

CITY OF ALAMO HEIGHTS
CITY COUNCIL
June 19, 2018

A work session of the City Council of the City of Alamo Heights, Texas was held at Council Chambers, located at 6116 Broadway, San Antonio, Texas, at 8:30 a.m. on Tuesday, June 19, 2018.

Present and composing a quorum were:

Mayor Bobby Rosenthal
Mayor Pro Tempore Lynda Billa Burke
Councilmember Lawson Jessee
Councilmember Fred Prassel
Councilmember John Savage

Also attending were:

City Manager J. Mark Browne
Fire Chief/Assistant City Manager Buddy Kuhn
Assistant to the City Manager Marian V. Mendoza
Finance Director Robert Galindo
Public Works Director Pat Sullivan
Public Works Superintendent Mark McGinnis
City Secretary Jennifer Reyna

Absent was:

Councilmember Wes Sharples

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Mayor Bobby Rosenthal opened the meeting at 8:34 a.m.

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Item # 1 Mayor Rosenthal read the following caption.

Water/Wastewater Rate Study and work session presented by Dan Jackson, Willdan Financial Services. Presentation will include background on rates, forecast of revenues, expenses, capital requirement and rate plan alternatives.

Dan Jackson, Vice-President, Willdan Financial Services, introduced himself and provided a brief summary of his expertise and clients. He explained today's workshop is related to cost, conservation and acknowledged all entities have one thing in common: increasing cost of water and wastewater.

Mr. Jackson described the current economy and rates for Alamo Heights. Inflation, general increases in the cost of doing business, environmental and other

regulations contribute to water and wastewater rates increasing and need for consideration. He stated a capital improvement plan is essential to keep up with maintenance and provide the highest level of service. American Water Works Association (AWWA) forecasts that water and wastewater rates across USA will triple in the next 15 years. He stated the City's water and wastewater monthly charges are lower than many neighboring communities and below the state average. He commended Council in maintaining low water rates for residents. Mr. Jackson stated no water or wastewater operating rate increase since 2007 and noted SAWS pass through wastewater costs only had been made with no financial adjustments made within the past 10 years. He shared that municipalities are increasing their water and wastewater rates by 5% - 6% every year.

Mayor Rosenthal asked if residents complained about pass through costs.

Finance Director Robert Galindo stated residents inquire about the increase and he explains the increase is a pass through cost from the San Antonio Water System (SAWS).

Mr. Jackson stated Alamo Heights' current rate is favorable when compared to neighboring cities; however, costs are trending up. He noted both water and wastewater rates are falling behind explaining the wastewater rate barely cover costs and the water rate is starting to recover less than its costs.

Mr. Jackson reviewed the chart that presented the current water rate structure. The water rate structure included monthly charges for commercial, residential and irrigation customers accordingly by volume rate and meter measurement. He reviewed the wastewater rate for all customers. Comparison charges of a monthly residential statement sample for 12,000 gallon/1,604 cubic feet and a 25,000 gallon or 3,342 feet within 5/8" meters were presented. He stated compared to other surrounding cities, Alamo Heights is an higher amount for residential customers compared to the City of Live Oak's rate; however, lower than all other entities. With commercial charges, Alamo Heights was higher compared to the Cities of Converse, Live Oak, and San Antonio. He shared with Council that municipalities address the cost in different ways such as low water rate and transferring to General Fund, aggressive capital improvements, and the City of Schertz is looking for additional water resources. He provided an example, the City of Plano has an extraordinary residential rate with a high commercial water rate because they do have numerous commercial businesses within the City.

There was a brief discussion among Council regarding the rate comparison among government-owned water agencies, SAWS, and what was the reason for a cap for commercial users. Mr. Jackson explained perhaps the commercial water users are capped because they are not able to conserve water because they are business oriented.

Fire Chief Buddy Kuhn asked the average meter measurement for commercial users. Mr. Jackson commented 2" is the average meter size. He noted he will make changes to the sample for commercial users to reflect a 2" meter rather than a 5/8" meter.

