

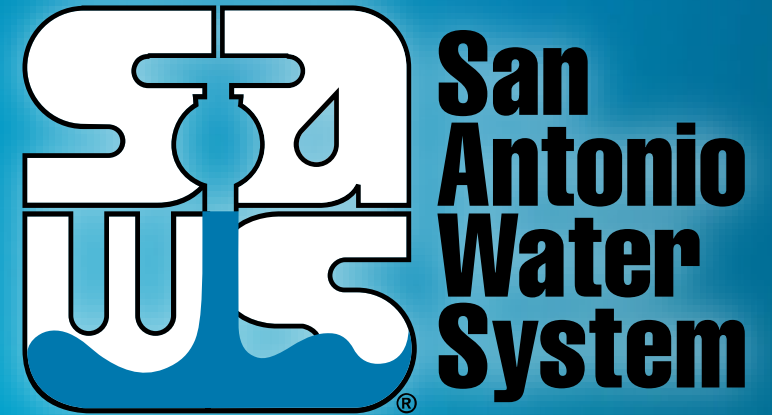
2019 Rate Study Consulting Services

Mary Bailey

VP – Customer Experience & Strategic Initiatives

Board Meeting

July 2, 2019

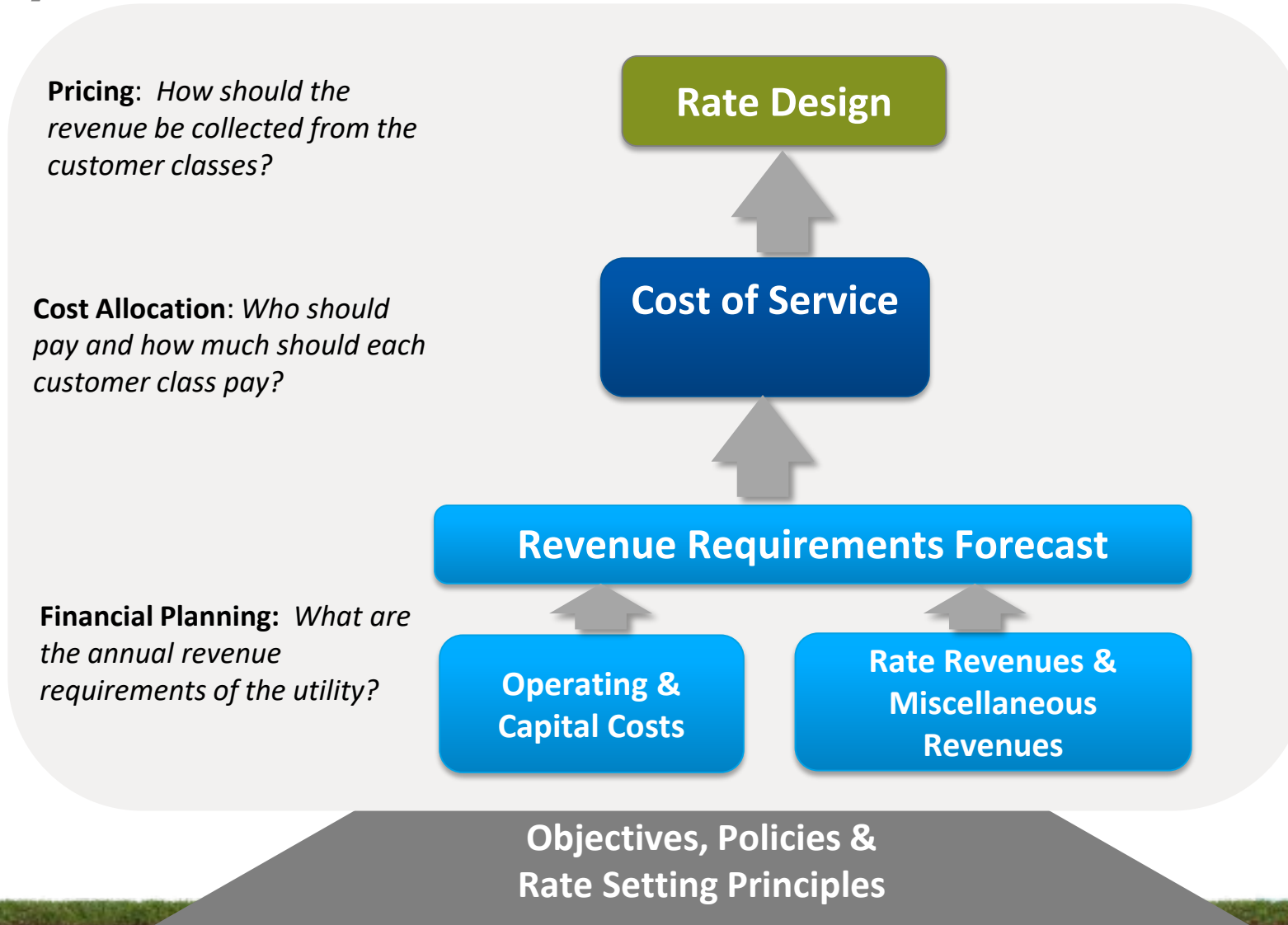


MAKING SAN ANTONIO
WATERFUL 

Overview

- SAWS periodically undergoes a cost of service rate design study (rate study)
 - Last review was completed in 2015, changes implemented in Jan 2016
- Purpose:
 - Ensure adherence to cost of service principles in accordance with industry standards
 - Develop pricing structures that reflect utility and community objectives
 - Revenue neutral – determines **how** costs are allocated and recovered from different types of customer classes
- SAWS conducts the rate study with the help of a rate consultant and the Rate Advisory Committee (RAC)

Rate Study Process



Consulting Services Request for Proposal

Scope of Services

- Provide education and support to SAWS staff, the Board and RAC
 - Understanding rate setting principles
 - Identification of underlying policies and objectives
 - Development of appropriate recommendations for modifications to SAWS existing rate structure
- Calculate cost to provide water delivery, water supply, wastewater and recycled water service
 - appropriate allocation of those costs to various customer classes

Consulting Services Request for Proposal

Scope of Services

- Develop rate models that allow for rates to be analyzed under various scenarios that consider such principles as: conservation, consumption characteristics of various customer classes, cost of service, customer affordability, equity and fairness implications, and financial stability
