



At a Crossroads: The Future of the City of Fairfax Water System

Information for Water Customers

March 2013

Frequently Asked Questions

Where does city water come from? The city operates a water treatment plant on Goose Creek in Loudoun County.

Where does Fairfax County Water Authority's supply come from? Fairfax County Water Authority (Fairfax Water) operates two plants: on the Occoquan Reservoir and the Potomac River.

Which provides the higher quality water? Both meet or exceed state and federal standards. Fairfax Water's plants offer the latest-generation treatment technology. The city's plant has conventional treatment processes — but cannot fully match the level of "purity" regarding certain disinfection by-product standards. Even after the proposed upgrades, the city's plant will not offer the latest technology currently provided by Fairfax Water.

What are the advantages of changing to Fairfax Water? Mostly, it is future capital cost savings for customers. With fewer customers supporting the city's system, annual rate increases will outpace those of Fairfax Water. The proposal is to join a larger regional system to avoid sharply rising rates, by comparison.

What are the advantages of the city retaining its water system? Some residents (1) feel the city's water system is integral to its history and sense of pride and independence, (2) feel that city-provided water services will be better and (3) prefer retaining and controlling Goose Creek as a water source versus using the Potomac.

(continued on page 2)

Escalating Operational and Capital Costs Prompt City to Consider A Less Expensive Water Option

The City of Fairfax Mayor and City Council seek community input as they consider a possible agreement with the Fairfax County Water Authority (Fairfax Water) to provide water service to current City of Fairfax water customers.

This factsheet reviews why the city is proposing this action, what it means to water customers and the significant benefits the Mayor and City Council believe will result from the agreement.

Background

In the late 1950s and early 1960s, the then-Town of Fairfax experienced supply difficulties with its well water system. After city status was achieved, city leadership implemented a plan to establish a new water supply and construct a water treatment plant on the Goose Creek in Loudoun County. Since that time, water has been delivered through a city-owned pipeline to city and non-city customers.

The economics of the system required a larger customer base than just city customers to maintain efficient operations and keep costs down. Since those early days, the system has served not only city customers but, at various times, customers in Loudoun County, Reston, Herndon, Fairfax County areas surrounding the city and George Mason University. This larger customer base provided the "economy of scale" essential for city water rates to be competitive.

However, a series of changes have contributed to a loss of this scale and have resulted in ever-increasing costs to maintain and operate the system. Some of these partnerships ended as those jurisdictions pursued less expensive or closer sources of water. Loudoun Water, the city's remaining wholesale water customer, will stop purchasing water from the city by 2018. Recently, the city reduced water rates to GMU to retain it as a customer. Further, pending litigation between the city and Fairfax County may result in increased rates paid by customers in the city.

About a year ago, the city asked its residents to consider a plan to sell the facilities in Loudoun County and become a "wholesale" customer of Fairfax Water but still receive customer service from the city's utilities department. City water customers would have benefitted from that plan with lower water bills in the future. At that time, some city residents recommended against the sale, preferring to pay slightly higher rates for retaining the water treatment facility. The Mayor and City Council decided to stay the course in response to the then-public desire to retain the city facilities in Loudoun County and remain "in the water business."

Why re-visit this issue?

As mentioned above, circumstances have significantly changed in the past year. The potential loss of revenues from residential and non-residential customers has become greater, as has the continually rising costs associated

Look inside for more information...

FAQs

(continued from front page)

Why is “economy of scale” a primary consideration? Fairfax Water is the largest water provider in Virginia with the least expensive water: its fixed costs are spread over a population of 1.7 million (versus the city’s current customer population of 40,000).

Which system is better in the event of a drought? They are equal in this regard.

If the city changes to Fairfax Water, are customers guaranteed sufficient water? Yes.

Will city customers notice changes in water taste? Possibly. The water sources are different, and taste also can be affected by seasonal variations in water chemistry. The city has delivered Fairfax Water’s water to its customers periodically in the past, and customers have not reported any difference.

Will there be a change in service with Fairfax Water? Fairfax Water would provide maintenance, meter-reading and new water line installation.

Will the city’s sewer system be impacted? No. The sewer system will continue to operate as it currently does. It is important to note the city decided to “buy-in” to Fairfax County’s sewer treatment facility decades ago, thereby choosing a more cost-effective approach.

What happens if the water system is sold? The city’s property in Loudoun County would be sold and the city water distribution assets (pipes, storage, etc.) would be sold to Fairfax Water. The proceeds of these sales would be used to convert to the Fairfax Water system.

