

MINUTES

RATE ADVISORY COMMITTEE

SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, TX 78212

Customer Center Building (Tower II), Conference Room #145

Sixth Meeting, January 14, 2020, 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

Ramiro Cabrera (District 6)

Tamara Benavides

Steve Richmond

Velma Willoughby-Kemp (District 2)

Daniel Meza (District 5)

James Smyle (District 7)

Joseph Yakubik (District 9)

Andy Diaz

Victoria Keeler

Vance Weynand

RAC Members Absent:

Alex Birnel (District 1)

Genevieve Trinidad (District 4)

Stephen Lara

Stephanie Reyes

Raftelis Consultants:

Rick Giardina

Angie Flores

Justin Rasor

Kelli Epp (KLE Communications)

SAWS Staff Present:

Robert Puente, President/CEO

Jaime Castillo, Chief of Staff

Doug Evanson, Sr. Vice President/CFO

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

Patricia Arriola, Financial Analyst

Ben Benzaquen, Sr. Financial Analyst

Rob Walker, Financial Analyst

Vanessa Andrade, Financial Analyst

CALL TO ORDER BY CHAIRPERSON

Chair Frances Gonzalez welcomed everyone at 5:38 p.m.

DINNER & DELIBERATION

Chair Gonzalez stated that at the previous meeting there was a question raised about the Edwards Aquifer Protection Program (EAPP) and its possible assumption by SAWS. She asked Robert Puente, SAWS President/Chief Executive Officer (CEO) to brief the committee about developments related to that issue. The CEO stated that discussions with the Mayor, City Council and the SAWS Board are continuing on this issue.

Raine Tanner asked if SAWS will continue the linear park program if it assumes the responsibility for the program. The CEO said the City has not asked SAWS to be involved in that program.

Joseph Yakubik said his assessment of the situation is that SAWS has surplus funds to fund the EAPP. He asked how much has been done to keep rates as low as possible. The CEO said he does not agree with that assessment and that SAWS has not said it would not need to raise rates in the future to fund the program.

Patrick Garcia said he thinks it is a great idea for SAWS to assume the EAPP and asked if it will have to go to a vote. The CEO said the San Antonio City Council and the SAWS Board of Trustees will have to vote on the matter.

James Smyle asked about the dollar amount needed to continue the EAPP. Under the City's management of the program, the CEO said the amount fluctuates based on the collection of the sales tax currently dedicated to the EAPP. SAWS would likely use debt to fund acquisitions, which would require smaller annual cash outlays. He added that if the City would reduce SAWS' contribution to the City's General Fund from the recently increased 4% to 3.75%, SAWS could leverage the difference to pay the debt service needed to fund the program with minimal impact on SAWS ratepayers.

Mike Chapline asked for clarification on the amount and time frame. He asked if the redirection of funds will have to go to a public vote. The CEO said the legal authority for the current dedicated sales tax for EAPP must be renewed in the November election. The City Council will have to make a proposal to use those funds for another purpose and call for an election to authorize the tax for that purpose.

Chair Gonzalez asked about the linear creekway program and said that if that becomes part of the conversation for SAWS, it would seem necessary to require a rate increase. The CEO said he does not anticipate that the linear creekway program would be part of the program that SAWS might assume from the City. He anticipates that the City will continue to fund the creekway program through the City's bond program.

Joseph Yakubik asked if this is expected to be a bridge program or a long-term program. The CEO said he believes SAWS would operate the EAPP for the long-term. Even if the election seeking authorization of the tax to be applied to transit does not pass, SAWS would still be expected to fund the program.

Patrick Garcia asked if the decision to move the EAPP to SAWS has been made. The CEO said the City Council and the SAWS Board of Trustees still have to approve the transfer of the program to SAWS.

Raine Tanner asked what entity would own the property purchased over the aquifer. The CEO said that if SAWS assumes responsibility for the program, SAWS would own the conservation easements.

Joseph Yakubik asked about the relationship and timing between the existing program and the proposed SAWS program. The CEO said that for about 18 months there will be dual programs while the City's program winds down and spends the remaining sales tax proceeds authorized by the 2015 election.

Patricia Wallace asked how much a potential reduction in in the SAWS contribution to the City from 4% to 3.75% of gross revenues would impact the City. Doug Evanson said that some City staff have expressed concerns about reducing the SAWS contribution.

