

MINUTES
RATE ADVISORY COMMITTEE
SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, TX 78212
Customer Center Building (Tower II), Conference Room #145
Third Meeting, October 29, 2019
6:00 p.m.

RAC Members Present:

Frances Gonzalez – Committee Chair	Raine Tanner (District 10)
Alex Birnel (District 1)	Tamara Benavides
Steven Wurgler (District 3)	Andy Diaz
Genevieve Trinidad (District 4)	Mike Chapline
Daniel Meza (District 5)	Patrick Garcia
Ramiro Cabrera (District 6)	Stephanie Reyes
Patricia Wallace (District 8)	Steve Richmond
Joseph Yakubik (District 9)	

RAC Members Absent:

Velma Willoughby-Kemp (District 2)
James Smyle (District 7)
Stephen Lara
Vance Weynand
Victoria Keeler

Raftelis Consultants:

Rick Giardina
Angie Flores
Kelli Epp (KLE Communications)

SAWS Staff Present:

Robert Puente, President/CEO	Benjamin Kidd, Sr. Financial Modeler
Jaime Castillo, Chief of Staff	Leticia Castillo, Sr. Financial Analyst
Doug Evanson, Sr. Vice President/CFO	Ben Benzaquen, Sr. Financial Analyst
Mike Frisbie, Sr. Vice President/COO	Patricia Arriola, Financial Analyst
Mary Bailey, VP, Customer Experience	Rob Walker, Financial Analyst
Donovan Burton, VP, Water Resources	Vanessa Andrade, Financial Analyst
Gavino Ramos, VP, Communications	
Keith Martin, Corporate Counsel	
Cecilia Velasquez, Controller	
Phyllis Garcia, Treasurer	
Lou Lendman, Budget Manager	
Michael Graef, Communications Manager	

Chair Frances Gonzalez opened the meeting.

CITIZENS TO BE HEARD

Jerry Morrisey – Mr. Morrisey said he has been working on San Antonio water issues for several years. He said that the structure that was created last time was well intended but it penalizes families with over two people in the house. He provided a data sheet. He said it's unfair and some people with affordability issues are paying more if they have a large family. He said you can use essential water and still pay the higher rate. We should assume that everyone is using essential water in the winter. He said that higher rates should start at above winter average use to address discrepancies that penalize larger families including those with affordability issues. He said to consider a summer water average for long established water customers. Those people who have historically used a similar amount or choose to conserve should be grandfathered by not having to pay the Vista Ridge water supply fee. This would be fair to low end users.

Bill Hill – Mr. Hill is the City Manager of Shavano Park. His request to the RAC is to allow a wholesale rate to be charged for interconnection during emergencies. This was previously the case until the city of San Antonio passed an ordinance in 2005 which set the rate in an emergency as that of one residential user. He said the interconnect rates charged to other cities are the highest residential rates. The water to be used for interconnections is does not warrant the high rate that is being charged. He said that we are a community of neighbors who assist each other when they are in need. He added that rarely a day goes by that the City of Shavano Park doesn't provide assistance to the City of San Antonio. Mr. Hill also said that Shavano Park executed the interconnection water zero times when it had an interconnect contract. He urged the committee to rewrite the rules to make the charges less onerous to other cities.

Terry Burns – Mr. Burns is the chair of the local Sierra Club. He said he is familiar with fees for services pricing, but there are alternatives. He said that selling more water and making more money is fundamentally at odds with the principals of conservation. He said there are other ways to do it and to find ways to maintain the solvency of SAWS while powerfully encouraging conservation. Examples include ordinance changes for landscaping and sprinklers. He said he has heard arguments against such changes because revenues may be reduced as a result of greater conservation. He said it has been publicly stated repeatedly that SAWS has no intention of ever going to Stage 3. He questioned what good is a water plan then, with such an approach? He added that advocates want SAWS to be “waterful” at the ratepayers’ cost, and to promote business instead of providing cost-effective management of a precious and limited resource.

CALL TO ORDER BY THE CHAIRPERSON

The Chair thanked the staff for organizing the “Rain to Drain” tour over the weekend, in particular Heather Ginsberg. She thanked the members who attended.

MISSION STATEMENT & GROUND RULES

The Chair then reviewed the mission statement and asked consultant Rick Giardina to review the information that will be covered today and how it fits into the mission statement.

