

MINUTES
RATE ADVISORY COMMITTEE
SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, TX 78212
Customer Center Building (Tower II), Conference Room #145
First Meeting, September 24, 2019
6:00 p.m.

RAC Members Present:

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| Frances Gonzalez – Committee Chair | Vance Weynand |
| Velma Willoughby-Kemp (District 2) | Tamara Benavides |
| Steven Wurgler (District 3) | Andy Diaz |
| Genevieve Trinidad (District 4) | Mike Chapline |
| Daniel Meza (District 5) | Patrick Garcia |
| Ramiro Cabrera (District 6) | Victoria Keeler |
| Patricia Wallace (District 8) | Stephen Lara |
| Joseph Yakubik (District 9) | Stephanie Reyes |
| Raine Tanner (District 10) | Steve Richmond |

RAC Members Absent:

Alex Birnel (District 1)
James Smyle (District 7)

SAWS Board of Trustees Member Present:

Pat Jasso, Vice Chairwoman

Raftelis Consultants:

Rick Giardina
Angie Flores
Kelli Epp (KLE Communications)

SAWS Staff Present:

Robert Puente, President/CEO
Jaime Castillo, Chief of Staff/Chief Strategy Officer
Doug Evanson, Sr. Vice President/CFO
Mary Bailey, VP Customer Experience and Strategic Initiatives
Cecilia Velasquez, Controller
Phyllis Garcia, Treasurer
Lou Lendman, Budget Manager
Benjamin Kidd, Sr. Financial Modeler
Rob Walker, Financial Analyst
Gavino Ramos, VP Communications & External Affairs

Robert Puente opened the meeting by welcoming everyone to the first meeting of the 2019 Rate Advisory Committee and thanking the members for their commitment to the process. He

introduced RAC Chairperson Frances Gonzalez who also welcomed everyone and then started the Citizens to be Heard portion of the meeting. Three citizens signed up to speak:

CITIZENS TO BE HEARD

Dr. Meredith McGuire - She said there were mistakes made by the RAC committee in the 2015 rate structure and asked the committee to reverse those mistakes. She would have liked to have seen the rates pegged to the various sources of water. She said that the addition of the lifeline rate has not helped with making the rates more affordable for the lowest income customers. She said that no one should pay less than the actual cost of water. She suggested separating the General Class, since the current class combines disparate groups, especially industrial users, which forces residential rate payers to subsidize other classes. She said that climate change should be an important factor in the RAC discussions and that there is no such thing as new water, and we will experience more intense, longer droughts.

Ellen Berky - She said that she followed the activities of the SAWS Rate Advisory Committee five years ago and learned that the committee serves as an advisor to the SAWS Board of Trustees and Financial Advisory Group and not the San Antonio City Council. It is not a committee recognized by the City of San Antonio. She said that the SAWS Board of Trustees is looking for useful public relations tactics to deal with the issues that emerged since the 2015 RAC completed its work and to deal with multi-year rate increases necessary because of Vista Ridge. She said that the rates were developed based of a computer model and accepted without much debate or discussion.

Reinette King - She represented the Vista Ridge Coalition and provided the committee a memo titled "Vista Ridge Resolution Coalition" dated September 12, 2019 to the Mayor and members of the San Antonio City Council. She urged the group to pass the Vista Ridge Resolution delivered to the City Council meeting at the Citizens to be Heard in March 2019. She explained that there are several groups who are part of the coalition and they are concerned with the risks and impacts to the water supply and on SAWS ratepayers. The coalition is urging swift action to gain appropriate oversight of the project. She offered herself as a resource to the RAC.

CALL TO ORDER

Following the conclusion of the Citizens to be Heard portion of the meeting, Frances Gonzalez called the meeting to order.

OPENING REMARKS AND INTRODUCTIONS

Gonzalez reviewed the mission and purpose of the Rate Advisory Committee and the meeting's ground rules. She asked the committee members to review the mission at each meeting. She committed to limiting the length of the meetings to two hours and asked the members to hold their questions until the end of each segment.

