

**CITY OF SAN ANTONIO
INTERDEPARTMENTAL CORRESPONDENCE
CITY MANAGER'S OFFICE**

TO: Mayor and City Council
FROM: Ben Gorzell, Chief Financial Officer
COPIES: Troy Elliott, Deputy Chief Financial Officer, Finance; Rogelio Pena, Assistant City Attorney
SUBJECT: Report on Proposed SAWS Rate Adjustments for 2018 and 2019
DATE: November 1, 2017

EXECUTIVE SUMMARY & RECOMMENDATIONS:

As presented in the October 18, 2017 B-Session, SAWS has completed their annual budget process and is requesting approval of rate adjustments of 5.8% and 4.7% for 2018 and 2019 respectively. The drivers of the rate increase discussed at the B-Session were:

- Capital projects in 2018 and 2019 focused on water and sewer infrastructure:
 - Replace and upgrade sewer mains to comply with the Consent Decree with the EPA on Sanitary Sewer Overflows (SSOs); and,
 - Address aging infrastructure in the Water Delivery system
- O&M needs in 2019 including:
 - Costs associated with the anticipated first year rollout of a phased implementation of Automated Metering Infrastructure (AMI) contingent upon the results of the business case analysis (2017) and a pilot study (2018); and,
 - Operating reserve increases required by the bond indenture for the additional O&M cost from the Vista Ridge Project scheduled to start in April of 2020.

The Public Utilities Division of the Finance Department ("City Staff") conducted a comprehensive review of the proposed rate adjustments for 2018 and 2019, as well as SAWS 5-year plan through 2022.

City Staff recommends approval of the proposed rate adjustments and makes the following recommendations:

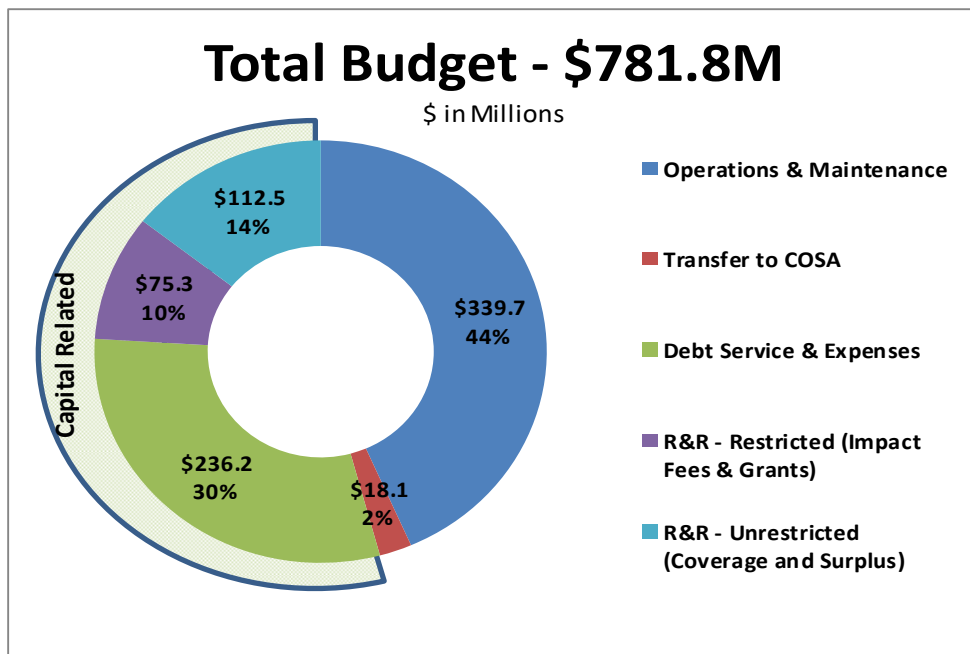
- ⇒ Report the results of the AMI pilot to City Council;
- ⇒ Continue to closely monitor the progress associated with the Vista Ridge Project and the integration pipeline construction;
- ⇒ Continue coordination with the Department of Human Services to expand enrollment in SAWS Affordability Programs including evaluating the potential to provide bill discounts to qualifying apartment residents; and,
- ⇒ Continue to evaluate efficiency improvements to improve operations and reduce expenses.

COMPREHENSIVE REVIEW

The comprehensive review performed by City staff included consideration of the following factors: Operations & Maintenance, Capital Improvements Plan, Cash Flow Model, Financial Position, Sanitary Sewer Overflow Reduction Program, Customer Service, Affordability, and Ratings. This report summarizes some key highlights from that review.