- Perform an affordability assessment of SAWWS rates, analyze current rate assistance offered to low-income customers and propose alternative affordability solutions

Proposals Received

NAME OF FIRM
Carollo Engineers, Inc.
ScottMadden, Inc.
Raftelis Financial Consultants, Inc.

Evaluation of Proposals

- Selection Committee consisted of six individuals from the CEO's Office, Customer Service, Legal, Contracting and Financial Services areas
- Each proposal was scored on firm's project approach, project team and team member experience, compensation proposal, understanding of San Antonio Socio-Political Environment and SMWVB participation
- Top two highest scoring firms were interviewed by the Selection Committee

Evaluation of Proposals

Interviews

- Firms were asked to:
 - Discuss firm and team member relevant experience
 - Discuss emerging trends in water and wastewater rate setting
 - Discuss experience with educating and building consensus with community advisory groups such as SAWWS RAC
 - Discuss experience with evaluating rate affordability and developing low income rate assistance solutions
 - Demonstrate rate models developed for previous rate study engagements

Recommendation

- Approve consulting agreement with Raftelis Financial Consultants, Inc.
- Approve funds in an amount not to exceed \$462,430.00



San Antonio Water System

**Cost of Service and
Rate Design Study**

Presentation / May 15, 2019

WHO IS
Raftelis?

