

MINUTES
RATE ADVISORY COMMITTEE
SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, TX 78212
Customer Center Building (Tower II), Conference Room #145
Fifth Meeting, December 10, 2019
5:30 p.m.

RAC Members Present:

Frances Gonzalez – Chair
Steven Wurgler (District 3)
Raine Tanner (District 10)
Patricia Wallace (District 8)
Mike Chapline
Patrick Garcia
Stephen Lara
Tamara Benavides
Steve Richmond

Velma Willoughby-Kemp (District 2)
Genevieve Trinidad (District 4)
James Smyle (District 7)
Joseph Yakubik (District 9)
Andy Diaz
Victoria Keeler
Vance Weynand
Stephanie Reyes

RAC Members Absent:

Alex Birnel (District 1)
Daniel Meza (District 5)
Ramiro Cabrera (District 6)

SAWS Board of Trustees Member Present:

Amy Hardberger

Raftelis Consultants:

Rick Giardina
Kelli Epp (KLE Communications)

SAWS Staff Present:

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

The Chair opened the meeting and welcomed everyone.

DINNER & DELIBERATION

The Chair explained that the purpose of this portion of the meeting was for the committee to discuss issues informally and raise questions.

James Smyle raised a question about the definition for the Practicality of Implementation pricing objective and whether the first bullet – “The implementation of a rate structure that is compatible with the existing billing system” - should be such a binding constraint. Joseph Yakubik noted that it is ranked low so it may not be an issue.

Patrick Garcia noted that James Smyle said in a letter that he felt the information in the manuals would be helpful to the committee. He asked if the committee would get a copy of the manuals. Joseph Yakubik said that he checked out a copy of the books and will bring them back for anyone to review. Patrick Garcia asked James Smyle to clarify why he thought they were important for the committee to review. James Smyle said the manual he reviewed had different objectives and that the information would give a broader perspective. Chair Gonzalez said the committee ranked the objectives based on its values and asked the committee members if they wanted to see the books to re-evaluate. Patrick Garcia asked James Smyle if there was any information that he read in the manuals that the committee was missing. James Smyle said he would provide that information. Joseph Yakubik said that the books give examples of some objectives that are used – for example, fairness. He viewed these as commonly used objectives, but not requirements.

Mike Chapline asked whether the committee should know more about the constraints of the billing system to better understand what the Practicality of Implementation objective might involve. James Smyle said he would also be interested in that information. Doug Evanson said we have a complex rate structure currently and from an information technology standpoint the current billing system has been able to handle it, so he does not anticipate any issues.

Chair Gonzalez asked if anyone had comments about the ranking. Patrick Garcia commented about the bundling of Minimize Customer Impacts and Rate Stability. He would link Rate Stability and Revenue Stability. Joseph Yakubik said the weather really determines revenue and that Rate Stability means predictable rate increases.

Joseph Yakubik reminded committee members to check the Parking Lot for answers to questions and good information. He said, for example, there is good information about the Shavano Park question that was raised.

Steven Wurgler said we anticipate annual rate increases, but most people are likely not receiving comparable raises in income. He asked if there was something that the committee can do to address affordability and keep costs down and not raise rates. Evanson said that is not really the purview of this committee. SAWS faces and recognizes the challenge of affordability when considering rate increases and does take steps to reduce costs by minimizing the number of staff and using technology to become more efficient. He said that capital costs are the biggest factor in creating the need for rate increases.

Mike Chapline discussed an issue that was reported in the Rivard Report that SAWS might bear the cost of aquifer protection in the future. SAWS Board Member Amy Hardberger said that the board is reviewing that issue and that it would have rate and revenue implications.

CITIZENS TO BE HEARD

Meredith McGuire – She is here on behalf of the Sierra Club and provided copies of her article in the Rivard Report. She is concerned that the pricing objectives are not well understood and that there has not been an honest discussion about them. She said that she believes equity in particular deserves a closer look and encouraged RAC members to read additional material. She called attention to a graph about Niagra bottling company and what the company would have saved as a result of the 2015 rate structure by locating in San Antonio.

Terry Burns – He is also a member of the Sierra Club. He discussed the Mayor’s proposal to use SAWS funds for aquifer protection. He said the problem is that there was no mention of funding for the program and that this issue would fall to the RAC. He urged the committee to find a way to keep this in mind and to do it equitably. He said he was not happy to see economic development continue to stay on the priority list. He said that we need to change formulas to have equity. He said our business should be to serve the people of San Antonio with clean, adequate water for our human needs and encouraged committee members to keep that in mind. He said aquifer protection is something that would not be needed if we did not have sprawl development over the aquifer.