BUDGET OVERVIEW

The SAWS budget has three major components – Operations & Maintenance (O&M) funding day-to-day operations, transfer to the City, and Capital Project funding through either debt service paying for capital projects or cash funding from impact fees or the Renewal and Replacement account. The following table summarizes the Total Budget for 2018.



OPERATIONS AND MAINTENANCE (O&M)

Highlights from the proposed O&M Budget for 2018 include:

Salaries and benefits are 44% (\$165.2M) of O&M;

⇒ Compensation assumptions for 2018 include:

- Performance pay budget pool 3.0%
- Increase in the living wage from \$14/hour to \$14.50/hour

⇒ Includes costs to support benefits programs including active healthcare, retiree healthcare, and pension benefits;

**SAWS Proposed Rate Adjustment
2018 and 2019**

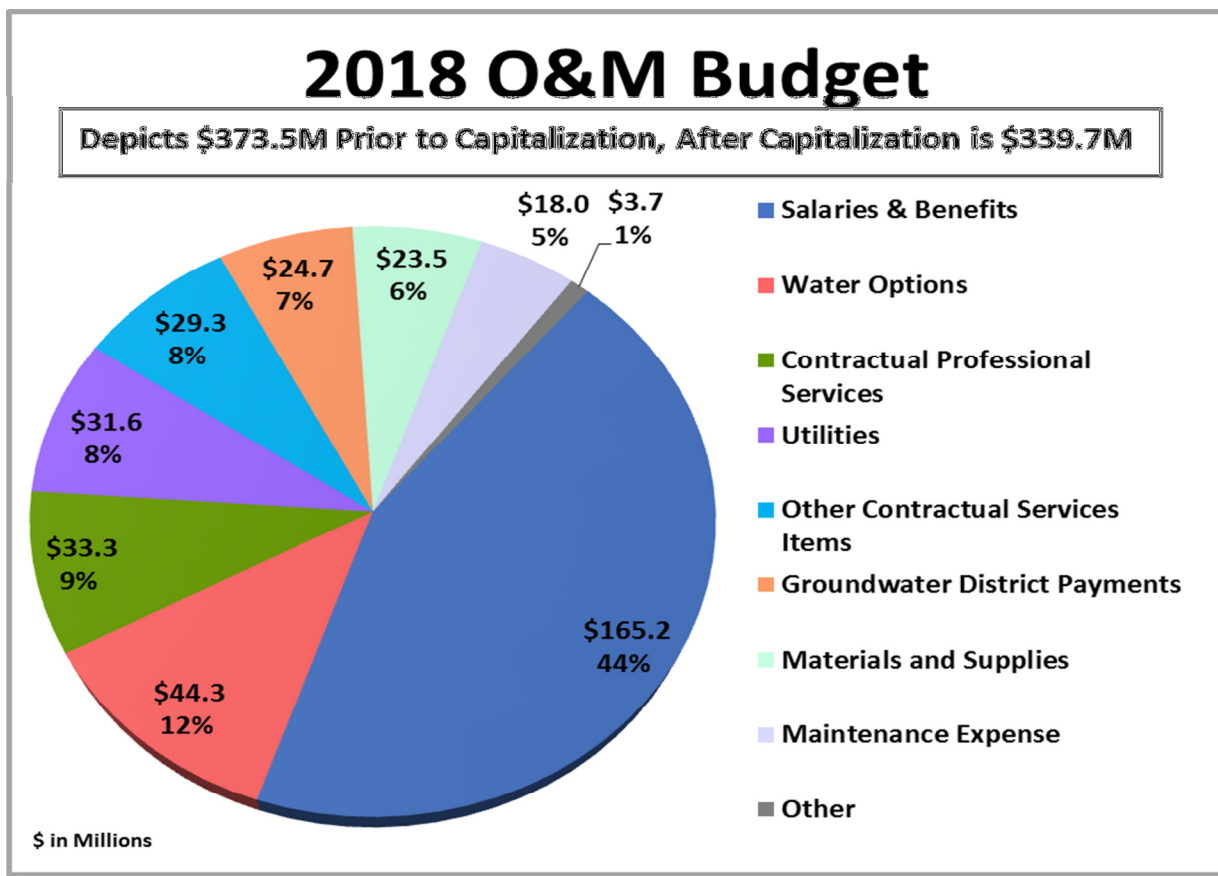
- ⇒ SAWS anticipates reducing the discount rate from 6.5% to 6.25% on retirement plans, contributing to the \$1.3M increase in benefit cost from 2017 to 2018; and,
- ⇒ Net of reductions, 9.5 full-time equivalent positions were added primarily in engineering to support the EPA Consent Decree effort.

