



SAWS RATE ADVISORY COMMITTEE MINUTES
SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, Texas 78212
Via WebEx Video Conference
Tuesday, February 15, 2022
6:00 p.m. to 8:00 p.m.

ATTENDANCE

Committee Members Present:

Frances Gonzalez – Committee Chair
Patrick Garcia, Committee Vice Chair, San Antonio Manufacturers Association
Christine Drennon, District 1
Karen Burgard, District 3 (nominated)
Genevieve Trinidad, District 4
Alfred Montoya, District 5
Ramiro Cabrera, District 6
James Smyle, District 7
Patricia Wallace, District 8
Joseph Yakubik, District 9
Vaughn Caudill, District 10
Steve Alaniz, Hispanic Chamber
Mike Chapline, Outside City Limits
Jeff Harris, Recycled Customer
Stephen Lara, Balcones Heights
Cacie Madrid, San Antonio Chamber of Commerce
Steve Richmond, San Antonio Restaurant Association
Preston Woolfolk, Northside Chamber of Commerce

Committee Members Absent:

Velma Willoughby-Kemp, District 2
Tamara Benavides, Hotel & Lodging Association
Allyson McKay, San Antonio Apartment Association (nominated)

San Antonio Water System Staff Present:

Robert Puente, CEO & President
Doug Evanson, Chief Financial Officer & Senior Vice President
Mary Bailey, Vice President of Customer Experience & Strategic Initiatives
Nancy Belinsky, Vice President of Legal & General Counsel
Lisa Mireles, Board of Trustees Senior Executive Management Analyst
Cecilia Velasquez, Senior Director of Financial Services/Controller
Phyllis Garcia, Senior Director of Financial Services/Treasurer
Lou Lendman, Budget Manager
Keith Martin, Senior Corporate Counsel
Gavino Ramos, Vice President of Communications & External Affairs

Consultants Present:

Jennifer Ivey, Carollo Engineers, Project Manager
Mark Panny, Carollo Engineers, Senior Analyst
Bridget Hinze Weber, KGBTexas Communications, Public Affairs

CALL TO ORDER BY CHAIRPERSON

The meeting was called to order by Chair Frances Gonzalez on February 15, 2022, at 6:05 p.m.

RAC Chairperson Frances Gonzalez opened the meeting and welcomed everyone. Chair Gonzalez noted the importance of the committee to support conservation and the public accountability of SAWS. Chair Gonzalez also noted the reasoning for meeting virtually was to ensure the safety of all participants due to the continued COVID-19 pandemic.

CITIZENS TO BE HEARD

Chair Gonzalez then started the Citizens to be Heard portion of the meeting. Two citizens signed up to speak:

Dr. Meredith McGuire:

Dr. McGuire stated concern that when the current rates were approved in 2015, SAWS claimed the rates promoted conservation, but those claims were false due to the elimination of seasonal rates. This resulted in bill reductions for the customers that used the most water. Dr. McGuire said that the lifeline rate is not a benefit for low-income customers who were burdened with a 29% fixed charge if they used more than 2,292 gallons a month. The transfer of costs is a burden on the residential rate customers. The current rate structure is impoverishing low-income customers and unfairly penalizing all customers that are conserving water. Dr. McGuire requested that the committee return to the pre-2015 rate structure and demand accountability from SAWS.

Dr. Terry Burns:

Dr. Burns, who has followed the last three RAC processes closely, expressed concern that SAWS starts every rate advisory committee process with a predetermined outcome. The committee acts as a fig leaf for a rubber stamp rate increase approval from city council. The 2019/2020 RAC was canceled because of the probing questions from the committee members which SAWS did not wish to answer, not due to the COVID-19 pandemic. Dr. Burns challenged the current committee members to question the data provided by SAWS staff and consultants. Dr. Burns recommended that the RAC members request alternative cost of service, demand answers to questions from the 2019/2020 RAC, and request raw data from the consultants.