Chair Gonzalez asked if Tamara Benavides was on the phone; she had not called in yet.

MISSION STATEMENT & GROUND RULES

The Chair reviewed the mission statement and ground rules.

Chair Gonzalez raised the issue of Shavano Park. Joseph Yakubik said the issue raised by the Shavano Park representative at previous meetings is related to the rate of interconnect fees in an emergency. He said the ordinance may already allow for a wholesale rate. He said this may be something the City Council should revisit but might not be within the purview of this committee. Chair Gonzalez asked staff to respond in the Parking Lot.

The Chair asked for a vote on meeting minutes. Mike Chapline asked how many members attended the meeting. Specifically, the question was raised about how many votes at the last meeting were needed to remove Economic Development from the list of pricing objectives. The SAWS attorney said decisions are made by a majority of those present. Mike Chapline said the question is whether there were enough votes at the last meeting to remove the item. After a review of the attendance at the last meeting, since there were indeed enough votes at the time to remove the objective, Economic Development should be removed from the list of pricing objectives. The committee discussed how to proceed and decided to remove it from the list of objectives.

With the above change, Vance Weynand made a motion and Victoria Keller made a second to approve the minutes.

Patrick Garcia said on Page 3 of the minutes under conservation, what he really said was there are a number of tiers already that are adequate to currently address conservation.

Chair Gonzalez said on Page 3 there is an error concerning “paying” a bill, and on page 7 the wording should be “completed” forms and not “completing”.

Chair Gonzalez said she also wants to take action on the issue Stephen Lara raised about a meeting scheduled during Spring Break.

Steven Wurgler asked since there were 23 votes for the Economic Development former pricing objective, should those 23 votes be reallocated to other pricing objectives. Mary Bailey said that it was not necessary and the committee agreed.

With those edits, the committee approved the minutes.

MEETING OBJECTIVES

Mary Bailey started the discussion about the ranking of the pricing objectives and reminded the committee that this will not be the last time they can make changes. She asked the committee if there were any concerns.

Patrick Garcia said that he ranked things just the opposite – that revenue and rate stability were highest priority. Joseph Yakubik said he does not like the slash in an objective because it creates confusion. Mike Chapline said there were two proposed definitions of equity. James Smyle said he scored equity high, but he has no desire to revisit it because he knows this is not set in stone.

Vance Weynand said he wanted to echo Patrick Garcia’s comments about the importance of revenue stability and the need to pay the bills and fund infrastructure first.

Tamara Benavides joined the meeting by phone.

James Smyle noted some continued confusion about the objectives and said that initially the requirement to fund revenue requirements was considered a “must have” – that we are not debating whether SAWS should be financially viable, rather we are determining how to allocate that cost.

Mary Bailey asked if the committee wanted to edit the definition of the Practicality of Implementation pricing objective and the committee did not want to make a change.

REVENUE REQUIREMENTS

Doug Evanson gave a presentation about revenue requirements. He referred to the SAWS founding ordinance that requires revenues sufficient to pay (in priority order): Operations and Maintenance, Debt Service and Reserve Fund Requirements, Transfer to the City, and any surplus transferred to the Renewal and Replacement Fund.

The SAWS Board of Trustees approved a 2020 budget of \$929.2 million. These funds go to pay items including salaries, water options, utilities, debt service and expenses.

Mike Chapline asked if the aquifer protection program costs, assuming transfer to SAWS, would fall within the 4 percent of gross revenues transferred to the City. Evanson said that bringing the program to SAWS was still under discussion, but based on his current understanding, these costs would be in addition to the 4 percent of gross revenues. He also asked where the affordability discounts are included. Evanson stated that the discounts are netted against rate revenues. He also stated that the SAWS founding ordinance requires that two months of operating expenses be set aside in an operating reserve.

Victoria Keeler asked where the impact fees of \$100.1 million are counted and asked if they fall into the restricted funds category. Doug Evanson said those funds are restricted to funding only growth related capital projects or used to pay down debt for growth-related capital projects. They are shown in the budget as Capital Recovery Fees.

Joseph Yakubik asked for clarification about whether reserve fund requirements are counted in the renewal and replacement (R&R) funds in the founding ordinance funding priorities. Mary Bailey explained the difference between the reserve fund required for debt service and the operating reserve relative to the priorities.

Doug Evanson reviewed the 2020 budgeted debt coverage calculation and the sources and uses budgets by core business, which include water supply, water delivery, wastewater and chilled water.

Patrick Garcia asked where the impact would be for the increasing wastewater capital costs to meet the requirements of the sanitary sewer overflow (SSO) federal Consent Decree. Doug Evanson said the capital costs are reflected in the debt service expenses.