**Established
in 1993**



National Experience



Local Knowledge



Depth of Resources



Excellent Communication Skills



Municipal Program Focus

Focused on Utilities



FINANCE

- Affordability analysis and program development
- Capital improvements planning/prioritization
- Debt issuance support
- Economic and financial evaluations
- Financial planning
- Rate, charge, and fee studies
- Stormwater utility development and support



ORGANIZATION

- Organizational, governance, and operations optimization
- Performance measurement and benchmarking
- Program planning & support
- Stakeholder engagement and communications
- Strategic planning



TECHNOLOGY

- Billing, permitting, & customer information audits
- Business process development
- Data management, analytics, and visualization
- Software solutions



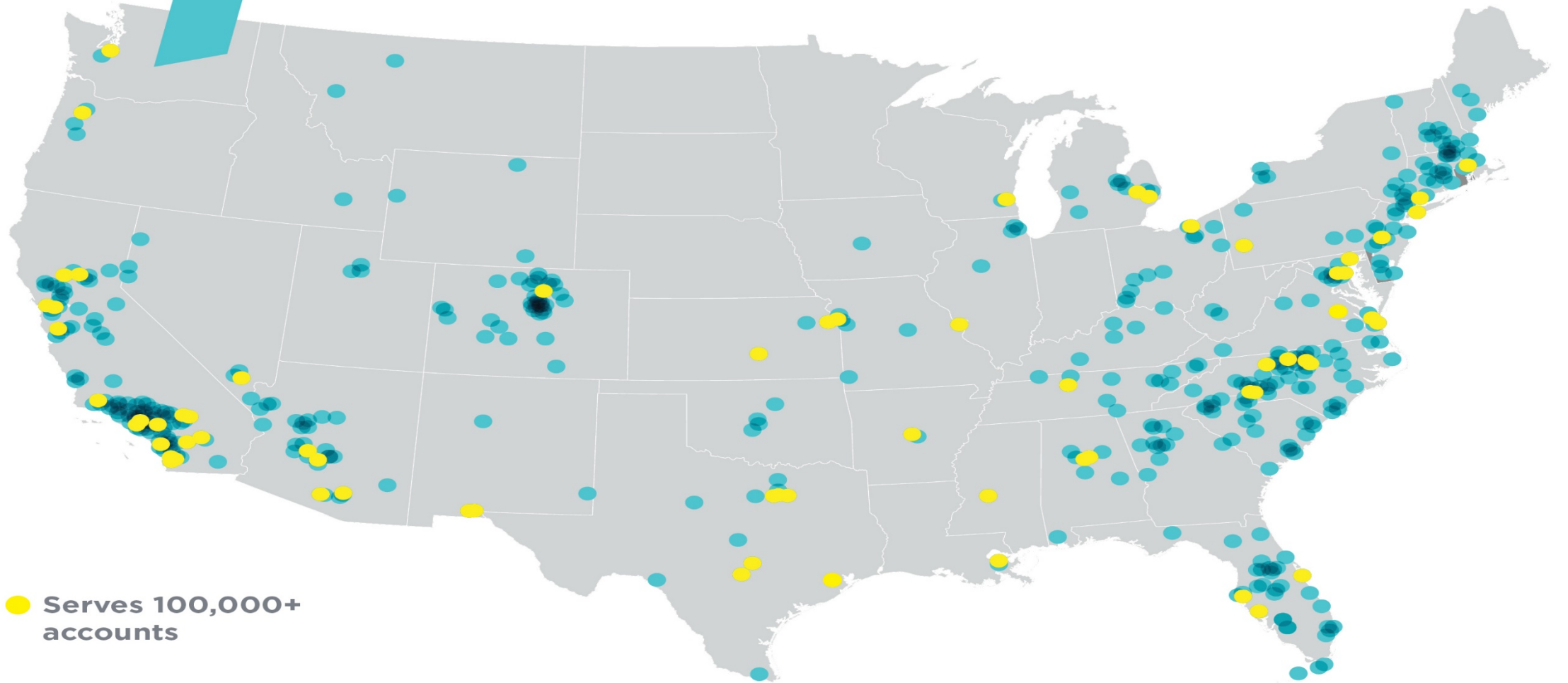
WITH

80+

UTILITY
FINANCIAL
CONSULTANTS,
RAFTELIS HAS THE
LARGEST
PRACTICE IN THE
NATION.

