



SAWS RATE ADVISORY COMMITTEE MINUTES
SAWS Headquarters, 2800 U.S. Hwy 281 North, San Antonio, Texas 78212
Via WebEx Video Conference
Tuesday, June 28, 2022
6:00 p.m. to 8:30 p.m.

Committee Members Present:

Frances Gonzalez – Committee Chair
Patrick Garcia, Committee Vice Chair, San Antonio Manufacturers Association
Christine Drennon, District 1
Velma Willoughby-Kemp, District 2
Karen Burgard, District 3
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
Tamara Benavides, Hotel & Lodging Association
Allyson McKay, San Antonio Apartment Association
Preston Woolfolk, Northside Chamber of Commerce

Committee Members Absent:

Genevieve Trinidad, District 4
Mike Chapline, Outside City Limits
Stephen Lara, Balcones Heights

San Antonio Water System Staff Present:

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
Gavino Ramos, Vice President of Communications & External Affairs
Jaime Castillo, Chief Strategy Officer/ Chief of Staff
Phyllis Garcia, Senior Director of Financial Services/Treasurer

Lou Lendman, Budget Manager
Keith Martin, Senior Corporate Counsel
Donovan Burton, Vice President of Water Resources & Governmental Relations
Karen Guz, Director of Water Conservation

Consultants Present:

Jennifer Ivey, Carollo Engineers, Project Manager
Bridget 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 June 28, 2022, at 6:07 p.m.

CITIZENS TO BE HEARD

Chairperson Gonzalez started the Citizens to be Heard portion of the meeting. No citizens registered to speak.

OPENING REMARKS AND INTRODUCTIONS

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

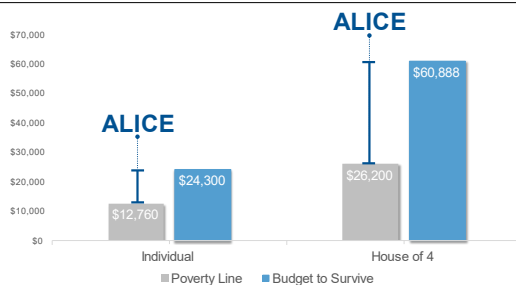
Chairperson Gonzalez welcomed United Way for a special presentation to the RAC.

Jason Aleman, Vice President of Ready Children, began his presentation and explained the mission “to unite the community to identify and solve our most critical issues” and vision “to live in a diverse and thriving community where everyone has the opportunity to achieve their potential”.

The presentation continued to explain ALICE (Asset Limited, Income Constrained, Employed). ALICE includes households with earnings above the Federal Poverty Level, but not enough to afford the bare-bones ALICE household budget. Based on 2018 Bexar County data, approximately 17% households earn less than the Federal Poverty Level and 35% are within ALICE (52% of households are not able to afford the survival budget).

Emily Kittrell, United Way Program Performance Analyst and Coach continued the presentation. Ms. Kittrell explained the household survival budget includes housing (which includes utilities), childcare, food, transportation, health care, technology, miscellaneous/savings and taxes and varies based on the type of household (i.e., single adult, one adult, one in childcare, two adults, single senior, etc.). An individual that falls within ALICE makes an annual income of \$12,760 compared to \$24,300 which is the budget needed to afford essentials. A household of four, two adults and two children, falls within ALICE with an annual income of \$26,200 compared to \$60,888, which is the budget needed to afford essentials. Ms. Kittrell explained how the Federal Poverty Level compared to ALICE on the presented slide below.

Who Is ALICE?



Sources: United Way of Texas, 2020; Federal Register, 2020

MISSION: To unite the community to identify and solve our most critical issues.

Vice Chairperson Patrick Garcia asked Ms. Kittrell what United Way is doing since the data was pre-pandemic and the statistics are probably going to be worse? Ms. Kittrell explained that United Way is not waiting for the new data, the 2018 data is compelling enough for their Board to start shifting their programs and working with their partners to support ALICE households.

Dr. Aleman and Ms. Kittrell thanked the committee members for their time and efforts serving on the RAC, while being mindful of communities in need.

STANDARD MEETING INFORMATION

Chairperson Gonzalez reviewed the minutes from the committee meeting on June 7, 2022. There was one edit requested. Committee Member Smyle requested that the minutes reflect the information on item #52 in the Requests and Responses Matrix.

OTHER RATE ISSUES

Mary Bailey, Vice President of Customer Experience & Strategic Initiatives, began the presentation on other rate issues.