Alamo Heights' customer users were categorized as residential, commercial, multi-family, institutional and irrigation and displayed in a pie chart. Mr. Jackson reported a total of 3,041 water and 2,728 wastewater accounts consuming 67,320,877 cubic feet on an annual basis noting 65% of users are residential and estimated 15% are irrigation users. A bar chart was also presented to display the monthly consumption average of water users based on classification.

Council discussed the different type of users and quantity of meters. Public Works Superintendent Mark McGinnis informed Council the number of water meters for multi-family units. He stated institutional users consist of The Village at Incarnate Word and they pay a commercial rate. He commented irrigation meters are used for landscape.

Mr. Jackson reviewed historical and forecast annual water accounts and consumption dated as of FY2016 – FY2027. He noted the weather contributes a role in water consumption and stated a need for volume. He projected over 70,000,000 cubic feet as the annual consumption within the next 10 years. He stated within the past few years, almost 100 water accounts were added. Council briefly discussed new accounts and multi-family units. Mr. McGinnis explained additional meters were provided. At Terrell Road, originally two meters scheduled and resulted in six meters. At Grove Place, originally two meters scheduled that resulted a total of four meters (multi-family units).

Council asked about water meter readers, water loss and how many meters are replaced.

Mr. Galindo explained the process, current contract with Olameter and noted the contract will soon expire in 2021. Mr. McGinnis shared an example of how an irrigation meter was not registering appropriately and was updated. Mr. Jackson noted the importance of the water meter registering. City Manager Mark Browne stated meters are being replaced. Mr. McGinnis explained the different systems of reading meters by drive-by and an electronic system. He stated the water department's goal is to have one brand of meter for an electronic register. He stated there is a water loss detection system; however, it may take more than 30 days to detect. Public Works Director Pat Sullivan commented on the antiquated water leak detection system that components are not available and has been in use since 2008. Mr. Sullivan stated Mr. McGinnis and himself are constantly looking at reports to see what is out of the ordinary to detect water leaks or loss. Mr. McGinnis stated 10 meters are replaced on a monthly basis. He informed Council that he purchased 400 meters this fiscal year. He commented the need to change registers as the City has 13 different brands for water meters. The new meters currently being installed will accommodate future technology with a simple component change out, not the entire meter. There was a brief discussion among Council regarding the current process, future options, compatibility, and repair.

Mr. Jackson began his financial powerpoint presentation to include operating expenses, capital outlays, transfers, debt principal and interest (current and forecast). He began with primary assumptions for a five-year forecast. He stated most personnel and

operating expenses will increase 2% per year while other expenses such as insurance/workers comp/healthcare will increase at higher rates. He stated certain expenses will increase with volume and customer growth. He noted two important factors for the City to consider: SAWS wastewater increases are assumed at 8% in 2019 and 5% in 2020 through 2027 and capital expenditures. He stated rates are important and emphasized the cost of capital improvements that need to be included in cost. He reiterated it is maintenance and not growth related to cost. He reviewed capital expenditures and a chart that displayed the capital outlays and expenditures forecast for 2019 – 2027. Within the next 10 years, capital expenditures needs are estimated at \$7.2M. A breakdown of the forecast capital outlays and expenditures were reviewed for water and wastewater.

Mr. Sullivan informed Council of the current status of the TCEQ 4X2 issues. Mr. Sullivan reported 37% completion of 4X2 issues.

Councilmember Jessee asked Council consideration of putting additional money into the Street Maintenance Fund for street overlay and consider another source of income such as increased water rates designated within the Utility fund. Mr. Sullivan shared a brief status of street maintenance. He expressed in his opinion of the continuous cycle of not catching up and being ahead for street work expenditures and Council agreed. He suggested to provide a fund to convey funds into street maintenance as part of water rate.

