

Budget Committee Sewer Rates

3-18-2013

Wastewater Recommendations

- 6% revenue increase for FY 2014;
 - FY 13 Budget Recommended FY14 increase of 8%
- Phase in the Fix Cost Recovery Charge –Base Charge
 - Volumetric Rate remains at \$6.55/1,000
 - Base Charges increase from \$5.50 to \$12.79 per quarterly bill
- Customer Impact
 - Single Family Residential – over 95% of all bills
 - Current Average Cost \$41.13/m = \$123.39/qt. =\$493.56 annually
 - Increase = \$2.43 per month = \$7.29quarterly bill =\$29.16 annually
 - Apartment Complexes
 - Current Average = \$2,585.18/month
 - Recommended Average Increase = \$64.74/month

Topics

- Major Issues
 - Why an Increase
 - Base Charge Increase vs. Rate Increase
- Other Issues
 - How do our Sewer Rates compare
 - How do our combined sewer and water rates compare
 - How are apartments impacted by the recommended change
 - What has the County done to keep rates low
 - What reserves are in the sewer fund and why
 - Are other communities required to meet the Bay TMDL
 - How does the cost of Nutrient removal from WW compare to Contributors

Why a Rate Increase

- Bay TMDL - \$300M
 - NPDES Permit requires plant meet 3mg/L N by 2013 – Upgrades Completing Construction
 - Arlington Upgrades recently completed
 - Alexandria and Blue Plains – Under Construction
 - UOSA – In Design
 - Loudoun – Designed to meet standards
 - Additional Treatment Increases O&M
- System transitioning from “Growth” to “Built” System
 - Revenue Sources – Less availability revenue
 - Debt Coverage
 - Coverage ratios were required to increase to sustain AAA rating
 - Cannot be by one time new customer revenues
 - Age and Replacement Strategies
 - 3%/year Reinvestment Rate
 - Should be Cash funded not Debt Financed



Summary of Key Credit Ratios

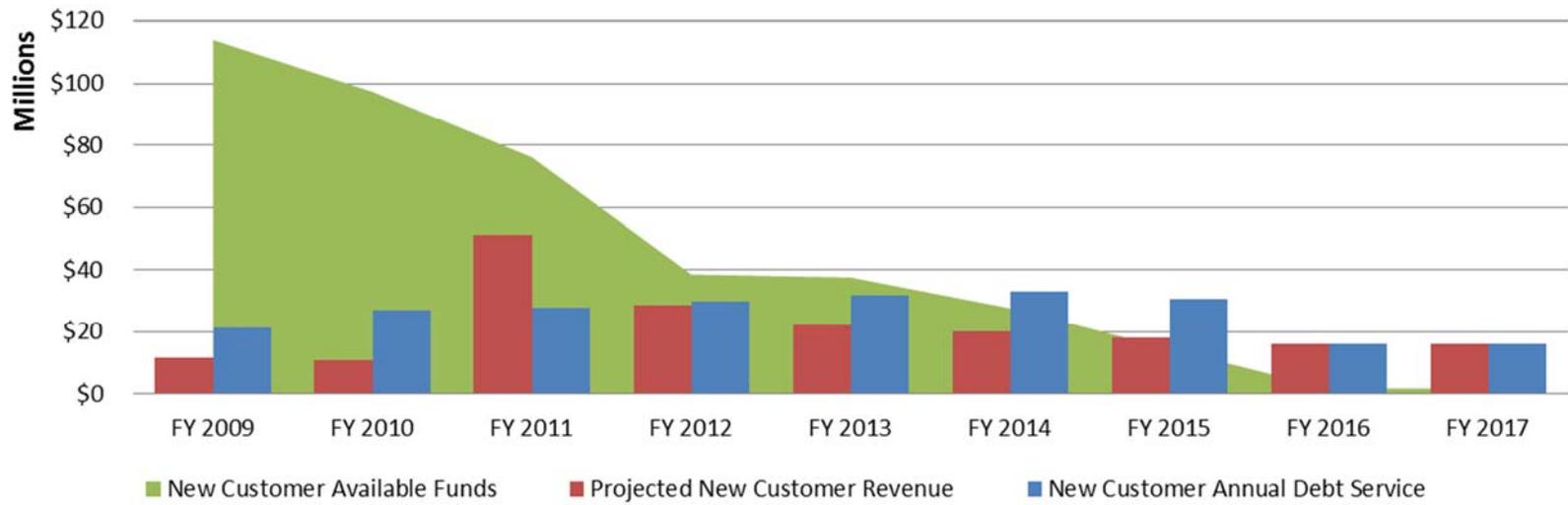
How Fairfax County Sewer Compares				
	5 Year Historical Trend	Selected Peer Group	Aaa Water & Sewer Median	Aa1 Water and Sewer Median
Days Cash on Hand	Relatively consistent after spike in 2008	Underperforms	Underperforms	Underperforms
Net Working Capital as a % of O&M	Increased, slightly	Comparable	Underperforms	Comparable
Operating Ratio	Decreased	Comparable	Comparable	Comparable
Debt Ratio	Increased	Underperforms	Underperforms	Comparable
Senior Lien Debt Service Coverage	Declined; yet remains strong	Outperforms	Outperforms	Outperforms
Total Debt Service Coverage	Increased in 2010 & 2011	Comparable	Underperforms	Comparable

