



SAWS RATE ADVISORY COMMITTEE MINUTES
SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, Texas 78212
Via WebEx Video Conference
Tuesday, May 17, 2022
6:00 p.m. to 8:30 p.m.

Committee Members Present:

Frances Gonzalez, Committee Chairperson
Patrick Garcia, Committee Vice Chairperson, San Antonio Manufacturers Association
Christine Drennon, District 1
Velma Willoughby-Kemp, District 2
Karen Burgard, District 3
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
Jeff Harris, Recycled Customer
Cacie Madrid, San Antonio Chamber of Commerce
Steve Richmond, San Antonio Restaurant Association
Preston Woolfolk, Northside Chamber of Commerce
Tamara Benavides, Hotel & Lodging Association
Allyson McKay, San Antonio Apartment Association
Mike Chapline, Outside City Limits

Committee Members Absent:

Stephen Lara, Balcones Heights

San Antonio Water System Staff Present:

Robert Puente, President & CEO
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
Donovan Burton, Vice President of Water Resources & Governmental Relations
Jaime Castillo, Chief Strategy Officer / Chief of Staff

Consultants Present:

Jennifer Ivey, Carollo Engineers, Project Manager
Bridget Hinze Weber, KGBTexas Communications, Public Affairs
Elissa Garza, KGBTexas Communications, Public Affairs

CALL TO ORDER BY CHAIRPERSON

The meeting was called to order by Chairperson Frances Gonzalez on May 17, 2022, at 6:02 p.m.

CITIZENS TO BE HEARD

Chairperson Gonzalez started the Citizens to be Heard portion of the meeting. Two citizens were signed up to speak, Dr. Meredith McGuire and Dr. Terry Burns.

Written comments by Dr. Terry Burns were read.

- Residential rate design should deliver affordable rates for basic human needs and penalties for excessive use that overburdens the entire system.
- Option 2 comes closest to achieving this with lower rates in low usage tiers, and higher rates at high tiers.
- The inflection point around 7,000 gal is appropriate for almost all families and should have a larger price jump.
- The negative impact of Option 2 on “Revenue Stability” is a good thing. It will promote conservation. The impact should be predictable, and SAWS should manage for this.
- Option 2, or something similar should be an integral part of any realistic “Drought Management Plan”.
- General Class rates should continue to include 4 volumetric blocks, and variable meter sizes. Base volumetric rate should NOT be ONLY based on prior year usage but should begin at a minimum volumetric charge that is at least as high as the lowest residential tier.
- General Class wastewater rates are among the lowest in Texas. There is room for substantial increases, which should be implemented.
- The discounts given to various businesses (TowerJazz Semiconductor has lowest water and wastewater rates shown) are surely due to the “pro-growth” policies of SAWS, COSA and the former SAEDF. These subsidies should at the very least be funded by the entire General Class that loves growth, not by current residents of SAWS service area.
- It would be simple for you to show customer bill costs on a per gallon basis, by dividing the TOTAL water bill by the total water used. It would be very helpful to all.
- Winter sewer averaging unfairly benefits those with high summer landscaping use.
- Uniform 20 and 30% fees would make big discounts for high users and big increases for small users, very unfair. Dr. Burns was in favor of Option 2 for the residential rate structure. As for the General Class rate structure, he is in favor of implementing increases and continuing to include four volumetric blocks and variable meter sizes.

Dr. Meredith McGuire had technical issues and joined the WebEx meeting during the General Class Discussion.

OPENING REMARKS AND INTRODUCTIONS

Chairperson Gonzalez reviewed the mission of the RAC, the committee decision-making process and the full committee meeting schedule.

Chairperson Gonzalez stated that the next meeting on June 7, 2022, will be a hybrid meeting offering attendance virtually and in person.

STANDARD MEETING INFORMATION

Chairperson Gonzalez reviewed the minutes from the committee meeting on April 26, 2022. There were no edits to the meeting minutes.

General Class Discussion

Jennifer Ivey, Carollo Engineers Project Manager, started the presentation reviewing General Class water and wastewater sales from 2017 to 2022. In addition, the monthly usage over the last 5 years have averaged around 70,000 gallons. Slide 12 provided a comparison of the general/commercial class rate structures for the major Texas cities including Austin, Dallas, Fort Worth, Houston and SAWS. They all have fixed charges based on meter size. On the water side, Austin, Fort Worth, and Houston have a uniform rate structure. Other than SAWS, Dallas is the only other major Texas city with a tiered base-excess rate structure for General Class.

A comparison of the volumetric rates per 1,000 gallons of water was shown to the Committee. Fort Worth has the lowest rate, and Houston has the highest. Comparing the volumetric rates per 1,000 gallons of wastewater, Dallas has the lowest rate and Austin has the highest.