Future debt assumptions were presented. Mr. Jackson began a future debt assumption with the consideration of a 20-year bond in 2021 specifically for the Broadway Street project in the amount of \$2.5M. A five-year forecast cost of service forecast for water and wastewater utility were presented. He referenced 2018 within the water forecast and commented the total cost of service to include operating/transfers, capital outlays and debt service is \$2,290,488 and in 2019, cost is expected at \$2,704,200. For wastewater forecast, it included operating/transfers, SAWS, capital outlays, and no debt service until 2022 to include bond issuance. In 2018, total cost of service for wastewater is \$1,549,709 and in 2021 forecast is \$2,027,634.

Mr. Jackson presented a rate plan proposal for Council to consider. He recommended a 5% water rate and a 5% wastewater increase plus SAWS additional sewer pass through increases. He further explained a 5% adjustment for each rate and class every year beginning in January 2019 for the next five years. He stated the plan will require revision to the proposed capital outlay funding. Mayor Rosenthal added commercial rates may be reconsidered. Mr. Jackson estimated a \$3.00 increase for a water user that utilizes 5,000 gallons and \$8.00 increase for a 12,000 galloon user. He briefly reviewed the capital outlays funded through the proposed rate plan. He commented in later years, there will be additional monies; however, noted the importance of cash management and the issuance of a bond. Mayor Rosenthal cautioned consideration of a bond since there were two existing bond issuances. Mayor Pro Tem Billa Burke expressed support in a gradual increase. Mr. Jackson reminded Council this is an investment to Alamo Heights and goes directly to assets and future generations.

Next steps were identified to review financial assumptions and alternatives. A public hearing would be conducted to receive feedback from customers on the rate plan and Mr. Jackson offered to make a presentation with revised notations from today's workshop to include a 5% increase to water and wastewater rates and compare to the City of San Antonio, SAWS and surrounding cities such as Terrell Hills and Olmos Park. He stated he may include for the City of San Antonio, SAWS, and commented uncertainty obtaining other municipalities forecast. Council discussed meeting presentation, conduct public hearing, timing of implementation and budget coordination. Council agreed to conduct a public hearing in September when families arrive back from summer vacations and students have returned to school, highlight an article in the City's newsletter, and provide on the City's website informing the community of the proposed increased rate consideration.

Councilmember Jessee expressed concern regarding sufficient funds for capital outlays and if the City is being proactive. Council expressed different ideas for a reasonable plan increase. Ideas included consideration to increase commercial water rates ranging 6% increase and then 5% or a 5% increase and decrease to 4.5%. Mr. Jackson shared some municipalities offer a senior discount but cautioned of the potential of fraud. Council agreed smart meters can wait and continue the current process of meter replacements. Councilmember Prassel commented the true value of increases for water is 10.84% increase and wastewater is a 6.8% increase for commercial users. Mr. Jackson stated he will revisit the increase for commercial users on the proposed rate plan for water and wastewater. Councilmember Jessee repeated the need to acquire costs and save for capital outlay expenditures and recommended an overall 10% increase.

Council briefly discussed smart meters and swapping out meters. Mr. Jackson stated other municipalities are investing in smart meters because they are popular and amazing as he explained the City gets data easy, ease of billing, and overall they are revolutionary. He also explained the wastewater rates are higher because of the increased SAWS pass through rates and water rates had not been increased in the past 10 years.

Mr. Galindo summarized Council's comments for a revised presentation to include increasing the top rate for commercial users presenting a high tier (eliminating cap), updated monthly statement sample of commercial users utilizing a 2" meter, a five-year chart including a 5% rate compared to the City of San Antonio, SAWS, Cities of Terrell Hills and Olmos Park. Mr. Galindo asked Mr. Jackson to produce a new proposed rate plan to include wish lists for capital outlay expenditures. Councilmember Jessee requested a new proposed rate plan to avoid a \$2M shortfall at 5% proposed rate increase.

In conclusion, there are ample water rights. Council agreed to consider a public hearing in September to include costs of smart meters. Mr. Jackson will return on July 31st to make a presentation of Council's new considerations.

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There being no further business, Mayor Rosenthal adjourned the meeting at 10:34 a.m.



Bobby Rosenthal
Mayor



Jennifer Reyna
City Secretary