



Meeting Summary

Water and Wastewater Utility Rate Study Community Advisory Group (RSCAG)

Thursday, November 14, 2019

Ellen M. Bozman Government Center

6:30 – 8:00 p.m.

RSCAG Members Attending

Lily Duran
Kathleen Harrison
Herschel Kanter
Peter Robertson
Rafael Sampayo (Phone)
Bob Orttung

RSCAG Members Absent

Matt Gerber
Daniel Logan
Nora Palmatier
Regina Boston
Heitham Ghariani
Michael Mesmer

County Staff and Consultants Attending

Mike Collins, Department of Environmental Services
Krista Bourgon-Abele, Department of Environmental Services
Janelle Okorie, Department of Environmental Services
Lisa Wilson, Department of Environmental Services
Bart Kreps, Raftelis
Jason Gershowitz, Kearns & West
Samantha Ramsey, Kearns & West

1. WELCOME AND INTRODUCTIONS

Jason Gershowitz, the RSCAG facilitator, opened the meeting by welcoming participants and reviewing the agenda. He explained that the purpose of this meeting is to explain the core values of the Study, as well as the rate structure alternatives. Jason asked RSCAG members to briefly re-introduce themselves and state their interest group affiliation. Subsequently, County staff and consultants re-introduced themselves.

2. CORE VALUES AND RATE STRUCTURE ALTERNATIVES

Identifying Financial Objectives and Core Values. Bart opened the discussion by elaborating on Raftelis's purpose within the Study, explaining that they're working with the County on the technical side of the rate study process to guide and develop alternative rate structure options and products.

Next, Bart explained the first step of the rate setting process – identifying financial objectives and core values. These objectives and core values will serve as the building blocks of the rate structure because they help guide the Study and rate design. Furthermore, they help orient the rate structure to the values of the community. Bart noted that there is no rate structure that can do everything – there are tradeoffs and different structures can compete with one another.

The table below summarizes the values that RSCAG members will be prioritizing. This prioritization will be informed by their perspectives and interest group affiliation.

Core Values for Rate Setting	Description <i>The rate structure should...</i>
Affordability	...be designed such that essential usage is available to residential customer at an affordable price. Customer Assistance Programs (CAP), often funded through partnerships and charitable contributions, may be considered if they adhere to state legal requirements
Conservation	...incentivize water conservation. Conservation-oriented rates reward customers who save water through changes in appliances and/or behavior
Rate Stability & Minimization of Customer Impacts	...be strategically implemented to reduce dramatic rate increases over time or across customer categories. Structures that promote rate stability rely on smaller programmatic increases, where possible.
Revenue stability	...provide more steady and predictable revenues due to a higher reliance on fixed charges
Simple to Understand and Easy to Implement	...be easy for customers to understand. In addition, the rate structure should be able to be implemented without significant costs to the utility.
Equity Across Customer Categories	...each category of customers pays their fair share of the cost of service
Economic Development	...promote economic development.

Design Rate Structure. Bart Kreps identified the next step in the technical study and rate setting process – designing the rate structure. Within a rate structure, there are two primary charge types: fixed charges and variable charges.

Fixed charges remain unchanged regardless of the volume of water consumed. This charge covers customer service costs no matter who the customer is.

- **Advantages.** Fixed charges contribute to the revenue stability of a rate structure and may reflect customer related and other fixed costs, such as debt service.
- **Disadvantages.** A fixed charge limits customer control of reducing their bill through efficient usage and conservation incentives.

Variable charges vary with the amount of water used, meaning that utility costs depend on customer usage patterns.

- **Advantages.** Variable charges allow the County to recover volume-related costs based on customer usage. They're easier to apply to certain policy objectives, such as conservation and affordability.
- **Disadvantages.** Variable charges are inherently more complex, as there are administrative costs associated with metering consumption.

Alternative Rate Designs. Bart Kreps explained the various alternative rate structures that RSCAG members could reference or use when designing the County's water rate structure. Bart emphasized that one alternative rate structure does not fit all. Notably, rate designs vary by utility and by region; rate levels vary by utility; and, rates reflect diverse and competing objectives of a jurisdiction. As such, a Hybrid Approach is often used to capture county goals and objectives and address implementation issues for each customer class.

A Uniform Rate is a single rate for all units of consumption, for all customers and customer classes. Each unit of the product is valued and priced the same

- **Advantages.** Uniform Rates are generally easy to implement, administer, and update. Additionally, they are understandable and accepted by most customers
- **Disadvantages.** Uniform Rates do not fully allocate system costs associated with peak/ seasonal demand to usage which creates the peaks. And, they only marginally achieve conservation objectives

Inclining Block Rate is a unit rate that increases with consumption. For example, the first 10,000 volumes of water used are at a certain price and then the rate increases for the next 10,000 volumes. This type of rate is linked to cost and discretionary consumption.