SAWS' existing General Class water rate structure has a fixed charge that is dependent upon meter size with 4 volumetric tiers based on peaking. Unlike the Residential Class, the General Class volumetric tiers are based on actual annual usage from the prior year. The annual usage is divided by 12 and the monthly average is the amount of usage that can be billed at the lowest tiered rate (base) for each month. The higher tiers are calculated based on a percentage of the base usage, in excess of 100%.

Committee Member Christine Drennon asked, if she were to use a million gallons and wouldn't vary her usage from year to year and if she were to use 50 gallons and wouldn't vary her usage from year to year, for both scenarios, would she pay \$4.80 per 1,000 gallons?

Ms. Ivey responded yes because the structure is designed to discourage peaking. It encourages consistent usage throughout the year, regardless of how much is used. If a customer uses more than their base amount in certain months, then they would pay the higher tiered rates for those months. Ms. Ivey explained that there are very large and small customers in the general class and even if a large customer is using a large amount of water that doesn't mean that they are using it inefficiently.

Committee Member Drennon responded, is that common?

Ms. Ivey responded that a uniform rate structure is the most common rate structure for the General Class.

Committee Member Drennon asked about Dallas' tiered rate structure.

Ms. Ivey explained that Dallas' structure is a blended structure, it allows small retail businesses to benefit from the lowest tier rate. The lowest rate is up to 10,000 gallons and the next lowest tier includes up to 1.4 times the average annual consumption from the prior year.

Vice Chairperson Patrick Garcia said that eight years ago he had been told that a business with major growth could request an adjustment to its average annual consumption. Vice Chairperson Garcia then asked if he has 200% growth in his business can he go to SAWS and ask for an adjustment?

Ms. Bailey responded that SAWS could adjust the average annual consumption, which is the previous year's average, however; this is usually the practice when businesses take over another business in which they are not performing as well as it did the year prior. She provided an example like in the 2008 recession and the 2020 COVID-19 pandemic brought a decline in usage for businesses only to pay the peaking prices the following year for higher usage.

Committee Member Joseph Yakubik asked in a multi-year drought where a general class customer uses more water in the first year than the second year, would their rate then drop because they established a higher base that year during the drought?

Ms. Bailey responded that the general class outside usage is connected to an irrigation meter and therefore drought should not impact usage unless their business' usage is impacted by weather.

Ms. Ivey reviewed the general class bill frequency, which showed the percentage and frequency of bills for the four tiers over the last four years. About 68% of the bills stay within the first tier, which wouldn't pay more than \$4.80 per 1,000 gallons. About 10% to 11% of the bills stay in each of the other three tiers. Approximately 82% of the General Class consumption is charged at the lowest tier rate with 5% to 7% of consumption billed at each of the three higher rates.

Committee Member Yakubik said that it is not a surprising number when you look at the mathematical distribution of an average.

Ms. Ivey said that Committee Member Yakubik was correct.

Doug Evanson explained that multi-family units, which are included in the General Class, have less consumption in the higher tiers so they have a lower effective rate than the commercial and industrial customers. Therefore, multi-family customers benefit from being included in the General Class.

The presentation continued to list the 10 largest potable water customers in 2021. Ms. Ivey noted that six out of the 10 are not-for-profit businesses. The 2021 revenue divided by the consumption yields the effective rate 1,000 gallons for each of these customers. These rates vary because the fixed charge revenues are included as well as irrigation revenues.

Ms. Bailey explained that the report for the ten largest potable water customers each year is required for the annual financial report. This includes all potable water consumption, including irrigation.

Ms. Bailey responded to the public comments at the beginning of the meeting from Dr. Terry Burns implying that the General Class gets discounts, by saying no customer at SAWS gets discounts other than the customers in the affordability program. High water users, like TowerJazz, who are extremely consistent water users would pay the base rate because they avoid peaking.

Committee Member Joseph Yakubik asked what is the multiplication differential between the highest residential rate and the base rate and what is the differential for the general class rates? Ms. Bailey replied 6.5 for residential class rates and 1.75 for general class rates.

Ms. Ivey continued the presentation by reviewing the ten largest wastewater customers in 2021. On slide 17, Ms. Ivey then reviewed the General Class water bill comparisons at 50,000 to 500,000 gallons, which showed San Antonio in the middle, Ft Worth as the lowest and Houston the highest.

The General Class wastewater bill comparison between 0 and 50,000 gallons showed San Antonio as the lowest and Austin as the highest. This assumed inside city limits with a 5/8-inch meter and includes TCEQ pass-through.

The General Class wastewater bill comparison from 50,000 to 500,000 gallons showed San Antonio with the lowest bill and Austin with the highest bill.

The General Class combined water and wastewater bill comparison for 0 to 50,000 and 50,000 to 500,000 gallons showed San Antonio, Fort Worth and Dallas on the low end and Houston and Austin on the high end.

The General Class Customer Characteristics:

- The General Class includes commercial, industrial, and multi-family customers.
 - Multi-family connections are one meter serving three or more residential units.
 - Industrial classification is assigned to customers that require wastewater permits and regular testing of wastewater discharge, which may exclude industrial water users.
- Prior RACs have evaluated disaggregating multi-family customers from the General Class, but no recommendation was made to disaggregate.