Gonzalez added that she wanted staff to maintain a running tab of outstanding questions and responses in a Parking Lot to be posted on the saws.org/RAC webpage. Unresolved questions or additional information requested from RAC members will be placed into the Parking Lot as the meetings proceed.

She asked that each of the RAC members briefly introduce themselves and give one word about how they will contribute to the committee. Each member spoke briefly and provided an explanation about how they planned to contribute.

Following the committee member introductions, Gonzalez asked Mary Bailey to introduce those present from SAWS.

Mary Bailey introduced the SAWS staff in attendance, specifically those who will be assisting the RAC with its work. She also recognized SAWS Trustee Pat Jasso who was in attendance.

Rick Giardina, Project Director and Executive Vice President of Raftelis, introduced the team of consultants and explained their role in the process.

RATE STUDY PROCESS OVERVIEW, CONSIDERATION OF BYLAWS AND SCHEDULE

Giardina then gave an overview of the rate study process. He explained that the RAC is an integral part of this multi-utility rate study examining water, recycled water and sewer rates. He presented an organizational chart indicating the role of the RAC, the team of consultants, SAWS staff, the SAWS Board of Trustees and the San Antonio City Council.

Giardina presented the Mission Statement of the RAC: *The mission of the Rate Advisory Committee (RAC) is to assemble a diversity of perspectives that represent our community to evaluate and make recommendations on the water, sewer and recycled water rate structures.* He reviewed the committee's purpose which is to review, discuss and analyze rates, fees and charges with staff and the Board of Trustees, and to represent a constituency and facilitate the flow of ideas and concerns from the community to SAWS staff and the Board of Trustees.

He presented a big picture snapshot of the overall study, which is to determine the cost to operate the system and then examine the cost responsibility across different customer classes and how those costs are recovered. He explained that there will be a lot of discussion about pricing objectives. This group will focus on customer responsibility and will make a recommendation to SAWS about the rate structure for water, recycled water and sewer.

Kelli Epp, the meeting facilitator, discussed the roles and responsibilities of the RAC. This includes the importance of attending all the meetings. She explained that if a member misses a meeting, it's important that they review the meeting discussion and recommendations so that they are up caught up before the next meeting. SAWS staff/consultants are available between meetings to discuss missed items as schedules permit. She explained that the meetings will be live streamed and that if a member must participate remotely, SAWS staff will be able to provide the logistics to accomplish that, if necessary.

The committee members are asked to be respectful of others' views and input and to provide thoughtful input on the study proposals. The RAC members act as a representative for the study to fellow community members and will be relied on to share feedback from the community.

Epp reviewed the roles and responsibilities of the SAWS staff and consultants, which are to provide current and accurate information, to promote open and honest discussion during the meeting and to remain accessible to committee members on questions related to the study.

RAC members are voluntarily committing to actively serve until the completion of the 2019 study and should be available for follow-up until completion. We anticipate 8 – 10 regular meetings – approximately monthly, but there will be two meetings in October 2019. The Chair has committed to keeping the meetings to two hours, so we ask that as much as possible, RAC members review the materials between meetings.

Raine Tanner asked that meeting materials be provided more than a day before the meeting. Frances Gonzalez said that staff would make every effort to send materials at least three days before the meeting.

Epp reviewed the meeting schedule and noted the conflict that had arisen with the October 15 meeting date. She explained that the members were asked via email whether October 16 or 17 would work best and that the majority responded that October 16 was the preferred date. Thus, that will be the date of the next RAC.

Epp explained that the committee would utilize consensus-based decision making and that per the bylaws the Chairperson was permitted to proceed with a resolution of a given issue through a vote.