- **Advantages.** Inclining Block Rates can be highly conversation oriented and are generally understandable by customers
- **Disadvantages.** Inclining Block Rates have the potential to contribute to revenue instability and might have substantial impacts on high volume customers. They pose challenges in developing appropriate block cutoffs and unit rates.

Seasonal Rates have higher unit rate(s) for consumption during a peak period than at other times during the year. This type of rate is commonly used in resort communities where there are big influxes of people during one season of the year.

- **Advantages.** Seasonal Rates are based upon cost of service allocation concepts and are generally understandable and accepted by customers.
- **Disadvantages.** Seasonal Rates might have substantial impacts on high volume customers and may have less predictable impact on demand and revenue.

3. AFFORDABILITY CONSIDERATIONS

Bart Kreps explained that rate structures can be a useful tool when addressing affordability, noting that one of the best ways to reduce a bill is to encourage residents to conserve water. Bart highlighted that affordability-friendly rate structures include variable charges and lifeline rates, while less affordability-friendly rate structures are structures that include minimum charges and high fixed charges.

Bart also offered other programs and initiatives that are affordability friendly. Rate and Bill assistance programs that offer bill and rate discounts and crisis assistance are other effective measures, however state-specific legal considerations are highly important. Within Virginia, local jurisdictions only have powers that are explicitly granted to them and there has not been a lot of precedent within the state for giving discounts. Bart added that it is also important to consider funding for programs that offer reduced rates. Water efficiency options, such as education, conservation assistance, and leak detection and repair, are effective measures for reducing one's bill. Other measures include financial counseling and disconnection moratoria.

4. UTILITIES FINANCIAL OVERVIEW

Arlington County Utilities Fund. Krista Abele provided an overview of the County's utility fund, explaining that Arlington County's Utilities Fund is an enterprise fund. This means that the water and wastewater rate, along with other revenues and excess fund balance, must fully support the operations and capital needs of the fund, including water purchase and distribution, wastewater collection and treatment, and customer service and billing.

Krista explained the upcoming initiatives of the FY 2020 Utilities Fund. First, the Utility Billing Information System replacement project goes live in November 2019 (11/15/2019). The new system features an updated interface and the ability for customers to access services implemented by the County. The second initiative is the Water-Sewer Cost of Service & Rate Study, which is a 13-month project that will reassess the County's current water rate structure and involve large amounts of public engagement. The next initiative customer service enhancements that expand the staff and call-center hours.

Arlington County is also looking to proceed with water meter replacement planning to introduce the next generation of meter technology. This strategic planning process will consider new technologies and inform the County's decision as they plan for system replacement prior to meter end of life. And finally, the County is underway with our first phase of projects related to the Solids Master Plan.

Jurisdictional Rate Comparison. Krista explained how Arlington County's water and wastewater rate compares to neighboring counties and displayed a matrix to illustrate the differences. From the matrix, RSCAG members could see that Arlington County's residential bill rate structure falls right in the middle of the spectrum. As the current rate structure is designed, Arlington County bills residences quarterly and uses a consumption rate.

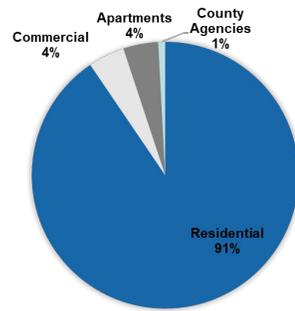
Consumption Patterns and Accounts. Bart Kreps noted that the directional trend of consumption patterns is decreasing because people do not use as much water. He added that this can be problematic if a jurisdiction bills volumetrically. Krista Abele explained that the number of water and wastewater accounts within Arlington County has remained consistent despite the downward consumption trend.

Customer Profile – Water and Wastewater. The charts below illustrate the breakdown of customer

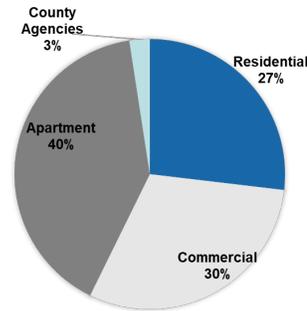
accounts compared to their consumption rates.

Water

CUSTOMER ACCOUNTS

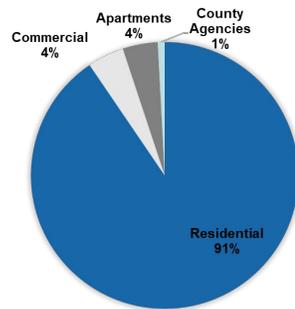


CONSUMPTION

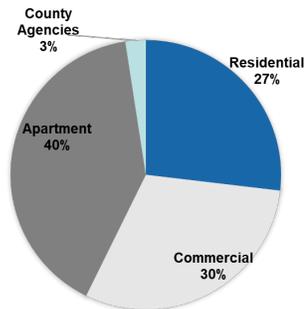


Wastewater

CUSTOMER ACCOUNTS



CONSUMPTION



QUESTIONS AND ANSWERS

Note: A summary of RSCAG questions and responses from the entire meeting is provided below.

