

**CITY OF SAN ANTONIO
 Finance Department
 Interdepartmental Correspondence Sheet**

TO: Mayor and City Council

FROM: Ben Gorzell Jr., C.P.A., Public Utilities Supervisor/Assistant Director of Finance

THROUGH: Terry M. Brechtel, City Manager

COPIES TO: Melissa Byrne Vossmer, Assistant City Manager; Milo Nitschke, Director, Finance Department; Thomas G. Wendorf, P.E., Director of Public Works; Andrew Martin, City Attorney; File

SUBJECT: Public Utilities Office Recommendation on Proposed Increase to Water Supply Fee by the San Antonio Water System (SAWS)

DATE: December 12, 2003

Summary and Recommendation

This memorandum is a report by the Public Utilities Office on the proposed increase in the Water Supply Fee by the San Antonio Water System (SAWS). On November 18, 2003, the SAWS' Board of Trustees approved an incremental increase in the Water Supply Fee of \$0.0256, increasing the fee from \$0.0844 to \$0.1100 per 100 gallons to become effective in February 2004. This increase is less than the maximum rate of \$0.1128 provided for in the multi-year financing plan. The Public Utilities Office has reviewed the rate package submitted by SAWS and concurs with the proposed increase contingent upon final review of the water delivery and wastewater rate packages.

No formal action by the City Council is required for the approval of the adjustment in the Water Supply Fee as it does not exceed the maximum cap in the multi-year financial plan for calendar year 2004.

Background Information

On October 19, 2000, the City Council passed and approved Ordinance No. 92753 which amended Chapter 34 of the City Code by establishing a Water Supply Fee to fund the development of additional water resources continuing implementation of the Water Resource Plan and accepting a five year multi-year financing plan. Under the Ordinance, the water supply fee must be utilized for water supply activities and cannot be used for the System's other core businesses (Water Delivery, Wastewater, and Chilled Water and Steam). The ordinance also established the maximum rates for the first five years of the Water Resource Plan and allowed the SAWS' Board of Trustees to increase the water supply fee up to the maximum amount in any of the five years of the multi-year financing plan. Any increases beyond the maximum rates would be subject to City Council approval. The table below reflects the maximum rate per 100 gallons as included in the multi-year financial plan as well as the actual rate implemented by SAWS during the first three years of the plan.

Year	Maximum Rate Per 100 Gallons	Actual Rate Per 100 Gallons
2001	\$ 0.0358	\$ 0.0358
2002	0.0708	0.0708
2003	0.0938	0.0844
2004	0.1128	N/A
2005	0.1378	N/A

The water supply fee is based on a uniform rate per 100 gallons and is applied to all customers. The fee is reflected as a separate line item on water bills and funds derived from this fee must be used to fund water supply activities. Under the original plan, capital costs for water supply development projects for 2001-2005 were estimated at approximately \$519 million. The Water Supply core business was created as a separate operational unit of SAWS to account for water supply activities to include revenues, maintenance and operations expense, debt service requirements, as well as other Ordinance requirements.

With the establishment of the water supply fee and acceptance of the multi-year financing plan, stringent accountability procedures were also adopted. Some of these procedures included quarterly written status reports to City Council with two (2) semi-annual briefings on the status reports in open session of the City Council; required approval by City Council for any increase above the annual maximum caps; and the submission of a comprehensive rate package to the City's Public Utilities Supervisor for any proposed increase to the water supply fee under the multi-year financial plan.

Pursuant to these accountability procedures, SAWS has submitted a rate package for the proposed increase in the water supply fee to the City's Public Utilities Office for review. The rate package includes a proposed increase in the water supply fee to \$0.1100 per 100 gallons to become effective in February 2004. The maximum cap allowed for calendar year 2004 is \$0.1128 per 100 gallons. The Public Utilities Office has reviewed this rate package and the following summarizes our results.

Attachment A provides a comparison of the original plan to the current projected results for calendar year 2003. The water supply fee is expected to generate \$43.0 million as compared to the original estimate under the financial plan of \$55.9 million. The variance from the original estimate is attributable to consumption and the water supply fee actually implemented for calendar year 2003 of \$0.0844 per 100 gallons as opposed to the maximum cap of \$0.0938. Other variances from the original plan are primarily in the operating and maintenance expense and debt service categories. With respect to operating and maintenance expense, the variance of \$12.7 million is primarily attributable to direct and indirect O & M expense. Considering the size, magnitude, and potentially complex issues associated with the capital improvement program, the projects have lagged to some degree and as such the O & M expense has been less than anticipated to date compared to the original plan. Debt service costs for calendar year 2003 under the original plan were estimated at \$23.2 million while the revised estimate is \$9.6 million. The original plan of finance anticipated that funding for the capital requirements of the plan would be derived from the issuance of long-term debt. With implementation of the capital program, SAWS utilized tax-exempt commercial paper as a short-term financing mechanism allowing for funding to be more closely matched with the expenditure requirements of the program.