Epp concluded by outlining what RAC members can expect, which includes offering input and recommendations on a variety of rate-related items, ranking rate structures pricing objectives, deciding which rate structures should be reviewed and/or updated, and selecting rate structure alternatives that best meet the pricing objectives. A RAC Report will be issued upon completion of the committee's work that will include the scope and content of the RAC discussion, findings and conclusions and recommendations for further study. RAC members are invited to submit dissenting opinions that will be included in the appendix of the study.

Mary Bailey discussed the RAC bylaws and committee member expectations. 11 committee members must be present to make the quorum necessary for the committee to make decisions and take action. She asked the committee if there were questions or concerns about the bylaws.

Frances Gonzalez noted the comments and questions provided by RAC member James Smyle, who was unable to attend the meeting. Each of his questions will be placed in the Parking Lot.

She also reviewed several questions about the bylaws and election of the Vice Chair that were presented by Joseph Yakubik. She stated that the committee would elect the Vice Chair at the next meeting, on October 16. Members interested in serving in that role should email RAC@saws.org by October 10. Those names provided will be included in the information sent out before the next meeting.

Patrick Garcia asked what makes up a simple majority. The answer was that if there is a quorum at the meeting (at least 11 members present), then the majority of those present would represent a simple majority. In addition, a 2/3 majority would be required for any bylaw amendments.

Stephanie Reyes asked if you would be considered present and would count toward the quorum if you are calling in by phone. Bailey answered yes, but we encourage you to be here in person.

Frances Gonzalez said that if you know you are likely to call in, please let staff know ahead of time. There may be meetings in other locations, so we would have to make arrangements to facilitate a conference call.

Bailey discussed the October 26 “Rain to Drain” tour. It is not required but is offered for RAC members. Seven members indicated they were interested in attending.

Proposed by-laws were passed without objection by the RAC and will be considered by Board of Trustees at the October Board meeting.

SAWS OVERVIEW

Mary Bailey gave an extensive and broad overview of SAWS including key facts and statistics related to the number of customers, treatment plants, employees and budget. She presented service area maps and explained the eight water sources and water supply projects. She reviewed the recycled water system and the Aquifer Storage and Recovery system.

Daniel Meza asked about water quality testing. He asked if there is any kind of testing being done on the Edwards Aquifer water. Mary explained that yes there is frequent testing. He asked if it is possible to disclose what is tested and the results. SAWS staff responded that all of the information is available on the TCEQ website. More information will be provided. This item will be placed in the Parking Lot.

Raine Tanner asked how many customers are served by an acre-foot of water every year. The answer is six families.

Bailey reviewed the Vista Ridge Project and explained that construction of the pipeline is largely complete and that they expect to start delivering water to San Antonio in the Spring of 2020.

Patrick Garcia asked if SAWS will be paying for Vista Ridge pipeline maintenance and the answer is yes.

Bailey reviewed the successful results of existing conservation programs as well as future goals.

She paused the presentation at this point to open the floor to questions from the committee.

Mike Chapline asked what the SAWS annual operating costs are and the answer is about \$350 million per year. He also asked what the SAWS operating revenues were in 2018 and 2019. The answer is \$691 million in 2018 and \$729 million budgeted in 2019.

Bailey explained how revenues are allocated and that a portion goes to O & M and the rest goes to debt service, to cash fund projects, and that a portion goes to the City of San Antonio.

Tanner asked how cross-connection of water between Edwards and Carrizo aquifers is controlled. The answer is, it is controlled through separate treatment of Carrizo water before it is mixed with Edwards water for subsequent distribution.

Yakubik asked if Carrizo aquifer water is treated to make its pH levels chemically neutral before mixture with Edwards water. The answer is yes.

Tanner asked if the cost of water coming from the Vista Ridge project was comparable in price to water from other sources. The answer is that it is more expensive compared to other sources. Tanner asked about the priority of Vista Ridge water among other water sources when including the water into the overall SAWS distribution system. The answer is that since SAWS must pay for all Vista Ridge water delivered, it will be the baseload for all water distribution.

