

**MINUTES**  
**RATE ADVISORY COMMITTEE**  
**Eighth Meeting, October 21, 2014**  
**5:30 pm**

**RAC Members Present:**

Carroll Jackson, Chairperson  
Mark Guerrero  
Roberto Anguiano  
Mario Hune  
Howard Peak  
Ken Lawrence  
Mark Perry

Daniel Meza  
Allison Cohen  
John Davis  
James McNamara  
Michael Moore  
Gerardo Noriega  
Allyson McKay

**RAC Members Absent:**

Manuel Pelaez-Prada  
Jorge Garcia  
Larry Underwood

**Black & Veatch Consultants:**

Richard Campbell  
Robert Chambers  
Jeff Dykstra  
Blair Wisdom

**SAWS Staff Present:**

Doug Evanson, Sr. Vice President/Chief Financial Officer  
Mary Bailey, Controller  
Lou Lendman, Budget Manager  
Stephen Turner, Sr. Financial Modeler  
Robert Walker, Financial Analyst  
Mario Aguilar, Communications

**City of San Antonio Staff Present:**

Marion Gee, Public Utilities Office  
Alfred Chang, Public Utilities Office

**Citizen to be Heard Present:**

Debbie Kruciak  
Julie Cornelius  
Meredith (Mary) McGuire

Chairman Jackson opened by giving a brief description of the meeting's planned agenda and introduced the following citizens who had signed up to speak:

Ms. Debbie Kruciak is the Executive Director of the Rainbow House, a non-profit assisted living facility in San Antonio which provides long-term care for survivors of traumatic brain injuries. The facility houses thirteen residents. Ms. Kruciak stated that the Rainbow House has been struggling financially due to increased costs in all areas. Ms. Kruciak proposed that a water rate for non-profit agencies be established somewhere between the residential and commercial current rate. She also proposed allowing non-profit organizations to participate in winter averaging. Additionally, she indicated that a SAWS conservation employee did come to the facility and made several suggestions on how to save on water including decreasing the amount of weekly irrigation and purchasing a more efficient washing machine. Ms. Bailey clarified that when a commercial customer has the meter measuring both water use and irrigation use, that the customer is not getting charged sewer on the assumed irrigation. Ms. Bailey suggested that staff look at the commercial bill and see what can be done to help the Rainbow House's specific situation. However, she added, it would be a challenge to create a separate water rate for non-profit agencies, since there are many different kinds of non-profit organizations in San Antonio, some of whom may not require the same degree of assistance.

Ms. Julie Cornelius then addressed the committee regarding her recommendations concerning conservation strategies for large and large use properties. She handed out the attached statement which details her thoughts on the issue. Ms. Cornelius wants SAWS to impose higher water rates for large property and large water use property owners who are not in compliance with the requirement to have their irrigation systems inspected annually. Additionally, she recommends that substantial fines be imposed under such conditions on top of the higher rates. Ms. Bailey clarified that if a property owner has an irrigation system and uses more than 1,000,000 gallons a year, then the property owner is required to have an annual irrigation inspection. SAWS currently does not have a penalty for customers who are not in compliance. Ms. Bailey stated that the RAC has the opportunity to examine Ms. Cornelius' recommendations as part of the Rate Study process. In response to a question by Mr. Hune, Ms. Bailey stated that staff would find out how many customers would qualify to have their irrigation systems inspected annually.

Dr. Meredith McGuire was the next speaker stating that she represented the Alamo Group of the Sierra Club. Dr. McGuire stated that she, in conjunction with Dr. J. Spickard, presented to City Council last week the results of a study that examined the impacts of increased utility bills on low income families. Please see the Dr. McGuire's summary handout pages which are attached. She stated that when households are over burdened by the cost of housing including utilities, those families will have less money for not much more than the bare necessities. She stated that if SAWS cannot pay for the Vista Ridge water project without causing more adverse impact to 50% of our citizens then SAWS cannot afford the Vista Ridge deal. Utility fees should rise only in proportion to how much the people's income rises. She stated that the average income in San Antonio has dropped in recent years on average. The demand charge is a reasonable fee to charge all

businesses and residents that use a disproportionate share of water. It should not apply to anyone else. Dr. McGuire further stated that the Vista Ridge cost should be paid for by the large companies and organizations that would benefit from the water, not the regular citizens.

