



DISTRICT OF COLUMBIA WATER AND SEWER AUTHORITY

BOARD OF DIRECTORS

Retail Rates Committees

*Thursday, April 28, 2005
Immediately following Joint Meeting of the
Finance and Budget and Audit Committees*

MEETING MINUTES

BOARD MEMBERS

David J. Bardin
Mohammad Akhtar
Howard Gibbs

WASA STAFF

Jerry Johnson, General Manager
Paul Bender, Chief Financial Officer
Avis M. Russell, General Counsel
Michelle Cowan, Director of Finance and Budget
Linda Manley, Secretary to the Board

David J. Bardin called the meeting to order at 10:32 a.m.

Rate and Fee Proposals

Paul Bender provided an overview of the twelve-month schedule for all rate-related actions, including the following four rate and fees-related processes:

1. FY 2006 and 2007 rate and fee changes
2. Fire service meters proposal and potential fire protection charge alternative
3. Alternatives for Combined Sewer Overflow (CSO) rate structure
4. Proposal for a stormwater rate increase to the District

FY 2006 Rate and Fee Changes

Mr. Bender updated the Committee concerning WASA's proposed rate and fee changes for FY 2006 which include: 1) a proposed six percent increase in WASA's retail water and sewer rate, and 2) an increase in the right of way/PILOT fee to recover the full cost of the Authority's right of way and PILOT payment to the District of Columbia government. These proposals were published in the January 28, 2005 edition of the D.C. Register. Since March, WASA has held three community briefings in various parts of the District, and has scheduled three more for May, including one with the Hotel Association of Washington. Mr. Bender reported that community meetings are progressing smoothly. A public hearing, scheduled for Thursday, June 2 at the Metropolitan Washington Council of Governments, will provide another opportunity for the public to discuss their reactions to the proposal with WASA Board members. After the public hearing, the Retail Rates Committee will meet in July 2005 to consider all public comments received and forward its recommendation for final action by the Board at its September meeting. If adopted by the Board,

any retail rate and fee changes, if adopted, would go into effect in October 2005. Mr. Bender noted that for FY 2007, staff will submit proposals on rate changes in conjunction with WASA's budget process, similar to prior years.

Fire Service Meter Fees and Potential Fire Protection Charge

Mr. Bender explained that the proposed rate and fee changes for FY 2006 included four new meter fees for fire service meters, and that based on additional analysis, management is recommending that these fees not be approved. Management is evaluating other alternatives for recovery of fire service and fire protection costs which will be presented to the Board in July. In explaining the recommendation, Mr. Bender noted that the proposal was originally based on the cost of installing certain special meters for a small number of customers. There are several different scenarios for fire protection in the District of Columbia. One scenario is when one line services fire and domestic needs but splits into separate lines after the meter. This scenario requires a special fire service meter which is much more expensive to install. Another scenario occurs when there are two lines and the line serving fire protection is unmetered (in this case, the customer would not pay for water consumption on the fire service line, but does receive all of the advantages of fire protection including larger sized main while the first group of customers pays a significant fee for the same benefits.) Staff is considering a more equitable fire protection charge to apply to all customers regardless of configuration differences.

In response to a question by Mr. Gibbs concerning the purpose of the fire meter charge, Mr. Bender reported that WASA will not be installing meters on lines that are for fire service only, but will install the appropriate fire service meters on those combined domestic / fire protection service lines. The proposed fee increase would cover the higher cost of installing these meters.

Mr. Bardin expressed concern about use of the description "fire protection charge" because the Board is not formally considering a fire protection charge for private properties, rather is only considering certain metering fees for fire service meters, as publicized in the D.C. Register. Mr. Bender responded that the fire meter fees are what have been advertised and what the Board will ultimately consider. In July, staff will submit alternative proposals for consideration by the Committee, which would potentially include a more global fire protection charge.

CSO Rate

Mr. Bender reviewed the schedule CSO rate schedule and based on the Committee's guidance at the end of today's work session, staff will be prepared to follow up on any questions from the April work session at the Committee's July meeting. If the Committee adopts a specific recommended rate structure, staff will be prepared to advise the Board concerning the timetable for implementation of the recommendation.

In discussing the CSO rate, Mr. Bardin introduced the issue by providing an overview of WASA's rate structure. WASA collects almost all of its costs from its customers on a water consumption basis – each customer pays for their share of costs based on the amount of water they use, which provides a direct and objective relationship to the water and wastewater services WASA provides. Mr. Bardin noted that we are now evaluating financing and rate options for the CSO Long Term Control Plan (CSO LTCP) on which WASA will spend an estimated \$2 billion over a twenty-year period. Because combined sewer overflows are related to rainfall and not to water consumption by customers, we need to evaluate other non-consumption based rate options. Mr. Bardin noted that this was particularly true for parking lots and other similar properties that contribute rainwater runoff into the combined sewers, yet consume no water, and thus would not pay for their share of the CSO LTCP under a consumption-based structure. In addition, some residences with sizeable

lawns may also contribute to stormwater runoff as not all of the runoff is absorbed into the lawn, and yet use little domestic water. Other residences may use substantial amounts of water, but contribute very little to stormwater runoff. Proposed rate structures for the CSO LTCP should take these factors into account on a reasonable and objective basis.