The remaining 56% of O&M (\$208.4 million) includes contractual professional services, materials and supplies, maintenance, and other charges;

- ⇒ Includes the Vista Ridge electrical infrastructure of \$4.9M; and,
- ⇒ AMI Pilot study for \$1.6M in 2018.

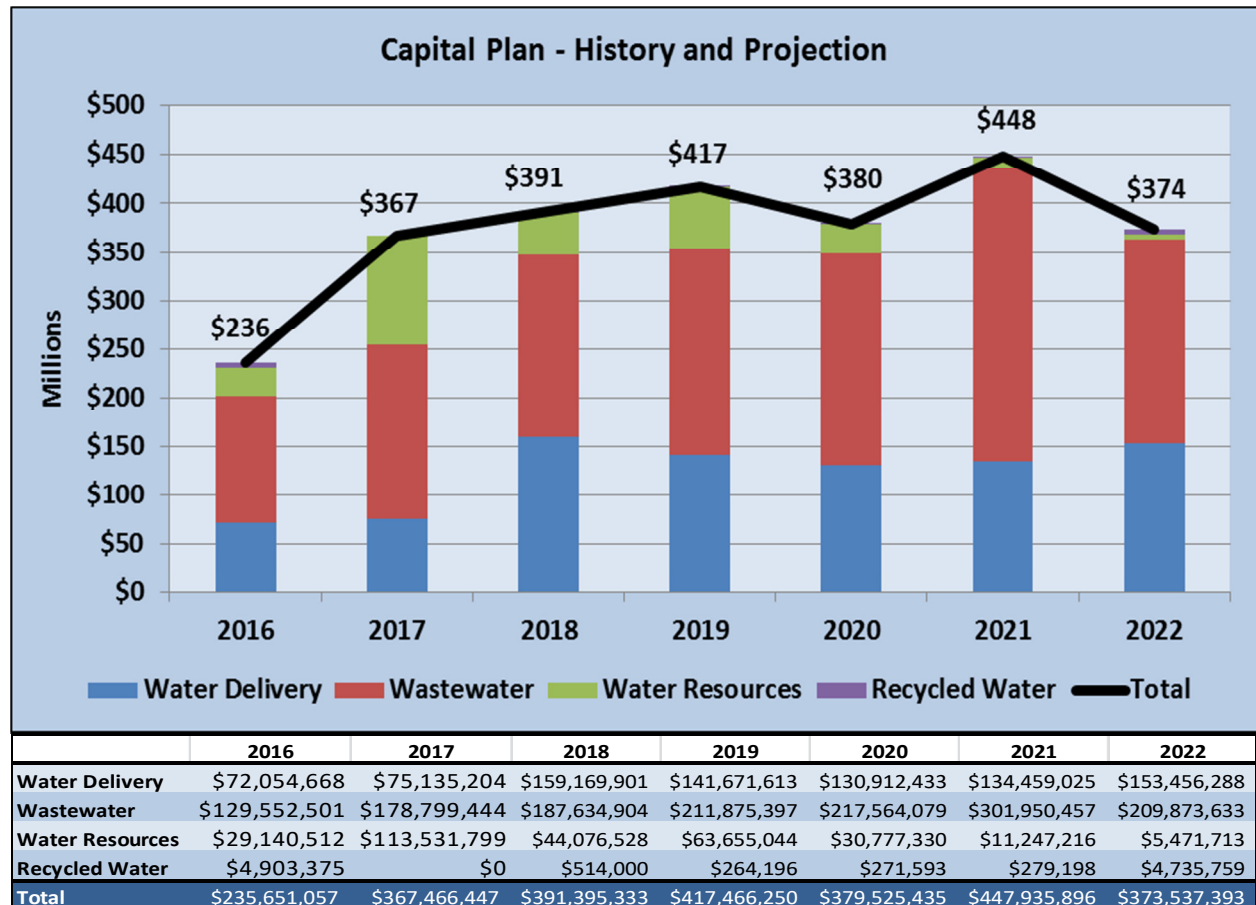
For 2019, SAWS utilized an inflation based projection which resulted in an O&M increase of 2.3%. Included in the increase in O&M for 2019 is \$7.4M related to the anticipated phased implementation of AMI.