It is important to understand where multi-family customers are located. The map on Slide 25 shows the geographic locations of multi-family customers while also categorizing the geographic location by median household income. Many of the multi-family customers are in areas with a low median household income.

Ms. Ivey reported that there may not be sufficient information available to improve the existing rate structure for multi-family customers. Based on the cost of service analysis, the revenue from multi-family is less than the cost of service, which would mean if multi-family class were disaggregated it would result in higher rates. The increased rates would likely be passed onto tenants.

The findings for the water cost of service shows that commercial and industrial customers generate more revenue per 1,000 gallons than multi-family customers because they have more peaking and larger meters.

Committee Member Drennon asked what is beneficial reallocation? Ms. Ivey responded that beneficial reallocation was discussed in one of the first meetings and is discussed in detail in the cost of service report. Some recycled water costs were reallocated to Irrigation and Residential to reduce recycled water cost of service to match the budgeted revenue. And the irrigation class cost of service was significantly less than the budgeted revenues, so we reallocated residential and general class to irrigation.

Ms. Bailey added that costs were reallocated to Irrigation from the other potable water customer classes.

Approximately 86.4% of multi-family usage is at or below the 100% base. The cost of service findings for wastewater were presented, showing a separate analysis of the commercial/industrial class and the multi-family class.

Committee Member Preston Woolfolk asked if the revenue generated from water in the General Class is used to offset the cost from wastewater? Ms. Ivey responded that water and wastewater are evaluated separately, and General Class revenue does not cover the cost of service for both water and wastewater.

Ms. Ivey explained the General Class rate structure alternatives:

- Retain or modify the current “peaking” structure (equity)
- Implement uniform rates (same rate per 1,000 gallons, regardless of volume) (rate stability)
- Develop multi-tiered rates tied to volume thresholds (affordability)

Ms. Bailey asked the committee, what is it about our current structure that bothers you and why? Ms. Ivey explained that a uniform rate is the most common rate structure for the General Class because it is difficult to tailor a tiered structure that would be fair to a heterogeneous group of customers.

Committee Member James Smyle asked about the marginal use of water, with large intensive industries and how will we recover the Vista Ridge costs. Ms. Bailey replied that the cost for Vista Ridge is \$2,071 per acre-foot, including operations and maintenance, times 50,000 acre-feet, which equals \$103 million.

Committee Member Smyle asked if the \$2,071 per acre-foot includes the raw water cost and the capital investment? Ms. Bailey replied yes and continued to explain that Vista Ridge and the other water supplies were allocated, so the costs are being picked up by each class based on the proportionate volumes. Ms. Bailey said every option presented is meant to recover the cost of service for that class.

Committee Member Steve Alaniz asked what kind of feedback has SAWS received from the General Class regarding the current structure? Ms. Bailey replied that she gets some complaints regarding the peaking rates hurting businesses that are growing.

Ms. Ivey continued the presentation on slide 31 showing the General Class rates for the three options. The cost-of-service adjustments to the current rate blocks would result in increased volumetric rates for all customers. The uniform rates would increase bills for customers in the first or base tier and would decrease bills for customers with significant peaking. These two options assume the fixed charges are equal to Residential Option 4 fixed charges plus Conservation charge of \$1.70 for a 5/8-inch meter, scaled up for larger meters. For wastewater, the uniform rate option would do away with including the first 1,496 gallons in the fixed rate and charge all usage at a uniform rate of \$4.40 based on the fixed charge that was proposed with the Residential Option 4.

Committee Member Smyle asked about the conservation fee. Ms. Ivey explained that the conservation costs are allocated and recovered through both fixed and variable charges. Ms. Bailey added that there is city ordinance that requires SAWS to charge a certain portion of the meter charge to pay for conservation. The overall budget is about \$10 million. In addition, they get the conservation revenue through a portion of the volumetric charges from the Irrigation Class, and the top four tiers of the Residential Class.

Committee Member Karen Burgard asked if the General Class includes multi-family? And 85% of multi-family usage is at the base or below, correct? Ms. Bailey responded yes.

Committee Member Burgard continued, if we were to propose the uniform rates, multi-family would increase by \$0.75 per 1,000 gallons? Ms. Ivey responded yes.

Ms. Ivey continued to the General Class decision points:

- Maintain multi-family's inclusion in the General Class or disaggregate
- General Class rate structure options:
 - Peaking tiered rates (current structure)
 - Uniform rates
 - Volumetric tiered rates

Cecilia Velasquez read a webchat comment from Committee Member Allyson McKay, which said that the landlord and/or unit is the one charged by SAWS and not the individual person. It will be difficult to know if any discount is passed down to the tenant.