experience

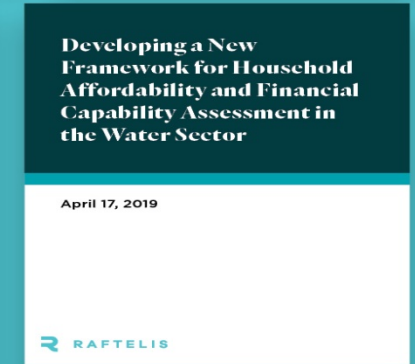
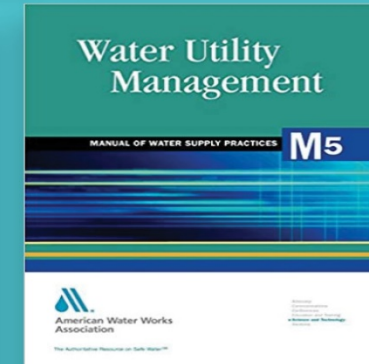
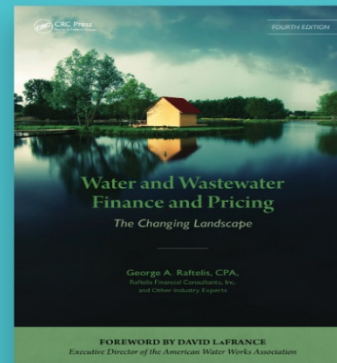
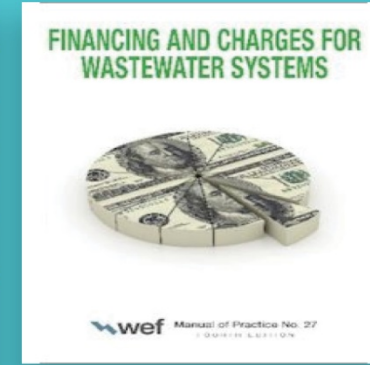
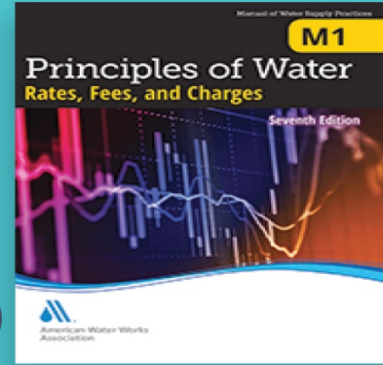
NATIONAL



● Serves 100,000+ accounts



We wrote the **BOOKS**





Affordability



Affordability Leaders in the Industry

- Affordability Symposium
- National Water Affordability Project looking at new measures and indicators
- Design and evaluation of Customer Assistance Program options
- Integrating demand and rate analysis with the affordability assessment (e.g., price elasticity by income category)
- Large city experience: Philadelphia, Phoenix, El Paso, Baltimore, New York City, Denver, Columbus, Cleveland/North East Ohio, King County/Seattle region, etc.



National Water Affordability Project

Develop recommendations for the EPA on a new methodology and guideline for assessing household affordability and community financial capability

Prepared for:



American Water Works
Association



Team Members:



Galardi Rothstein Group



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Matter Expert**
Senior Consultant (Raftelis)



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Brian Kirsch PhD

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Senior Consultant
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Tim Williams

Staff Consultant
Associate Consultant
(Raftelis)



Proposed Timeline

- Board approval of rate consultant – today
- Board appointment of RAC membership – Sept 2019
- RAC Meetings – Oct 2019 – May 2020
- Board, Council and Community Briefings – Jun 2020 – Oct 2020
- Final Board and Council approval of changes – Nov 2020
- Implementation of changes – Jan 2021