SAWS is required by the bond indenture to maintain an operating reserve equal to two months of the annual O&M budget. The funds required to increase the operating reserve are generated through rates and charges in the fiscal year preceding the increase in O&M. In 2020, Vista Ridge water payments will increase the O&M budget by \$80.2M, increasing the O&M reserve requirement by approximately \$13.4M. The following graph reflects the major components of the 2018 O&M Budget.



CAPITAL PLAN

Capital Projects are a significant driver of rates. City Staff’s review of the capital plan focused on the capital needs for 2018 and 2019. Individual meetings with SAWS department heads and staff from each of the core business areas were conducted to obtain a greater understanding of the proposed capital plan, its development, as well as the prioritization of proposed projects.



SAWS’ five-year (2018-2022) \$2 billion capital plan includes \$1.129 billion (56%) for wastewater projects, \$719.7 million (36%) for water delivery projects, \$155.2 million (8%) for water resources development, and \$6.1 million <0.5% for recycled water projects. Highlights of the capital plan are:

- Greater investment in wastewater projects required under the Consent Decree on SSOs;
- Focus on the Water Delivery system to address aging infrastructure; and,
- The capital investment needed for Water Resources diminishes once the Vista Ridge supply comes online in 2020.

SANITARY SEWER OVERFLOW REDUCTION PROGRAM (SSORP)

SAWS maintains approximately 5,500 miles of pipe in the collection system that consists of almost 400 miles of large diameter pipe (>24 inch) and over 5,100 miles of small diameter pipe. In 2013, SAWS entered into a Consent Decree where it agreed to implement and perform several programs and initiatives over a ten year period from 2013 to 2023 to reduce the number of Sanitary Sewer Overflows (SSOs). Over this ten year period, the original projected cost was estimated to be \$1.092 billion comprised of \$252 million in operating costs and \$840 million in capital costs.

During the last several years SAWS has accumulated additional information on the performance of its collection system through flow monitoring during significant rainfall events, physical inspection, and televising. SAWS also recently identified the need to re-route one of its currently existing large sewer mains in order to comply with the time deadlines imposed by the Consent Decree as well as to ensure continued access to that main. These two factors, combined with inflationary cost increases, have resulted in the need for additional capital expenditures in excess of the amounts discussed above. Preliminary estimates of the cost of such additional capital expenditures are approximately \$400 million, bringing the total projected capital cost estimate to \$1.240 billion and the total SSORP estimated costs to \$1.492 billion.

SAWS is projected to spend \$29 million (after capitalization) in 2018 for O&M expenses related to its SSO Reduction Program. The bulk of these expenditures consist of Line Cleaning (\$6.5 million), Program Management (\$6.2 million), Line Televising (\$2.9 million), and Sewer Point Repairs, including manhole rehabilitation (\$7.8 million).

SAWS provides the City with written quarterly reports on the SSO Reduction Program.

FINANCIAL METRICS

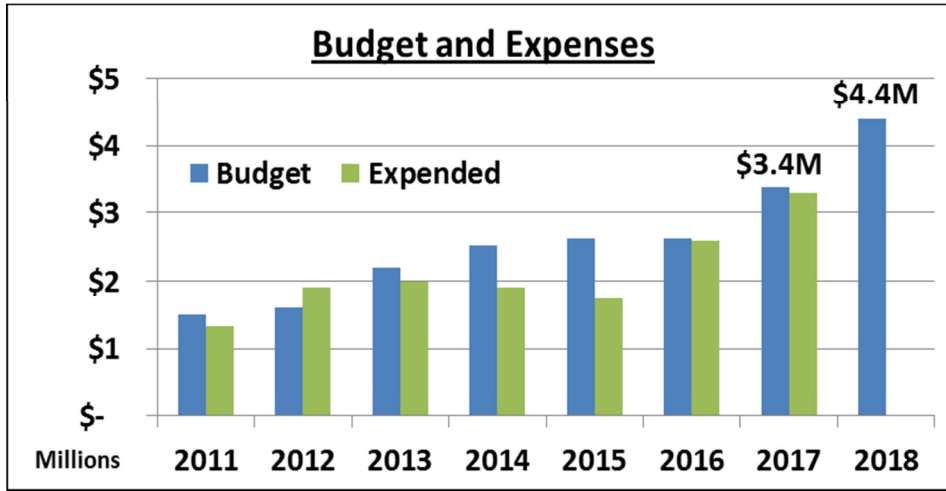
SAWS financial metrics are evaluated to ensure the financial health of the organization and support the credit ratings on SAWS' bonds. Some of the key financial metrics utilized by Rating Agencies to determine credit ratings are: All Bonded Debt Service Coverage; Days Cash on Hand; and, percentage of cash financing of Capital Improvements Program (CIP). Credit ratings are an important factor due to the level of projected capital funding required and the impact on the overall cost of borrowing.