Ms. Ivey agreed and reiterated that it is important to understand the location of the multi-family units and that when the rates go up, the increase will be passed onto the residents. Utilities, as an industry, have found it extremely difficult to help multi-family customers with affordability initiatives.

Committee Member Smyle asked if it would be beneficial to consider a multi-tiered volumetric rate structure to improve affordability initiatives within multi-family? Chairperson Gonzalez mentioned that the committee can't ensure that any cost savings for multi-family customers would be passed onto to the tenants.

Committee Member Smyle asked about the possibility of the RAC talking with people who own small multi-family units, who aren't eligible for flow meters like Residential Class.

Chairperson Gonzalez also mentioned that the smaller multi-family units are more susceptible to higher leakage rates given that they are normally older complexes. Chairperson Gonzalez told the committee that it is important to bring this to the Board and ask for more research into best practices around affordability for multi-family units.

Robert Puente, President & CEO, addressed the concerns around affordability for multi-family customers and explained that it is beyond the scope of the RAC. He further explained that the downtown area is tricky; there are both low-income and high-income multi-family units, which makes it difficult to tailor the rate structure for the multi-family class.

Committee Member Yakubik commented on the comparison of Residential Rates and General Class Rates. If you are a business using 50,000 gallons in the General Class your bill is \$270, however, if you are a residential customer using 50,000 gallons the bill is \$627. Ms. Bailey replied that the cost of service is based on class. The residential rate structure is tiered and designed so that high users pay a higher rate.

Committee Member Yakubik then asked if he is interpreting the data correctly by understanding that 67% of water usage is accrued by 12% of bills. Then maybe one option is to create a hybrid tiered structure, like Dallas, in which there is a threshold of 100,000 gallons or less so small businesses can benefit from a lower rate. Ms. Bailey replied that they could model the Dallas structure by developing a base tier that would benefit multi-family but would like to note that multi-family does receive a benefit by being included in the General Class and we don't know if the benefit would be passed onto the tenants.

Committee Member Yakubik clarified that he was referring to the General Class, not multi-family.

Committee Member Karen Burgard commented that she does not think she has enough data to make an informed decision on keeping or disaggregating multi-family from the General Class. Ms. Ivey explained the biggest challenge among multi-family is the lack of data because multi-family connections often use a master meter and do not sub-meter. For example, there may be 20 apartments connected to one master meter, which means SAWS does not receive consumption data for each individual apartment.

Committee Member Steve Alaniz asked if the multi-family tenants ever see their SAWS bill. Ms. Bailey replied that by law, multi-family customers to allocate their water bill and bill each unit separately, based on the number of bedrooms and so forth. She further explained that the usage of water from the shared common spaces cannot be allocated to the residents. Therefore, most residents get a rent bill and an allocated water bill or get one bill that combines the rent and the allocated water amount.

Committee Member Allyson McKay agreed with Ms. Bailey and said many of the new properties being built outside of tax credits have submeters installed, which does allow for individual units to view their usage, and under PUC rules they have the right to request invoicing from their complex. She also addressed the lack of data – consequently in the last several years the Apartment Association has been working with third-party billers to better allocate consumption. This type of data could be helpful for future multi-family research.

Ms. Bailey responded and said that data goes to the apartment complex, and SAWS can ask for that data to better understand consumption per unit. She also emphasized that the new electronic meters SAWS will be introducing

will help see the time of day the water was used, which will also gather better data. This future data will be beneficial, but for now SAWS only has the data available through the master meter.

Chairperson Gonzalez commented on the data that has been shared and recommends keeping multi-family in the General Class.

Committee Member Patricia Wallace responded virtually, "I agree with Chairwoman Gonzalez, based on the information presented and the data we have. I think multi-family should remain in the General Class. I also am in favor of keeping the current General Class rate structure."

Committee Member Genevieve Trinidad responded virtually, "I also agree with Pat in reviewing my notes. I was skeptical and everything, but I totally agree with keeping multi-family in the General Class." Chairperson Gonzalez asked the committee if there is a consensus to have multi-family remain in the General Class, no opposition was noted. Chairperson Gonzalez moved on to discuss the second decision point, which was the rate structure for the General Class.

Ms. Bailey addressed Committee Member Yakubik's suggestion which was to use a hybrid tiered structure similar to Dallas, which has a base tier rate at 10,000 gallons and peaking tiers beyond that.

Committee Member Steve Alaniz commented that the ten largest water and wastewater consumers in the General Class are also some of the largest employers in San Antonio. He suggested that it may be helpful to get data on the usage per employee for the top 10 largest water consumers.

Chairperson Gonzalez asked Committee Member Alaniz if he knows how many small businesses there are in San Antonio and what qualifies as a small business. Committee Member Alaniz responded about 85% of businesses in San Antonio are small businesses.

Chairperson Gonzalez asked Ms. Bailey if there is an estimated stratification of water and wastewater usage for small businesses. Ms. Bailey responded that she doesn't have a specific breakdown for small businesses, but the bill frequency data shows that 58% of the General Class bills do not use above 10,000 gallons.