Ref	Question or Comment	Response
1	Could the customer categories be commercial and residential or distance and elevation?	Yes, and there are some utility structures that account for things like distance and elevation, however those are significantly more complex structures.
2	Where are we addressing the financial sustainability of the rate structure? To me that is something	The County is absolutely considering the financial stability and utility sustainability. Financial sustainability is not a core value

Ref	Question or Comment	Response
	that should be clearly spelled out, not just implied.	that is open for negotiation – it is seen as an absolute must. It is considered an essential priority already.
3	What about generating sufficient revenue?	No matter which rate structure is chosen, it will need to cover the cost.
4	How variable is water usage?	In general, water usage is very variable. However, it is less variable in Arlington County because it is more urban here. One of the biggest jumps that we’ve seen in variability is about 5-6% across the system. It typically jumps between 1-2% a year. And as the climate changes and becomes more severe, you expect to see that volatility.
5	Is consumption measured automatically or by physically looking at a meter?	Consumption is measured through an automatic meter reading. We drive down the street and the meter automatically sends a signal to the reader. Residential properties are measured quarterly, and non-residential properties are measured monthly. Throughout the year, there are nine or 10 billing cycles. The billing rates are pro-rate for the first half of the year and then change on July 1 st of that year. If the meter reading looks out of sorts, someone will go out and physically look at it.
6	If the County switched to monthly billing for residential properties, would that raise administrative costs?	The next generation of meter reader operates on a cell phone signal that is transmitted daily. The system promises to reduce costs, however, our current system said that, as well, and it only marginally reduced it, but then raised costs elsewhere. However, one of the benefits is that we could do monthly billing for everyone.
7	Does Arlington County have capacity problems? Are there times when you’re worried that people will not get all of the water they want to use?	Generally, no. Arlington County is in a secure position on system capacity and water capacity, though we’re always looking for more reliability
8	It sounds unlikely that individual users in apartments are going to be responding to outreach for designing the rate structure because it’s really the landlords that interact with water billing and consumption rates, is that right?	They’re a secondary customer for the County. We tried to engage with apartment and condo users in convening this Advisory Group, however we did not get a whole lot of interest because it’s one step removed from them. They’re usually a set rate and paying as a third party.
9	Is there some incentive with new apartment buildings to install water conservation features?	Yes, it is now mandated for apartments to include conservation features.
10	Are most other Utility Funds enterprise funds?	Most other utilities are authorities, so they’re not part of the municipal government. They operate as a stand-alone entity.

Ref	Question or Comment	Response
		Different counties and cities have different bill configurations and various service providers.
11	Are your bonds under the County?	We generally issue general obligation bonds through the County, which are secured with water and wastewater revenues. There is no separate bond agency rating for Arlington’s Utilities; it falls under the County’s Triple A (AAA) bond rating. The bonds are double backed by the revenue and by the County.
12	I’m shocked by water consumption by apartments. It seems shocking that they’re using that much water. Are they that much of Arlington County’s population?	Multi-family buildings, including apartments and condos, comprise approximately 2/3rds of Arlington County’s population.
13	Is there some kind of model that can be created that calculates revenue based on our suggestions?	Yes, we can calculate it. Any rate structure will target the same amount of total revenue. Bart and Krista will take one to three ideas that the RSCAG has to draft it into a rate structure, breaking it down by different classes and the impact on each.

5. WRAP-UP AND NEXT STEPS

Jason Gershowitz, summarized the main topics from the meeting. Those included:

- Identifying and defining the County’s financial objectives and core values
- Gaining a deeper understanding of the rate structure alternatives
- A more detailed cost-breakdown of Arlington County’s water rate structure, including line-item breakdowns, as well as a breakdown of rates
- A comparison of Arlington County’s water system against data from the American Water Works Association nationwide survey to determine how the County’s infrastructure compares to others
- A detailed list of the water rate alternatives
- How neighboring counties have developed their water rate and fee structure
- Greater clarity on customer assistance programs for utilities for low-income groups

Mr. Gershowitz also summarized the list of topics to discuss in the third RSCAG meeting, including:

- Prioritizing the County’s core values for the rate structure design
- How irrigation is accounted for in the rate structure

Mike Collins closed the Rate Study Community Advisory Group meeting by thanking individuals for their role in supporting and advancing the Study.