

**THIS IS A DRAFT AND WILL BE REPLACED BY THE FINAL, SIGNED
ORDINANCE OR RESOLUTION ADOPTED BY CITY COUNCIL.**

AN ORDINANCE

AUTHORIZING A RATE INCREASE OF 5.1 PERCENT TO THE SAN ANTONIO WATER SYSTEM'S WATER DELIVERY, WATER SUPPLY, AND WASTEWATER BASE RATES (SYSTEM AVERAGE); CORRESPONDING TARIFF AMENDMENTS TO CHAPTER 34 OF THE SAN ANTONIO CITY CODE TO IMPLEMENT THE RATE ADJUSTMENT; AND AMENDMENTS TO THE AFFORDABILITY DISCOUNT PROGRAM FOR QUALIFYING LOW-INCOME CUSTOMERS.

* * * * *

WHEREAS, pursuant to Chapter 1502 of the Texas Government Code, the City Council, acting in its regulatory capacity, has original jurisdiction over the rates of the San Antonio Water System (SAWS) and shall set rates sufficient to cover all operating, maintenance, depreciation, replacement, improvements, and interest charges in connection with the SAWS utility system, and such rates shall cover all outstanding debt against the system, including any sinking funds established to pay outstanding public securities; and

WHEREAS, the City Charter created the position of Supervisor of Public Utilities authorized to oversee the activities of SAWS and with regards to proposed rate adjustments, review and assemble the facts which are essential to the proper determination of cost of service necessary for the City Council to establish reasonable and prudent utility rates; and

WHEREAS, SAWS operates a combined water, chilled water and steam, and wastewater utility system on behalf of the City of San Antonio (City), which serves approximately 368,400 water and 416,600 wastewater customers in the San Antonio metropolitan area; and

WHEREAS, on November 18, 2013 the SAWS Board of Trustees adopted a resolution (Board Resolution) recommending an increase to current customer rates by a system average amount of 5.1 percent, which will increase annual revenues by \$23.6 million, in order to meet the financial requirements of the 2014 Annual Budget Estimated Sources and Uses of Funds included in the approved Board Resolution (attached as **Exhibit A**); and

WHEREAS, the system average 5.1 percent proposed rate adjustment will increase (i) Water Delivery Service rates by 2.5 percent; (ii) Water Supply Service rates by 13.1 percent; and (iii) Wastewater Service rates by 3.8 percent; and

WHEREAS, the proposed rate adjustment will affect rate classes in the Water Delivery, Water Supply, and Wastewater service categories, but will not make any changes to the rate design structure approved by the City Council on June 17, 2010 in Ordinance No. 2010-06-17-0532; and

WHEREAS, in 2011, SAWS projected a 13.5 percent rate increase for Fiscal Year 2014, but was able to reduce the rate request to 5.1 percent through the following adjustments: (1) Operation and Maintenance (O&M) budget cuts (2.9%); (2) increased revenue projections (2.7%); (3) capital financing savings (1.6%); (4) postponed procurement of large scale water supply contracts (0.6%); and (5) capital budget reallocations (0.6%); and

WHEREAS, over the next five years SAWS is facing capital expenditures in the amount of \$1.44 billion to fund a capital improvement plan (CIP) to upgrade wastewater infrastructure (\$800 million), diversify water resources (\$253 million), and develop additional water distribution capacity (\$374 million); and

WHEREAS, in order to meet the financial demands of these infrastructure projects, SAWS foresees the need for annual rate increases through 2018; and

WHEREAS, the primary drivers for the rate adjustment are O&M and capital expenditures related to the wastewater system associated with a Consent Decree entered in 2013 with the Environmental Protection Agency (EPA Consent Decree); O&M and capital expenditures related to water supply acquisition and diversification projects; and continued growth in O&M expenses associated with the funding of *other post-employment benefits* (OPEB) expenses as required by Government Accounting Standards Board's Statement No. 45 (GASB 45); and

WHEREAS, SAWS continues to maneuver through several difficult operational initiatives to provide reliable services to customers while minimizing impact on rates, including: (1) EPA Consent Decree – cleaning intensive plan reduced sewer system overflows (SSOs) by 30 percent during 2012-13 period; (2) Drought Management – challenges of reduced water supplies have been met through conservation measures, water supply from the Aquifer Storage & Recovery (ASR) facility, and new pipeline to access Carrizo Aquifer water supply; and (3) Operational Efficiencies – 2014 budget was reduced by over \$10 million in operational efficiencies, study conducted by PA Consulting Group recognizes \$8.3 million in potential savings by 2015, and SAWS has created Innovation & Efficiency Department; and

WHEREAS, the SAWS bond covenants require system revenues to be applied based on the following flow of funds priority: (1) O&M expenses; (2) debt service and reserve fund requirements; (3) city general fund transfer; (4) equal transfer to Renewal & Replacement (R&R) Account; and (5) remainder to the R&R Account; and

WHEREAS, the SAWS revenue requirement for Fiscal Year 2014, including the proposed 5.1 percent system average rate increase, is estimated to be \$546.3 million allocated among the flow of funds categories: (1) O&M expenses - \$260.3 million; (2) debt service - \$182.5 million; (3) city transfer - \$12.9 million; and (4) R&R Account transfer - \$90.6 million; and

WHEREAS, SAWS made two presentations to the City Council in support of the proposed rate increase – the first on October 2, 2013 focusing on the utility system's revenue requirement, impact on customer rates, and adjustment to the Affordability Discount Program (attached as **Exhibit B**), and the second on October 17, 2013 covering rate design, water supply strategy, and two-year rate request plan (attached as **Exhibit C**); and