Raine Tanner said that the City is very responsive and engaged with the properties it owns and is eager to learn how SAWS will manage the properties and easements it would acquire.

Chair Gonzalez said if the voters do not approve the sales tax, then the 1/8 percent sales tax authority would remain unassessed until another authorized use is established. The CEO said placing an "either or" question with a choice between using the tax for EAPP or transit improvements cannot be put on the ballot. The City Council will have to place a yes or no question on the ballot to authorize the sales tax for a single program.

Patrick Garcia said there remains great support for the EAPP. The CEO agreed.

James Smyle said in terms of levying impact fees, is there any potential for additional impact fees to pay for aquifer protection. The CEO said that impact fee revenue can only be used for infrastructure improvements supporting new development as specified by state law.

CITIZENS TO BE HEARD

Six people signed up to speak.

Mary Ann Mathis – She said she has several questions about increases in her bill. SAWS provided help to identify the reasons for the increases. SAWS provided a plumber who identified a leaky toilet in her home and it was replaced at SAWS expense. She also questioned the sewer bill charge, which has also increased. *(Note: Ms. Mathis receives water service from*

SAWS and sewer service from the San Antonio River Authority. Staff has provided her a contact at SARA to address her sewer bill questions.)

Jack M. Finger – He said that the City Council is responsible for the increase in bills. He has not attended these meetings in years. He said it appears that the leaders are attempting to change our habits through social engineering, and that the Mayor and City Council are attempting a shell game. He said they want SAWS to pay for transportation and this is disingenuous.

Anacua Garcia – She represents the Southwest Workers Union, which represents low income people and working families toward social justice. The organization opposes any rate hikes. They seek equity and fairness among ratepayers. They ask for fair equity, transparency and water democracy in our community.

Reinette King – She is a business owner and founder of Northeast Business Alliance. She said that government has the responsibility to provide basic services and infrastructure. She said that SAWS should not be trusted to run any aquifer protection program until an independent audit of the Vista Ridge project is conducted.

Meredith McGuire – She said she believes the rate structure SAWS has been using is very unfair. She believes what Raftelis is doing right now is repeating the same assumptions used in previous studies. She said the fixed charges are outrageously high and this not only affects the poor, but also the middle class and we need a better way to handle the rate structure. She said the cost of water is not the same as the cost of service and that SAWS has invested in expensive water. She said we need an inclined block rate for all classes and should do away with mixing the general class. She said those who use the most water should pay for that water at the cost of the most expensive water. She said there is a different way of looking at cost of service.

Ellen Berky – She represents the American Institute of Architects. She said she has learned a great deal about cost of service and the committee’s priorities. She suggests that the RAC seek clarification about the cost of assuming the aquifer protection program. She suggested that the RAC consider adopting an aquifer proximity charge. This would be to the benefit of SAWS customers who do not occupy those sensitive areas.

MISSION STATEMENT & GROUND RULES

Chair Gonzalez reviewed the RAC mission statement and asked the committee members to review the ground rules. She asked if anyone had changes to the minutes from the previous meeting. Joseph Yakubik moved to approve the minutes from the last meeting. Raine Tanner provided a second. The committee unanimously approved the minutes.

MEETING OBJECTIVES

Rick Giardina reviewed the meeting objectives, which will focus on the cost of service development process.

Joseph Yakubik asked if the actual raw cost of service analysis is available. Rick Giardina said yes they can make that available.

COST OF SERVICE – ALLOCATION OF COSTS TO CUSTOMER CLASSES

Rick Giardina reviewed what goes into defining the Revenue Requirements. He briefly discussed functionalization, cost allocation and cost distribution. He also reviewed the 2020 Sources and Uses by core business.

Joseph Yakubik asked what the definition is of uses of funds. Is every unrestricted Renewal & Replacement (R&R) dollar spent in a year, or is it saved for a future year? Mary Bailey said the uses may not be spent in that year, but they are programmed for that use and spent over time. For example, a capital program may take 3 – 5 years to finish. However, the impact fees are restricted and may not necessarily be used in that programmed year. Doug Evanson said that SAWS is required by its founding ordinance to maintain R&R balances in order to provide sufficient debt service coverage levels. Higher levels of debt service coverage are important to rating agencies that evaluate and grade proposed SAWS debt issuances; lower ratings typically mean higher interest rates assessed on debt issuances.