Selected peer group is shown on page 23.

PFM's Perspective

- PFM report –
 - Negatives from 2009
 - Historical reliance on availability fees
 - Recent declines in Debt Service Coverage
 - System's debt ratio expected to increase substantially
 - Potential cost increases due to Chesapeake Bay Regulations
 - Key Credit Ratios in Red comparing to Aaa Water and Sewer Median
 - Days Cash on hand
 - Net working-Capital as % of O&M
 - Debt Ratio
 - Total Debt Service Coverage

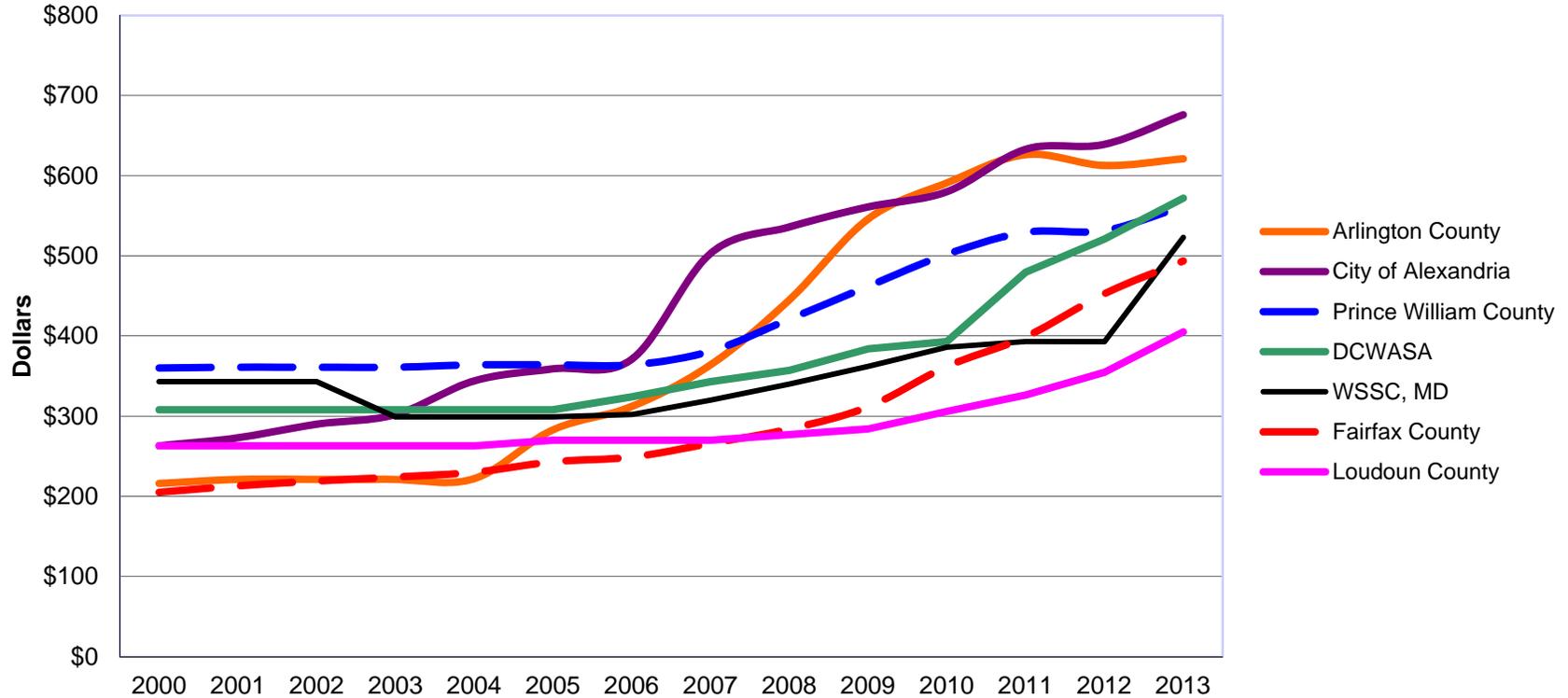
Use of Availability Fees



Year	Bonds	Amount		Debt Service	Outstanding Principal	
Prior	Various Series	Senior	\$104.00	\$7.51	Senior	\$ 96.87
		Sub	\$420.95	\$21.65	Sub	\$308.72
		Total	\$524.95	Total \$29.16	Total	\$405.59
2005	Refunded 1996	2004	\$ 94.01	\$6.80	\$384.86	
2005	UOSA Refunded 95	2004	\$31.84	\$4.85	\$384.86	
				Total \$30.35		
2007	UOSA Refunded 93	2007	\$55.92	Total \$29.19	\$418.29	
2009	Revenue Bonds	2009	\$152.26	\$7.76	\$559.07	
				Total \$ 36.95		
2010	UOSA Bonds	2010	\$34.11	Total \$38.23	\$546.78	
2012	Revenue Bonds	2012	\$90.71	Total \$46.46	\$642.96	
2014	UOSA Bonds	2014	\$14.50	Total \$50.38	\$650.46	
2016	Revenue Bonds	2015	\$111.70	Total \$53.96	\$678.60	