Mr. Jackson thanked the speakers. Ms. Bailey asked the committee members if there were any questions related to the last presentation to the RAC on September 16. Mr. Peak asked how the Vista Ridge will impact the rate structure. Mr. Evanson stated we have some preliminary cost estimates; if City Council approval of the project is received on October 30, staff will be in a position to discuss in more detail how the costs of Vista Ridge might be folded into the rate structure.

Mr. McNamara asked for more details of the rate structure impact of Vista Ridge. Mr. Evanson stated that staff has projected an impact of 16% higher monthly charges for the average residential customer due solely to Vista Ridge costs; he added that for customers using more than average amounts of water the impact will likely be greater than 16%.

The Black & Veatch consultants Richard Campbell, Robert Chambers, Jeff Dykstra and Blair Wisdom then began their presentation entitled “Rate Setting Process”. The presentation focused on the wastewater rate structure.

Mr. Hune asked if the revenue requirements presented included overall Sanitary Sewer Overflow (SSO) mitigation operations. Ms. Bailey stated that it did and the cost represents what SAWS needs to recover from the wastewater rates, with the exception of the wholesale costs, which will be discussed at a later meeting.

Mr. Meza asked for a definition of the General Class. Ms. Bailey stated that General class includes any commercial business, industrial business, and currently, multi-family customers. For the purposes of the presentation, however, the consultants are assuming that multi-family customers would be broken into its own separate class. She clarified that staff already tracks multi-family consumption so separate data concerning multi-family consumption is already available.

With respect to slide #12, Mr. Evanson pointed out that the primary reason why it appears that the current wastewater rate structure is over recovering revenue from residential wastewater customers is because customer use per bill has declined since the last rate study was completed in 2010.

Mr. Jackson asked if implementation of the last Rate Study’s recommendations was able to achieve cost of service parity among the different wastewater classes. Mr. Evanson stated that during the last study, much more attention was paid to developing a tiered water supply fee rate structure; there was not sufficient time spent on redefining the wastewater rate structure.

Mr. Moore pointed out that the residential wastewater class could break even if changes are made to the rates among all of the classes to ensure cost of service recovery. Ms. Bailey stated that this is the essential question staff is asking the committee: does the

RAC wish to alter rates immediately to eliminate the over-recovery of revenues for the residential class at the risk of causing major offsetting rate increases to the General and Multi-Family classes or do we phase in the changes over time? Mr. Moore stated that he thought that apartment complexes should be in good shape and not be too adversely impacted by a rate increase; he thought SAWS Conservation programs such as the installation of low-flow toilets at many apartment complexes have created significant savings for apartment management companies.

To further clarify the question regarding the timing for achieving equitable cost of service recovery among classes, Ms. Bailey pointed to the timeline for required wastewater rate increases over the next couple of years as presented on slide 14. These rate increases, she stated, are needed to meet the requirements of the SSO Consent Decree. An option to consider is to keep residential wastewater rates relatively constant while adjusting only commercial and multi-family rates over the next couple of years so that the cost of service recovery among the classes could become more equitable.

Mr. Meza asked for a recap of the process and timing for finalizing the Vista Ridge contract and for a clarification of when SAWS becomes financially committed. Mr. Evanson gave a brief synopsis of the project. He stated that staff would provide more information at the next committee meeting. He emphasized that SAWS would not be spending any money on the Vista Ridge Project until the contract has achieved Financial Close which is at least 18 to 30 months away. If the City Council approves the contract on October 30, 2014 that decision only paves the way for proceeding to the Development Phase of the project which must be satisfactorily completed before the Financial Close can occur. The purpose of the Development Phase, or Phase I, is to provide time for both parties to perform their due diligence to ensure that all contract commitments can be met. During this period, either party can opt out of the contract altogether. If a party does opt out, that party must pay the contract-related expenses incurred by the other party up to that point in time; if SAWS opts out during Phase I, the expenses it would have to reimburse would be capped at \$40 million.

Dr. Perry asked if wastewater rates would be impacted at all by the Vista Ridge project. Mr. Evanson said no, they would not be impacted.

Mr. Meza asked if there would be an impact on 2016 rates from the Vista Ridge project. Ms. Bailey stated that SAWS may need funding in 2016 water rates for beginning design and construction of the infrastructure needed to integrate with the incoming Vista Ridge pipeline and receive the water into the SAWS system by 2019. Mr. Noriega asked for the location of the primary Vista Ridge water receiving infrastructure. Mr. Evanson stated that the receiving water tanks would be located in the Stone Oak area.

