



City of San Antonio

Agenda Memorandum

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Agenda Date: 6/1/2016

In Control: City Council B Session

DEPARTMENT: Finance

DEPARTMENT HEAD: Ben Gorzell, Chief Financial Officer

COUNCIL DISTRICT(S) IMPACTED: City Wide

SUBJECT:

Briefing from the San Antonio Water System (SAWS) providing updates on a change in control within the Vista Ridge Project, ongoing customer service initiatives, and initial results of the recently adopted rate structure.

SUMMARY:

On April 7, 2016, SAWS provided a briefing to City Council to update them on a possible change in control from Abengoa Sociedad Anónima ("Abengoa") to Garney P3 LLC, ("Garney"). This briefing will provide a further update on the status of this change in control as well as certain other developments associated with the Vista Ridge project. It will also provide further updates regarding SAWS Customer Service improvements and a summary of the results of the first three full months of billing under the newly adopted rate structure which went into place for usage after the first of the year.

BACKGROUND INFORMATION:

Vista Ridge

On April 7, 2016, SAWS briefed the City Council on the developing request by Abengoa Vista Ridge for a Change in Control to Garney for the Vista Ridge Water Supply Project following various financial difficulties with Abengoa (S.A.), Abengoa Vista Ridge LLC's parent company. Subsequent to this briefing, SAWS has worked closely with Garney to develop a better understanding and comfort level with their Plan of Development and Finance, conducted certain due diligence efforts, and developed improved clarification with regards to certain matters in the Water Transmission and Purchase Agreement ("WTPA").

Additionally, under the terms of the WTPA, SAWS had the ability to lock in a fixed price for the water and infrastructure (Capital and Raw Groundwater Price) on a date first occurring in May 2016. SAWS chose to lock in the price on May 17, 2016. Based on prevailing market interest rates on that date, the project cost will now be reduced significantly (approximately \$529 million) as compared to the potential rate capped exposure. As a result, the price of the Vista Ridge Project will be substantially

less than what was previously briefed to City Council, and what was in the rate increase plan approved in October 2015.

The WTPA provides that the SAWS Board provide its consent prior to any change in control. After being briefed on this matter at its regularly scheduled May 3rd Board meeting, consent was conditionally provided by the SAWS Board at their May 18, 2016 meeting. Together with their consent to the change in control, the SAWS Board also approved conforming amendments to the original 2014 contract, as well as various other related documents.

It is important to note that the provision of this consent and the approval of the conforming amendments does not alter SAWS' risk profile under the WTPA. It is also important to note that this consent and the conforming amendments to the WTPA will not be executed by SAWS unless and until such time as Abengoa and Garney achieve closing on their Membership Interest and Purchase Agreement. It is currently envisioned that this closing will take place in early June.

Customer Service

In 2015, SAWS experienced challenges in billing which resulted in a high number of billing estimations for customers. SAWS provided an update to City Council on April 7th relative to improvements made in this area. To further address this concern, SAWS will provide an additional update on the results of these improvements.

Rate Structure Update

The new rate structure was adopted by the City Council in 2015 and billings began in February 2016 under the new structure. The key objectives to the changes made to the rate structure were:

- Allowing SAWS to meet its revenue requirements
- Ensuring life essential uses of water are affordable
- Encouraging water conservation through pricing signals

During the rate study, SAWS anticipated that nearly 60% of customers would see either a reduction or very little change in their bill if their monthly usage stayed below 6,000 gallons. For the first three billing cycles under the new rate structure, 70% of customer bills were for water usage less than 6,000 gallons. Because these bills were for water usage during winter months or periods of above normal rainfall, more data is needed before making any conclusions about the effect of the rate structure changes. SAWS will continue to monitor customer usage trends to determine if the objectives of the changes to the rate structures are being achieved.

ISSUE:

This item is a briefing from the San Antonio Water System (SAWS) on a change in control within the Vista Ridge Project and other program updates.

ALTERNATIVES:

This item is for briefing purposes only.

FISCAL IMPACT:

This item is for briefing purposes only.

RECOMMENDATION:

This item is for briefing purposes only.