WHEREAS, on November 6, 2013, the City Council held a “B” Session in which it heard the recommendation of the Supervisor of Public Utilities supporting the adjusted 5.1 percent system average rate increase for Fiscal Year 2014 (the presentation is attached as **Exhibit D**); and

WHEREAS, the Public Utilities Office of the Finance Department, under the direction of the Supervisor of Public Utilities, conducted a review of the proposed rate adjustment by focusing in the following areas: (1) Fiscal Year 2014 CIP for water supply resources, water delivery network, and wastewater infrastructure; (2) operations and maintenance expenses; (3) economic/rate model and plan; (4) sales forecast; (5) cash flow analysis; (6) key financial targets; (7) revenue requirement; (8) credit considerations; (9) bill impact analysis; and (10) adjustment to the Affordability Discount Program; and

WHEREAS, SAWS has developed multiple Affordability Programs, including: (1) Affordability Discount Program; (2) Project Agua (Payment Assistance); (3) Senior Citizen Billing; (4) Disability Billing; (5) Plumbers to People; (6) Laterals to People; (7) Sewer Laterals Reimbursement; (8) Payment Arrangements; (9) Conservation Makeover; and (10) Leak Adjustment; and

WHEREAS, SAWS intends to increase funding for the Affordability Discount Program by 15 percent from \$2.2 million to \$2.5 million and proposes the following adjustments to the Program for Fiscal Year 2014 (applicable to eligible customers receiving water and wastewater services):

Poverty Level	2013 Bill Discount	2014 Bill Discount	Discount off Average Bill of \$55.70
50%	\$12.97	\$13.63	24%
75%	\$9.07	\$9.53	17%
100%	\$6.49	\$6.82	12%
125%	\$5.17	\$5.43	10%

WHEREAS, based on the financial analysis conducted by the Office of Public Utilities focusing on the SAWS proposed budget for Fiscal Year 2014, the Supervisor of Public Utilities recommends a system average rate increase of 5.1 percent to the SAWS water supply, water delivery, and wastewater base rates to become effective January 1, 2014 as set out in his “City of San Antonio Interdepartmental Correspondence – Report on Proposed Adjustment to SAWS Rates and Rate Structure” dated November 6, 2013 in order to maintain the financial integrity of the utility system; and

WHEREAS, the Supervisor of Public Utilities makes the following policy recommendations to SAWS: (1) continue to work with the City to study the utility system’s pension and benefits plans and associated costs; (2) continue to provide quarterly written progress reports to the City related to the SSO program which outline performance of the program to include operational statistics such as miles of lines cleaned and televised and related financial information; (3) continue briefings to City Council every other month – agenda to be managed by the City and should be focused on financial performance and key policy issues, such as water supply projects, drought management plan, conservation initiatives, and rate structure (these key issues should be

aligned from a policy perspective); and (4) continue to implement, as applicable, efficiencies identified in the recently completed efficiency study by PA Consulting Group; and

WHEREAS, the proposed rate adjustment is expected to increase monthly rates for the average residential customer by \$2.58 to \$52.91 (excluding mandatory regulatory fees); and

WHEREAS, the proposed 5.1 percent system average rate adjustment and increased funding for the SAWS Affordability Discount Program is consistent with Section 1502.057 of the Texas Government Code which requires municipal utility rates to recover all operating, maintenance, depreciation, replacement, improvement, and interest charges in connection with the utility system; and any outstanding debt against the system; **NOW THEREFORE:**

BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF SAN ANTONIO:

SECTION 1. After holding public hearings and consideration of the SAWS proposed rate adjustment, the City Council hereby approves a system average rate increase of 5.1 percent to the Water Supply, Water Delivery, and Wastewater service base rates, as discussed above, which is intended to generate additional annual revenues in the amount of \$23.6 million.

SECTION 2. All other recommendations of the Supervisor of Public Utilities are approved.

SECTION 3. The adjusted rates for all affected customers classes are set out in **Exhibit E**, which is incorporated to this Ordinance for all purposes. Chapters 34 of the San Antonio City Code is amended by adding the underscored words, rates and fees, and deleting those struck through words, rates and fees as set out in **Exhibit E**.

SECTION 4. Within 30 days following the effective date of this Ordinance, SAWS shall send notification of the new rates to all affected customers by direct mail or electronic message for customers that have elected to receive electronic invoices.

SECTION 5. The adjusted rates are based on the cost of service method and were reviewed by the Supervisor of Public Utilities, and based on the testimony presented and analysis conducted by SAWS and the Supervisor of Public Utilities, the City Council finds and determines that said rate adjustments are fair and reasonable, equal and uniform, nondiscriminatory, and necessary to meet the revenue requirements of the SAWS utility system.

SECTION 6. This Ordinance shall become effective immediately upon passage by eight (8) votes of the City Council and if passed upon fewer than eight (8) votes after the tenth (10th) day after passage thereof. The revised rates as set out in **Exhibit E**, and as approved by this Ordinance, shall become effective on January 1, 2014 and implemented consistent with the SAWS January 2014 billing cycle.

PASSED AND APPROVED, this 21st day of November 2013.

M A Y O R
Julián Castro

ATTEST:

APPROVED AS TO FORM:

Leticia M. Vacek, City Clerk

Michael Bernard, City Attorney

DRAFT