OPENING REMARKS AND INTRODUCTIONS

All committee members, SAWS staff and consultants introduced themselves individually. Chair Gonzalez reviewed the agenda for the meeting and expectations.

SAWS OVERVIEW

Mary Bailey, Vice President of Customer Experience & Strategic Initiatives, provided a high-level overview of SAWS emphasizing these key attributes of SAWS:

- One of the largest municipally-owned water utilities in the nation
- Serves over 2 million people in San Antonio and surrounding area
- 500,000+ water customers
- 450,000+ wastewater customers
- 13,300 miles of water & wastewater pipe underground
- 4 major wastewater treatment plants in San Antonio
- \$470 million operating and maintenance budget
- \$2.6 billion 5-year capital program
- 1,700 employees

COMMITTEE PURPOSE, BYLAWS, RULES AND MEETING SCHEDULE

Bailey provided an overview of roles and responsibilities. The RAC is part of a larger rate study team for the 2022 rate study. Consultants will work with SAWS staff and the RAC to analyze data and make recommendations. The SAWS Board of Trustees is responsible for ensuring SAWS is managed effectively and will consider any recommendations that the RAC submits. The Board of Trustees will then submit their recommendations to the San Antonio City Council. Council will have the final approval of the SAWS rate recommendations.

The RAC is created to provide community input into the development of the rate structure and is advisory in nature. SAWS typically completes a rate study every five years. The 2019/2020 study was suspended due to the outbreak of the COVID-19 pandemic.

In January 2022, the SAWS Board of Trustees approved the RAC Bylaws. The RAC is comprised of members that are a representation of the SAWS service area. Each city council district nominated a member, and also business and civic organizations nominated members. SAWS staff also made a couple nominations to ensure that customers types and service areas are well represented.

Bailey reviewed the purpose of the RAC which is to provide rate design structure recommendations to the Board of Trustees for the water delivery, water supply, recycled water, and wastewater rates. Chilled water rates are not part of the study.

Recommendation must be designed to fully recover the revenue requirements of SAWS, be consistent with industry standards, and be based on the cost of service allocations (developed by Carollo Engineers and that will be brought to the Board of Trustees for approval in March). Bailey also noted that the 2022 RAC recommendations should take into consideration the recommendations of the 2019/2020 RAC. Carollo Engineers did consider all of the cost of service allocation recommendations made by the 2019/2020 RAC.

Bailey read the mission of the RAC: to assemble a diversity of perspectives that represent our community to evaluate and make recommendations on the water, sewer, and recycled water rate structures. Chair Gonzalez noted that the RAC mission statement is a guide, a north star for the committee, and will be referred to at every committee meeting moving forward.

Bailey reviewed the RAC responsibilities, which include a lot to accomplish over the next six months. It's important to attend all meetings if possible. If a committee member cannot attend a meeting, SAWS staff will be available to update and brief the member.

Cecilia Velasquez, SAWS Senior Director of Financial Services and Controller, continued explaining the responsibilities of the RAC include to be respectful of one another and to act as a representative to the community.

Velasquez then reviewed the responsibilities of SAWS and the consultants, which include to:

- Promote open, honest discussion during meetings;
- Provide current, accurate data;
- Provide informative, useful study materials;
- Provide accurate minutes of meeting discussions;
- Be respectful of all views and input; and
- Remain accessible to committee members on questions related to the study.

There will be meeting minutes posted for each committee meeting and all meetings will be recorded. The recordings will be reviewed to ensure accuracy of the minutes and to actively ensure all input of the committee and public is heard.

Velasquez reviewed the time commitment of the committee to include a total of seven meetings which will be held approximately monthly. The meetings will be capped at two hours.

Committee members are asked to review all meeting materials in advance of each meeting and ask questions in advance of the meetings. The next two meetings will be held in a hybrid format: virtual and in person attendance options will be provided.

Chair Gonzalez reviewed the rules of engagement for the committee meetings. The Chair expects all attendees of the meetings - committee, staff and public - to be respectful of one another to ensure everyone is comfortable sharing thoughts. All questions and comments should be held until the end of each section. All topics that are not on the agenda will be tabled until the end of the meeting to be respectful of each other's time.