Rick Giardina said net revenue requirements must be recovered from rates. Chair Gonzalez asked if the non-rate revenues are netted out. Rick Giardina said yes.

Mike Chapline said he had a question about an article in the Rivard Report about economic development incentives provided by the City that included impact fee waivers. Specifically, he wished to know if the impact fees that were recently waived by the City Council are accounted for in the net revenue requirements. Mary Bailey said that impact fees are not part of net revenue requirements. With respect to impact fee waivers for economic development, SAWS agrees to a certain dollar amount that the City may waive each year. James Smyle asked what the exact amount is that the City is allowed to waive each year. Staff said the current five-year agreement is for \$20M and for 2020 it is \$3M. The City carries forward unused waiver amounts year to year.

Patrick Garcia asked about the Edwards Aquifer Authority (EAA) fees. Mary Bailey said those are pass-through regulatory fees that are considered miscellaneous fees and not part of net revenue requirements.

Angie Flores then briefed the committee on the specifics of water delivery cost of service.

Referencing the first slide of the cost of service discussion, Chair Gonzalez asked for a definition of the term “reclassifications”. Angie Flores said that they represent the adjustments to the 2020 SAWS Budget revenue requirement categories necessary to perform a “cash residual” revenue requirements analysis.

Joseph Yakubik asked if the information presented represented 2020 requirements and he was assured that was correct.

Patrick Garcia asked if water delivery includes labor cost. Doug Evanson said that all three business units assume some labor costs through operations and maintenance (O&M).

Angie Flores reviewed the functionalization of O&M for water delivery and the various costs included in each cost function, including water delivery, power, chemicals, meter services, and billing/customer service.

Patrick Garcia asked where the cost of running the water treatment plants is included. Mary Bailey said the only water treatment plant is the desalination plant and the cost of that facility is included in the water supply core business. The noted power costs under water delivery represent the costs for running pump stations.

Angie Flores then reviewed the capital asset allocations for water delivery.

Joseph Yakubik said he thought the upsized mains are actually larger than the average requirement. Rick Giardina said that may be the case. Mains are sized to meet peak day requirements. Mary Bailey said this is oversizing for growth. When necessary, SAWS will pay for the oversizing, but then recoups it through impact fees.

Angie Flores reviewed the cost allocation for water delivery.

Chair Gonzalez asked about the transition from Capital Asset Allocation slide to the Cost Allocation slide for water delivery. What is the difference between the two slides? Rick Giardina stated that Capital Asset Allocation slide shows how existing SAWS water delivery infrastructure is allocated among the cost classification categories of Base, Max Day, Max Hour, Meters, Billing and Fire Protection. The Cost Allocation slide shows how water delivery operating costs are allocated among these categories.

On the Cost Allocation slide, Joseph Yakubik asked for a definition of "Return on Rate Base". Mary Bailey stated that this represents how the previously described SAWS return on investment (\$70.7 million), transfers to R&R, and the difference between debt service and depreciation is functionalized into the cost classification categories.

Patrick Garcia asked for clarification of the depreciation line on the Cost Allocation Slide. Rick Giardina said it represented the allocation of the annual reduction in value of the useful life of SAWS assets.

Chair Gonzalez asked for clarification on the differences between the cash-basis vs. the cash-residual revenue requirements analysis approaches. Rick Giardina said SAWS operates on the cash-basis approach. The cash-residual approach is used to analyze revenue requirements for the purpose of rate making. The cash-residual approach is consistent with Texas Public Utility Commission (PUC) rate analysis requirements.

Patrick Garcia asked about the approach typically used by municipal utilities. Rick Giardina said there is no mandate; it can vary.

Angie Flores next reviewed slides showing the Inside City Limit (ICL) 2020 forecast for units of service and the Outside City Limits (OCL) 2020 forecast for units of service. Doug Evanson highlighted the peaking factors for irrigation and residential classes on the slides.

Joseph Yakubik noted an issue with the numbers printed in the binder. Mary Bailey said there was an issue with the printing of the slides. The RAC's materials will be corrected and retransmitted to reflect what was being shown on the screen.

Chair Gonzalez asked for an explanation of the corrections. Mary Bailey explained the corrections were the result of breaking out the commercial and multi-family information from the General Class.