Attachment B reflects information on the capital improvement program. The schedule indicates, through the end of calendar year 2003, the total cumulative capital improvement estimate under the original plan, the current revised estimate, commitments, and the amount expended. As shown, commitments are estimated at \$212.3 million, or 76.5% of the total \$277.4 million cumulative estimate with expenditures of \$165.5 million. It is also important to note that the revised cumulative estimate remains the same in total and reflects a shifting of the budget between projects as projects have been developed and more information has become available. Additionally, funds have been allocated for SAWS' Enterprise Resource Plan (ERP) project which was not included under the original plan. The ERP project is a solution for SAWS' information technology needs and SAWS is currently studying the feasibility implementing SAP for its customer service, financial, work order management, materials management, and project management needs. This project was not envisioned at the time the original multi-year financial plan was developed. However, the Ordinance establishing the water supply fee provided that

administrative costs, including overhead applicable to water supply activities could be funded from the water supply fee. The ERP project would benefit the Water Supply core business and as such a portion of the costs of the ERP project would be eligible to be charged to it as an administrative benefit.

Attachment C provides a comparison of the original plan to the current projected results for calendar year 2004. The water supply fee is expected to generate \$56.7 million as compared to the original estimate under the financial plan of \$68.2 million. The variance from the original estimate is attributable to consumption and the proposed water supply fee for calendar year 2004 of \$0.1100 per 100 gallons as opposed to the maximum cap of \$0.1128. Variances also continue to exist as compared to the original plan for the O & M expense and debt service categories based on the same factors discussed above related to Attachment A. The transfer from the water delivery core business has also been reduced from \$16.9 million under the original plan to \$6.7 million. Whereas this is an adjustment to the original plan, it will result in an additional \$10.2 million available within the Water Delivery core business and assist in keeping the proposed water delivery rate increase more manageable for calendar year 2004. This represents approximately 10% less in revenue requirements for the water delivery core business and the reduction in the transfer from water delivery is being absorbed within the proposed increase in the water supply fee while meeting the requirements of the water supply program and remaining under the maximum cap chargeable for calendar year 2004. This adjustment in revenue occurs between the water supply fee and water delivery core businesses, however, it transitions towards a goal of having each of the SAWS' core businesses become self sufficient.

With respect to the capital budget for calendar year 2004, the current estimate is \$94.8 million compared to \$92.7 million under the original plan. Through the end of calendar year 2003, SAWS has shifted the budget within projects but has not exceeded the total cumulative budget under the original plan for the capital improvement program. In calendar year 2004, the current estimate is \$2.1 million over the original budget and is attributable to projected costs associated with continuation of the SAWS' ERP project. However, although the capital costs exceed the original budget, SAWS proposed increase in the water supply fee remains under the maximum permitted rate for calendar year 2004.

The water supply fee was established to fund the development of additional water resources. Through the end of calendar year 2003, SAWS estimates that it will have an additional 55,500 acre feet (AF) of water available comprised of: 4,000 AF from Oliver Ranch; 1,000 AF from BSR; and 50,500 AF from acquisitions and leases of Edwards Aquifer water rights. In addition, the recycled water project is partially funded by the water supply fee and capacity of that system is 35,000 AF per year. The Aquifer Storage and Recovery Project (ASR) Phase I is anticipated to be operational in the first quarter of 2004 and will provide storage capacity of 11,250 AF. SAWS has made progress on and continues to study the feasibility of the Lower Colorado River Authority (150,000 AF), Gonzales County (25,000 AF), and Lower Guadalupe Water (94,500 AF) projects.


To conclude, the Public Utilities Office concurs with the proposed increase in the water supply fee for 2004 from \$0.0844 per 100 gallons to \$0.1100 per 100 gallons contingent upon final review of the water delivery and wastewater rate packages. The increase in the water supply fee will be effective in February 2004. The SAWS' Rates Advisory Committee met on Wednesday, December 10th to discuss the finalization of the proposed water delivery and wastewater rate structures and to forward their input to the SAWS Board of Trustees. SAWS staff and the Board of Trustees will be finalizing the proposed rates over the next forty-five days. The Public Utilities Office review of the water delivery and wastewater rate packages continues and we anticipate those rates will be brought forward for City Council consideration in February 2004.

Financial Impact

The proposed monthly water supply fee in the amount of \$0.1100 per 100 gallons is anticipated to generate approximately \$56.7 million in revenues for SAWS in 2004. SAWS pays the City 2.7% of gross revenues, therefore, the City will receive additional revenues of approximately \$240,000 through SAWS payment to the City which will be recognized in the General Fund.

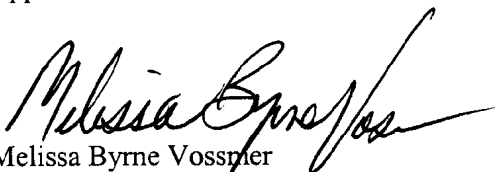
City of San Antonio water accounts will also be subject to the monthly water supply fee. Based on fiscal year 2003 water usage levels, the overall impact to the City will be an increase of approximately \$124,000 for Fiscal Year 2004. In anticipation of a rate increase, the City's Fiscal Year 2004 Adopted Budget included the impact of a forecasted increase in water rates. This adjustment will fully address the SAWS proposed Water Supply Fee for fiscal year 2004.

