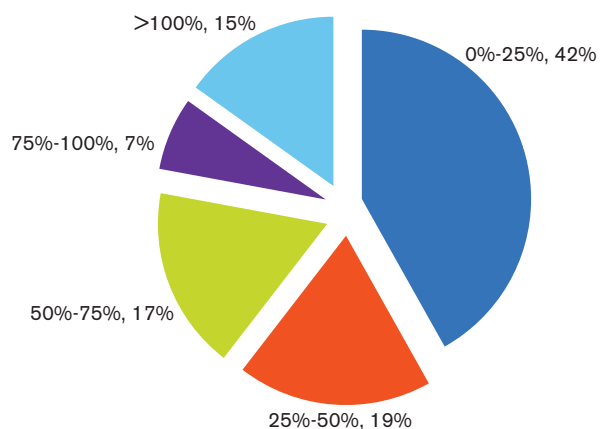
10. Utility Debt

Median Debt per Capita



11. Utility Unrestricted Reserves

Reserves as % of Total Costs

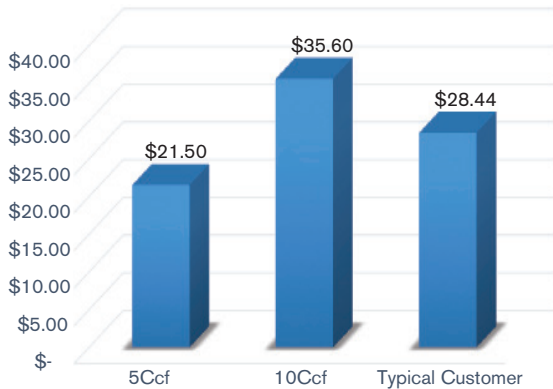


Median % = 29%

Half the utilities responded as having 29% or less of their total annual costs in unrestricted reserves. This is lower than 2014, decreased from 47%. The most common range reported was 25% or less. Though the circumstances which drive reserve policies are particular to individual utilities, 25% is generally a minimum reserve level targeted by utilities.

12. Customer Monthly Bills

Median Customer Monthly Bill



Utilities were asked to provide the monthly bill at the level of consumption for their typical customer. The median bill at this level of consumption along with the median monthly bill at 5 Ccf and 10 Ccf are shown. The median typical customer bill implies that the median typical customer consumption is likely between 5 and 10 Ccf. The median bill at 10 Ccf has steadily increased over the past five surveys as depicted below.

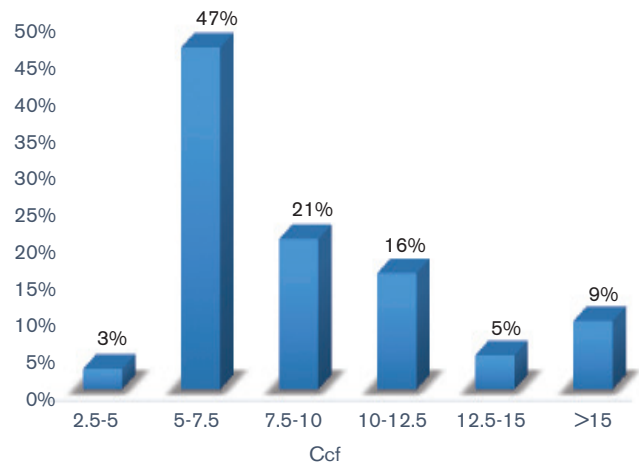
Median Customer Monthly Bill (10 Ccf)



13. Typical Customer Consumption

While 10 Ccf (7,480 gallons) is an often-used level of consumption to represent the typical customer within the industry, the reality is that the “typical” customer and their respective level of consumption vary from utility to utility. Pricing, local conservation efforts, availability of water and many other factors influence the customers’ consumption. The results of the survey show that the median level of consumption among typical customers is 7.5 Ccf (5,610 gallons), and that 68% of utilities have typical customer consumptions between 5 and 10 Ccf.

Typical Customer Monthly Consumption



At www.amwa.net/insight, utilities that participated in the 2016 survey can access the new **INSIGHT** database and dashboard.

AMWA Welcomes New Members

AMWA is pleased to welcome as new members **Santa Margarita Water District** of Rancho Santa Margarita, Calif., represented by General Manager Daniel R. Ferons, and **Cape Fear Public Utility Authority** of Wilmington, N.C., represented by Executive Director James R. Flechtner.

WATER UTILITY EXECUTIVE

AMWA Launches 2017 Awards Program with Updated Criteria

In February, all eligible AMWA members were invited to apply for recognition in the association's 2017 awards programs: the Gold Award for Exceptional Utility Performance, the Platinum Award for Utility Excellence and the Sustainable Water Utility Management Award. The application forms for the Gold and Platinum Awards were updated this year to reflect changes made in 2016 to the Effective Utility Management (EUM) framework on which the awards criteria are based.

Winners will be recognized at AMWA's 2017 Executive Management Conference in St. Simons, Georgia, October 15-18. The deadline for submitting Gold Award applications is June 16, the Platinum Award deadline is June 23 and Sustainability Award applications are due by June 30, 2017.

Additional information is available online at www.amwa.net/awards.

Updated EUM Primer Released

In January, an update to the popular and widely used Effective Utility Management (EUM) Primer was issued by EPA, AMWA and other EUM collaborating organizations. The updated Primer incorporates changes made to the EUM framework in 2016 to reflect developments in the operating context of water sector utilities in the past decade. It provides water leaders with a common sense, replicable and proactive way to meet a broad range of complex challenges facing water utilities today. The utility leadership group that undertook the update included AMWA members John Sullivan of Boston Water and Sewer Commission, Kathryn Sorensen of Phoenix Water, Barry Gullet of Charlotte Water and Frank Roth of Albuquerque Bernalillo County Water Utility Authority.

The EUM Primer is found online at www.amwa.net/effective-utility-management.

Politico "Founding Father" Mike Allen to Open AMWA Policy Conference



Mike Allen
Executive Editor
Axios

Water utility leaders attending AMWA's 2017 Water Policy Conference in Washington, D.C. March 26-29 will benefit from the insights of one of the nation's top political insiders. **Mike Allen** – former Chief Political Correspondent of Politico and now Executive Editor of the new national media company Axios – will be the opening speaker for the event.

Administration officials will provide perspectives on the progress of key agencies, including EPA, the U.S. Army Corps of Engineers, the Bureau of Reclamation and the Department of Homeland Security. **Peter Grevatt**, Director of EPA's Office of Ground Water and Drinking Water, will share the latest information on the agency's drinking water programs and timetables, and a panel of top WIFIA staff members will provide an overview on implementation of the Water Infrastructure Finance and Innovation Act.

On hand to share their views and plans on the national legislative agenda will be members of Congress including **Sen. Ben Cardin** (D-Md.) of the Senate Environment and Public Works Committee, as well as **Reps. John Shimkus** (R-Ill.) and **Paul Tonko** (D-N.Y.), leaders of the House Energy and Commerce Subcommittee on the Environment, and **Rep. Robert Gibbs** (R-Ohio) of the House Subcommittee on Water Resources and the Environment.

Register online at www.amwa.net/2017WPC.



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