Chair Gonzalez explained the committee will engage a consensus-based decision-making process. The committee will agree on some things, but not others. The committee will be expected to come to consensus to move the items forward. Everyone has unique experiences that frame perspectives, values and ideas - and nevertheless the committee can work together to come to agreement.

Bailey reviewed the rate study timeline which began in October 2021 when SAWS hired Carollo Engineers. Carollo Engineers has worked on the cost of service allocations since then. In January 2022, the RAC Bylaws were approved by the Board and the Board was briefed on preliminary cost of service findings for water. In February 2022, the RAC membership was approved by the Board and the Board was briefed on the preliminary cost of service findings for wastewater. The final cost of service for both water and wastewater will be presented to the Board for approval in March 2022. The RAC will meet from February 2022 through July 2022. The recommendations of the RAC need to be presented to the Board by the end of July 2022. Once recommendations have been presented, the work of the RAC will be complete. SAWS staff will then undergo an extensive public outreach process to inform the public of the proposed new rate structure. The Board will be asked to approve the rate structure recommendations in November and the San Antonio City Council will be presented the Board-approved rate structure for approval in late November 2022. If approved by both the Board and City Council, the new rate structure will be implemented in January 2023.

Mary Bailey reviewed the proposed draft meeting schedule and meeting topics that include:

- Meeting #1: Rate study overview and refresher of pricing objectives
- Meeting #2: Finalize pricing objectives and overview of revenue requirements and cost of service
- Meeting #3: Introduction to rate design and presentation of preliminary residential options

- Meeting #4: Review of residential options and presentation of preliminary general (commercial, industrial, and multifamily), irrigation (primarily commercial customers that have a separate irrigation meter), and recycled water class options
- Meeting #5: Review rate design options for all classes
- Meeting #6: Finalize rate recommendations for all classes
- Meeting #7: Presentation of draft RAC report

Committee member Mike Chapline asked the question:

The CPS Energy rate advisory committee voted on the recent rate increase. Will this committee be asked to recommend a rate increase?

Bailey explained that the CPS Energy RAC charter is different than the SAWS RAC. The SAWS RAC is focused on rate design, not the rates themselves unlike the CPS Energy RAC. The SAWS Board has designated the purpose and purview of the RAC to include recommendations of the rate structure. The last rate increase of SAWS was in 2020 and there is no projection for a rate increase in 2023. This RAC is being asked to create a revenue-neutral rate structure. Any changes in the rate structure will be within customer classes - some customers may pay more; some may pay less - but will generate the same amount of total revenue.

Committee member Vaughn Caudill asked the question:

What is driving the July/August 2022 completion date of the RAC recommendations?

Bailey explained that in order for the rates to be implemented in January 2023, the San Antonio City Council needs to approve any changes by November 2022. The public outreach phase is very extensive with over 80 community meetings planned.

RATE STUDY BASICS

Jennifer Ivey, Carollo Engineers Project Manager of the rate study, presented an overview of rate study basics and the RAC's role in the process.

Ivey explained that the overview is a very high level, but greater detail will be provided in subsequent meetings.

There are 3 main phases in a rate study:

Phase 1: Determination of how much revenue is needed to fully fund operating and capital expenses (based on the budget developed by SAWS).

Phase 2: Carollo Engineers completed the cost of service analysis.

Phase 3: Develop the rate structure design (this is the phase where the RAC will provide input and recommendations).

The purpose of all phases is to equitably allocate revenue among all classes.

Ivey further explained each phase of the rate study. The first phase of determining the revenue requirements is based on the fiscal year 2022 SAWS budget. SAWS' revenue requirements are the sum of operations and maintenance, debt service and reserve fund requirements, capital expenditures, and the transfer to the City of San Antonio. As it was determined that no additional revenue is needed to operate the utility, this study will be revenue-neutral.