Giardina explained that tonight the RAC will look at pricing objectives. The RAC will be asked to tell us what values of the community are most important when it comes to pricing water service. With that, the consultants can bring back to the committee rate structures that reflects those values. The focus is on rate structures. It's not about how much money we need to operate the utility or our capital improvement program. He asked that the committee focus on pricing objectives and priorities that can be addressed through the rate structure.

The Chair asked the members to review the ground rules. She said that the material today will be very dense and that everyone should have the chance to speak. She asked members to think about the questions you have – the team is here to answer those. No question will go unanswered. If not here, we will collect them after the meeting. Everyone should have a chance to speak at the meeting.

The Chair asked for changes or edits to the minutes from the previous meeting. Patrick Garcia made a motion to approve. There was a second and the minutes were approved without changes.

MEETING OBJECTIVES

The Chair reviewed the meeting objectives. The committee would hear a presentation from Doug Evanson about the 2015 study objectives to be followed by an overview of the pricing objectives.

2015 RATE STUDY OBJECTIVES ASSESSMENT

Doug Evanson began his presentation about the 2015 pricing objectives and said that it was an excellent idea by a member of the committee to review how well the objectives from the prior rate study have been addressed.

He reviewed the 2015 pricing objectives. Of those listed, he recommends that the financial sufficiency objective be removed for consideration as an objective in the 2019 Rate Study because it should be considered a “must have” criterion for any rate structure. Additionally he noted that the cost of service-based allocations objective is also very important to an effective rate structure. With regard to the affordability objective, he added that SAWS can and must do better at reaching out to potential customers to make them aware of the various affordability programs offered by SAWS.

Evanson reviewed how the objectives were prioritized in the last RAC process. The top priority objectives were 1) financial sufficiency; 2) cost of service-based allocations; and 3) revenue/rate stability.

There are challenges in assessing the effectiveness of the achievement of the priority objectives from the last study. When there are several variables that influence the effectiveness of a rate

structure overtime, it is difficult to pinpoint decisively causative factors. Examples of such variables include weather/rainfall and the customer mix impact on water usage. Dissolution and assumption of BexarMet also changed the SAWS customer mix and has made comparison of the data more challenging. In 2015, just SAWS-only customer data was available for use until 1/1/2017 after which BexarMet customers (subsequently referred to as District Special Project or DSP customers) began to be charged under the SAWS rate structure.

From 2014 to the present, San Antonio has had two slightly below-average rainfall years (2014 and 2017) and three above-average rainfall years (2015, 2016 and 2018). Rainfall matters not just on an annual basis, but it also matters in which months the rain is experienced.

Evanson reviewed budget vs. actual operating revenue for years 2014 – 2018. The year 2015 was the last year under the old rate structure. One recommendation from the rate consultant in 2015 was to be more conservative in revenue projections beginning in 2016. The amounts of fixed charges was also increased to give a more stable revenue base. As a result, there has been less volatility in operating revenue projections.

Financial sufficiency as an objective for a rate structure design is a must-have. SAWS is a very capital-intensive business, requiring large expenditures to maintain and replace infrastructure. Evanson reviewed the most recent bond ratings and said that SAWS ratings have been unchanged since 2013 at AA+ from Fitch, Aa1 from Moody's Investors Service, and AA+ from Standard & Poor's Rating Service. The outlook is stable. These high ratings save SAWS roughly \$8M a year in annualized interest.

He then reviewed cost of service projections and allocations. SAWS has maintained four classes of water customers since 2001.

- Residential – Single family homes and duplexes
- General – Commercial, industrial, multi-family, school and other
- Wholesale – Cities with separate water distribution systems
- Irrigation – Commercial customers utilizing water for irrigation as well as approximately 500 residential customers with separate irrigation meter

BexarMet maintained two classes of water customers, residential and commercial. The BexarMet sales, cost of service and usage information by class has been consolidated with the SAWS class information that was shown on the presentation slides.

Gonzalez – Did the 500 irrigation residential customers come on in 2001? Evanson said he will check the data, but believed those customers came on over time.

Birnel – Is there disaggregated data for each subset in each class? Answer: Evanson said the industrial customer data is distinguished based on wastewater strength. If an otherwise “industrial” customer does not discharge high strength wastewater in to the sewer system, that customer may not be a part of industrial customer group. Additionally, customer data having to do with schools is not separated. What is multi-family? Answer: Evanson stated anything three units or more (more than a duplex.)