Based on average monthly residential consumption of 8,605 gallons, the average residential ratepayer will pay an additional \$2.21 per month, increasing the average total monthly bill from \$33.71 to \$35.92. This average increase is exclusive of proposed increases in the water delivery and wastewater rates anticipated to be brought forward for City Council consideration in February 2004. SAWS continues to offer the following affordability programs: Meter Discount Program, Project Agua; Plumbers to People; and Laterals to People.



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Approved:



Melissa Byrne Vossmer
Assistant City Manager



Terry M. Brechtel
City Manager

Attachment A
Water Supply Fee
2003 Sources & Uses of Funds
(in millions)

	CY 2003 Original Plan	CY 2003 Projection (rev. 10/03)	Variance
Sources of Funds			
Water Supply Fee Revenue	\$ 55.9	\$ 43.0	\$ (12.9)
Customer Penalties	-	0.7	0.7
Affordability Program	-	(0.3)	(0.3)
Funds Transferred from Water Delivery	16.9	13.5	(3.4)
Non Operating Revenue		2.0	2.0
Total Sources of Funds	\$ 72.8	\$ 58.9	\$ (13.9)
Uses of Funds			
Operating and Maintenance Expense	\$ 40.4	\$ 27.7	\$ 12.7
Operating Reserve	0.5	0.8	(0.3)
Debt Service:			
Bonded	22.7	7.7	15.0
Tax Exempt Commercial Paper	-	1.4	(1.4)
Notes Payable	0.5	0.5	-
Transfer to The City of San Antonio	1.5	1.6	(0.1)
Transfer to Renewal and Replacement:			
Debt Service Requirement			
Matching City Payment	7.2	2.5	4.7
LCRA Commitment	-	3.1	(3.1)
Capital Outlay	-	1.0	(1.0)
Infrastructure (1)	-	12.6	(12.6)
Total Uses of Funds	\$ 72.8	\$ 58.9	\$ 13.9

(1) Renewal and Replacement funds that are applied to capital expenditures. \$3.1 million dollars will be used for 2004 LCRA reserve.

Attachment B
Water Supply Fee
Capital Improvement Program
Projected Through the End of Calendar Year 2003

	Original Cumulative Estimate	Revised Cumulative Estimate	Committed	Expended
Total	\$ 277,457,780	\$ 277,457,780	\$ 212,275,094	\$ 165,453,379

	Original Cumulative Estimate	Revised Cumulative Estimate	Variance
Recharge Initiative	\$ 5,001,080	\$ 5,001,080	\$ -
ASR - Outside Bexar County	29,177,000		29,177,000
ASR - Bexar County	70,806,400	116,089,000	(45,282,600)
Western Cornal	7,220,000	7,220,000	-
Gonzales County	21,835,000	19,835,000	2,000,000
Simsboro			-
Oliver Ranch	2,730,000	4,910,000	(2,180,000)
BSR	2,030,000	2,510,000	(480,000)
GBRA	1,440,000	1,440,000	-
Edwards Groundwater	32,150,000	22,244,400	9,905,600
Additional Water Rights			-
Recycling Water Program	22,968,300	22,968,300	-
System Integration	75,500,000	63,083,199	12,416,801
Sensitive Land Acquisition Program	6,000,000	6,000,000	-
Infrastructure Master Plan	600,000	600,000	-
LCRA			-
Enterprise Resource Planning		5,556,801	(5,556,801)
EAA Activities			-
Total	\$ 277,457,780	\$ 277,457,780	\$ -

Attachment C
Water Supply Fee
2004 Sources & Uses of Funds
(in millions)

	CY 2004 Original Plan	CY 2004 Rev. Est. (rev. 09/03)	Variance
Sources of Funds			
Water Supply Fee Revenue	\$ 68.2	\$ 56.7	\$ (11.5)
Customer Penalties	-	0.6	0.6
Affordability Program	-	(0.3)	(0.3)
Funds Transferred from Water Delivery	16.9	6.7	(10.2)
Revenue Adjustment	-	(0.9)	(0.9)
Non Operating Revenue	-	1.7	1.7
Total Sources of Funds	\$ 85.1	\$ 64.5	\$ (20.6)
Uses of Funds			
Operating and Maintenance Expense	\$ 43.3	\$ 38.7	\$ 4.6
Operating Reserve	0.1	0.9	(0.8)
Debt Service:			
Bonded	30.4	13.8	16.6
Tax Exempt Commercial Paper	-	1.6	(1.6)
Notes Payable	0.5	0.7	(0.2)
Transfer to The City of San Antonio	1.8	1.7	0.1
Transfer to Renewal and Replacement:			
Debt Service Requirement			
Matching City Payment	9.0	3.7	5.3
LCRA Commitment	-	-	-
Capital Outlay	-	1.2	(1.2)
Infrastructure (1)	-	2.2	(2.2)
Total Uses of Funds	\$ 85.1	\$ 64.5	\$ 20.6
Annual Capital Costs	\$ 92.7	\$ 94.8	\$ 2.1

(1) Renewal and Replacement funds that are applied to capital expenditures.