Committee Member Woolfolk agreed with Committee Member Yakubik and would like to see an affordability tiered rate structure that would include peaking after a base consumption tier. He further explained that it is important to balance the structure and not make high water users pay too much and end up moving elsewhere. Ms. Bailey responded that there are two structures to consider – either a peaking structure or a tiered structure. In a peaking rate structure, a high-water user, like school districts, governmental agencies and HEB, can use water consistently and pay a lower rate rather than a tiered rate structure where they pay a higher rate.

Vice Chairperson Garcia mentioned that there should be a distinction made when talking about a high-water user like HEB because they have several plants that may use more water than their grocery stores.

Committee Member Woolfolk commented that he believes it is important to create an affordability tier focusing on startups and small businesses getting off the ground and maintain a peaking structure to shift costs. Ms. Bailey responded by saying when small business usage remains consistent, they are in the lower block paying \$4.80 per 1,000 gallons compared to their cost of service of \$6.22 per 1,000 gallons. If there is a consensus to widen the affordability to 10,000 gallons, staff can model that scenario.

Chairperson Gonzalez asked Committee Member Steve Alaniz if there is sense of how many small businesses shut down during COVID-19? Committee Member Alaniz responded that it was significant, about a third.

Chairperson Gonzalez mentioned that this could be an opportunity to create a specific tier for this small business group and asked the committee for their thoughts and feedback.

Ms. Bailey stated that they do not ask customers if they are a small business. Committee Member Woolfolk mentioned that if a small business uses about 3,000 gallons of water each month and their overall SAWS bill is about \$80, he doesn't know how meaningful that is on its overall cost of operations.

Chairperson Gonzalez asked the committee if there was a consensus on leaving the General Class rate structure as is. Committee Members Steven Alaniz, Preston Woolfolk, Jeff Harris and Karen Burgard responded to leave as is. Committee Members Pat Wallace, Tamara Benavides, Allyson McKay, and Genevieve Trinidad responded on the online chat to leave as is. The Chairperson asked again if there was consensus, no further opposition was noted.

CITIZENS TO BE HEARD (continued)

Dr. Meredith McGuire was able to virtually join the meeting. She shared the following concerns with the RAC Committee.

- Eliminate all classes at SAWS because there is unfairness among the rates between classes. There should be a single volumetric rate for all potable water usage.
- The diverse customers within the General Class, especially the top ten listed on Slides 16 and 17, are given incentives to use a lot of water and energy despite paying very little.
 - Provided an example and cited a recent article which referenced TowerJazz as using about 9% of the Vista Ridge water.

Irrigation Class Discussion

Ms. Ivey continued the presentation to discuss the Irrigation Class.

- Beginning in 2001, new General Class customers were required to have a separate irrigation meter for irrigation systems.
- For General Class customers who connected prior to 2001, SAWS assumes irrigation usage of 20% for multi-family and 29% for commercial or industrial.
- The current Irrigation rate structure is like the Residential inclining block structure with higher rates than the General Class.
- There are no wastewater charges for irrigation use because the water does not go down the drain like indoor usage.

Historical irrigation class usage varies with rainfall, but the average usage is trending downward over time. Ms. Bailey further explained that the last two decades have shown declining irrigation usage.

The current Irrigation rate structure includes a fixed charge of \$31.87 for a 1-inch meter, including EAA and TCEQ pass-throughs, with four increasing volumetric blocks.

- Block 1 includes up to 8,229 gallons per month at a rate of \$7.203 per 1,000 gallons
- Block 2 includes usage between 8,230 and 17,954 gallons at a rate of \$10.081 per 1,000 gallons
- Block 3 is the largest block in the structure with usage between 17,955 and 162,316 gallons at a rate of \$12.964 per 1,000 gallons
- Block 4 includes all usage above 162,316 gallons at a rate of \$16.566 per 1,000 gallons

If SAWS were to update the current Irrigation rate structure with the fixed charge from Residential Option 4, the fixed charge would decrease from \$31.87 to \$21.97, and the four blocks would see a slight increase.

Ms. Ivey continued to the decision points for the Irrigation class:

- Should we retain/modify the existing structure?
 - Number of blocks
 - Block sizes

Ms. Bailey commented that the first block in the updated Irrigation rate structure would comprise about 61% of the bills but only about 14% of the irrigation usage. Block 2 would comprise 11% of bills and about 11% of the irrigation usage. Block 3 would comprise 27% of the bills and 51% of irrigation usage. Block 4 would comprise 3.9% of bills and about 24% of irrigation usage.

Chairperson Gonzalez asked why the fixed charge would go down in the updated rate structure for Irrigation? Ms. Bailey explained that it would be tied to the Residential rates, whatever decision is made for Residential will be carried onto the General Class and Irrigation Class. The General Class and Irrigation Class rates also have the added conservation fee.