Mr. Bender introduced Dave Earley and John Cromwell, WASA's independent rate consultants, who provided a report on three options. One option would recover all CSO LTCP costs through the wastewater consumption rate, which is the way most localities handle these costs due to their magnitude. A second option would allocate the impervious cost to various customer classes based on how much the class contributes to runoff (based on impervious surface area estimates) but then recover those costs through the wastewater rate. A third option would bill each customer on a parcel by parcel basis depending on how much impervious service each parcel has. Within each of the broad categories, there are options to pursue, some of which are more complicated than other alternatives.

Mr. Bender stated that the incremental costs of the CSO LTCP do not greatly impact WASA's rates until about 2011, leaving adequate time to research and make appropriate decisions. However, the parcel by parcel impervious surface charge is at least a three to four year project, so if chosen by the Board, staff need to begin this intensive process immediately. Mr. Bender explained that capital costs in 2011 will be approximately \$75 million per year and we will need to recover approximately \$15 million in 2011, increasing roughly \$10 million each year thereafter for the next ten years. In 20 years, total cumulative capital spending will be \$1.9 billion and WASA will need to recover approximately \$150 million per year in rates, assuming no federal financing beyond what has already been received.

Mr. Earley and Mr. Cromwell continued the discussion with a detailed overview, pros and cons of each option and related issues, tasks to be performed, staff resources and a timeline to implement each option, including an assessment of the complexities of each option and possible rate structures.

Mr. Bardin asked if the single family equivalent billing unit approach differentiated on a parcel by parcel basis. Mr. Bender replied that it did not as the EBU would be based on the average imperviousness of all single family parcels. Mr. Bardin asked if any other cities had contemplated as large a project in dollar terms with a relatively small customer base. Mr. Johnson replied that examples include Richmond, Virginia; Milwaukee, Wisconsin; and Providence, Rhode Island.

Mr. Gibbs asked how low impact development would be taken into account. Mr. Johnson explained that it would likely be part of an exception or appeals process that would be developed. Mr. Gibbs also asked how industrial parcels would be factored in. Mr. Johnson replied that they are part of commercial, although additional analysis could be done on industrial contribution to CSO overflows.

At the conclusion of the financial consultants' presentation and further discussion by the Committee and staff, Mr. Johnson concluded that the parcel by parcel impervious surface-based approach is probably the better approach if the goal is to segregate the costs for CSO and stormwater programs from the actual cost of delivering water and sewer services. Mr. Johnson stated that management was not seeking a decision today, but rather wanted the opportunity to reeducate the Committee members, particularly those new members, and present more implementation details for the Committee's consideration. Mr. Johnson recommended that we continue with the current approach (i.e., recovering costs through the wastewater rate) as current costs are substantially less than what they will be beginning in 2011. This will also give WASA sufficient time to collect all of the data needed to implement the impervious surface approach. Because there is a need to increase stormwater revenue in order to pay for the requirements of the District's new stormwater permit, we would recommend to the District that it increase (roughly double) the current stormwater rate, but

keep the existing structure until such time that we put the full plan into effect. Mr. Johnson suggested that the Committee and staff schedule another working session to review and have further discussion of this information.

Mr. Bardin stated that he believed the proposals brought before the Committee were too complex and would take too long to implement. He stated that his strong preference is to develop a rate structure that could be implemented on a step-by-step basis. This structure would not need to be based on the best or most perfect information available, but that moved us in the right direction of a more objective rate structure for CSO costs. He stated that there was no CSO proposal on the table that he could vote for.

Mr. Johnson responded that the purpose of this presentation was not to present a formal option to be voted on by the Committee; rather, it is one in a series of steps in evaluating options to recover the costs of this \$2 billion program which does not fit neatly or fairly into the existing rate structure. Mr. Johnson added that many Committee members are new to this issue and its complexities, as are most of the residents of the District of Columbia. This presentation continues the education process. In moving forward, not only does the Rates Committee need an understanding of the complexity of this issue, but WASA also needs a well-planned approach and mechanism for better informing the general public and our customers about why we are considering an impervious surface rate. There are issues staff will need to work through including federal customer issues as they have a large presence in the District of Columbia.

Mr. Bardin asked that staff develop a plan that is simpler and proposes implementation stages, and includes public discussion. Mr. Bardin recommended that staff start with the existing database from D.C. Office of Tax and Revenue based on land area, potentially excluding any impervious surface based aspects in an attempt to simplify implementation. Similarly, small or "sliver" lots could be exempted at the outset to simplify implementation. Mr. Bardin also recommended that staff begin discussions with the District Department of Transportation, the Mayor and the City Administrator on their share of CSO costs that are associated with runoff from roadways.

Mr. Bardin adjourned the meeting at 11:53 a.m.