Tanner asked about the extent of the recycled water network. She lives on the northeast side and does not have access. The answer is that recycled water cannot legally be used for residential purposes, it is only allowed for use for commercial and industrial purposes under conditions which prohibit mixing with potable water. In addition, SAWS needs recycled water customers that have a steady demand because the capacity of recycled water does not allow for providing water during peaking periods.

Meza asked if there is a system of third-party verification structure for cross contamination. Specifically, other than the TCEQ, would SAWS hire a private party to verify water quality so that we never face a situation like the one that happened in Michigan where the state wouldn't acknowledge that the water was contaminated. The answer is that SAWS completes all of its own water quality testing and would likely only outsource that if it didn't have the capability for certain kinds of testing. SAWS staff said that they would talk with other staff in the water quality testing division to answer any remaining questions on this issue. This issue will be added to Mr. Meza's previous Parking Lot question.

Tanner asked if SAWS has a plan to find new customers to buy Vista Ridge water. Bailey responded that this issue would be covered in a future meeting/presentation. This issue will be placed in the Parking Lot

Yakbuik asked if Medina Lake water rights leased or owned. The answer is that SAWS acquired possession of the water rights when Bexar Met was absorbed into SAWS and under the original Bexar Met contract, it is required to pay for the water even if we do not take it.

Yakubik said he feels that the Conservation slide (slide 29) in the presentation is misleading because it does not reflect changes in annual rainfall levels or population. Bailey acknowledged this information.

Tamara Benavides asked what SAWS' obligation is beginning in the spring of 2020 with respect to Vista Ridge water. The answer is that SAWS has to pay for all water delivered. The annual added operating cost of taking 50,000 more acre-feet from Vista Ridge is about \$100 million.

SAWS RATE STRUCTURE

Mary Bailey reviewed key statistics about the current rate structure, which is the result of the work done by the previous RAC five years ago.

Bailey explained that the Potable Water Supply Fee pays for the cost of new water supplies developed since 2001 and also supports the Recycled Water Program. There are four customer classes: Residential, General (which includes commercial, multi-family and industrial), Wholesale and Irrigation. Rates consist of fixed and variable charges. We also have Conservation Rates that exponentially increase when usage goes above a certain level. There is also a Lifeline Rate, for residential customers who use a very low level of water. There are different rates for inside and outside the city, which we will discuss more in the future. And there are affordability discounts for qualifying low-income residents, which will also be discussed in greater detail at a future meeting.

Bailey then explained the Wastewater Rate Structure. This structure also includes fixed and variable rates, the Lifeline Rate for residential customers, different rates for inside vs. outside city limits and affordability discounts for qualifying low-income households. Because we don't have meters on the sewer system to measure how much is going in, we use Average Winter Consumption from November – March to determine wastewater usage and customers are getting very good at conservation during those winter months.

Bailey then presented the Recycled Water Rate Structure. The volumes are contracted for things like landscaping, golf courses, manufacturing, and cooling towers. The rates are set by the City Council with the exception of CPS Energy, that is set by contract. Again, there are fixed and variable rates and this is the only case where we charge seasonal rates. She asked for questions about the rate structure.

Stephanie Reyes asked for clarification on the months – was it November through March? The answer is that yes, you need three complete bills in that timeframe.

Yakubik asked if SAWS has the highest fixed rates in Texas. The answer is yes. Based on the average bill across all classes, 29% of the bills are fixed costs. Yakubik noted that the residential fixed costs, including the city's stormwater fees, are 46% of the SAWS bill. More information will be provided. This issue will be placed in the Parking Lot.

Stephen Lara asked about the city's emergency interconnects. It was agreed that this question would go into the Parking Lot and staff would get that list to him at a later date.

Daniel Meza, Raine Tanner and Patrick Turner asked for more information on the stormwater fee. Bailey explained that it is not a SAWS fee, it is billed for the City of San Antonio. It is not the purview of SAWS or this committee. Meza asked how long the fee would be in place. This question was also placed in the Parking Lot to provide clarification at a later date.