The analysis of SAWS rate model indicates that the current rate request will maintain or slightly improve key SAWS financial measures during the next several years. With the large capital program SAWS has planned over the next several years, strong financial measures will be essential to obtaining low financing costs along with maintaining adequate debt capacity. The model includes conservative assumptions that may result in SAWS' actual rate requirements for 2020 to 2022 to be less than those included in the proposed rate plan.

AFFORDABILITY

SAWS continues to expand the investment and participation levels in the affordability discount program. City Staff recommends that SAWS continue coordination with the Department of Human Services to expand enrollment in SAWS Affordability Programs including evaluating the potential to provide bill discounts to qualifying apartment residents.

Affordability Discount Program



Participation Level

| | | |
|------|---|---------|
| 2011 | - | 17,756 |
| 2012 | - | 19,118 |
| 2013 | - | 18,848 |
| 2014 | - | 17,699 |
| 2015 | - | 17,908 |
| 2016 | - | 21,057 |
| 2017 | - | 25,000* |
| 2018 | - | 27,500* |

*Projected

The affordability program is tiered based on the poverty level of the participant. The proposed tiers are increased in 2018 with a greater percentage focus on the lowest tier.

| Poverty Level | Bill Discount | | \$ Change | % of Average Bill |
|---------------|---------------|---------|-----------|-------------------|
| | 2017 | 2018 | | |
| 50% | \$21.40 | \$24.00 | \$2.60 | 37% |
| 75% | \$14.30 | \$14.79 | \$0.49 | 23% |
| 100% | \$8.81 | \$9.07 | \$0.26 | 14% |
| 125% | \$6.99 | \$7.15 | \$0.16 | 11% |

RECYCLED WATER

SAWS is proposing an adjustment to recycled water rates that is consistent with prior year rate plans to move recycled water closer to cost recovery by increasing recycled water rates at the same percentage increase as potable water rates. As such, the recycled water rates will increase by 7.8% in 2018 and 1.8% in 2019.

RATE PLAN

The 5-Year proposed rate plan, as shown in the table below, illustrates the proposed increases for 2018 and 2019 of 5.8% and 4.7% respectively, as well as the plan for years 2020-2022. In 2018, the average residential bill increases from the 2017 total bill of \$59.44 to \$62.89, a \$3.45 change. In 2019 the average residential bill increases to \$65.83, a \$2.94 change from 2018. The tables in Attachment A illustrate how the proposed rates would impact customer bills at different consumption levels.

| <u>5-Year Rate Plan</u> | | | | | |
|--------------------------------|--------------------------|--------------------------|--------------|-------------|-------------|
| Core Business | Proposed 2018 | Proposed 2019 | 2020 | 2021 | 2022 |
| Water Supply Fee | 0.9% | 0.9% | 9.3% | 2.7% | 0.1% |
| Water Delivery | 3.2% | 0.1% | 0.6% | 0.7% | 1.2% |
| Wastewater | 1.7% | 3.7% | 2.5% | 3.9% | 2.2% |
| Total | 5.8% | 4.7% | 12.4% | 7.4% | 3.5% |

Rates shown as % of total bill increase

MISCELLANEOUS SERVICE FEES

SAWS proposes to adjust various Special Services Fees for 2018. The proposed fee changes resulted from a thorough review in 2017 of all SAWS Special Services Fees to ensure the fees recover the associated cost of providing the service. Over 60 existing fees were analyzed with increases to 41 fees being recommended. Three fees are also recommended for deletion. It is also proposed to create 12 new fees to reflect changing service conditions and customer requirements. For the fees that are proposed to change and for the new fees, it is further recommended to allow automatic changes each year after 2018 based on the annual change in the U.S. Consumer Price Index, subject to a comprehensive cost of service review of these fees every three years by SAWS.

In total, the additional revenue associated with adjusting the fees will be \$584K. Revenue from these fee changes will be used to increase funding for the Customer Assistance Programs. A summary of the proposed changes to the Special Services Fees for 2018 is included as Attachment B.