Duplexes

Duplexes are currently billed under the Residential rate structure. Duplexes are only two units. Three or more units per meter are considered multi-family and fall under the General rate structure. A common complaint from duplex customers is that they should be provided more usage in each rate block.

In 2021, less than 1% of total residential accounts were attributed to duplexes, which is about 4,300 customers. Duplexes' average monthly usage is 6,956 gallons which is 20% more than the residential average. Ms. Bailey also pointed out that most utilities do not provide duplexes with more usage per rate block than single-family residences.

SAWS staff does not recommend a separate rate block for duplexes. Staff reported that the difference between duplex and single-family usage is not significant enough to support additional usage within each rate block.

Committee Member Christine Drennon asked about incorporating duplexes with multi-family units in the General Class. Ms. Bailey responded that duplexes would benefit from the recommended reductions to the Residential fixed charges.

Wholesale Class

Ms. Bailey continued the presentation on Wholesale Class water. The current rate structure includes a fixed charge and a 2-tier volumetric rate based on contracted volumes. The overall cost of service has increased by 3.8% before the affordability cost is allocated. Nearly all wholesale usage is within Tier 1, so the Tier 2 rate is intended to send a signal that they are exceeding their contracted amount.

The SAWS staff recommendation for Wholesale Class water is to maintain the current rate structure with a reduced rate differential for Tier 2. The Tier 2 rate differential will be reduced from a multiplier of 3.0x to 2.0x to reflect the impact of exceeding the contracted amount more accurately.

Wholesale Class wastewater has a current rate structure that includes a fixed charge and a uniform volumetric rate. The overall cost of service has decreased by 4.1% before the affordability cost is allocated.

SAWS staff recommends leaving the fixed charge as is for Wholesale Class wastewater and updating the volumetric rate with the final cost of service.

Drought Surcharge

SAWS currently has an approved drought surcharge. The surcharge is “to discourage discretionary water consumption by customers during any time designated by the City Council.” The drought surcharge is assessed during Stage IV of water use reduction measures. Any changes that need to be made to the existing drought surcharge should be evaluated in connection with SAWS policy related to drought management.

Donavon Burton, Vice President of Water Resources & Governmental Relations, continued the presentation and explained the Water Management Plan (WMP) development process. The Water Management Plan is a comprehensive 50-year outlook of SAWS water supplies and is a guiding document to meet long-term water needs of SAWS’ customers. It is updated approximately every five years.

Mr. Burton continued to present the core topics that are discussed in the WMP:

- Population
- Growth & Development
- Conservation
- Water supplies
- Climatic & Aquifer Conditions
- Integration & Infrastructure
- Wholesale Partnerships

Demand reduction focuses on conservation and water loss tools, which can be the following:

- Technology
- Water Rules
- Pricing Signals / Drought Surcharge
- Drought Scenarios
- Enforcement
- Nonrevenue Water

Mr. Burton explained the 2022 WMP Schedule:

- Cross Departmental Participation – Ongoing
- Board Meeting Briefings – Now through completion
- Community Outreach and Engagement – During Plan Development
- Internal Taskforce Kickoff – Spring
- Draft 2022 WMP – Summer/Fall
- Community Comment, Draft Plan – Summer/Fall
- COSA Council Briefing – Fall
- Board Consideration – By end-of-year

Committee Member Joseph Yakubik asked if there were any new major SAWS projects planned in the future. Mr. Burton replied that based on the 2017 WMP, SAWS has two projects set for 2040 and 2050 but they are expansions on current facilities and are not new projects.

Committee Member Christine Drennon asked if SAWS has ever considered implementing Stage 3 and Stage 4 water restrictions. Karen Guz, Director of Water Conservation, replied that Stage 2 is effective and typically results in the intended amount of conservation, but Stage 3 deliberately has a clause that requires SAWS to determine if it has enough supplies to meet customer demand. Therefore, we’ve never had to move into Stage 3 based on our supplies and conservation enforcement efforts.

Committee Member Drennon asked why there are water restriction stages if there is a drought surcharge. Ms. Guz answered that the city ordinance was crafted so SAWS can communicate water restrictions and utilize other tools

instead of going directly to a drought surcharge. Ms. Guz mentioned that this topic will be discussed and analyzed by the WMP task force.

Committee Member Yakubik asked Ms. Guz why the media is reporting record pumping numbers when she mentioned that Stage 2 water restrictions are sufficient. Ms. Guz answered that the SAWS team is rigorously enforcing the Stage 2 water restrictions and are getting the results needed. However, we would rather that it not escalate further.