Chapline – Why are there four classes and not one? Is it discretionary? Answer: Evanson said yes, it's discretionary. Historically in the industry, utilities use multiple classes to help recognize cost of service. There is nothing to prevent a utility from having one class, or more than 4 classes.

Evanson reviewed water sales by class and 2015 rate study projections vs. the 2015, 2016, 2017 and 2018 actual. He showed 2015 and 2018 usages – years with similar rainfall. As a whole, residential class customers used less water in 2018 than they did in 2015.

Evanson reviewed water delivery sales revenue by customer class. He compared the 2015 estimate to 2015 – 2018 actual data.

Evanson reviewed the water supply and conservation sales revenue by customer class. The data indicates that the residential class was not paying their full cost of service in 2018.

Meza – Was the residential class not paying cost of service, or were they conserving more? Answer: Evanson responded that residential customers were definitely conscientious in their usage as demonstrated by the slight decline in usage.

Benavides – When comparing revenues from 2015 to 2018, what was the difference in irrigation? Answer: Evanson stated that there was a 62% increase.

Evanson reviewed water supply and conservation fees comparing 2015 to 2018. He stated that he does not think the irrigation rate structure is working well based on this information. He had anticipated that irrigation revenue would have increased at a higher rate than it did.

He showed a table with 2015 – 2018 combined water sales by class that demonstrated that the proportion of residential water sales during the period has slightly decreased with General Class water sales actually increasing during the same period.

Evanson then showed a slide with two pie charts which compared 2018 water usage and water sales by class, respectively. He emphasized that this slide is not a reflection what was the cost of service by class because it does not take into account costs related to class-unique peak usage characteristics or the infrastructure needed. While the residential proportions for usage and sales, respectively, were only 1.1% different, the General Class showed a lower proportion (4.9% less) of total sales than of total usage.

Regarding the conservation, drought management and affordability objectives, Evanson stated that the establishment of the lifeline block by the 2015 Rate Study did not achieve the hoped for results. The intent of the lifeline block was to incentivize very low water consumption (no more than 2,992 gallons of monthly usage) with a discounted meter charge. It appears, however, that the 2,992 gallons limit is too low and does not take into account larger families who cannot keep usage within that limit.

Evanson also contrasted the percentages of all residential customer and Affordability Discount Program customer bills, respectively, in each year from 2015 to 2018 with usage ending in rate

tier block one. The data showed slight differences between the two groups in each year. He also displayed a table showing all residential customer usage by rate block that demonstrated that there has been increasingly higher residential consumption at the lower rate tiers from 2015 to 2018 that has contributed to lower overall residential consumption in 2018 compared to 2015.

Evanson then proceeded to review data showing wastewater flows and revenue by customer class from 2015 through 2018. Similar to the results shown from the combined water-related data analysis, the proportion of residential wastewater usage and revenues has declined slightly from 2015 to 2018, while General Class usage and revenue proportions increased during the same period.

In closing his analysis, he described the degree to which each 2015 Rate Study pricing objective was likely achieved.

Objectives largely achieved:

- Financial sufficiency
- Revenue/rate stability
- Ease of implementation

Objectives partially achieved:

- Cost of service-based allocations
- Conservation
- Minimize customer impact

Objectives requiring focus:

- Affordability
- Simple to understand

Objectives not addressed:

- Drought management
- Economic development. There are no economic development rates currently on the books.

Evanson then opened the floor to questions from committee members.

Patrick Garcia – Regarding the slide on wastewater flow for residential customers, how do you determine the flow? Answer: Evanson stated that it is an estimate based on average winter consumption. So, the difference between winter months and other months is where you draw the difference? Answer: Evanson said that it is assumed that water used by residential customers in the winter is going solely into the sewer system.

Patricia Wallace – To what do you attribute the strong bond ratings? Answer: Evanson stated that there are two factors rating agencies look at in particular: the degree of debt coverage and days cash on hand. SAWS will have an extremely large capital improvements program in 2020. Cash is being built up as much as possible to help pay for these improvements so that borrowing

can be limited. Additionally, operating expenses will increase significantly as a result of Vista Ridge water delivery. Additional cash is needed to maintain the appropriate level of debt coverage needed to sustain high bond ratings.