Committee Member Christine Drennon asked if this is an opportunity to recapture and reallocate to the Affordability program? Ms. Bailey replied that the \$8.2 million cost of the Affordability program is already allocated to all the classes' cost of service.

Committee Member Steve Alaniz asked what are the current complaints about the Irrigation rate structure? Ms. Bailey replied that back in 2015 some apartment complexes with around 400 units said that they did not get the same affordable allocation that the Residential class received. The Irrigation rate structure was adapted to expand the third block to address the multi-family customer complaints.

Chairperson Gonzalez asked for input from Committee Member Tamara Benavides, Hotel & Lodging Association, to voice any questions or concerns from this industry.

Committee Member Benavides replied that the hotel industry has been battling rising property taxes, inflation, staffing, and raising wages to \$15, and believes that higher rates could significantly impact the industry.

Ms. Bailey responded and said that this is not an increase in rates; it is a shift between the fixed charge and the volumetric rate. The fixed charge is going down and the volumetric rate is going up but at the end of the day the revenue generated is the same.

Committee Member Woolfolk asked between all the classes, Residential, General, and Irrigation, which class uses more water as a whole? Ms. Bailey replied that the Residential Class uses the most water at around 50 of water usage, then General Class followed by Irrigation, which is about 6% of usage.

Committee Member Woolfolk commented that he asked that question to see which class will see a larger impact from the rate structure changes.

Committee Member Alaniz asked who are the highest Irrigation users? Ms. Ivey responded that Marriott, Cibolo Canyon, and UTSA are among the highest Irrigation users.

Committee Member Benavides asked if all the Marriott hotels are bulked together? Ms. Bailey responded yes; it is a combination of all their accounts.

Committee Member Wallace had a question about the updated Irrigation rate structure, is the updated structure reflecting higher rates in the lower blocks and lower rates in the higher blocks? Ms. Bailey corrected Committee Member Wallace and said that the fixed charge decreases by approximately \$10, and the rest of the blocks increase minimally.

Chairperson Gonzalez asked if there is a consensus to maintain the current Irrigation water rate structure? Committee Members Cacie Madrid, Patricia Wallace, Tamara Benavides, Genevieve Trinidad agreed to leave the current Irrigation structure as is. No opposition was noted.

Committee Member Burgard requested an additional meeting or for the remaining meetings to be extended so that the committee is not rushing through items. Chairperson Gonzalez asked for a consensus to extend the upcoming two meetings by 30 minutes. The Committee affirmed.

Recycled Water Class Discussion

Ms. Bailey presented the Recycled Water System. SAWS built a loop around San Antonio which distributes treated wastewater through the recycled water “purple pipe” system.

Many businesses and companies can tap in and utilize the recycled water system:

- Landscaping / Irrigation
- Golf courses
- Cooling towers
- Other industrial/ manufacturing uses
- River flow – when you go downtown on the Riverwalk, that is mostly recycled water

There is a variety of customer types that use recycled water:

- 20% Federal/ Local Government
- 7% Golf courses
- 13% Healthcare
- 12% Manufacturing
- 13% Military
- 4% Education
- 31% Other
 - Examples of the companies in this list are Microsoft, Brooks City Base, and USAA

The type of usage for recycled water also varies:

- 25% Golf Course
- 26% Landscape
- 49% Mixed
 - They have one Recycled Water meter but can be used for many purposes like cooling towers and irrigation. Some examples of the group in the Mixed list are Toyota, all military bases, UT Health Science Center, Microsoft and NSA.

There are two types of recycled water Customers:

- Edwards Exchange customers – customers who transferred their Edward’s Aquifer rights to SAWS to receive a reduced Recycled Water rate.
- Non-Exchange customers – customers who did not exchange any rights and pay the higher charge for Recycled Water. The amount of water supplied is determined by the contract, however they are only charged for what they use. Newer contracts, which make up about 4% of Recycled Water customers, are take-or-pay.

Vice Chairperson Patrick Garcia asked if SAWS would ever charge non-Exchange customers the contracted amount and not only the usage amount?

Ms. Bailey responded that they would have to evaluate the contract and the ordinance and determine if it is renegotiable.

There are two Edwards Exchange customers and 83 non-Exchange customers. Some of the water that goes through the “purple pipe” system does not get billed. SAWS uses recycled water for operational purposes that they do not pay for. The water that is currently put into the downtown river to generate water flow is currently not being charged to the City of San Antonio.

Committee Member Joseph Yakubik asked if the pie chart of the recycled water usage is based off only the billed water? Ms. Bailey responded yes.

In 2001, SAWS entered into a Recycled Water Agreement with the City of San Antonio that expired in December 2021. The contract required SAWS to provide recycled water to the San Antonio River and Salado Creek, unbilled, in exchange for Edwards rights for 5,210 acre-feet. Subsequently, the Edwards Aquifer Authority only approved the transfer of 2,192 acre-feet, which is based on historical usage.