Angie Flores reviewed the preliminary cost allocation and unit cost allocation for water delivery. Rick Giardina highlighted the differences in ICL and OCL unit costs stating that currently SAWS has a 30% higher differential between water delivery rates for OCL customers relative to ICL customers. He added that Raftelis is tasked with reviewing this rate differential in light of the current costs of service.

Mike Chapline agreed that the 30% OCL/ICL differential tracks with the water delivery rates shown online on the SAWS website. So, he added, one of the outcomes of the study is to develop a differential based on the new cost of service information and then justify that number. Giardina agreed.

Patrick Garcia asked for a definition of the term "unit" in the context of the cost allocation and unit cost allocation slide. Rick Giardina said for example a "unit" for the "Bills" category is a bill sent out to a customer so the number of 2020 Billing Units under the "Bills" category represents the total number of bills SAWS issues in a year. Similarly, the number of Billing Units under the "Base" category reflects the number of gallons of water categorized as representing base water consumption in a year.

Rick Giardina emphasized that the discussion so far has been focused on water delivery costs only, not water supply which will have different results because water supply costs have different assumptions.

Angie Flores then showed the preliminary results of the water delivery cost of service analysis by customer class and by ICL and OCL, respectively, as compared to anticipated revenue under 2020 rates.

The committee noted issues with printing in the presentation in the binders. SAWS staff said the updated presentation would be emailed and is already available on the SAWS website.

Angie Flores then reviewed the water supply functionalization which includes all the water supply costs and all costs paid to third parties affecting the cost of water including EAA regulatory charges, conservation, billing/customer service, and recycled water.

Joseph Yakubik asked for a definition of “Stormwater” in the context of the Functionalization – Water Supply slide. Mary Bailey said SAWS incurs a cost to perform services in support of the City’s stormwater program. The cost are allocated into the water supply core business because the stormwater program is intended to protect water sources. Since stormwater is not a rate-related program, SAWS offsets the associated cost in non-rate revenue. The City reimburses SAWS for stormwater services provided so there is no impact on net revenue requirements.

Ramiro Cabrera asked if the cost of Vista Ridge water is reflected in these numbers. Mary Bailey said yes and that SAWS will start paying for that water in April 2020.

James Smyle asked where the Vista Ridge O&M costs are included. Mary Bailey said these costs are included in the water supply cost allocation, specifically the power costs associated with operating the Vista Ridge Pipeline.

Angie Flores reviewed capital asset allocation for water supply and noted that almost all assets are allocated to base. In a previous rate study, such assets were spread out over base, max day and max hour. By allocating almost all assets to base, the impact of water supply costs on the peak users (residential and irrigation) would be eased.

Joseph Yakubik asked about the meters. Mary Bailey clarified that the meters referenced here are meters on wells that are necessary to manage the water supply. She also added that the change to have everything at base was made primarily because this appears to be the most appropriate way to handle it. However, this is a point of decision by the RAC. If the RAC decides to allocate it over max day, max hour, Raftelis can perform that calculation.

Mike Chapline asked if the allocation to base for water supply is a best practices. Joseph Yakubik asked which approach is more in line with industry standard and is most defensible. Rick Giardina said he believes this approach is most in line with industry standards and industry guidelines.

Angie Flores then reviewed cost allocation of water supply. She noted that the meter services line shown on the Cost Allocation – Water Supply slide is related to customer meters. She then reviewed the Cost Classification and Unit Cost Calculation - Water Supply slide. She noted that the OCL and ICL cost per unit amounts are the same.

Angie Flores reviewed the preliminary cost by customer classes, ICL and OCL, respectively

Mike Chapline asked about the irrigation cost structure. Rick Giardina said all water supply costs for each class are allocated to base. Consequently, the irrigation cost of service is significantly below the revenues they are generating today.

Angie Flores noted a shortfall for recycled water that is now allocated to ICL irrigation so that it becomes part of that class’s cost of service. This is accounted for in the preliminary cost of service by customer class – water supply ICL with beneficial reallocation.

Mike Chapline asked if the recycled water class is appropriately linked to irrigation. Rick Giardina said most likely it is, but it is a subjective determination, and this is one scenario. Mary Bailey said that the previous rate study allocated the recycled water shortfall largely to irrigation, but some was allocated to the other classes. She said that the RAC should be mindful that if the cost of recycled water exceeds potable water, people will stop using it. Every year, SAWS has changed recycled rates by the same percentage that we change the average water rates. If the RAC believes that the gap between potable and recycled needs to be closed, than that is within the RAC's purview to recommend.