Patricia Wallace – When combined water sales by customer class are examined, how is population growth taken into consideration? Are the increases due to population growth? Answer: Evanson answered by saying that San Antonio is growing, but a big factor in the sales increase has been the increase in SAWS rates that has occurred during the 2015 to 2018 time period. Rate increases have had a greater impact on water sales than population growth. Wallace then asked when people conserve and revenues drop, what do you do? Answer: Evanson responded by saying that there would be more of a challenge if population growth did not also occur during the time period. To be better positioned for the possibility of lower growth, SAWS minimizes operational costs as much as possible.

Patricia Wallace – On the slide describing residential customer annual usage by rate block does the 40% number under 2018 mean that 40% of people are in the base tier? Answer: Evanson stated that no, around 30% of the bills end in block one. All residential usage has to go through block one. Wallace then asked how possible is it for people to keep usage at the bottom block? Answer: Evanson stated that around 30% of our bills have been able to remain in that block. Wallace followed up by asking what the most common rate is across San Antonio that people pay for water. Answer: Evanson responded that average residential usage is assumed to be 7,092 gallons but average usage has been less than that in recent years. The average rate paid is approximately 35 or 40 cents per 100 gallons.

Andy Diaz – Has the city or SAWS ever used water rate incentives for economic development? Answer: Evanson stated that the only example he is aware of are the discounted rates provided to Toyota that ended in 2013. Economic development incentives have to be approved by City Council. The City Council already may waive impact fees, but has not considered any discounted rates for economic development purposes in recent years.

Mike Chapline – Why is economic development even on the list of pricing objectives? Answer: Rick Giardina stated that this issue will be addressed in the next presentation.

Joseph Yakubik – You referred a lot to the cost of service study in 2015. Is there a new one? Are we doing one for this? Answer: Mary Bailey said yes. Yakubik then asked what year data does the new study use? Answer: Bailey answered that the new study will use the 2020 budget for revenue requirements, and it will be based on a 2020 test year. Yakubik asked when is that data set locked down? He asks because he believes the data set changed during the last process. Answer: Evanson stated that the 2020 revenue requirements will be locked when the board approves the 2020 budget on November 5, 2019. The reason data changed during the last rate study process was because it became apparent that the Vista Ridge project needed to be taken in account more accurately, so it was decided to pause the study and update the data with 2014 data.

Joseph Yakubik – I have several questions about cash on hand I would like to put in the parking lot or discuss offline. What you are showing here doesn't match what is described in the budget.

Joseph Yakubik – The high-end rates here are actually lower than they were before 2015. That may impact some of the conservation achievement. Rates at about 12,000 gallons went up almost 100% from 2015. There is a wide volatility from 2015 to current, so that's why I'm concerned about saying rate stability is a success, because rates have been all over the place from 2015 to now. Answer: Bailey responded that in the 2015 Rate Study, the current rate structure was developed and fixed. Every rate increase since 2015 has been applied using consistent percentages on every single rate block.

Patrick Garcia – Will the percentage differences between the blocks that were determined in 2015 be tweaked at all? Answer: Evanson stated that yes, that is part of the rate design process and it is within the RAC's purview to examine. As long as any revised rate structure supports the 2020 revenue requirements, it is an appropriate candidate for analysis. Raftelis is here to help create models of alternative rate structures.

Mike Chapline – Did someone say they wanted block one to remain the same? Answer (from Joseph Yakubik): No that was a hypothetical. In a revenue neutral goal, we will squeeze the balloon. Evanson said that is correct it is a zero-sum game and if you lower some areas, you have to raise other areas. SAWS no longer has seasonal rates. SAWS tried to send a price signal earlier.

Chair Gonzalez asked Giardina to go over what we are likely to cover in November and December, after the questions have ended. He state that revenue requirements and cost of services would be presented in preparation for the rate design process.

Tamera Benavides – Does SAWS get family or household size information? Answer: Bailey answered by saying no, SAWS does not collect how many individuals reside in a given customer's household. Wastewater charges are based by winter average water consumption which may speak to household size.

Patricia Wallace – A question for the parking lot. In your professional opinion, which city has the best water rate structure that fits San Antonio?

Daniel Meza – In District 5, 6,000 households took advantage of the Affordability Discount Program (ADP). What was the average gallons used by ADP customers? Answer: Evanson stated that, as shown in an earlier slide (#33), average use for all residential customers was 6,219 gallons per month vs. 5,679 gallons average use per month for ADP customers.