UPDATED COST OF SERVICE

Jennifer Ivey, Project Manager at Carollo Engineers, presented the updated cost of service.

Recycled water had two major changes: added the revenue from the new City of San Antonio recycled water contract to sustain San Antonio River flow; and the recommended initial 15% recycled water rate increase for the first year. The additional Recycled Water revenue will be reallocated to Residential, General, and Wholesale.

The budgeted cost of the current affordability program was removed from the cost of service so the full cost of the recommended affordability rate structure can be recovered through a proposed affordability program cost recovery fee.

The original cost of service for water was estimated at \$500,655,114. The updated cost of service is \$496,464,611 with the removal of the current affordability discount program cost. Ms. Ivey explained the beneficial reallocation for the recycled shortfall (based on discretionary usage) and then the beneficial reallocation for irrigation (based on cost of service).

Committee Member Yakubik asked if the recycled water volume was updated after the City of San Antonio contract revenues were included in the analysis. Ms. Bailey explained that the consumption did not change since the City of San Antonio's consumption had been included in the original cost of service analysis.

Vice Chairperson Garcia asked if the negotiations with the City of San Antonio regarding the contract amount had been finalized? Ms. Bailey explained that the City Council has approved the contract and SAWS Board will be approving the contract in the July Board meeting.

The original cost of service for wastewater was estimated at \$284,801,446. The updated cost of service is \$280,798,808 with the removal of the current affordability discount program cost.

Ms. Ivey explained that these were the new cost of service targets for water and wastewater and were plugged into the rate model to determine the updated fixed and volumetric charges for each class.

REVIEW RAC RECOMMENDATIONS

Ms. Bailey addressed an email that was received from Committee Member Yakubik regarding item #52 of the Requests and Responses Matrix. During RAC Meeting #6, Committee Member Smyle mentioned that 20% of the residential customers use 50% of the water. Ms. Bailey explained that he was correct. In 2020, 20% of our customers used 52% of the water, which was 57% of the revenues. She also explained that by using Option 5 rate recommendations, the percentage of revenues would increase to slightly higher than 60%.

The RAC agreed on the Residential Water Rate Design by selecting Option 5 at Meeting #6. Option 5 includes a two-tier fixed charge and a five-tier volumetric rate. Volumetric rates were recalculated with updated cost of service and affordability program cost recovery charge, assuming no change to the proposed fixed charge and tier differentials. The recommended rate structure reflects the pricing objectives of affordability, conservation, and simple to understand.

Vice Chairperson Patrick Garcia asked if the revenue changed from going from eight volumetric rate tiers to five? Ms. Ivey answered that every option they presented generated the same revenue under the same usage assumptions.

Ms. Ivey presented the residential water bill impacts, which displayed the current rates, proposed rates and the cumulative percentage of bills. The proposed rates result in a decreased bill for water usage under 10,000 gallons and an increased bill for usage above that amount.

Ms. Ivey explained the histogram for residential water bill impacts by percentage change. The chart grouped percentages of rate decreases and increases in buckets based on the percentage of impacted customer bills. The largest share of bills, at 33.5%, is projected to have a 5 to 10% decrease in their water bill.

For the residential wastewater rate design, the RAC came to a consensus on Option 1 at Meeting #6. Option 1 includes a fixed charge and a two-tier volumetric rate. Volumetric rates were recalculated with updated cost of service and affordability program cost recovery charge, assuming no change to the proposed fixed charge and tier differentials. The recommended rate structure reflects cost of service, promotes affordability and is easy for customers to understand, meeting several previously outlined pricing objectives.

The line graph was presented that displayed the residential wastewater bill impacts showing that the proposed rates result in a decrease for all bills.

Most residential wastewater bills (50.9%) are projected to decrease by 5 to 10% according to the bill impact histogram on slide 35.

Ms. Ivey presented the residential affordability metrics for a combined bill at an “essential usage” level (5,062 gallons of water and wastewater). The proposed inside city limits and outside city limits rates generate a reduction in the combined bill at this usage level compared to existing rates. The combined bills under the proposed rates would account for no more than 3% of a household’s income at 100% of the Federal Poverty Level, 150% of the Federal Poverty Level, Bexar County median, and the ALICE threshold.

Committee Member Yakubik asked for clarification that ALICE median accounts for two adults and two children. Ms. Ivey responded yes.