Patrick Garcia said there was a time when the market for recycled water was nonexistent. He asked about the market and strategy for recycled water. Mary Bailey explained that there is limited available capacity during peak summer usage months.

Vance Weynand said in his previous employment experience if the gap in price between the two gets too close, he would have turned off the recycled water.

Chair Gonzalez said when we reach these decision points, we need to go back to the pricing objectives and values that were decided as a committee.

Mike Chapline asked if they are asking for the RAC's direction now on this issue and Mary Bailey said yes they are.

Vance Weynand said that affordability is a priority. Chair Gonzalez agreed, but added that if conservation is also a priority the RAC does not want to steer people away from using recycled water.

Joseph Yakubik asked if we can get a comparison of the 2020 preliminary cost of service numbers to what was presented in 2015/2016. Mary Bailey said yes, but it will be significantly different because of the way we've changed the cost allocation in the new model.

Chair Gonzalez asked the committee if there was a consensus about how to allocate the recycled water shortfall. The committee asked to see it both ways, allocated to all classes based on discretionary use and by all use, plus the current structure.

Rick Giardina reviewed the preliminary combined supply/delivery with beneficial reallocation for ICL and OCL.

Patrick Garcia noted that we are over-recovering from OCL customers.

Mary Bailey said what staff hopes to accomplish at the next meeting, regarding what cost of service we want to use to move into the rate design step.

James Smyle said the committee would like to see what the tradeoffs are on the alternate approaches before making a decision. Mary Bailey said that the consultant and staff will bring back alternatives and recommendations.

Chair Gonzalez asked for a slide for the next meeting that includes the decision points.

Mary Bailey said a member had requested we provide more concise information in the minutes to summarize what the committee accomplished. Staff passed out a proposed summary from the 5th meeting. Chair Gonzalez said the committee would vote at the next meeting to amend the minutes to include a draft summary.

Patrick Garcia asked if the committee entirely dropped the pricing objective for economic development and Mary Bailey said yes.

James Smyle said if under the cost-of-service scenario presented at this meeting, multi-family rates would increase by 12.1% that underlines the need for better understanding of the range of differences within different multi-family customers and to take into account affordability and equity concerns within that class. Rick Giardina said that analysis will lead into rate design. The committee agreed it wants to see multi-family disaggregated from general class as a comparison. The committee has not committed to creating a separate class for multi-family.

Mary Bailey reviewed the topics for upcoming meetings. Joseph Yakubik said if there are decision points in a meeting, staff should tell the committee before the meeting what the decision points are. Rick Giardina agreed and said tonight there were no decision points and it would be clearly defined before the next meeting.

Chair Gonzalez noted the date change for March from the Spring Break date to March 17.

The meeting was adjourned at 8:10pm.

NOTE: On the day after the Jan. 14 meeting, staff sent to the RAC the questions listed below that will be asked at the next meeting on Feb. 4. With the same message, staff sent out the corrected Jan. 14 presentation.

1. *Which is the appropriate method to allocate Water Supply Costs to customer classes?*
 - a. *Consider Water Supply Costs as 100% Base or average day-related costs.*
 - b. *Like the last study, consider Water Supply Costs as being incurred to meet Base/Max Day/Max Hour demands.*
2. *How should the under recovery of cost from Recycled Water customers be reallocated to other customer classes?*
 - a. *Reallocate the shortfall to all customer classes in proportion to the total volume of water used by each class.*
 - b. *Reallocate the shortfall to all customer classes in proportion to the volume of discretionary water use in each class.*
 - c. *Reallocate the shortfall entirely to the Irrigation class.*
 - d. *Adjust recycled water rates to fully recover their cost of service.*

- e. Establish a goal for the recycled water rates as compared to potable water rates and adjust recycled water rates to reach that goal immediately or gradually over time.*
- 3. Should Multi-family customers be broken out of the General Class into a separate customer class for purposes of both cost of service and rate design?*
- 4. Should the revenue requirements for each customer class be strictly tied to cost of service? If not, what is the rational basis for any deviation from cost of service?*