Chair Gonzalez asked how much SAWS will borrow for meeting the Consent Decree capital requirements. Doug Evanson answered that out of \$1.2 billion in identified SSO-related costs, SAWS will debt finance \$600-800 million.

Raine Tanner asked if the cost for the Consent Decree includes fines and fees and Doug Evanson said it does. She then asked if the operating and maintenance costs (O&M) for Vista Ridge water includes the large amount of debt left by the original contractor Abengoa. Doug Evanson said that the referenced debt was resolved prior to the assumption of the project by the successor Vista Ridge contractor – Garney.

Joseph Yakubik asked about the total cost for meeting the Consent Decree requirements. Doug Evanson said the estimated total cost ranges between \$1.2 billion and \$1.3 billion.

Doug Evanson provided more information about the chilled water core business but reminded the RAC that it is not included in the rate study which only focuses on water, wastewater and recycled water. Mike Chapline asked for confirmation that it is a stand-alone business and does not subsidize the rest of the core businesses.

Doug Evanson reviewed the 2020 net revenues from rates by core business requirements and the 2020 Capital Improvement Program (CIP). The funding for the CIP comes from R&R fund, impact fees and bonds/commercial paper debt.

James Smyle asked for clarification of the revenues that need to be recovered by rates.

With respect to slide 20 in the presentation, Joseph Yakubik asked if SAWS has traceability of cash sources. Doug Evanson confirmed that this was true. Joseph Yakubik asked if it was correct to say there has been a buildup of excess wastewater cash in the R&R fund. Doug Evanson said that this is because there is a lag between rate revenue collected in one year and then expended as debt service and/or cash to implement the following year's CIP. Joseph Yakubik asked for additional information to be provided in the parking lot about that business area and capital recovery fees.

Doug Evanson then reviewed the SAWS rate structure relative to the other four largest cities in Texas.

Steven Wurgler asked why there are significant differences in rates between one city and another. Doug Evanson said each city's rate structure reflects each city's own service priorities, which results in widely different rate structures.

Joseph Yakubik asked if everyone knows that meters do not measure gallons, but in hundreds of cubic feet increments or CCF. Doug Evanson said this is something SAWS is trying to change as it moves to an automated metering infrastructure (AMI) system.

CUSTOMER CLASSES AND CHARACTERISTICS

Rick Giardina started the presentation by explaining the process of cost allocation and cost of service. Different customers place different demands on the system. The cost to service each customer is not the same. Cost allocation considers: revenue requirement, functionalization, cost classification and cost distribution. Cost classification includes: base, max day, max hour, meters, billing, recycled water and fire protection.

Existing SAWS water and sewer customer classes include:

- Residential – Inside city limits (ICL) and outside city limits (OCL)
- General Class – ICL and OCL; includes commercial, industrial and multi-family customers
 - Giardina noted that the “industrial” sub-classification is not based on the amount of water used by a customer; rather it is based on the strength of a General Class customer's sewage discharge – if the discharge requires more costly treatment processes, then the customer is considered “industrial” regardless of the amount the customer consumes.
- Irrigation (water only) – ICL and OCL
- Wholesale
- Recycled Water – Edwards Aquifer water rights Exchange customers and non-Edwards Aquifer water rights Exchange customers

Mike Chapline asked why there is a distinction between ICL and OCL. Giardina said that this distinction is needed because there is a higher cost to serve OCL customers and there is an inability to tax OCL customers. Mike Chapline asked why the ability to tax is a factor. Giardina stated that it is because the City of San Antonio rate payers are ultimately financially responsible

for the water and sewer systems. Additionally, ICL customers, as the ultimate owners of the system, are entitled to a rate of return from OCL customers.

Victoria Keeler asked if we can have crossover between the classes and the answer was yes. The example given by Giardina was the Irrigation Class the rates of which are applied to both Residential and General Class customers who have separate irrigation meters.

Rick Giardina reviewed 2018 monthly consumption by class to demonstrate how some classes have peak usage at different times. Water systems have to be built to meet peak demands. Utilities have to consider who should have to pay the cost of the infrastructure to meet that peak demand. Rick Giardina also presented the ICL 2020 forecast for units of water service based on actual system data and three-year averages.

Joseph Yakubik asked if these are actual numbers and what years they are based on. Staff said that the numbers represent the 2020 forecast based on averages from 2016, 2017 and 2018.

James Smyle asked if these are conservative estimates. Staff responded that this includes customer growth, but customers are also reducing their consumption. The forecast results from a trend analysis to estimate how much water SAWS will sell in 2020.

Giardina stated that Raftelis will bring the results of the cost of service allocation in January.

