

WATER/SEWER RATE STUDY TASK FORCE
c/o Department of Environmental Services
2100 Clarendon Blvd., Suite 801
Arlington, VA 22201

January 20, 2004

Mr. Ron Carlee, County Manager
2100 Clarendon Blvd.
Arlington, VA 22201

Dear Mr. Carlee:

The Water/Sewer Rate Study Task Force has reviewed the options and recommendations provided by Raftelis Financial Consulting and County staff regarding the cost of service and rates for Arlington's water and sanitary sewer services. We have reached consensus on the three primary issues we addressed. We recommend that the County retain its current system of fixed volume charges for water and sewer service rather than adopting base charges for these services. We do not recommend more complicated pricing systems involving a higher rate for increased water use during the peak summer season or a sewer rate that is adjusted for increased water use for landscape watering during the summer. Finally, we recommend that the County establish reserve funds for both working capital and extraordinary expenses, but we recommend funding these reserve funds at a lower level than recommended by the consultant.

Our decision to recommend against adding a base charge to water and sewer rates is due to the very modest benefits that would accrue from such a change and the equally modest costs of adding a base charge. Base charges are meant to cover the fixed costs of water and sewage service, including billing and customer service, servicing meters and public fire protection. These costs are relatively modest and would result in a small fixed charge and a small decline in volume charges for customers. While the base charge would lead to a more equitable distribution of the costs of service to water and sewer customers, its small size would yield modest revenue stabilization benefits. As we discuss below, we believe that establishment of reserve funds would be a better way to handle extraordinary costs and the problem of fluctuations in revenue due to wet or dry weather conditions. In addition, adopting a base charge would marginally weaken incentives to conserve water, since it would reduce the volume charge for water and sewer services.

The County receives few complaints about its water and sewer billing services, but the major source of complaints is that sewer charges are applied to all water used, including water used during the summer to water lawns and landscaping. These complaints could be addressed by charging lower or zero sewer rates on water used during the summer months that is in excess of the average amount of water used during the rest of the year, on the assumption that most or all of the extra water is used on lawns or in other ways that keep it from the Water Pollution Control Plant.

Such a pricing system would have modest effects on the bills of most County customers. Only a small number of very high-use residential customers would see a substantial drop in their water bills. These customers already have the alternative of installing a second water meter on an outdoor faucet; no sewer fee is charged for water from such hook-ups. While installation of a second meter

would probably cost in the range of \$2000 to \$3000, this is not an unreasonable amount given that these high-end water users have very sizable quarterly bills. Our calculations suggest that the cost of a second meter could be recouped in two years or less, though this would depend on the details of the pricing system that the County adopted.

Such a pricing system would work counter to water conservation. While the County does not face a shortage of water in the near future, increased water usage has deleterious effects on the County's streams, the Potomac River and the Chesapeake Bay by introducing chlorine compounds and other chemicals into the storm and sanitary sewer systems. Adding a higher water rate on excess summer water use to encourage conservation could counter these incentives to use more water, but also would offset the pricing effect of reduced sewer charges. A pricing system with both reduced sewer rates for increased summer water use and with higher water rates for greater volumes to encourage conservation would yield substantial benefits to a very small number of very heavy water users, while making the billing system harder for everyone to understand.

The County currently has no reserve funds to cover unexpected costs or lower-than-expected revenues from its water and sewer system. We support the proposal to develop reserve funds to cover both working capital and extraordinary expenses of these systems. We recommend that the County appropriate at least \$1 million per year into these reserve funds with the goal of building the reserves to 12.5 percent of average County operations and maintenance expenses within ten years. We also recommend that each of these funds be restricted to covering specific types of expenses. For example, the working capital reserve fund should be used only in wet years when the County's revenue is reduced due to reduced water use. The extraordinary expenses reserve fund should be used only for major infrastructure repairs necessitated by floods or other disasters.

Overall, the current rate system is simple to understand and administer and the alternatives do not offer advantages sufficient, in our view, to justify change. The two reserve funds we support could provide most of the modest advantages associated with a more complicated pricing structure.

Despite our recommendations to maintain the current rate system, we believe that this study was a useful exercise and well worth its costs. Our task force received excellent staff assistance from Robert Mace, Leigh Sue, Molly Oberst, Aileen Winquist and others. Mr. Mace in particular was always responsive to task force requests for data or explanations; his assistance was crucial to the rapid and successful conclusion to our discussions.

Sincerely,

Dean Amel, Environment and Energy Conservation Commission
Eric Harold, Environment and Energy Conservation Commission
Wayne Kubicki, Fiscal Affairs Advisory Commission
Warren Nelson, Fiscal Affairs Advisory Commission