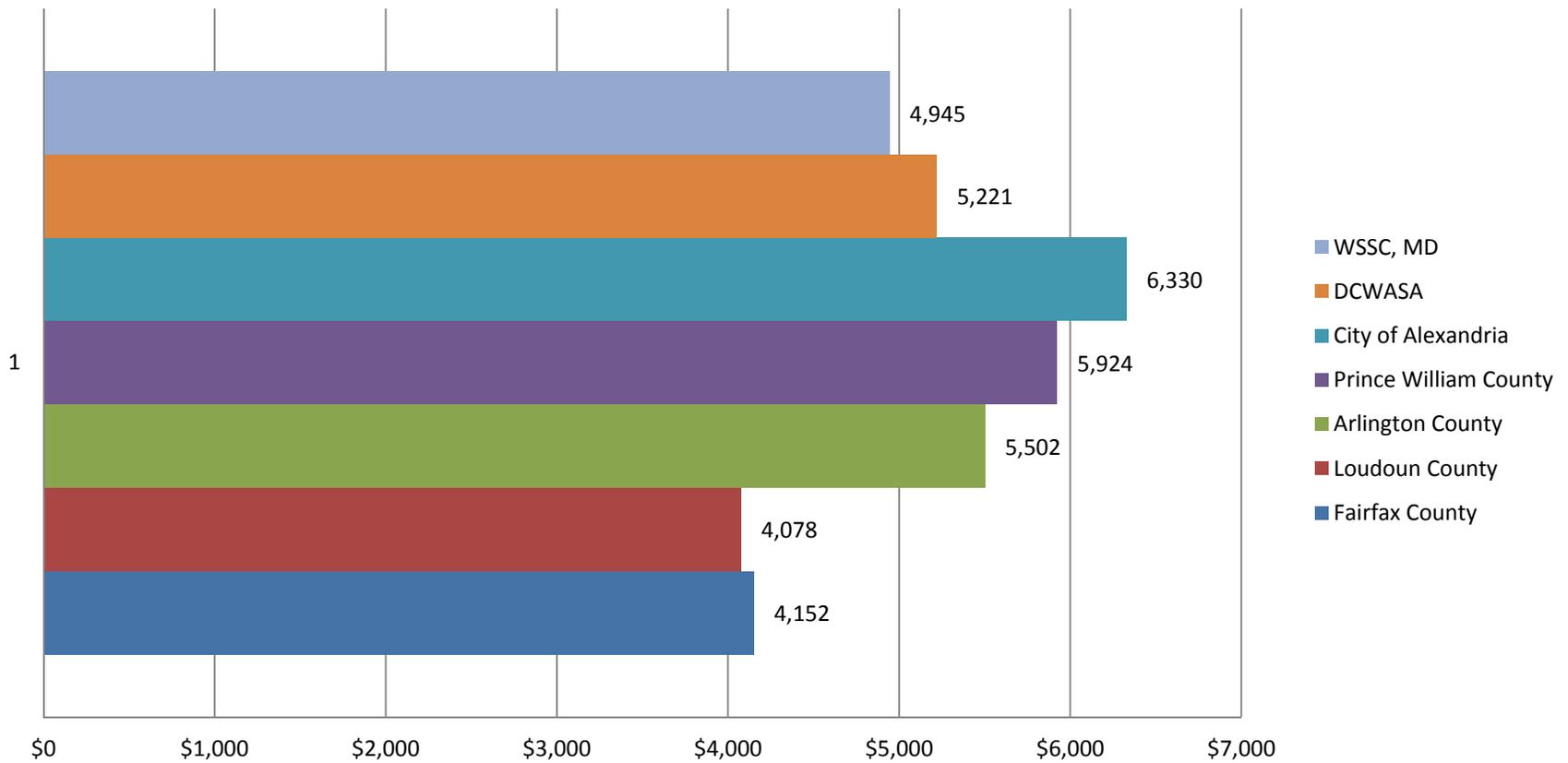
Comparing in the Region

Annual Household Costs for Sewer Service
 Fairfax County has historically had the lowest costs in the region.
 Now Fairfax has the second lowest, only Loudoun County has a lower cost .



