

MINUTES
MEETING OF THE SAN ANTONIO WATER SYSTEM
CAPITAL IMPROVEMENTS ADVISORY COMMITTEE

Wednesday, October 3, 2018

9:00 A.M.

SAN ANTONIO WATER SYSTEM
CUSTOMER CENTER
CONFERENCE ROOM C-154

1. Meeting called to order

The regular meeting of the Capital Improvements Advisory Committee (CIAC) was called to order at 9:10 A.M. on Wednesday, October 3, 2018 by Dan Kossel, Chairman, Capital Improvements Advisory Committee.

Committee Members Present:

Susan Wright, District 2
Debra Guerrero, District 3
Michael Hogan, District 6
Brian Hughes, District 7
Michael Moore, District 9
Dan Kossel, District 10
Stephen Colley, Mayor/ETJ

Committee Members Not Present:

Arlene B. Fisher, District 1
Michael Cude, District 4
Vacant, District 5
Amy Hardberger, District 8

SAWS Staff Members Present:

Steve Clouse, Senior Vice President, Chief Operating Officer
Mary Bailey, Vice President, Customer Experience & Strategy
Andrea Beymer, Vice President, Engineering & Construction
Keith Martin, Corporate Counsel
Sam Mills, Director, Special Projects
Tracey Lehmann, Director, Development
Darren Thompson, Director, Water Resources
Lou Lendman, Manager, Budget
Mark Schnur, Senior Resource Analyst
Jackie Kneupper, Planner III
Patrick Middleton, Planner II

Antonio Ramsey, Internal Auditor
Eric Cloudt, Director, Continuous Improvement and Innovation
Cecilia Velasquez, Director, Accounting / Controller
Rene Gonzalez, Planner III

Other Representatives Present:

Lee Marolowe, San Antonio River Authority

2. Citizens To Be Heard

There were no citizens to be heard.

3. Approval of the minutes of the CIAC regular meeting of September 19, 2018.

The committee approved the minutes of the September 19, 2018 regular meeting.

4. Follow up on CIAC member information requests from the regular meeting of September 19, 2018.

Mr. Lehmann followed up on member information requests from the regular meeting of September 19, 2018. Mr. Lehmann informed the CIAC that more time would be needed to formulate a hypothetical rate structure excluding impact fees for CIP funding. Mr. Lehmann informed the CIAC that a listing of all the capital improvements projects with what percentage each project contributes to the total CIP, as well as the applicable financing costs, will be provided at the subsequent regular meeting. Mr. Hogan asked if that list could be provided in advance of the meeting. Mr. Lehmann responded that he would confer with Ms. Ivey and would attempt to provide the list as soon as possible.

Mr. Kossl requested that Mr. Lehmann discuss a question posed by Mr. Moore in an email exchange. Mr. Moore's question regarded penalty fees SAWS would incur if they were unable to accept water from the Vista Ridge project due to delayed construction at the terminus site, and whether these fees would be included in the CIP or rates. Mr. Lehmann explained that SAWS can assess penalties to contractors for delayed construction which could partially offset the penalties for being unable to accept the Vista Ridge water on the appointed date. Financial incentives are also provided to contractors for early completion. Mr. Lehmann continued that, ultimately, the penalty for not accepting the Vista Ridge water on time would be part of O&M, and borne by the rate payer. Ms. Bailey clarified that the word "penalty" essentially means paying for the Vista Ridge water without being able to utilize it, and there is a credit issued to SAWS by the project company for use of the water at a later date.

5. Briefing and deliberation on the SAWS Water Supply Capital Improvements Projects.

Mr. Lehmann delivered a presentation regarding the SAWS Water Supply Capital Improvements Projects.

Mr. Kossl asked how much water the desalination plant produces currently. Ms. Beymer responded that it averages 10 MGD.

Mr. Kossl commented that he believed SAWS to be discontinuing the pumping permits on the Trinity Aquifer. Mr. Thompson, Director, Water Resources, explained that if SAWS is unable to renew water contracts SAWS Water Resources staff make the assumption that those sources will expire and omits them from the water management plan.

Mr. Hughes requested a list of SAWS water supplies and their ability to perform under high and low demand situations. Mr. Lehmann presented a slide showing how SAWS water supplies operate under the drought of record. Mr. Hughes asked for the total capacity of the ASR. Mr. Thompson replied that the plant capacity is approximately 200,000 acre feet, and currently SAWS has approximately 165,000 acre feet stored. Mr. Hughes commented that if SAWS was able to store the total capacity, they should have the supply needed to survive the predicted shortage created in 2025 by the drought of record. Mr. Thompson explained that there is a maximum amount of water that can be integrated back into the system on an annual basis by the ASR. Ms. Beymer added that, in regard to infrastructure, ASR only contributes to a specific portion of the system, and that portion would be unable to absorb the plant's total capacity. Mr. Colley asked why the plant is sized as such if the SAWS system is unable to receive the total capacity. Mr. Thompson explained that the capacity is a product of the size of the formation where the water is stored. Mr. Colley asked if SAWS does not pump the full permitted amount from the Edwards, if that remaining supply of water can be delayed to the next year. Mr. Thompson explained that the Edwards permit stipulates the water must be pumped within the calendar year, and resets January 1st of each year. Mr. Thompson continued that water not pumped from the Edwards permit can be stored in the ASR, or left in the Edwards formation.

Mr. Kossl commented that, as 32.4% of the Vista Ridge capacity will be used for projected growth in the next ten years, San Antonio would most likely be unable to grow without the Vista Ridge project. Mr. Clouse replied that, yes, either Vista Ridge or another water supply project of comparable size is needed to support the growth predicted in San Antonio over the next ten years.