OVERVIEW OF PRICING OBJECTIVES WORKSHOP

Rick Giardina stated that the RAC will begin the discussion tonight in the 20 minutes of time remaining in the meeting and carry over the discussion at the next meeting. The committee will be building upon the pricing objectives prioritization process done during the last rate study. The 2014/2015 rate study priorities – also called pricing objectives or San Antonio values - provided direction for change. Updating these priorities is the goal in this process. The most important thing the committee will ultimately focus on is the rate structure itself, not on cash reserve policy or how we bill customers or how much we spend on operations and maintenance this year vs. last

year. Addressing those matters is not the purview of this committee. The RAC's focus is on rate design. Ultimately, what values are important to this community will give us the roadmap for this process and to define the classes the rate structure should have or ought to have.

The pricing objectives must first be defined. The priority setting workshop will happen at the next meeting. In that process the pricing objectives related to water pricing, rate setting and rate structure design will be ranked. The process is not scientific. The list of priorities will not in and of themselves define how many rate classes are needed. In the end, the list will tell the consultants what is important so that they can give the RAC some strategies or tweaks to the existing structure to meet those objectives.

The consultants will bring back alternative rate structures with models that for feedback and evaluation by the committee. This priority setting process will not, therefore, be the RAC's only opportunity to influence the final recommended rate structure design. The pricing objectives prioritization process is at the concept level. When the consultant brings back alternative models, the RAC can re-evaluate its priorities.

The SAWS Board of Trustees will consider for approval the 2020 SAWS Budget next week on November 5 thus establishing the necessary revenue requirements. Pricing objectives that are "must haves" will not be in the ranking process – financial sufficiency and legal requirement. These objectives must be met in the rate design process and do not need to be ranked in priority. The consultants will not come forward with alternative rate structures that do not generate the necessary revenues.

This is a preliminary list of pricing objectives for consideration. This is not an exhaustive list. The RAC may add, edit or delete items.

- Affordability
- Conservation
- Cost of Service based allocations
- Drought management
- Ease of implementation
- Economic development
- Minimization of customer impacts
- Revenue/rate stability
- Simple to understand and update

Chair Gonzalez asked that Giardina to briefly go through the definitions and ask for feedback/questions from the RAC members. Time would not be available at the current meeting for discussion, but the consultants wished to receive committee input regarding the definition of each objective. The consultants will compile the committee input and send it to members in advance of the next meeting. The consultant will spend the beginning of the next meeting reviewing the objectives and definitions and then the committee will be asked to rank their priorities. The Chair asked the committee to send feedback on the objectives by close of business on Friday.

In reviewing the priorities, Giardina emphasized that the committee was not being asked to explain how to achieve a given objective, such as affordability, for example. Instead, each committee member is being asked how important are each of the objectives. There are many ways to achieve each of these priorities, but the consultant will suggest how to achieve these through the rate structure.

The RAC may collectively decide that some of the objectives should not be considered. If a member does not believe an objective is important, rank the objective low. The consultant will go through the process with the committee to work toward consensus in achieving the final priority list.

Patrick Garcia – There is a proposed budget and proposed increase in revenue for 2020. He stated that he assume the SAWS leadership has a perspective on this, and, he added, the RAC’s job is to formalize an opinion on the rate structure and provide it to the SAWS staff. Answer: Giardina responded that yes that is a correct assumption.

CLOSING COMMENTS

Chair Gonzalez closed the meeting by saying that the pricing objectives will speak to how the RAC feels about the community’s values. If a member wants to add his or her own words to the definition of a given objective or how it should be interpreted, the member is encouraged to speak up. At the November 12 meeting, the RAC will discuss the definitions and rank them.

Giardina said that after the objectives are ranked, the consultant will discuss how alternate rate structures will affect the objectives. In early January the consultant will bring rate design alternatives for consideration. The committee can then assess and evaluate how successful each alternative is at achieving the committee’s priority objectives. Ultimately, the RAC will recommend an alternative to the Board of Trustees for consideration.

Chair said to make sure that individual member questions are being addressed in the parking lot. She adjourned the meeting at 8pm.

Summary of Parking Lot Questions:

- From Frances Gonzalez – Did the 500 irrigation residential customer accounts become established in 2001 right after the establishment of the irrigation rate class, or did the number of such accounts increase over time?
- From Patricia Wallace – What in your professional opinion is the rate structure used by another city that would be the best fit for SAWS?