SAWS and the City of San Antonio staff are currently renegotiating the Recycled Water Agreement. The intent for the new agreement is to include take-or-pay terms, separate contracts for each site, and identify appropriate contractual volumes per site. For the San Antonio River and Salado Creek, the new agreement would charge the City of San Antonio the Exchange rate for the recycled water, which would generate an estimated \$800,000 in additional revenue.

Committee Member Smyle asked if this would also include the San Pedro Creek when it comes online? Donovan Burton, Vice President of Water Resources & Governmental Relations, responded yes that the City of San Antonio has an agreement with the San Antonio River Authority, and it is included.

The history of recycled water rates:

- In 2000, non-Exchange rates were initially set near potable water rates (General Class).
- No recycled water rate increases were implemented for more than a decade.
- 2009 RAC recommended recycled water rates increase based on Water Delivery rates for potable water.
- 2015 RAC recommended recycled water rates increase based on the weighted average change in residential potable water rates.

The % rate increase for recycled water was shown on slide 46. Committee Member Yakubik stated that the percentage rate increase for 2020 was 30.6%. Ms. Bailey reiterated that the rate increase was 19.2% for the average residential customer, based on the weighted average change for potable water rates.

For recycled water, the 2022 projected revenue per 1,000 gallons is \$1.57, while the total potable water revenue per 1,000 gallons is \$7.37. Therefore, recycled water customers are paying approximately 21% of the total potable rate. The other customer class comparisons are provided on slide 47.

2022 recycled water cost of service findings:

- Current rates recover 1/3 of total cost of recycled water system.
- 2022 Cost of Service study beneficially reallocated the entire shortfall to Residential and Irrigation Class customers based on the ratio of outdoor irrigation usage.
- 2022 Budgeted Revenue does not include additional revenue from the City of San Antonio for river flows
 - Staff recommends the benefit from projected additional City of San Antonio revenues be reallocated to classes based on beneficial reallocations used in 2022 Cost of Service study.

Direction from SAWS Board for recycled water rates:

- Evaluate existing recycled water rates
- Determine if rates should increase to recover a greater percentage of recycled water's actual cost of service
- Consideration should be given to:
 - Additional costs incurred by recycled water users
 - Value of Edwards Aquifer water rights exchanged for recycled water
 - Benefit to the community from recycled water use

Recycled water considerations:

- Capital investment made by customers to connect to the "purple pipe" system
- Additional cost to treat water for manufacturing use
 - Water and wastewater charges associated with reject water
 - Chemicals, labor, and equipment costs to treat
- Value of Edwards water received from Exchange customers
 - SAWS has received 3,437 acre-feet of permitted Edwards rights
 - Annual value is \$665,000 based on the going rate for Edwards leases
- Community benefits from recycled water
 - Frees up potable water to support community growth
 - River flows support vibrant San Antonio economy
 - Demonstrates San Antonio's commitment to the environment – SAWS has the nation's largest recycled water system

Vice Chairperson Garcia asked when the Edwards Exchange customers opt-in, are they leasing their rights or giving them to SAWS? Ms. Bailey responded that they are giving their Edwards rights to SAWS.

The 2019 RAC Recommendation for recycled water rates:

- Increase percentage of recycled water costs recovered from customers over time
- Increase revenue recovered by 15% in 2021 and 10% per year for the next four years
- Allocate unrecovered recycled water costs to other customer classes based on discretionary/outdoor irrigation usage (Residential and Irrigation Classes)

The 2019 RAC was suspended due to COVID, and the recommendations were not implemented.

Ms. Bailey continued to the decision point for the recycled water rates:

- Is the 2019 RAC recommendation for recycled water rates still valid?

Committee Member Jeff Harris commented that his company is a very large user of recycled water and while his thoughts may not change the decision, it seems appropriate to raise rates. His company uses recycled water for cooling towers and irrigation, they invested capital to connect and incur significant chemical makeup costs. The recycled water system is probably one of the most unreliable part of SAWS. Often times they have to go off of recycled water and have to go to potable water. He would caution against increasing rates too much so that we don't drive other customers back to the Edwards Aquifer. His company didn't give up their rights so they could go back to their wells. But they use recycled water for sustainability, community and all of those benefits.

Vice Chairperson Garcia responded and said that in 2019 he was on the RAC and spoke with several large, recycled water users, like Toyota and HEB and they had agreed that the 15% rate increase would not run them off.

Ms. Bailey responded to Mr. Harris' point that these recycled water customers would not shift back to potable water, but they may instead shift back to their Edwards Aquifer wells.

Chairperson Gonzalez asked if there was any negative feedback on the recycled water increase from 2019? Mr. Puente answered that he received a lot of questions about reliability, redundancy and predictability but there was nothing out of the ordinary as far as negative feedback.

Committee Member Steve Alaniz asked if there is data to show the change in Recycled Water cost of service over the last few years. If SAWS is seeing a significant increase in cost of service and not recovering the amount, seeing the cost of service over the last few years can help determine if 15% is reasonable.