Mr. Hogan asked how much of the ASR was included in the supply calculation. Mr. Mills responded that it is approximately ten percent. Mr. Hogan asked if ASR was the only backup water supply in the event of any disturbances with the water supply coming from Vista Ridge. Ms. Beymer explained that, operationally, SAWS could utilize multiple water supplies to compensate for Vista Ridge in an emergency situation. Mr. Colley asked about the susceptibility of the formation utilized for the Vista Ridge pipeline to drought. Mr. Thompson replied that the Carrizo formation, (used for the Vista Ridge supply), is not as susceptible to drought as the Edwards or the Trinity, and is typically a much more stable supply. Mr. Clouse added that if there are reductions in access to the available supplies, such as cutbacks from the local groundwater district, this burden is contractually carried by the project company and not by SAWS.

Mr. Hughes asked if SAWS staff included climate change as a contributing factor when calculating the drought of record. Mr. Thompson replied that, when calculating the 2017 Water Management Plan, both the drought of the 1950s and more recent data from 2011-2014 were used in an attempt to be more aggressive in predicting possible drought conditions. However, no adjustments have been made to the plan in regards to long term climate change.

Ms. Wright asked for clarification on the ASR recovery. Specifically, what the significance of the year 2025 is in the planning process. Mr. Thompson used the 2019-2027 water supply bar graph to explain that as you work through the drought of record, the amount SAWS is able to pump from the Edwards will decrease. 2025, however, is the only year in which the amount SAWS can recover from ASR will not compensate for the shortage in the Edwards and other non-Edwards

supplies. Mr. Hughes asked for clarification on the different meanings of the dashed and solid lines depicting demand on the supply chart. Mr. Thompson explained that these lines show varying rainfall totals, and what subsequent demand that would place on the supplies.

Mr. Hogan asked what percentage of water used in a typical day is attributed to irrigation for landscaping. Mr. Clouse responded that on a day similar to today, SAWS would pump approximately 180-190 million gallons of water, and he would expect approximately 125 million gallons would enter the treatment plants. The difference between the two can be assumed to be utilized for irrigation (approximately 30%).

Mr. Thompson made a clarification on the supply graphic slide of the presentation to point out that Vista Ridge was not included. Mr. Thompson added that the inclusion of Vista Ridge would relieve the supply deficit in 2025.

Mr. Hogan asked if the flow of Vista Ridge water could be reduced if needed, or if Vista Ridge water could be stored in the ASR. Ms. Beymer explained that contractually SAWS cannot store Vista Ridge water in the ASR. However, if there is reduced demand on the Edwards supply due to Vista Ridge, more of the Edwards water could be stored in the ASR.

6. Discussion and Deliberation on the CIAC Findings Report procedure.

The CIAC members were distributed the findings report from the 2014 impact fee study, and agreed to review the report over the following weeks. The CIAC will discuss what they wish to be included in the 2019 report in the October 31, 2018 regular meeting.

Mr. Hogan asked if the findings report would go on to both the SAWS Board of Trustees and the San Antonio City Council. Mr. Martin explained that by statute, it is only required to be submitted to the City Council, but in past years the SAWS Board of Trustees does review the report before the Board delivers its recommendation to City Council.

Ms. Guerrero asked if CIAC comments on affordable housing and how it pertains to impact fees can be included in the findings report. Mr. Martin replied yes, that comments on affordable housing can be included in the report.

Ms. Wright commented that she would like to see the maximum impact fee calculated, (with financing costs), before a findings report is generated by the CIAC. Mr. Lehmann replied that the financing cost would be presented at the next meeting.

Ms. Beymer requested that Mr. Martin explain SAWS staff's position on how Vista Ridge capital cost are included in the impact fee within the boundaries of TLGC Chapter 395. Mr. Martin explained that the language SAWS staff is focusing on in the statute is that impact fees can pay for infrastructure related to growth. This can include not only infrastructure that SAWS owns, but infrastructure owned and operated on SAWS behalf. It can be argued that Vista Ridge is owned and operated on SAWS behalf due to the facts that SAWS will be taking over the pipeline in thirty years, SAWS will be paying for the pipeline over the thirty years, and SAWS must accept that water that is delivered.

Mr. Hogan asked if the \$930,000,000 figure presented by SAWS was still accurate for the Vista Ridge pipeline construction cost (supply side). Ms. Beymer confirmed that this figure was locked in at financial close of the project. Mr. Clouse added that any additional infrastructure

requirements deemed necessary by the project company to produce the 50,000 acre feet are the responsibility of the project company financially.

Mr. Hughes commented that he would like to see how the Vista Ridge cash flow looked over the life of the project. Mr. Mills commented that essentially there will be a lessening of rates in the future. Vista Ridge will be financed presently with rates, as SAWS is unable to finance a project as large as Vista Ridge with only impact fees. Mr. Hughes asked if the rate paid to the Vista Ridge project company for the 50,000 acre feet purchased was a level rate or if it escalated over the life of the contract. Mr. Clouse responded that it is a level rate. Mr. Clouse commented that, although the likelihood is low, SAWS could step in and take over the project before the completion of the contract in year thirty. Mr. Hughes asked what the trigger would be for SAWS to take over the project, and what would SAWS obligations be after taking over. Mr. Clouse responded that he could not foresee a likely scenario, but it is an option for SAWS if needed. Ms. Bailey responded that, according to the contract, SAWS would need to pay off the project company's outstanding debt and return the capital that has not been returned up to that point in order to take over the pipeline.

All presentation materials can be found on the SAWS CIAC webpage:
http://www.saws.org/business_center/developer/impactfees/meetings.cfm

7. Adjournment

The committee agreed to meet on October 31, 2018. The meeting was adjourned at 10:26 A.M.

APPROVAL:



CIAC Chairman