



Legislation Text

File #: 18-773, **Version:** 1

Subject:

Results of Water and Sewer Rate Study

BACKGROUND SUMMARY :

In the fall of 2017, the Finance Department prepared RFP 18-04 to select a vendor to perform a Water and Sewer Rate study. Seven vendors responded, and three were selected for interviews. After the interviews, Municipal Financial Services Group (MFSG) of Annapolis, MD was selected to perform the study, and Council awarded the contract on December 11, 2017.

The Finance and Public Works Departments worked with MFSG to provide system data. MFSG used their comprehensive model based on American Water Works Association (AWWA) best practices, and over 40 years of experience including several cities, towns and authorities in Virginia.

OVERVIEW :

One of the features we were looking for was a model that incorporated not just current operating costs, but also capital costs and financing, and allowed us to design rates to sustain the system in the future. We were also interested in aligning our fee structure and theories with AWWA best practices. MFSG prepared a 10-year projection from their model to support their recommendations. Their presentation of the rate study is attached. MFSG will attend the March 5 work session with their full model in case the presentation does not answer all relevant questions.

A summary of the key recommendations are as follows:

- Maintain a minimum of 90 days of operating expenditures in cash.
- Use AWWA suggested equivalents for quarterly flat charges based on meter size for commercial customers. While residential service charges will increase, it will be under \$3 a quarter in 2019. Commercial customers will see a bigger increase. These charges are less than Fairfax County charges for residential customers.
- Realign the residential and commercial tiers so that about 50% of customers are at tier 1 rates, 30% fall into tier 2 rates for the excess over tier 1, and the remaining 20% fall into tier 3 rates for the excess over tiers 1 and 2, another AWWA best practice. For residential customers, this lowers the tier limits. For commercial customers, it raises the tier limits. This change will have a positive impact on residential customers who use less than 16,000 gallons quarterly (the former tier 1 cutoff) as they will be paying a lower rate for the first tier.
- The new proposed rates show the water rate slightly declining and staying flat for 3 years, then increasing by 3% a year. The sewer rates increase by 10% for the next 3 years and then level off to 3.5% increases. Service charges go up by 10% to 15%, mainly from the effect from commercial customers. In total, most residential customers will see an increase of \$5 to \$15 a quarter per year, or \$20 to \$60 annually.

Generally, residential bills will increase of 5-8% which is in line with the previous increase in 2016 of 7.7%, and also covers the large sewer treatment rate increases in 2017. Furthermore, we now have a plan that is sustainable for the long term and will cover our costs without large rate increases to customers.

SUMMARY/STAFF IMPRESSIONS :

Overall we are pleased with the thoroughness of MFSG's study and feel that we now have a good plan to sustain the water and sewer fund into the future.

RECOMMENDATION :

We recommend acceptance of the study results and the use of the proposed rates in the 2018-19 budget.