Mike Chapline asked about the differences in OCL and ICL consumption. Rick Giardina said the difference in consumption results from different behavioral characteristics between OCL and ICL customers.

Stephen Lara asked if suburban cities like Balcones Heights are included in ICL or OCL. Staff responded that if there is a franchise agreement with the city, it is treated as an ICL. He asked for the various suburban city information to be provided in the Parking Lot.

Joseph Yakubik asked about the peaking factor. If it is something you apply, not something you measure, where does the residential number come from? Rick Giardina said that the daily peaking factor numbers are derived from actual max month information using industry-standard formulas because SAWS does not have daily usage information.

Mike Chapline said he understands OCL is higher because of behavior, but said the number is mushy. Mary Bailey said the OCL is the fastest growing area for SAWS services and many of the OCL residential properties include automated irrigation systems.

Mary Bailey reviewed the purpose of rate classes and the implications of disaggregating the SAWS General Class. If there is a disaggregation of the General Class, it will change what costs are allocated to the subclasses within the General Class and will not allocate General Class costs to other classes. She reviewed different water classes used by other Texas cities. As examples, in Austin and El Paso, large volume commercial users pay tailored lower rates because those customers are consistent users that impose less peaking costs on their water systems.

James Smyle asked about the wastewater rates for the different classes taking into account the cleanup that is required for different pollutants from industrial users. Mary Bailey explained that

there are checks conducted periodically and if levels are exceeded, a surcharge is applied. James Smyle asked if this is fixed or based on the actual cost of treatment. Mary Bailey said it is adjusted year to year. James Smyle asked if there is a requirement for on-site treatment and Mary Bailey said in some cases yes and it is clearly in the best interest of the discharger to do that to keep the surcharge fees low.

Mary Bailey then reviewed the data that is available to disaggregate the General Class within each subgroup.

Vance Weynand asked about wastewater for industrial customers such as Coca Cola or other beverage companies, for example. Mary Bailey said the strength of their discharge puts them in that category.

Mike Chapline asked if disaggregation will make it more difficult to understand and Mary Bailey said yes, potentially. He asked if going to fewer categories will make it simpler and Mary Bailey said that it would.

Chair Gonzalez asked what defines a large user. Mary Bailey said it can vary, there is no industry standard for a large user.

Patrick Garcia asked if any General Class customer discharging over 25,000 gallons of sewage per day is classified uniquely. Mary Bailey stated that such a customer would be classified as “industrial”.

Mary Bailey reviewed her analysis of General Class usage using North American Industry Classification System (NAICS) codes to classify customers. There are 700 unique NAICS codes. For example, HEB has multiple NAICS codes because different business practices occur in different HEB facility locations. An extensive and ongoing verification process would be necessary if it is desired to apply and maintain NAICS codes on a permanent basis.

Vance Weynand said the issue is the cost to disaggregate the General Class. Mary Bailey said the real issue is what objectives are being sought through disaggregation.

James Smyle asked if the RAC goes through this process with no preconceived notion of how many classes, can the committee look at different models showing different classification schemes. He said it would be useful to see what the practical application would be to changing the class structure. Mary Bailey said we have data for the subgroups under General Class, but if we want to break down Industrial or Commercial into different classes, staff and the consultant need to know that right away.

Chair Gonzalez said the committee should base this decision on the RAC’s pricing objectives.

Joseph Yakubik said there is no rule that SAWS has to recover revenues based on cost of service. One class may subsidize another.

Mary Bailey said historically SAWS rate structure has been based on cost of service. But there can be reasons to deviate from that.

Rick Giardina asked if the committee would like Raftelis to present rate structure alternatives with the multi-family sub-class broken out from the General Class. The committee agreed that it would like to see the impact of this.

Chair Gonzalez allowed Meredith McGuire to speak for one minute.

Meredith McGuire said the cost of service is not the same as the cost of water. We've got a situation where the most expensive water coming in is not needed by the residential rate payers. We need to have a way by which that cost is fairly dealt with. The water supply fee is such a cost and could be allocated to non-residential customers. The businesses using it the most are not paying their fair share. We need a rate structure based on the marginal cost of water. The cost of water has to be central to how you handle the rate structure.

STATUS OF FOLLOW-UP ITEMS

Mary Bailey asked if the March 10 meeting date during Spring Break is an issue, and if so, we need to determine a new meeting date. The committee agreed to move the March 10 RAC meeting date to March 17.

Stephanie Reyes said that February 4th is during the Chamber of Commerce's SA to DC trip and she will not be able to attend.

The next meeting on January 14 will begin at 5:30.

The Chair adjourned the meeting at 8:21 p.m.