Ms. Bailey responded that they could provide the cost of service for recycled water over time.

Committee Member Woolfolk asked if there is a certain ratio of recycled water cost of service vs. potable? Is there a huge difference? What would drive you to go to normal water? Ms. Bailey replied that the overall cost of service is \$4.81 per 1,000 gallons for recycled water and potable water is \$6.22 per 1,000 gallons. Overall, it is cheaper to produce recycled water than potable water, but SAWS is not charging the full cost of recycled water to the customer.

Committee Member Woolfolk asked why a customer would switch to potable water if it is more expensive than recycled water? Ms. Bailey responded that they might not go to potable water but go to pumping their own water, which would be significantly cheaper.

Chairperson Gonzalez asked the committee how they feel about the 2019 RAC recommendation? Committee Member Patricia Wallace responded that she thinks 15% may be too high for some customers and would not want customers to revert to their wells. She would be open to negotiating the percentage increase.

Vice Chairperson Garcia said that the 15% increase is a number that is four years old. If costs have increased in the last four years, the increase should reflect that and be higher than 15%. Ms. Bailey responded to Vice Chairperson Garcia that the 2022 cost of service is very similar to the costs shown to the 2019 RAC.

Committee Member Karen Burgard made a comment that this recommendation in 2019 was also pre-COVID, and things have changed a lot, and it should be kept in consideration when looking at the numbers.

Committee Member Drennon asked if recycled water usage was going down? Ms. Bailey responded and said no, that was irrigation usage that was trending down year over year. Over the last few years, recycled water usage has been fairly consistent. She explained that there are a few barriers when it comes to connecting to the recycled water system in terms of capacity and capital costs. In the last year, one Edwards Exchange customer reverted back to their Edwards well.

Committee Member Steve Richmond, San Antonio Restaurant Association, agreed with Committee Member Wallace. He proposed an initial 12% increase and 8% over the next five years. Ultimately, it is the same overall total, it would reduce the initial painful impact.

Committee Member Yakubik mentioned that it is 15% of \$1.57. It is a large percentage of a small number so it's not a significant increase. Back in 2019, even though it was the largest percentage it wasn't the largest rate increase per 1,000 gallons.

Ms. Bailey agreed to an extent and said that customers who do not use large amounts may not see a 15% increase on \$1.57, but the large customers that were mentioned earlier would have a larger dollar increase.

Chairperson Gonzalez reverted the committee back to the decision point and asked if they can come to a consensus? Committee Member Patricia Wallace asked Jeff Harris, as one of the largest recycle water users, if what would be a fair number, did he have a percentage increase in mind that was different than the 15%? Committee Member Harris mentioned that large customers can adapt to the increased cost, but he can't speak for mid-size and smaller companies.

Committee Member Woolfolk asked if it would be possible to see the impact of the 2019 RAC recommendation on the top 25 users of recycled water? Ms. Bailey replied yes, some examples can be provided. Vice Chairperson Garcia commented that in 2019 the recycled water increase started at 50% and then was discussed until landing on the 15% recommendation.

Chairperson Gonzalez asked if the committee was ready to decide on the recycled water rates? Committee Member Wallace said no that she would like to see the examples of what a 15% increase would look like to a mid-size or smaller company. She wants to make a more informed decision if 15% is the right number or not. She does not want the recycled water customers to revert to potable water or their wells.

Chairperson Gonzalez asked SAWS to provide examples of mid-size and large customer bills with the 15% increase and to provide the projected revenue. She also requested a recycled water recommendation from staff to better guide the RAC.

Mr. Puentes made a comment that it is important to note that some of the top users of recycled water also must take into consideration other costs if they must treat their water.

Committee Member Alfred Montoya would also like to know, out of the 83 non-Exchange customers, which of them have Edwards Aquifer water rights? Mr. Burton said that staff would research this item.

Committee Member Yakubik asked if anyone wanted to see any objective criteria for recycled water rates, specifically from the AWWA M1 Manual to be able to benchmark other programs. Ms. Bailey responded and said that they had researched other recycled water programs and their recycled water rates ranged anywhere from 20-35% of potable water rates. Committee Member Smyle stated that there was a 2019 AWWA study that covers several dozen recycled water programs. Ms. Bailey said that staff would research this item.

Recycled Water rate structure was tabled until the next meeting.

NEXT STEPS

- Continue Recycled Water Rate discussion
- Continue Residential Rates discussion
- Follow-up on rate options – all classes

CLOSING COMMENTS

Committee Member Joseph Yakubik stated that Councilman Courage had extended an invitation to the committee to attend the Municipal Utilities Committee Meeting on May 24, 2022.

ADJOURNMENT

Chairperson Gonzalez adjourned the meeting at 8:50 p.m.

NEXT MEETING

The next meeting of the RAC will be held on June 7, 2022, at 6:00 p.m. and will be a hybrid meeting offering attendance virtually and in person.