

MINUTES
RATE ADVISORY COMMITTEE
March 4, 2014
5:30 pm

RAC Members Present:

Carroll Jackson, Chairperson
James McNamara
Roberto Anguiano
Mark Guerrero
Mario Hune
Ken Lawrence
Gerardo Noriega
Manuel Palaez-Prada
Allyson McKay
Jorge Garcia
Mark Perry
Howard Peak

RAC Members Absent:

Clem Perez
Hilario Garcia
Larry Underwood
Will Trujillo
Roger Hill
David Kubitz

SAWS Board of Trustees Member Present:

W. Reed Williams

Black & Veatch Consultants:

Bill Zieburtz
Robert Chambers

SAWS Staff Present:

Steve Clouse, Chief Operating Officer
Kelley Neumann, Senior Vice President Strategic Resources
Douglas Evanson, Senior Vice President/Chief Financial Officer
Val Ruiz, Vice President Customer Service
Mary Bailey, Controller
Lou Lendman, Budget Manager
Mario Aguilar, Communications
Stephen Turner, Sr. Financial Modeler
Pat Arriola, Financial Analyst
Marcy Gonzalez, Financial Analyst
Carlos Mendoza, Financial Analyst
Robert Walker, Financial Analyst

City of San Antonio Staff Present:

Marion Gee, Public Utilities Office
Morris Harris, Public Utilities Office
Alfred Chang, Public Utilities Office
Pamela Monroe, Public Utilities Office
Marisela Vasquez, Public Utilities Office

Citizen Present:

Jerry Morrisey

Chairman Jackson welcomed the RAC members and introduced Manuel Palaez-Prada who was unable to attend the first RAC meeting on February 4, 2014. Mr. Palaez-Prada introduced himself to the committee. Mr. Jackson also introduced Mr. Reed Williams, member of the SAWS Board of Trustees, and stated that he will be attending many of the RAC meetings throughout the process.

There was one citizen that signed up to speak. Mr. Jerry Morrissey stated he supports the current Water Supply Fee tier rate structure SAWS implemented as a result of the last Rate Study process in 2009. He recommended that the committee examine having a separate higher water rate structure during the summer months when lower consumption would be encouraged through conservation efforts to ensure sufficient revenue to recover the utility's costs. The proposed structure would apply to residential customers only. Mr. Morrissey thanked the committee at the end of his comments.

In his opening remarks, Mr. Jackson stated that the committee had a major responsibility with many challenges. He added that the task for the committee was to develop a rate structure that would support the overall goals and objectives of SAWS. Mr. Jackson asked all members to personally set aside any individual concerns and seek to come to consensus on the issues facing the committee. If consensus cannot be achieved on certain issues, a majority of the committee's votes would be the basis for the committee's actions on those issues.

Mr. Jackson reminded the committee members that meeting attendance is important and that the committee's by-laws state that if a member misses three meetings, the member could be removed from the RAC.

Mr. Jackson also indicated that during the meeting the committee would be electing a Vice-Chairperson. He stated that two members had agreed to be considered for the position and that their biographies were provided to all members. The initial two candidates were Col. Ken Lawrence and Mr. Manuel Pelaez-Prada. He also stated that any member would be free to nominate another committee member or write-in another name on the ballot.

Mr. Jackson began the voting process for the Vice Chairperson position by introducing the initial two candidates and asked if anyone wanted to nominate other candidates. Mr. Anguiano nominated Mr. Howard Peak to also be considered for Vice Chairperson. Mr. Jackson then allowed each nominee to speak to the committee about their background. Ballots were passed out, and staff collected and tallied the votes while the committee heard the first presentation.

Rate Consultants Bill Ziebertz and Robert Chambers from Black & Veatch gave their presentation entitled, "SAWS Rate Design Study Analysis"

Questions and comments that were offered during the presentation were as follows:

- Mr. Anguiano made a comment stating that SAWS is a non-for-profit entity.
- Dr. Perry agreed that SAWS has to cover its current costs and set aside funds for future capital needs.

- Mr. Jackson stated that the utility's expenses are fixed but are dependent on a revenue stream that is variable due to factors such as changing weather conditions. Reserves are needed to bolster declining revenues during periods of heavy precipitation or sustained drought. Mr. Evanson stated that SAWS seeks to fund one-third of capital expenditures with cash in order to minimize the need for debt funding of capital improvements. SAWS has to generate the cash flow to meet both operating and capital funding objectives consistent with the flow-of-funds requirements established by the founding ordinance of SAWS.

Mr. Jackson reported the initial results of the voting for Vice-Chairperson. Two of the nominated members received four votes each and the third member received three. A run-off would be needed between Mr. Pelaez-Prada and Col. Lawrence. Additional ballots for the run-off were distributed to the committee members.