LOW-INCOME RESIDENTIAL WATER AND WASTEWATER RATES

The RAC agreed on the low-income/affordability residential water Option B at Meeting #6, which includes a two-tier fixed charge and a five-tier volumetric rate. The cost of the low-income rate structure is recovered through an affordability program cost recovery charge, which is assessed on all non-affordability residential, general class, and irrigation usage. Proposed affordability program rates acknowledge the high percentage of poverty within the city and are equal or exceed the existing program benefits at all levels of usage. Proposed affordability program rates address the pricing objectives of affordability, conservation, equity, and simple to understand.

The low-income residential water rate design shows that there is no charge for Tier 1 usage for inside city limits and outside city limits. The volumetric rates for inside city limits and outside city limits only differ in their water delivery rates after Tier 2.

Committee Member Vaughn Caudill asked if a low-income customer that uses more water in certain months than others will see a large increase on their bill. Ms. Ivey answered that regardless of the month the customer will not pay more than what the customer is paying for the current Affordability Discount Program.

A line graph was presented that represents the water bill impact for low-income residential rates demonstrating a significant bill decrease using the proposed rates as compared to the current rates for individuals experiencing poverty at all levels.

A histogram was shown on low-income residential water bill impacts demonstrating that the largest group of 46.7% of applicable customers would receive a 40% to 60% decrease in their water bill.

The presentation continued to discuss low-income residential wastewater rates. The RAC agreed on Option B for low-income wastewater rates at Meeting #6. Option B is a two-tier volumetric rate with no fixed charge. The cost of the rate structure is recovered through an affordability program cost recovery charge, which is assessed on all non-affordability residential and general class usage. Proposed affordability program rates acknowledge the high percentage of poverty within the city and increase the benefits at all levels of usage. The histogram presented for low-income residential wastewater bill impacts showed the largest group of 57.6% of applicable customers would receive a 40% to 60% decrease in their wastewater bill.

The low-income residential affordability metrics for essential use combined bill impacts table showed the undiscounted bill with and without stormwater in comparison to the discounted bills.

Chairwoman Gonzalez asked Ms. Bailey if the 125% Federal Poverty Level threshold is a number that is defined by the City of San Antonio, and if so, will that increase the amount needed to fund the affordability program? Ms. Bailey answered that as she understands, the city determines the 125% threshold. She also added that if more people are added into the program, it will make the program cost increase, but that cost will be recovered from fewer customers.

Chairwoman Gonzalez asked if there can be a designated point of contact for this program. Gavino Ramos, Vice President of Communications & External Affairs, answered that SAWS staff will provide the name.

GENERAL CLASS WATER AND WASTEWATER RATES

The current General Class water rate design includes a fixed rate charge and a four-tier volumetric rate based on average annual consumption. The RAC agreed to maintain the current rate structure at Meeting #5. The fixed charge is reduced to match the Tier 2 Residential fixed charge plus the calculated conservation charge of \$1.70 per month for a 5/8-inch meter (scaled up for larger meters). The volumetric rates were recalculated with the updated cost of service and affordability program cost recovery charge assuming there is no change to the proposed fixed charge and tier differentials. The adjusted rates address the pricing objective of cost of service and conservation.

A General Class water bill impacts chart presented shows the proposed bills and the current bills are almost identical except at high monthly usage, where proposed bills are higher. A bill impacts table was also presented to show that low-usage customers would see a decrease of 4% to 5%, the medium-usage customers would see minimal to no difference in their bill, and high-usage customers would see a small increase of about 3% to their bill.

Vice Chairperson Garcia asked if the fixed charge cost varies by meter size. Ms. Ivey responded that yes, the fixed charge costs do vary by meter size. The calculation explanation is provided in the Requests and Response Matrix. The final report to the Board will show both the current and proposed fixed charge costs for each meter size.

Doug Evanson, Chief Financial Officer & Senior Vice President, added that the fixed charges decreased, regardless of the meter size.

At Meeting #5, the RAC came to a consensus on Option 1 for the General Class wastewater rate design, which included a fixed charge and uniform volumetric rate. The fixed charge is reduced to match the Residential fixed charge. The volumetric rates were recalculated with the updated cost of service and the affordability program cost recovery charge. It assumed no change to the proposed fixed charge. The proposed rates address the pricing objectives of cost of service and simple to understand.