**SAWS Proposed Rate Adjustment
2018 and 2019**

FISCAL IMPACT

The City receives 2.7% of gross revenues from SAWS and also pays SAWS for utility services. Both the revenue and expense items would be impacted by the proposed rate increase. If the new rates become effective January 1, 2018, additional revenue and expenses will be generated for the nine months in FY 2018.

| Fiscal Impact | Nine months ending 9/30/18 | Full Year |
|----------------------|---------------------------------------|------------------|
| Additional Revenue | \$615,000 | \$802,000 |
| Additional Expense | \$ 71,600 | \$92,400 |
| Net | \$543,400 | \$709,600 |

**SAWS Proposed Rate Adjustment
2018 and 2019**

ATTACHMENT A – 2018 & 2019 Proposed Rates – Various Bill Impacts

Water Rates

| Class | Consumption in Gallons | Proposed Water Rate Adjustments | | | | | | | |
|------------------------|------------------------|---------------------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|
| | | Assumed Meter Size | Existing 2017 Rates | Proposed 2018 Rates | \$ change over 2017 | % change over 2017 | Proposed 2019 Rates | \$ change over 2018 | % change over 2018 |
| <i>Residential ICL</i> | 10,000 | 5/8" | \$ 46.22 | \$ 49.65 | \$ 3.43 | 7.4% | \$ 50.68 | \$ 1.03 | 2.1% |
| | 30,000 | 5/8" | \$ 217.94 | \$ 232.80 | \$ 14.86 | 6.8% | \$ 238.66 | \$ 5.86 | 2.5% |
| <i>Residential OCL</i> | 10,000 | 5/8" | \$ 54.01 | \$ 58.19 | \$ 4.18 | 7.7% | \$ 59.26 | \$ 1.07 | 1.8% |
| | 30,000 | 5/8" | \$ 247.03 | \$ 264.69 | \$ 17.66 | 7.1% | \$ 270.71 | \$ 6.02 | 2.3% |
| <i>Irrigation ICL</i> | 10,000 | 5/8" | \$ 69.80 | \$ 75.25 | \$ 5.45 | 7.8% | \$ 76.53 | \$ 1.28 | 1.7% |
| | 30,000 | 3/4" | \$ 250.52 | \$ 269.48 | \$ 18.96 | 7.6% | \$ 274.74 | \$ 5.26 | 2.0% |
| <i>Irrigation OCL</i> | 10,000 | 5/8" | \$ 82.19 | \$ 88.85 | \$ 6.66 | 8.1% | \$ 90.24 | \$ 1.39 | 1.6% |
| | 30,000 | 3/4" | \$ 293.47 | \$ 316.60 | \$ 23.13 | 7.9% | \$ 322.06 | \$ 5.46 | 1.7% |

| Class | Consumption in Gallons | Proposed Water Rate Adjustments | | | | | | | |
|--------------------|------------------------|---------------------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|
| | | Assumed Meter Size | Existing 2017 Rates | Proposed 2018 Rates | \$ change over 2017 | % change over 2017 | Proposed 2019 Rates | \$ change over 2018 | % change over 2018 |
| <i>General ICL</i> | 10,000 | 5/8" | \$ 47.01 | \$ 50.63 | \$ 3.62 | 7.7% | \$ 51.57 | \$ 0.94 | 1.9% |
| | 30,000 | 3/4" | \$ 121.26 | \$ 130.20 | \$ 8.94 | 7.4% | \$ 132.92 | \$ 2.72 | 2.1% |
| <i>General OCL</i> | 10,000 | 5/8" | \$ 54.75 | \$ 59.12 | \$ 4.37 | 8.0% | \$ 60.09 | \$ 0.97 | 1.6% |
| | 30,000 | 3/4" | \$ 140.01 | \$ 150.77 | \$ 10.76 | 7.7% | \$ 153.57 | \$ 2.80 | 1.9% |
| <i>Wholesale</i> | 1,000,000 | 6" | \$ 4,739.24 | \$ 5,076.70 | \$ 337.46 | 7.1% | \$ 5,191.85 | \$ 115.15 | 2.3% |