Lou Lendman gave a presentation entitled "Follow-up Items from 1st RAC Meeting". Mr. Lendman presented slides showing the distribution of SAWS and DSP customers by class, a comparison of example residential and commercial monthly charges among the top 10 Texas cities along with those cities' associated water/wastewater rate structures, and a history of consumption and numbers of customers in the highest water rate tier over the past five years.

Questions and comments that were offered during the presentation were as follows:

- Mr. Evanson clarified that apartments fall into the General Class rate structure.
- Mr. Hune requested that the monthly charges comparison be amended to also reflect SAWS seasonal rates. Mary Bailey agreed and stated that staff would provide the amended comparisons to the RAC members by e-mail.
- Mr. Jackson asked for a breakdown of General Class customers by Commercial, Industrial, and Multifamily/Apartments. Staff will provide the information.

During the presentation of the slide in Mr. Lendman's presentation comparing monthly industrial water charges, there was detailed discussion concerning the marked disparity between SAWS and DSP monthly charges for commercial and industrial customers.

- Mr. Evanson stated that one of the challenges in integrating SAWS and DSP rate structures is that the old BexarMet commercial rates were structured in a manner to generate more revenue from commercial customers than justified by the cost of providing service to commercial customers in order to subsidize residential customers. This fact is confirmed by the report prepared for the rate study conducted by BexarMet in 2009. Mr. Evanson added that SAWS has not sought to increase the old BexarMet rates since assuming responsibility for the utility in 2012.
- Mr. Hune asked if BexarMet had a disproportionate amount of incurred to debt relative to SAWS that adversely impacted the BexarMet rate structure. Mr. Evanson agreed that this was a major adverse factor. Mr. Hune further asked if there was any opportunity to restructure the debt to help lower the debt service burden. Mr. Evanson indicated that SAWS has already done what it can to refinance as much prior BexarMet debt as possible. All remaining BexarMet debt was issued too recently to be refinanced in the immediate future. Under the terms

- of the debt issuances, the earliest the remaining debt can be recalled and refinanced is 2019 or 2020.
- Mr. Jackson stated that from the date of legislation that authorized the election which resulted in the SAWS assumption of BexarMet, SAWS has five years (2017) to integrate the rate structures of the two utilities. Mr. Jackson asked what the cost would be now if both entities were on the same rate structure. Mr. Evanson indicated that today it would cost about \$20-25 million more to cover the shortfall that would be created if the current SAWS rate structure was applied to DSP customers. Mr. McNamara asked if SAWS had a plan, and Mr. Evanson stated that developing a plan was one of the objectives of the ongoing Rate Study. Mr. Jackson further reminded the committee that the City Council has directed that SAWS ratepayers not be adversely impacted financially by the integration of SAWS and Bexar Met. Mr. Williams indicated that if SAWS cannot integrate the rate structures of both systems by 2017 without additional cost, SAWS could go back to Texas Legislature to ask for an extension of the time limit. If the 2017 deadline cannot be achieved in a manner that is not adverse to SAWS customers, Mr. Evanson stated that, at a minimum, SAWS would like a plan for eventual rate structure integration to come from the ongoing Rate Study effort.
 - As part of this discussion, Dr. Perry asked how many industrial customers are served by the DSP. Staff will provide that information to the committee.

Ms. Bailey stated that staff will be sending the committee members a copy of a Black and Veatch survey report comparing water and sewer charges among the 50 largest cities in the country. Additionally, staff will be forwarding some articles regarding the challenges some Texas cities are facing regarding lower water revenues as a consequence of increased conservation efforts.

Mr. Jackson reported that the second round of balloting for the Vice Chairperson position resulted in a tie between Col. Ken Lawrence and Mr. Pelaez-Prada. Mr. Jackson suggested that the committee accept both members as Vice-Chairpersons. In response, while grateful for Mr. Jackson's suggestion, Mr. Pelaez-Prada agreed to drop his name for further consideration and cede the position to Col. Lawrence. Col. Lawrence accepted the position.

Mr. Pelaez-Prada asked to see a map showing the distribution of water consumption over the SAWS geographic area, and also for a map showing geographic boundaries of SAWS and DSP areas. Staff will provide the information to the committee. Mr. Pelaez-Prada thanked the Black & Veatch for their presentation.

Mr. Williams thanked staff for providing good graphs showing the monthly charge comparisons.

Dr. Perry requested to see a list of cities that have separate ICL and OCL rates. Staff will provide the information to the committee.

Ms. McKay requested a comparison of apartment monthly charges among those cities that have apartment rates with charges for similar consumption levels by those cities that do not have apartment rates. Staff will provide the information to the committee

Ms. Bailey reminded the members that the next meeting will be held on April 1, 2014 at 5:30pm.

The meeting was adjourned by Mr. Jackson at approximately 7:15 P.M.