A line graph comparing the General Class wastewater bill impacts was presented showing that the proposed bills are higher in comparison to the current bills for all usage levels except for usage under 1,000 gallons. A histogram presented showed that most bills (60.6%) are projected to increase by up to 10%.

A combined General Class bill impacts table showed that a low-usage customer would see a 2% to 3% decrease in their bill whereas medium- and high-usage customers would see a 6% to 7% increase.

IRRIGATION WATER RATES

The current rate structure for irrigation includes a fixed charge and a four-tier volumetric rate. The current rate structure maintains the current revenue contribution and sends appropriate conservation signals. The RAC came to a consensus to maintain the current rate structure (with adjusted tier breakpoints for 1,000 gallons) at Meeting #5. The fixed charge is reduced to match the Tier 2 Residential fixed charge plus the calculated Conservation charge of \$1.70 per month for a 5/8-inch meter (scaled up for larger meters). The volumetric rates were recalculated with updated cost of service and the affordability program cost recovery charge. An irrigation water bill impacts histogram was presented that showed that 44.1% of bills will see a 0 to 3% increase in bills.

Vice Chairperson Garcia asked how the irrigation class is broken down among the other classes. Ms. Bailey replied that almost all irrigation users are in the General Class.

RECYCLED WATER RATES

The current rate structure has two sub-classes (Edwards Exchange and Non-Edwards Exchange) and includes a fixed charge and a two-tier seasonal volumetric rate. Also, the current rate structure generates approximately 33% of the cost of the recycled water system.

The RAC agreed to maintain the current rate structure and affirm the 2019 RAC's recommended rate increase at Meeting #6. The 2019 RAC's recommendation was a 15% increase in the first year and 10% annual increase in years 2 through 5. The recommended increase brings recycled water revenue closer to cost of service while still recognizing the benefits of an alternative water supply, enhanced drought resistance, and environmental sustainability. Additional revenue from the new City of San Antonio recycled water contract was included in cost of service and beneficially reallocated back to residential and irrigation classes. The proposed rate increases plus the City of San Antonio revenue generates approximately 48% of the cost of the recycled water system in year 1 and 71% by year 5, assuming no change in the cost.

A recycled water bill impacts table presented showed the annual average rate per 1,000 gallons over the next five years for existing recycled water customers and the City of San Antonio.

RAC RECOMMENDATION HIGHLIGHTS

Ms. Bailey explained that the RAC's recommendation highlights are talking points that can be taken back to the committee's constituency to discuss the RAC's accomplishments and progress.

Ms. Ivey continued presenting the highlights of the RAC recommendations. The rate recommendations provide sufficient revenue to meet 2022 revenue requirements and are revenue neutral. The rate recommendations meet cost of service by customer class as determined by Carollo Engineers, the rate consultant.

Residential

For residential customers, 83% of water bills are projected to decrease. All residential wastewater bills are projected to decrease. The combined residential bill is projected to decrease 8.4% for essential water use (5,062 gallons per month). The fixed charge for most customers will decrease more than 20%.

Low-income Residential

The separate rate structure with reduced rates will replace the current discount program. The low-income residential rate acknowledges that low-income households may use more water due to larger household size

and/or older plumbing. All customers enrolled in the current Affordability Discount Program will see a reduction in their bill. The bill reductions range from 33% to 57% for essential water use.

General Class

The recommended General class rate structure lowered fixed charges, which will benefit small business/low-volume users. The inclining block rates remain tied to prior year average use, which ensures that customers with peak usage pay higher rates than consistent water users.

Irrigation Class

The inclining block rates will send strong price signals for discretionary outdoor water use.

Recycled Water

The rate recommendations for Recycled Water will begin to close the cost recovery gap while still providing an affordable alternative to potable water use

NEXT STEPS

Ms. Bailey presented next steps outlining that the RAC committee will be provided the draft report by July 15th. The RAC members' comments will be due by July 25th. The final report will be provided to the Board of Trustees on August 2nd. Community outreach efforts will begin in August. The City Council briefings regarding the RAC recommendations will be conducted in September or October. We will be seeking approval from our Board and City Council in November or early December. If the rate structure is approved, the new rates would take effective January 1, 2023.

Chairwoman Gonzalez asked Ms. Bailey to continue providing the RAC with changes and updates that may happen in the coming months with the efforts on the RAC recommendations.

CLOSING COMMENTS

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

ADJOURNMENT

Chairperson Gonzalez adjourned the meeting at 8:05 p.m.

NEXT MEETING

This was the last meeting of the 2022 SAWS Rate Advisory Committee.