



MEMORANDUM

To: Management Team

From: Karl Kirk, Assistant Director of Customer Relations

Via: Mike Lopez, Director of Communications and Customer Relations

Date: August 27, 2009

Subject: OVERSIGHT COMMITTEE RESPONSE

The following is forwarded in regards to Mr. Durden's letter dated August 6, 2009 responding to question D. "How many schools, nursing homes, hospitals, day care centers, and similar establishments with vulnerable constituents operate within BexarMet's Hill Country service area?"

Hill Country service area is defined as BexarMet's Public Water Systems Hill Country, Timberwood, and Castle Hills which correlates to Impact Fee definition.

Billing areas include Stone Oak, Hill Country Village, Hollywood Park, Embassy North, Timberwood, Timber Oaks, and Oliver Ranch. Within these service areas, the following total by category could be classified as vulnerable constituents:

Schools	12
Hospitals	2
Nursing Homes	3
Day Cares	5
Medical Offices	25
<u>Dental Offices</u>	<u>5</u>
Total	53

Respectfully,

A handwritten signature in black ink that reads "Karl Kirk".

Karl Kirk
Assistant Director of Customer Relations



MEMORANDUM

To: Management Team

Through: Robert R. Villarreal II, P.E.
Acting Director of Engineering

From: Bobby Mengden, P.E.
Engineer and Project Manager

Date: August 21, 2009

Re: Oversight Committee Response

The following is in response to the letter from Mr. Don Durden, Consulting Engineering Consultants ("CEC") to the Bexar Metropolitan Water District Oversight Committee dated August 6, 2009 and received August 25, 2009. The Bexar Metropolitan Water District Engineering Department submits the following responses:

E. Is BexarMet capable of providing adequate storage to respond to a major fire flow demand, particularly in those areas that have experienced low pressure incidents and other problems?

- *How would you characterize BexarMet's ability to meet fire flow requirements "24-7" in its Hill Country service areas during the week of August 17, 2009 through August 23, 2009?*

Per the recently completed Master Plan and CIP report, BexarMet has adequate supply and pumping to meet typical fire flow demands. BexarMet, however, is taking steps to provide a more reliable system of fire supply for Pressure Zone 1395. Currently, fire flows for this Pressure Zone are provided by ground storage and fire pumps, similar to several areas within the BexarMet and SAWS' systems. The elevated tank will provide these flows without the need for fire pumps.

- *Is there any time during which a fire flow demand could have precipitated a low pressure situation?*

This question is very problematic as low pressures generated by fire flows are extremely localized. For example, if a 2000 gpm fire flow is needed for a commercial

development and the water service line is a 24" and near the pressure/supply source, pressure drops elsewhere in the system may be negligible. Whereas a residential fire flow of 1000 gpm applied at the end of a 6" water main may cause lower than normal pressures along certain portions of the line. Therefore, in all likelihood, there are areas within the system that do experience lower than normal pressures during fire flow demands. However, this is typical for most municipal systems.

- *Was any BexarMet water used to fight the brush fire near Blanco and Old Blanco Road the evening of August 4, 2009? If so, what impact did it have on the system?*

The area in question where the brush fire occurred was located in the Camp Bullis Military Installation. The U.S. Army provides potable water supply and fire flow supply to Camp Bullis. Nonetheless, several voluntary fire departments assisted with fighting this fire on the evening of August 4, 2009. It is uncertain specifically what time or which BexarMet fire hydrants were utilized in the supply of water for these fire fighting activities. However, system pressures and tank levels in the nearby BexarMet service areas were not adversely affected.

Please let me know if further explanation or clarification is required for any of these responses.



MEMORANDUM

To: Management Team

Through: Jesse Morin
Director of Finance

From: Michael Dutton

Date: August 27, 2009

Re: Oversight Committee Response

The following is in response to Item (f):

Question: If the drought continues for another 12 months, what would BexarMet's financial position be at the end of the year?

Before discussing the financial implications of the drought continuing for another 12 months, it is important to provide basic background information on water utility rate structures. BexarMet, like most large water utilities in Texas have conservation based volumetric water rates for their residential customers. This type of water rate structure is more volatile to weather (rain fall) variations than non-conservation based rate structures, especially for residential customers. In regions such as Texas, residential water usage varies more from winter to summer than other customer classes such as commercial and governmental. Most of this seasonal variance is due to outdoor watering. Most people intuitively understand that during wet years (especially the summer season), water consumption will be less than normal. The same is also true during times of drought restrictions. Conservation based water rates increase the revenue volatility because more of the expected revenue is dependent on higher use customers. During wet periods or during water use restrictions, water consumption declines, but water sales revenue will decline by an even larger percentage than the reduction in water consumption.

Increase revenue volatility is an unintended consequence of conservation based water rate structures. To help mitigate the consequences of the increased volatility, many water utilities have increased financial reserves and/or by policy have budgeted for higher debt service coverage ratios to provide a cushion during periods when water revenues decline. This is not just an issue for BexarMet, but an issue for all water utilities with conservation based rate structures. If the drought continues for another 12 months, there will be a decline in BexarMet financial reserves and unrestricted cash on hand. BexarMet will have lower than budgeted debt service coverage ratios. The reduction in financial reserves and debt service coverage ratios will also depend on how the

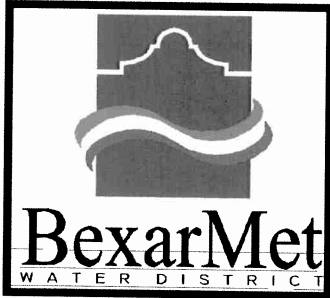
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District responds to the lower than expected water sales revenue. If BexarMet cuts variable operating expenses to help mitigate the reduction in water revenue, the decline in financial reserves and the reduction in debt service coverage ratios can be minimized.

No one can tell you precisely where the District will be financially if the drought continues for another 12 months. If the drought does continue, it is likely the San Antonio area will move to more restrictive drought stages which means less outdoor water usage can be expected from that occurring during the summer of 2009.



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Acting Director of Engineering

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Engineer and Project Manager

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G. What has BexarMet done to adopt new impact fee and water development fee structures and how do they compare with other water utility providers in the region?

BexarMet utilized the statutory process as codified in Chapter 395 of the Local Government Code for the creation of a system wide Land Use Assumptions ("LUA") and Capital Improvements Plan ("CIP"), (collectively the "Plan"). The Plan was then utilized in the Impact Fee revision process completed by Corollo Engineers. On June 22, 2009, the BexarMet Board adopted a Resolution amending the Water Service Regulations to modify the current impact fees and the processes by which the fees are assessed and collected. The average impact fee across the District is comparable to other water utility providers in the region. Furthermore, the Capital Improvements Advisory Committee ("CIAC") that assisted BexarMet with these tasks will also remain intact to assist in the implementation of the CIP and tracking of the growth projections. In addition, BexarMet has recently contracted with a professional firm to assist in a comprehensive rate study that includes the impact fee and water development fee components.

Please let me know if further explanation or clarification is required for any of these responses.