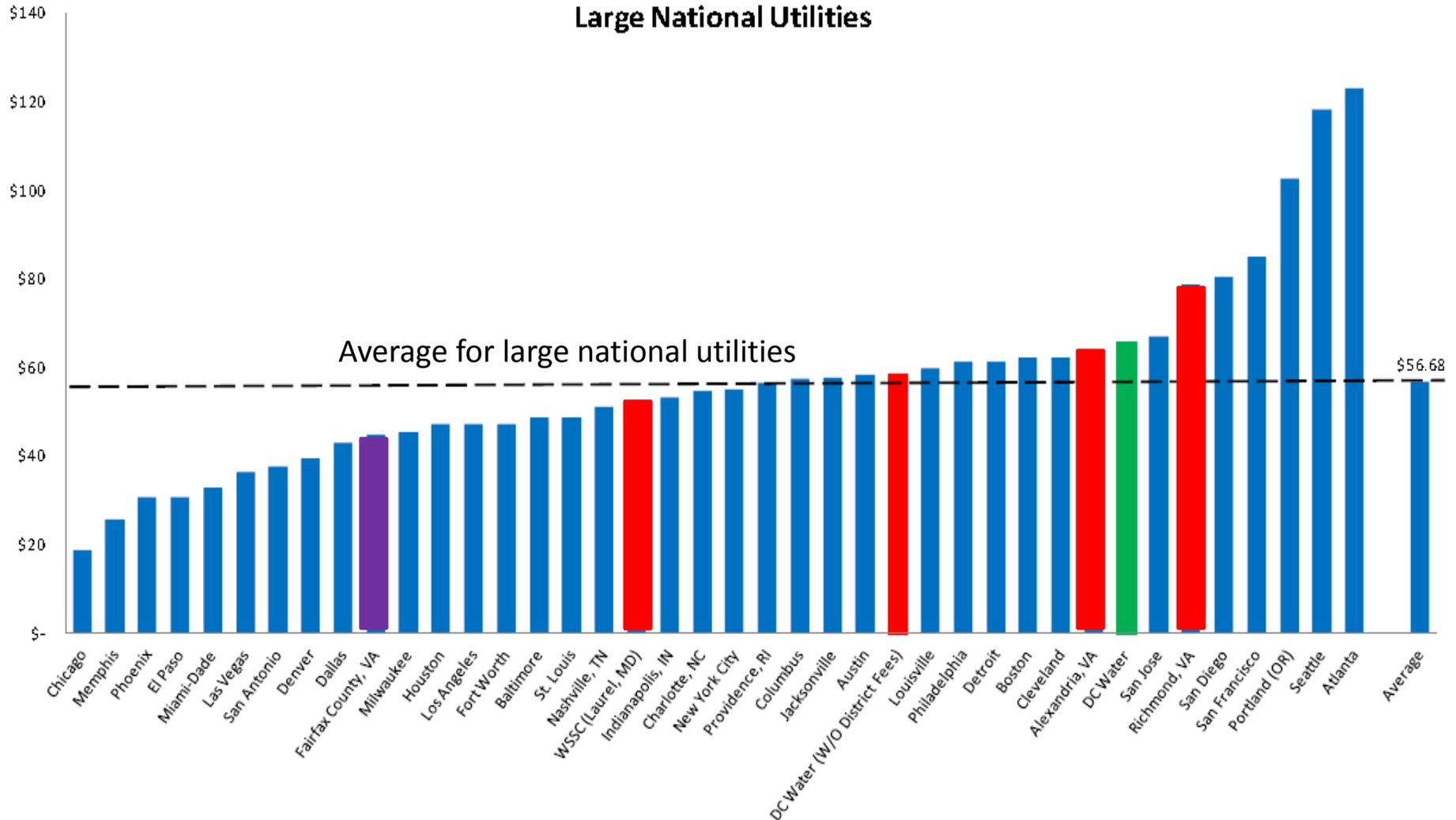
Cumulative Costs

Cumulative 14-Year Sewer Bill



National Sewer Costs

Single Family Residential (SFR) Monthly Bill - Large National Utilities



Comparison of Combined Water and Sewer Service

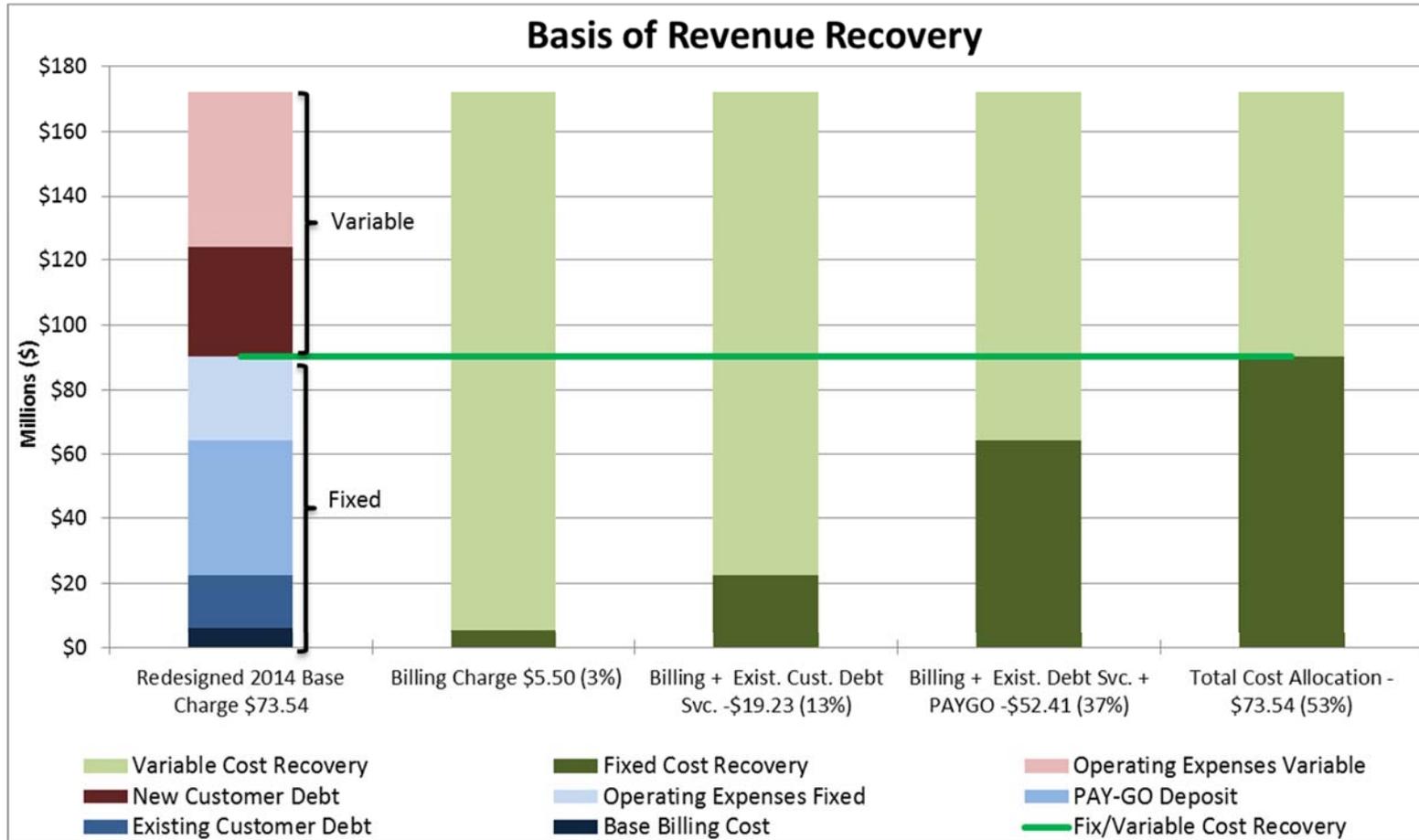
	Using 6,000 Monthly Sewer Gallons			
	Non-Volume Charges	Volume Rate	Volume Charge	Total Charges
Loudoun County ¹	19.23	6.12	36.72	55.95
Fairfax Water/Fairfax County ¹	7.33	8.84	53.04	60.37
Prince William County	11.75	9.90	59.40	71.15
WSSC ¹	3.67	11.38	68.28	71.95
City of Alexandria (VA AWC0)	22.23	9.54	53.38	75.61
Arlington County	-	12.61	75.66	75.66
DC WASA	18.71	10.16	60.96	79.67
Neighboring Utilities Average	12.64	9.61	57.10	69.74