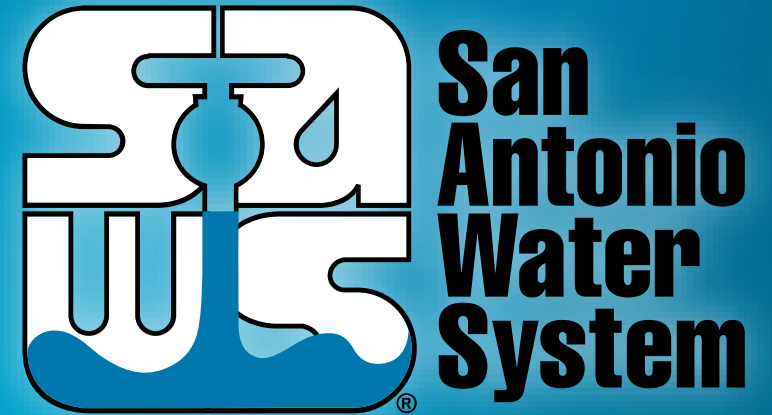
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Rate Study Objectives

Establishing objectives is an important first step in the process

OBJECTIVE	CRITERIA	POSSIBLE RESULTS
Affordability	<ul style="list-style-type: none"> Is bill affordable for economically disadvantaged customer? Is cost of essential service necessary for basic health and safety affordable for all customers? 	<ul style="list-style-type: none"> Discounts or separate rate structures depending on income Allocation of least expensive water supplies to basic/essential usage Lifeline rates
Conservation	<ul style="list-style-type: none"> Do pricing structures encourage permanent reductions in water usage through more efficient use of water? 	<ul style="list-style-type: none"> Emphasis on variable rate components Increasing tiered rates
Cost of Service	<ul style="list-style-type: none"> Are costs are recovered from customers and customer classes in proportion to the cost of providing service? Are allocation of costs fair and defensible? 	<ul style="list-style-type: none"> Different rates by class Tiered rate structures

Rate Study Objectives

OBJECTIVE	CRITERIA	POSSIBLE RESULTS
Customer Impact	<ul style="list-style-type: none"> Do we want to avoid large changes in customers' bills? 	<ul style="list-style-type: none"> Limited or phased rate structure changes
Drought Management	<ul style="list-style-type: none"> Should price signals be sent to encourage demand reductions during drought stages? 	<ul style="list-style-type: none"> Emphasis on variable rate components Increasing tiered rates with adjustments or surcharge at certain drought stages
Financial Sufficiency/Stability	<ul style="list-style-type: none"> Do rates recover the full cost of operations and provide for capital projects? Do we want to limit the negative impact of weather/usage restrictions on revenue? 	<ul style="list-style-type: none"> Modify ratio of fixed vs variable charges
Simplicity	<ul style="list-style-type: none"> Should rate structure be simple for customers to understand 	<ul style="list-style-type: none"> Less complex rate structure Emphasis on fixed rate components

Issues to be Evaluated

- Separate vs combined water rate structure (water supply & water delivery)
- ICL/OCL rate differentials
- Basis for residential wastewater charges (winter average vs water consumption)
- Affordability considerations
- Evolving industry practices

Rate Advisory Committee (RAC)

Purpose

- The RAC is a special purpose advisory group that provides input to the Board of Trustees and SAWWS staff on the cost of service and rate design study
- RAC Objectives:
 - Assist staff in establishment and prioritization of pricing objectives
 - Review and analyze results of the cost of service study performed by rate consultant
 - Provide input regarding potential changes to the existing rate and fee structure

Rate Advisory Committee (RAC)

15-20 Members

- Eligibility - any resident, property owner, Business Association, or business operator served by SAWS
- SAWS will request nominations from each City Council member
- Additional at-large members will be nominated by SAWS staff to ensure representation from all facets of SAWS customer base (e.g. Outside City Limits, Multi-family, Commercial, Recycle, Affordability)
- Term: RAC will disband at conclusion of Rate Study