Typically, a study will evaluate a test year to determine the customer usage patterns to project future usage patterns. The test year is often the prior year. Due to the COVID-19 pandemic, many customers changed their water usage behaviors and so 2020 was not a good year to use to exclusively predict future usage patterns. Carollo Engineers instead analyzed and averaged three years (2018, 2019, and 2020) due to these special circumstances in order to properly project usage patterns in the future.

Ivey then explained that the second phase of the rate study takes the total revenue requirement and allocates it to functional categories and rate components. Then that is allocated to the classes based on how those classes are using the water and wastewater. A unit cost is then calculated for each rate component.

Ivey then provided an overview of the third phase: Rate Design. This is the phase where the RAC will be heavily involved and asked to provide input. The objective will be to find the right balance of pricing objectives. Some pricing objectives compete with others. The RAC will need to prioritize the pricing objectives to find the right balance.

The SAWS potable water rate structure is comprised of water delivery and water rates. The water delivery rate recuperates costs related to pumping wells and distribution mains. The water supply fee recovers costs associated with new water supplies that have been developed since 2001 and supports the recycled water program.

The water rate structure is currently comprised of fixed and variable rates. It is also considered to be a conservation-oriented rate structure. The lifeline discount reduces the fixed portion of the bill who are under a certain usage amount. Outside city customers pay a higher rate for water delivery than inside city limit customers. SAWS also has affordability programs for low-income customers.

The wastewater rate structure is also comprised of fixed and variable rates, lifeline rates, affordability programs, and higher rates for outside city customers.

The recycled water rate structure has contracted volumes based on different types of usage and is also comprised of fixed and variable rates. Two different types of customers for recycled water are the Edwards Exchange and Non-Edwards Exchange. The recycled water rate structure also has seasonal rates which are higher during summer months (May - September).

A rate design element for the RAC to consider is fixed charges. Higher fixed charges are, the reduce revenue risk, but they are inconsistent with conservation and affordability initiatives.

Variable rate structure options include uniform (the same rate for every unit of water), inclining block, declining block (the more water used, the less per unit the customer pays), budget-based tiers and meter-based tiers. Several elements can be adjusted in a variable rate structure, including but not limited to the number of tiers, amount of water in each tier, and drought management rates (automatically adjust based on the drought level).

Additional elements the RAC can consider include discounts or rates for low-income customers, residential wastewater billing basis, and adjusting recycled water rates.

Question by committee member Christine Drennon:

Does SAWS collect demographic information for low-income customers?

Bailey's response:

SAWS does not gather low income demographics, it is provided voluntarily by customers to take advantage of the affordability program. The level of discount is dependent on income. The income information is not stored in the

billing system. Collecting demographic information of all SAWS customers may require an additional burden/administrative work for SAWS staff.

Committee member Dr. Montoya questions:

Can we request particular data? All the raw data that consultants used to determine phase 2 and share with the RAC by our next meeting?

Do we have data on affordability program that it is reducing disconnections? Is the program working as we hope?

How is affordability defined?

Committee member Patrick Garcia question:

When we started the RAC committee in 2019 we used a term of parking lot for questions and topics for future discussions to allow time for SAWS staff to provide answers.

Chair Gonzalez responded that yes, the RAC had a parking lot, but we also need to provide answers to questions in advance of the meetings as well. We need questions in writing to prepare committee members in advance of meetings. Questions can be emailed to SAWS staff or submitted in the chat feature. Not all questions will be relevant to next meeting though.

Bailey responded that for the data request, SAWS staff will provide any specific data that RAC requests. There have been no disconnections due to the pandemic for the past 18 months, so it will be difficult to measure if the affordability programs are working.

Committee member Vaughn Caudill question:

Will we all receive the questions and then answers to the questions?

Bailey responded:

Yes, but we cannot discuss in emails outside of RAC committee meetings for transparency purposes.

Chair Gonzalez recommended SAWS staff create a depository for all questions and answers of committee members.