¹ Proposed Rates

Base Charge vs. Rate

- Recommended by:
 - Wastewater Financial Consultants
 - Bond Rating Agencies
 - Industry Standards 25-30%
- Rate is applied to volume used
 - Rate is billed based on winter quarter usage
 - Current Rate is \$6.55/1000gallons
- Base Charge applied to all bills
 - Current base charge \$5.50/qt. covers billing costs only
 - Rate Charge recovers cost of maintaining service availability
 - FY 14 recommendation is \$12.79/qt.
 - Single Family homes all see the same increase \$2.43/m. or \$7.29/qt.

Fixed Cost Recovery Methodology



New Customer Debt Service is the difference between Availability Charge receipts and the new customer portion of the system debt service (\$27.0 million)

Base Charge vs. Rate Increase

User Comparison

Monthly Sewer Gallons (in thousands)	Current Design Volumetric		Recommend Design Fixed Cost Recovery		Difference
	Rate 6.94	Base 5.5	Rate 6.55	Base 12.79	
1		8.77		10.81	2.04
2		15.71		17.36	1.65
3		22.65		23.91	1.26
4		29.59		30.46	0.87
5		36.53		37.01	0.48
6		43.47		43.56	0.09
7		50.41		50.11	(0.30)

- 13,796 Customers < 1,000 g/m 6.5%
- 55,811 Customers 1 -3,000g/m 26.3%
- 99,481 Customers 3- 6,000g/m 46.85%
- 40,082 Customers > 6,000g/m 18.8%

Specific Questions

Apartments

- Apartments Complexes
 - Average current apartment complex monthly cost = \$2,585
 - Recommended Average monthly cost = \$2,620(+\$65)
 - Base charge bill is \$99/m less than 6% increase on volume
 - There will be variances based on meter sizes and usage