Sewer Rates

| Class | Consumption in Gallons | Proposed Sewer Rate Adjustments | | | | | | | |
|------------------------|------------------------|---------------------------------|---------------------|---------------------|---------------------|--------------------|---------------------|---------------------|--------------------|
| | | Assumed Meter Size | Existing 2017 Rates | Proposed 2018 Rates | \$ change over 2017 | % change over 2017 | Proposed 2019 Rates | \$ change over 2018 | % change over 2018 |
| <i>Residential ICL</i> | 10,000 | 5/8" | \$ 46.30 | \$ 47.97 | \$ 1.67 | 3.6% | \$ 51.81 | \$ 3.84 | 8.0% |
| | 30,000 | 5/8" | \$ 129.54 | \$ 134.21 | \$ 4.67 | 3.6% | \$ 144.95 | \$ 10.74 | 8.0% |
| <i>Residential OCL</i> | 10,000 | 5/8" | \$ 55.56 | \$ 57.56 | \$ 2.00 | 3.6% | \$ 62.16 | \$ 4.60 | 8.0% |
| | 30,000 | 5/8" | \$ 155.44 | \$ 161.04 | \$ 5.60 | 3.6% | \$ 173.92 | \$ 12.88 | 8.0% |
| <i>General ICL</i> | 10,000 | 5/8" | \$ 44.59 | \$ 46.20 | \$ 1.61 | 3.6% | \$ 49.90 | \$ 3.70 | 8.0% |
| | 30,000 | 3/4" | \$ 120.23 | \$ 124.56 | \$ 4.33 | 3.6% | \$ 134.52 | \$ 9.96 | 8.0% |
| <i>General OCL</i> | 10,000 | 5/8" | \$ 53.52 | \$ 55.45 | \$ 1.93 | 3.6% | \$ 59.88 | \$ 4.43 | 8.0% |
| | 30,000 | 3/4" | \$ 144.30 | \$ 149.51 | \$ 5.21 | 3.6% | \$ 161.47 | \$ 11.96 | 8.0% |
| <i>Wholesale</i> | 1,000,000 | 6" | \$ 4,269.94 | \$ 4,423.88 | \$ 153.94 | 3.6% | \$ 4,778.07 | \$ 354.19 | 8.0% |

**SAWS Proposed Rate Adjustment
2018 and 2019**

Recycled Water Rates 2018

| Class | Proposed Recycled Water Rate Adjustments - 2018 | | | | | | | | | |
|---|---|-----------------------|---------------------|-------------|---------------------|-------------|------------------|------|-----------|------|
| | Consumption in Gallons | Assumed Meter Size | Existing 2017 Rates | | Proposed 2018 Rates | | Change from 2017 | | | |
| | | | Standard | Seasonal | Standard | Seasonal | Standard | | Seasonal | |
| | | | | | | | \$ | % | \$ | % |
| <i>Recycled Water - Non-Exchange Customer</i> | 10,000 | 5/8" | \$ 23.11 | \$ 24.00 | \$ 24.92 | \$ 25.88 | \$ 1.81 | 7.8% | \$ 1.88 | 7.8% |
| | 30,000 | 3/4" | \$ 50.24 | \$ 52.91 | \$ 54.17 | \$ 57.05 | \$ 3.93 | 7.8% | \$ 4.14 | 7.8% |
| | 1,000,000 | 6" | \$ 1,527.56 | \$ 1,613.03 | \$ 1,647.11 | \$ 1,739.08 | \$ 119.55 | 7.8% | \$ 126.05 | 7.8% |
| <i>Recycled Water - Exchange Customer</i> | 10,000 | 5/8" | \$ 14.20 | \$ 14.20 | \$ 15.31 | \$ 15.31 | \$ 1.11 | 7.8% | \$ 1.11 | 7.8% |
| | 30,000 | 3/4" | \$ 23.51 | \$ 23.51 | \$ 25.34 | \$ 25.34 | \$ 1.83 | 7.8% | \$ 1.83 | 7.8% |
| | 1,000,000 | 6" | \$ 630.00 | \$ 630.00 | \$ 679.05 | \$ 679.05 | \$ 49.05 | 7.8% | \$ 49.05 | 7.8% |
| <i>Recycled Water - Exchange Customer, Excess of Amount Transferred</i> | 10,000 | 5/8" | \$ 11.09 | \$ 11.79 | \$ 11.96 | \$ 12.71 | \$ 0.87 | 7.8% | \$ 0.92 | 7.8% |
| | 30,000 | 3/4" | \$ 33.27 | \$ 35.37 | \$ 35.88 | \$ 38.13 | \$ 2.61 | 7.8% | \$ 2.76 | 7.8% |
| | 1,000,000 | 6" | \$ 1,109.00 | \$ 1,179.00 | \$ 1,196.00 | \$ 1,271.00 | \$ 87.00 | 7.8% | \$ 92.00 | 7.8% |

