

**TO: ARTHUR COULOMBE, BOARD CHAIRMAN
2013 BOARD OF DIRECTORS**



FROM: EXECUTIVE COMMITTEE

STATUS: ADOPTED

DATE: January 24, 2013

SAWS 2013 PROPOSED RATE ADJUSTMENT

South Texas' most valuable resource for our citizens and the economic viability of the future of our city is adequate and affordable water. The Greater San Antonio Chamber of Commerce has a history of advocating for quality water infrastructure and ample supply which dates back 100 years. The future of our economic strength depends on our success at managing this resource in the way that best suits the needs of our growing city.

STATEMENT:

The Greater San Antonio Chamber of Commerce supports the San Antonio Water System's (SAWS) 8.4 percent rate increase proposal for improving its water and wastewater systems and increasing water supplies for our community. The Chamber acknowledges the costs associated with providing these basic services and the costs in terms of health, safety and prosperity are the minimal need, compared to the long-term cost for failure to do so. To that end, The Chamber further recommends that the City Council:

- 1) Authorize SAWS to develop multi-year rate increases within parameters set forth by the City Council with a goal of increasing transparency and accountability (regular semiannual status reports) as well as creating certainty for significantly increasing long-term water supplies;
- 2) Implement a new wastewater maintenance/ rehabilitation fee to adequately fund improvements to the long-neglected wastewater collection system with a sunset provision to create transparency and certainty in maintaining a safe and adequate wastewater/ sewer system and staff;
- 3) Encourage SAWS to aggressively implement a community education program on the causes and effects of sanitary sewer overflows and how to prevent them;
- 4) Continue emphasizing the need for new non-Edwards Aquifer water supply projects; and
- 5) Encourage SAWS to continuously demonstrate aggressive internal cost saving measures.

BACKGROUND

SAWS serves approximately 1.7 million people in Bexar County, including more than 460,000 water customers and nearly 410,000 wastewater customers. The total service area coverage for both water and wastewater provided by SAWS covers 620-square miles of San Antonio and adjacent communities with more than 11,000 miles of water and sewer mains.

SAWS is a nationally recognized leader in water conservation and water reuse, and works diligently to maintain residential and commercial bills below every major city in Texas. SAWS is currently facing challenges due to federal regulatory changes, an influx in population creating future supply gaps, the BexarMet Integration, and the Edwards Aquifer Recovery Implementation Program. To address the basic needs for the City SAWS has created a long-term Water Management Plan which includes new water supply acquisition and integration, as well as ongoing maintenance and expansion of the sewer system. Addressing water and sewer system needs will entail significant costs and revenue requirements.

2013 RATE INCREASE PROPOSAL

SAWS is seeking City Council approval for a proposed 8.4% rate increase, less the reduction in EAA feeds for a combined net rate increase of 7.0% to minimize interruption of service as well as comply with state and federal laws and permits. The impact on the average monthly residential bill will be an additional \$3.50. The 2013 rate increase is targeted to help fund the following:

- **\$159.9M - Wastewater Capital Requirements**
 - Sewer Infrastructure Renewal and Replacements
 - Governmental Sewer System Projects
 - Sewer System Improvements for Growth
 - Lift Station Elimination
- **\$13.8M - Wastewater Operating Requirements**
 - Expanded Sewer Sanitation Overflows Reduction Program
- **\$116.1M Water Supply Capital Requirements**
 - Desalination Plant Construction
 - Edwards Aquifer Rights Acquisition
 - Integration Pipeline Easements
 - Regional Carrizo Project

SAWS' WATER AND WASTEWATER INFRASTRUCTURE

SAWS plans to construct a Brackish Desalination plant, expand access to the local Carrizo Aquifer, evaluate and pursue Regional Water Supply Projects (RFCSP), acquire additional Edwards Aquifer rights, and reduce water demand through continued conservation measures.

The Brackish Desalination plant in Southern Bexar County is estimated to cost \$296.8M, in a three-phase program while generating a total of 30,525 ac-ft/yr. Currently, \$46M is committed to the project and \$179M is needed to complete Phase 1. The total capital costs for the expanded Local Carrizo Aquifer Project is \$34M and is in conjunction with ASR local Carrizo wells that would potentially produce 21,000 ac-ft. A two-phased 45-mile integration pipeline could provide transport flexibility for water from the desalination plant, the local Carrizo Aquifer facilities, the ASR plant, and from the former BexarMet areas to the far west side. The estimated cost for the integration pipeline is \$182M, starting in 2014.