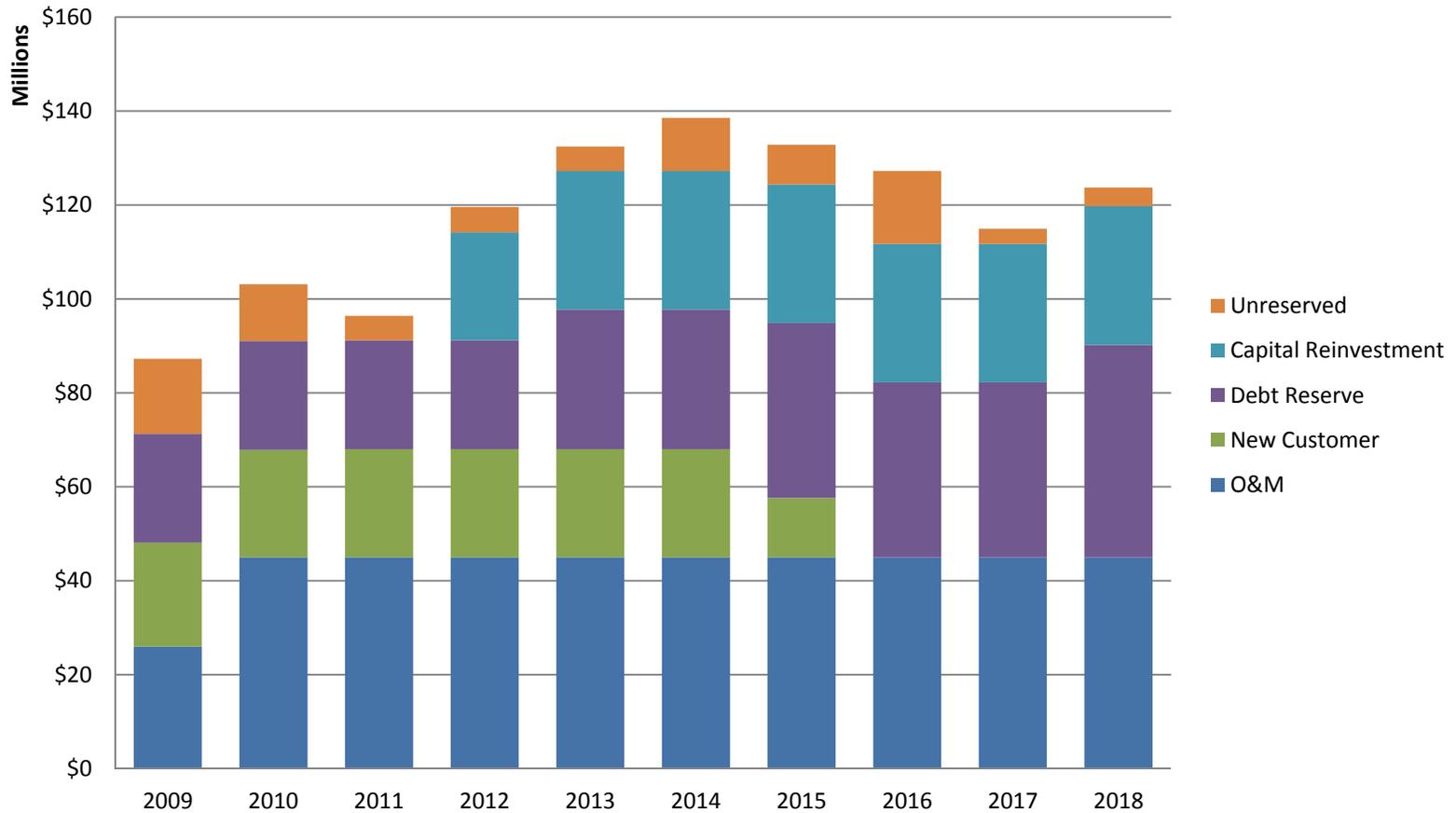
Specific Questions

Keeping Rates Low

Initiative	Benefit
Streamlined operations/Eliminated supervisory layers	49 positions eliminated since 2001
Decreased electrical consumption by 18%	\$580,000 per year since 2003
Decreased chemical consumption 33% - 89%	\$1.9 million per year since 2003
Decreased water consumption by 65%	\$70,000 per year
New telephone maintenance contract	\$40,000 over 5 years
Energy efficiency initiatives	Reduce energy loss up to 28%
Contracted out easement clearing	\$50,000 per year
Contracted out sliplining/pipe repair program	\$1.5 million per year
Virtualized servers and computer licenses	\$100,000 per year
Sold phosphorus credits	\$100,000 over 5 years
Eliminated non-essential CIP projects	\$18.6 million over 5 years
Evaluated Design & Construction options	\$20.7 million over 5 years