Recycled Water Rates 2019

| Class | Proposed Recycled Water Rate Adjustments - 2019 | | | | | | | | | |
|---|---|-----------------------|---------------------|-------------|---------------------|-------------|------------------|------|----------|------|
| | Consumption in Gallons | Assumed Meter Size | Proposed 2018 Rates | | Proposed 2019 Rates | | Change from 2018 | | | |
| | | | Standard | Seasonal | Standard | Seasonal | Standard | | Seasonal | |
| | | | | | | | \$ | % | \$ | % |
| <i>Recycled Water - Non-Exchange Customer</i> | 10,000 | 5/8" | \$ 24.92 | \$ 25.88 | \$ 25.37 | \$ 26.35 | \$ 0.45 | 1.8% | \$ 0.47 | 1.8% |
| | 30,000 | 3/4" | \$ 54.17 | \$ 57.05 | \$ 55.14 | \$ 58.08 | \$ 0.97 | 1.8% | \$ 1.03 | 1.8% |
| | 1,000,000 | 6" | \$ 1,647.11 | \$ 1,739.08 | \$ 1,676.83 | \$ 1,770.56 | \$ 29.72 | 1.8% | \$ 31.48 | 1.8% |
| <i>Recycled Water - Exchange Customer</i> | 10,000 | 5/8" | \$ 15.31 | \$ 15.31 | \$ 15.59 | \$ 15.59 | \$ 0.28 | 1.8% | \$ 0.28 | 1.8% |
| | 30,000 | 3/4" | \$ 25.34 | \$ 25.34 | \$ 25.80 | \$ 25.80 | \$ 0.46 | 1.8% | \$ 0.46 | 1.8% |
| | 1,000,000 | 6" | \$ 679.05 | \$ 679.05 | \$ 691.53 | \$ 691.53 | \$ 12.48 | 1.8% | \$ 12.48 | 1.8% |
| <i>Recycled Water - Exchange Customer, Excess of Amount Transferred</i> | 10,000 | 5/8" | \$ 11.96 | \$ 12.71 | \$ 12.18 | \$ 12.94 | \$ 0.22 | 1.8% | \$ 0.23 | 1.8% |
| | 30,000 | 3/4" | \$ 35.88 | \$ 38.13 | \$ 36.54 | \$ 38.82 | \$ 0.66 | 1.8% | \$ 0.69 | 1.8% |
| | 1,000,000 | 6" | \$ 1,196.00 | \$ 1,271.00 | \$ 1,218.00 | \$ 1,294.00 | \$ 22.00 | 1.8% | \$ 23.00 | 1.8% |

ATTACHMENT B – Summary of Special Services Fees

| Fee Type Category | Focus of Fee Changes | 2018 Projected Added Revenue |
|----------------------------------|---|------------------------------|
| Conservation | Increase Irrigation System Inspection Non-Compliance Volumetric Rate to better reflect the cost to supply the added water needed on average by customers who do not comply with the City Code's annual irrigation system inspection requirement. | \$ 16,126 |
| Customer Service | Update the Same Day Turn-On Fee to better reflect the cost of service as well as those fees assessed to recover the costs of replacing deliberately damaged meter-related equipment and the costs of performing bench tests of meters thought by customers to be malfunctioning but found to be in working order. | 96,064 |
| Development Services | Update the Fire Flow Test Fee to better reflect the cost of providing the service as well as fees associated with lift station maintenance and the processing of encroachment or easement release applications. | 30,302 |
| Fire Hydrant Water Meter | Update fees and policies associated with the SAWS Fire Hydrant Meter program to improve customer accountability for fire hydrant meter usage, to de-incentivize extended usage for irrigation purposes, to encourage more customers to bring meters to SAWS on a regular basis for calibration as already required, and to encourage more customers to call in meter reads on a monthly basis also as already required. | 298,547 |
| Industrial Waste | Update certain industrial waste permitting, sampling and liquid waste disposal fees by the rate of inflation as allowed by the City Code, and add two new fees to recover the higher cost of private liquid waste disposal at the Dos Rios plant on weekends and holidays, respectively. | 87,199 |
| Pipeline Damage Cost Recovery | Create two new flat fees to recover certain costs of responding to incidents of pipeline damage by private contractors that are not otherwise recoverable through the normal itemized costs claims process. | 38,448 |
| Resource Protection & Compliance | Update the fees associated with the SAWS Underground Storage Tank registration, permitting and annual inspection program to better reflect the cost of providing the service. | 17,376 |
| TOTAL | | \$ 584,062 |