The development of the RFCSP provides long-term water supply alternatives, reducing reliance on the Edwards Aquifer, and possibly the severity of drought restrictions or avoiding a possible drought restriction surcharge. It could also delay the first projected water supply gap to 2039 versus 2027. Additionally, SAWS conservation goals are to reduce water consumption from 143 to 135 gallons per day by 2020 as well as reducing outdoor water use.

The average customer produces approximately 6,178 gallons of sewage per month, but with a continuous increase in population, the amount of sewage will rise. With the Environmental Protection Agency's regulation to reduce the occurrence of sanitary sewer overflows and enforce the Clean Water Act, SAWS will perform extensive work to clean, inspect, and repair hundreds of miles of sewer mains. In addition, SAWS will strive to prevent the buildup of grease and other harmful agents in the sewer system by educating the public on causes for sewer overflows and spills into area waterways, while also increasing capacity of the current system

CONSENT DECREE

In March 2007, SAWS was verbally notified by Region 6 of the EPA of alleged failures to comply with the Clean Water Act due to the occurrence of sanitary sewer overflows (SSO's). The EPA subsequently referred the matter to the United States Department of Justice (DOJ) for an enforcement action. In October 2007 EPA/DOJ and SAWS entered into a tolling agreement that precludes the running of any applicable statutes of

limitation that might otherwise bar a claim in anticipation that the parties would engage in settlement negotiations. The agreement has been extended on numerous occasions. Since 2007, SAWS has engaged in settlement negotiations with the EPA and the DOJ to resolve the allegations. SAWS last met with EPA/DOJ representatives in February 2012 to discuss resolution of the enforcement action. Negotiations with the EPA/DOJ are ongoing. While these negotiations are ongoing, SAWS expects that any settlement, consent decree, or enforcement action will result in the imposition of a civil penalty and in required capital improvements and increased annual maintenance and operating expenses that will be phased in over the term of any settlement agreement or consent decree between SAWS and EPA/DOJ.

SAWS' preliminary estimates of the cost of capital improvements and other actions that may be required to settle this matter range from approximately \$250 million to approximately \$1.0 billion; however, the total final costs may significantly exceed SAWS preliminary estimates, and will depend on the course of action ultimately agreed upon between SAWS and EPA/DOJ or ordered by a Federal District Court if the parties are unable to settle the matter. SAWS currently expects negotiations with the EPA and DOJ to conclude in early 2013. Since 2007, SAWS has expended more than \$173 million on the replacement of sewer mains. Additionally, \$40 million has been spent repairing and maintaining these mains, including approximately \$26 million for line cleaning and televising activities.

RATE INCREASES

In 2011 the City Council approved the SAWS request for a 7.9 percent combined rate increase adjustment to generate \$26.1M in revenue. With a strong community demand for additional water supply over the last two decades, there have only been a couple of significant wastewater rate increases and investment in the growing and aging sewer system during that period. The sewer system now needs funding for significant repairs and extensive maintenance.

Based on the SAWS Water Management Plan and the needs of the wastewater system, future rate increases for water and wastewater rates are forecasted over the next several years. The Chamber intends to closely monitor the rate adjustment proposals and work to maintain an adequate and affordable water supply that is so critical to San Antonio's future.

Reasons for support

1. The proposed rate increases allows SAWS to continue developing new water supply projects in addition to making necessary investments in cleaning wastewater infrastructure and to reduce the occurrence of Sanitary Sewer Overflows (SSOs)
2. The demand for less reliance on the Edwards Aquifer has been an ongoing priority for the community. These increases would further advance this program.
3. There is capacity to raise rates, as proposed, and still enjoy the second lowest water-bill in the State.
4. SAWS must continue to show transparency through regular reporting of funding for capital improvements and maintenance to the City Council and the business community.
5. Without the rate adjustment SAWS will struggle to fund the operating maintenance and needed capital repairs to the wastewater/ sewer system in order to comply with the Clean Water Act and the EPA regulations and pending EPA sanctions.
6. Additional water resources and substantial needs for improvements to the City's sewer system are increasingly costly and rates for water (and energy) will keep rising. Denial of rate increases, as proposed, will prevent SAWS from keeping up with these cost increases and providing adequate water supplies.

IMPLEMENTATION: The Chamber will communicate this position to the SAWS Board of Trustees, to the Mayor and members of the City Council, the media and The Chamber membership through public testimony, letters, media releases and publication in *The Chamber Today*.