Mr. Moore asked if any of the consultant or legal expenses to be incurred by SAWS during the Development Phase can be capitalized. Mr. Evanson said no since the capital costs for the project are going to be incurred by the Vista Ridge Consortium, not SAWS.

Mr. McNamara asked that staff clarify the relationship of the Vista Ridge project with the wastewater rate alternatives being presented by the consultants. He asked if added

wastewater capacity would be needed as a result of the added water supply from Vista Ridge. Ms. Bailey said that we have sufficient wastewater capacity to meet projected growth and that added water from Vista Ridge is intended to help meet that projected growth.

With regard to Vista Ridge's relevance to wastewater rates, Ms. Bailey suggested that one way to help achieve greater overall equity for the residential class, given the current over recovery of residential wastewater revenues, would be to keep the residential wastewater rate structure unchanged as a way of offsetting somewhat the impact of the higher water rates needed to support the Vista Ridge project.

Mr. McNamara stated that he thought it illogical to have wastewater rates increase when consumption is not increasing. Ms. Bailey responded by saying that increased wastewater rates are needed to provide resources to comply with the SSO Consent Decree requirements for major capital improvements to the sewer system. Mr. McNamara further stated that he thought frequent wastewater rate increases are a problem especially if we are promised "savings" later from the capital improvements paid for by the rate increases. He wants a justification for rising costs. Mr. Evanson emphasized again that mandated compliance with the SSO Consent Decree was the biggest driver in increased wastewater costs; he added that staff will provide more information on rate increase drivers at the next meeting.

Following this discussion on Vista Ridge, Ms. Bailey asked the committee for feedback on the issue of having different rates for different wastewater customer classes. No objections were given to the Rate Study proceeding under this assumption.

Ms. McKay asked for a breakdown of the wastewater cost of service for the alternative Multi-Family Class. Ms. Bailey referred her to slide 11 of the consultant's presentation which shows the percentage allocations of costs by class. She added that the structure of the alternative Multi-Family class assumed no line cleaning costs directly attributable to apartment complexes. All of the alternative rates presented by the consultants are derived by the volume of consumption by class, not from any subjective factors.

In connection with slide 16, Mr. Evanson stated that the tiered meter charges to be presented as part of Scenario 1 could be modified in a new scenario with less dramatic differences between the various meter charges. This would help acknowledge the higher cost of wastewater service for large water users with large meters and mitigate the impact of the otherwise higher meter charges for lower consumption customers.

With regard to the scenario comparisons for the alternative Multi-Family Class on slide 23, Mr. McNamara pointed out that higher charges for Multi-Family customers relative to General Class customers will not have the same conservation motivating impact on those families living in apartment complexes that do not have sub-metering for individual apartment tenants. Ms. Bailey agreed saying it is hard to make assumptions about usage in individual apartments.

Ms. Bailey then asked the committee to provide feedback on the issue of wastewater meter charge tiering. Mr. Hune stated that he did not like tiering since he believes that businesses will simply pass on the added costs to their customers. Mr. Noriega stated that he liked tiering as a means of ensuring that large usage customers would more adequately cover their cost of service. Col. Lawrence pointed out, in response, that small businesses should not be adversely affected by this tiering since they use less water anyway. Mr. Evanson stated that most General Class customers have 5/8" meters anyway.

The consultants then presented background information concerning their upcoming analysis of the Sewer Surcharge. The Sewer Surcharge is assessed to businesses that discharge waste into the sewer system that contains contaminants in excess of normal domestic sewage concentrations. The Surcharge recovers the cost of treating the excess waste. As part of the Rate Study, the consultants have been asked to assess the impact of adjusting the basis for calculating the Surcharge. Currently, one of the two factors used in the calculation is Biochemical Oxygen Demand (BOD) which measures the oxygen uptake of microorganisms during the degradation of organic matter. The consultants are evaluating the benefit of substituting the BOD factor with Chemical Oxygen Demand (COD) which measures the strength of wastewater chemically, more accurately and more quickly than testing for BOD. While using COD may be more accurate, using the factor may also create unforeseen and widely varying surcharge adjustments to current customers. The consultants will be evaluating the degree to which use of COD, as opposed to BOD, impacts current Surcharge bills.

The next meeting of the committee is scheduled for Tuesday, November 18, 2014. At that meeting, time will be set aside for more follow-up discussion on the different water and wastewater rate scenarios presented thus far. Additionally, more background information on the Vista Ridge Project will be presented.

Mr. Jackson adjourned the meeting at 7:56 pm.