RATE STUDY BASIC CONCEPTS

Rick Giardina began the presentation about the rate study. The rate study is a reflection of the objectives of the community. We use the pricing objectives to provide context and inform where we are going with pricing structure. Rate studies are important for several reasons, including that SAWS has broad latitude to implement rate design and have legally defensible rates. The big part of the mission of the RAC is to provide rank for the pricing objectives to guide this design.

That said, we still have guidelines that we must follow. These are defined by the industry through things like the American Water Works Association Manual M-1, Raftelis guide and the Water Environment Federation.

There are five clear steps in this process:

- 1) Identify financial and pricing objectives
- 2) Identify revenue requirements and demand projections
- 3) Allocate costs
- 4) Design rate structure
- 5) Assess effectiveness in addressing pricing objectives

In future meetings, we will review pricing objectives and we will rank these. We will also take a closer look at competing objectives – for example revenue stability and conservation price signal. Many of our costs are fixed and we have to take that into consideration. We will go through a process to align rates with pricing objectives.

Step 2 is identifying the revenue requirements. The budget is already set and is not the purview of this committee. But we do need to know how much money we need for O&M, capital costs, financial policies, etc. We will also take into account financial sustainability and the importance of demand and revenue forecasting. We will model demand and revenue volatility under multiple weather and economic growth change scenarios. We will look at when the decline in consumption due to high efficiency fixtures plateaus.

Step 3, we will determine the amount of revenue that must be recovered from each customer class based on the costs they impose on the utility. Each customer class has different characteristics that determine the water cost of service. We will take into account customer usage characteristics and peaking requirements. It's been five years since the last Cost of Service study, so we need to closely align the revenue and cost of service rates within each customer class or determine a plan to do so in the future.

We will examine challenges in rate design including growth, inefficient water users, drought conditions, capital projects to replace parts of the system and competing resources needs.

There are two elements of the user charges: 1) Service/Base charge per account, per month that addresses things like meter maintenance and reading, customer service, billing, service availability; and 2) Volume Rate per 100 gallons.

Giardina explained what topics will be covered in the October meetings and then opened the floor to questions.

Frances Gonzalez drew attention to the three dates in October, the two meeting dates and the Rain to Drain tour. She asked people to ask pressing questions now, or to email RAC@saws.org, or to give them to the facilitator to be answered later.

Chapline asked if the customer classes are fixed or if they are subject to change from year to year. The answer is that once a rate study is completed, the approved rate structure, including classes are fixed until the next rate study. During the rate study, adjustments can be made to the rate structure, including classes.

Patrick Garcia asked for a history of SAWS rates and rate structures over the last 10 years. This issue will be placed in the Parking Lot.

Raine Tanner asked for the list of incidental fees that have accumulated, for example the Stormwater Fee, over the last ten years. Giardina said yes, we can provide that, except for the miscellaneous SAWS fees that are outside the purview of this committee. This issue will be placed in the Parking Lot.

Patricia Wallace asked that we compare SAWS rates over the last 10 years to those of other cities. Bailey answered that the annual financial report includes much of this information – every rate by class over the last 10 years, as well as tables that show how we compare to other cities at certain levels. This information is published every year and it always includes 10 years of data. This issue will be placed in the Parking Lot.

Daniel Meza asked for affordability history, including what the discount has looked like over time. Staff agreed to provide that. This issue will be placed in the Parking Lot.

CLOSING COMMENTS

Frances Gonzalez provided closing comments and asked people to send questions to RAC@SAWS.org so that everyone has access to the information. Bailey said they will provide a running list of questions/answers to track things as they come up. Questions will also be posted on the website so that the public has access as part of the Parking Lot.

Chairwoman Gonzalez adjourned the meeting at 8:04 p.m.