Several questions were submitted on the chat feature of Webex including:

- When we discuss recycled water rates, can we have a breakdown of usage by customer type (e.g., irrigation, manufacturing/cooling)
- As the affordability issue is of high concern (2019 RAC put it at #1 priority), as we discuss rate designs, can Carollo brief the RAC on current best practice approaches in the industry for building affordability concerns into rate design?
- Immediately prior to suspension the 2019 RAC voted on rate design elements, will those recommendations be used? Or are we starting fresh due to committee membership and changed parameters, e.g., new cost of service?
- The 2019 RAC advised on a change to the ICL vs. OCL rates based on actual cost differences. Are those changes still in effect?
- What is "averaged" over the 3 years? Bill frequency analysis data? Are there any other explanations for customer behavioral changes in addition to weather, e.g., price elasticity due to rate increases?

- Does SAWS envision a rate increase in 2023 in addition to restructure? If so, when and how will that be presented, much daylight will be kept between the increase and restructure in public messaging?
- Can SAWS also provide the text and the recommendations from the 12-month addendum study as cited in both the official rate report and the CoSA analysis of the 2015 re-structure.?
- Are AWWA professional reference texts available for committee?
- In the future discussions, can we please have a breakdown of the General Class into its sub-categories (multi-family, commercial, industrial)?
- Does SAWS have a budget program like CPS?
- I am concerned that the 2020 numbers, with the pandemic's impact on commercial and industrial usage, could be locking in a significant shift of costs for 5 years when the impact is more temporary. As such, I would hope that you could share how that 3 year average was done (simple arithmetic average? weighted? other?) and the assumptions behind the "persistence" of the impact on usage.
- My question was in response to Vaughan as a numbers guy, to provide "industry standard" reference texts so members can review rate structure elements. Last time there were two hard copies available to check out.

Bailey noted that all questions asked in the chat feature will be answered in database that Chair Gonzalez requested of SAWS staff.

PRICING OBJECTIVES OVERVIEW

Ivey reviewed the purpose and importance of pricing objectives. The RAC will be asked to rank the pricing objectives which will guide the RAC decisions on rate design and will justify recommendations.

The 2019/2020 RAC went through a lengthy exercise on pricing objectives to rank the objectives. SAWS staff would like the current RAC to consider the rankings of the previous RAC. Bailey noted that the definition of affordability for the 2019/2020 RAC was in reference to all customers - not solely low-income customers.

The RAC homework for the next meeting is to review the pricing objectives and rankings of the previous RAC and provide input. The pricing objectives and rankings will be reviewed at the next meeting and the committee will come to a consensus on the objectives and ranking.

Ivey reviewed the City of San Antonio's definition of equity that the RAC should be mindful of when considering rate equity: "Equity means that our policy-making, service delivery, and distribution of resources account for the different histories, challenges, and needs of the people we serve. Racial equity means we eliminate racial disproportionalities so that race can no longer be used to predict success, and we increase the success of all communities."

Committee member Christine Drennon question:

How can we implement affordability as a priority if we do not have the data on the income of customers?

Bailey responded that there are different affordability programs, but none are perfect. The definition of affordability for the previous RAC was not solely focused on low-income customers, but rather affordability for all customers.

Chair Gonzalez requested that all questions be sent to SAWS staff as soon as possible to RAC@saws.org. Staff will post the questions and answers at SAWS.org/RAC. Also posted on this webpage will be recordings of meetings, agendas, minutes and presentations. The webpage is accessible to all members of the public.

NEXT STEPS

The next meeting of the RAC will be held on March 8, 2022, and will be a hybrid meeting offering attendance virtually and in person. At the next meeting, the committee will be asked to finalize prioritization of pricing objectives and will be provided an overview of revenue requirements and cost of service.

CLOSING COMMENTS

There were no closing comments by the committee members or SAWS staff members.

ADJOURNMENT

Chair Gonzalez adjourned the meeting at 8:02 p.m.

MEETING RECORDING

A recording of this meeting is located at www.saws.org/rac

NEXT MEETING

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