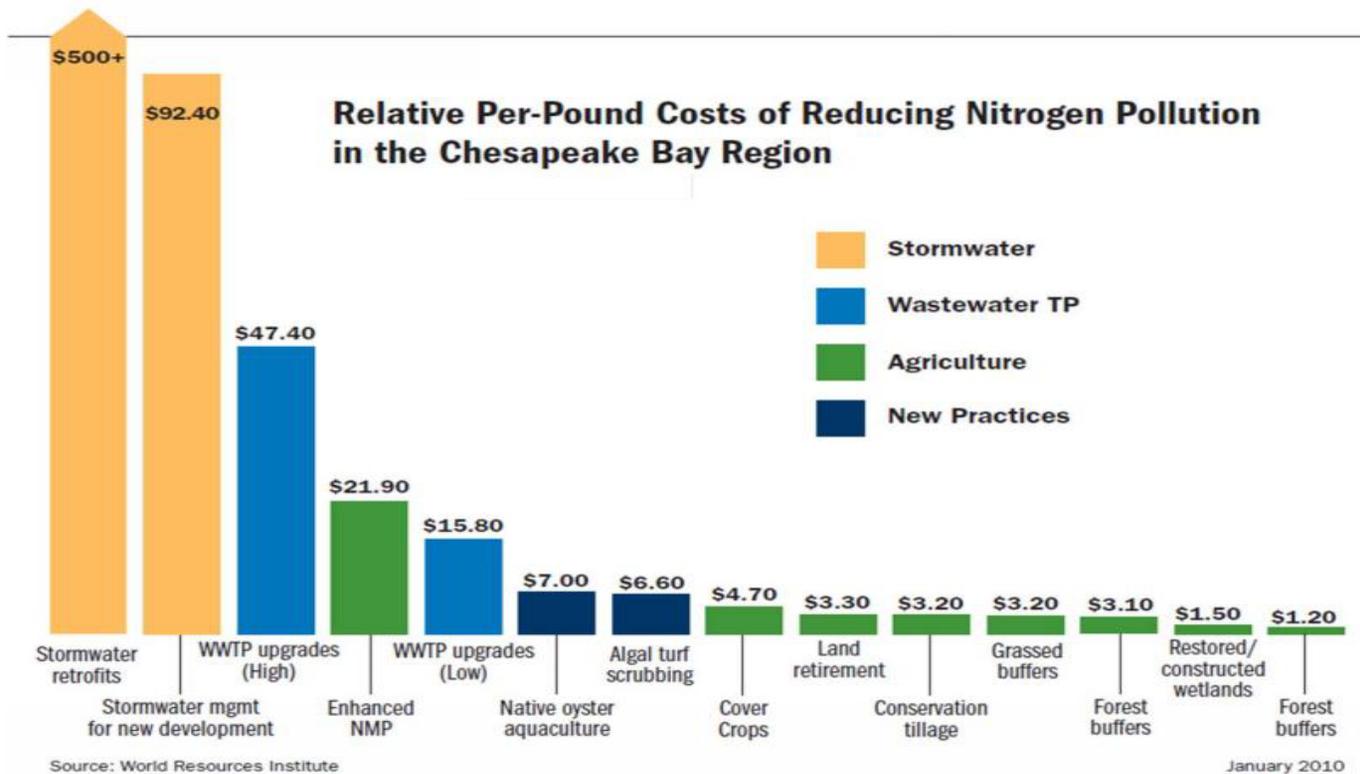
Specific Questions Reserves

Cash Balances and Reserves



Specific Questions

Bay TMDL Costs

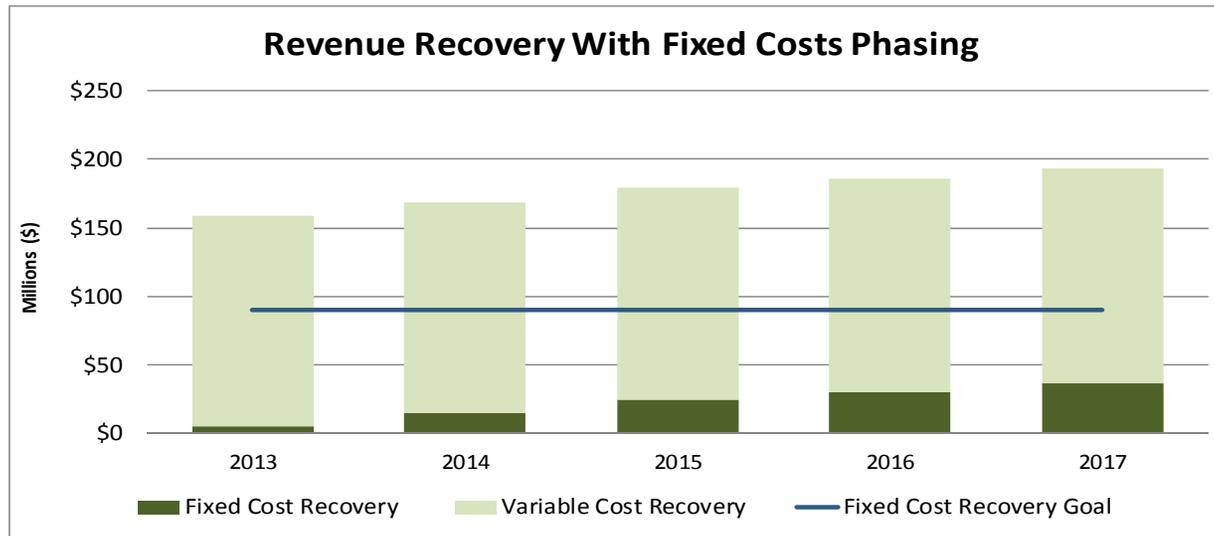


For more information on nutrient trading and an updated version of this cost-curve, please visit the World Resources Institute Website at: <http://www.wri.org/publication/how-nutrient-trading-could-help-restore-the-chesapeake-bay>



Specific Questions

Future Years



	2013	2014	2015	2016	2017
Percent Rate Increase		6.00%	6.00%	4.00%	4.00%
Usage Charge	\$ 6.55	\$ 6.55	\$ 6.55	\$ 6.55	\$ 6.55
Billing Charge	\$ 5.50	\$ 5.50	\$ 5.50	\$ 5.50	\$ 5.50
Base Charge	\$ -	\$ 7.29	\$ 14.86	\$ 19.84	\$ 24.95
Total Fixed Charges	\$ 5.50	\$ 12.79	\$ 20.36	\$ 25.34	\$ 30.45
% Fixed Cost Revenue Recovery	3.52%	8.70%	13.51%	16.37%	19.09%

- By maintaining the usage charge constant at the approved FY 13 level, we can increase the Base Charge so the rate increase is consistent with 6% recommended rate increase.
- This alternative recovers 19.09% of the fixed costs; industry standard is 30%.

Questions and Discussion