What if the city decides to stay in the water business? The city will continue to produce and distribute its own drinking water with no change in service. Litigation between the city and Fairfax County will move forward with an uncertain result. The city will invest \$45 million in needed improvements to its system. Water rates will rise at a faster rate than previously experienced due to the shrinking customer base and the system’s high capital costs.

The Financial Reality of the Continued Operation of the City’s Water System

The Immediate Capital Needs:

Treatment plant improvements:	\$16.8 million
Dam upgrades:	\$12.8 million
Redundancy program:	<u>\$15.8 million</u>
Total Capital Program:	\$45.4 million

This investment must be followed in 20 years with an estimated \$84 million facilities upgrade, when the useful life of the plant and pipeline will be at an end — 10 years before the debt on the \$45 million is retired.

(Note: all projections are in current dollars)

with water treatment and distribution improvements. With a declining customer and revenue base, coupled with increasing capital and operating costs, the Mayor and City Council decided it was necessary to take another look at the city’s options for its water. In addition, the city received, through mediation with Fairfax County and Fairfax Water, an offer the Mayor and City Council considered to be fair and equitable. This retail option currently under consideration provides greater customer savings than that offered by the previous proposals.

Proposed agreement, benefits

The city is proposing that its water customers become Fairfax Water retail water customers. This means all city water customers will receive all water related services (meter reading, maintenance/repairs, infrastructure upgrades, delivery of water bills) from Fairfax Water, not the city.

City water customers will realize a number of benefits if the city converts to Fairfax Water.

- **Lower Rates:** Converting to Fairfax Water will stabilize current water rates, providing a savings of 9.5 percent compounded annually for the first three years. In 2018, average annual cost savings are estimated at \$554 for residential customers and \$4,047 for commercial customers.
- **Water Treatment Enhancement:** Fairfax Water’s treatment plants provide drinking water using advanced treatment processes that would not be financially feasible for the city to include under the proposed \$45 million water system improvements plan.

Annual City-Wide Savings With Fairfax Water Proposal (after 2018)



- **Expanded Capacity to Address Periodic Water Outages:** The city already relies on Fairfax Water to address periodic water outages from the city's water treatment system; Fairfax Water operates two treatment plants. Back-up capacity is crucial and is activated several times a year. If the city continues to operate an independent water system, the cost to purchase permanent back-up emergency capacity is projected to increase. Additionally, Fairfax Water recently installed back-up generator capability.

- **Future Capital Expenditures to be Responsibility of Fairfax Water:** In addition to providing water treatment, Fairfax Water will assume ownership and responsibility for all transmission and distribution lines located in the city and in city-served areas of Fairfax County.

- **Cost of Converting to Fairfax Water System to be Offset by Sale of City-Owned Water Treatment Properties in Loudoun County:** The timing of transferring to Fairfax Water's system now — before any costly upgrades to the city's water treatment plant are undertaken — means money is saved and the city can sell the Loudoun properties in the current condition.

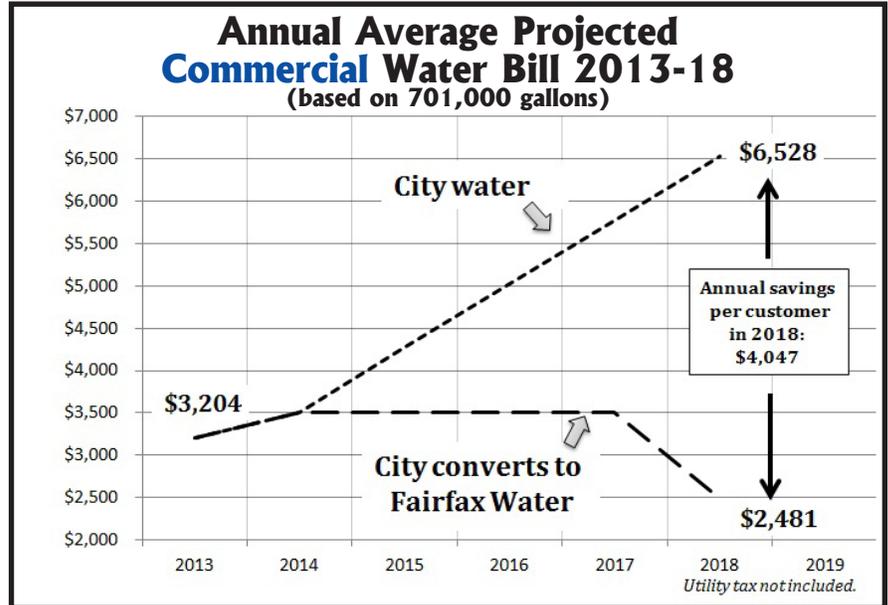
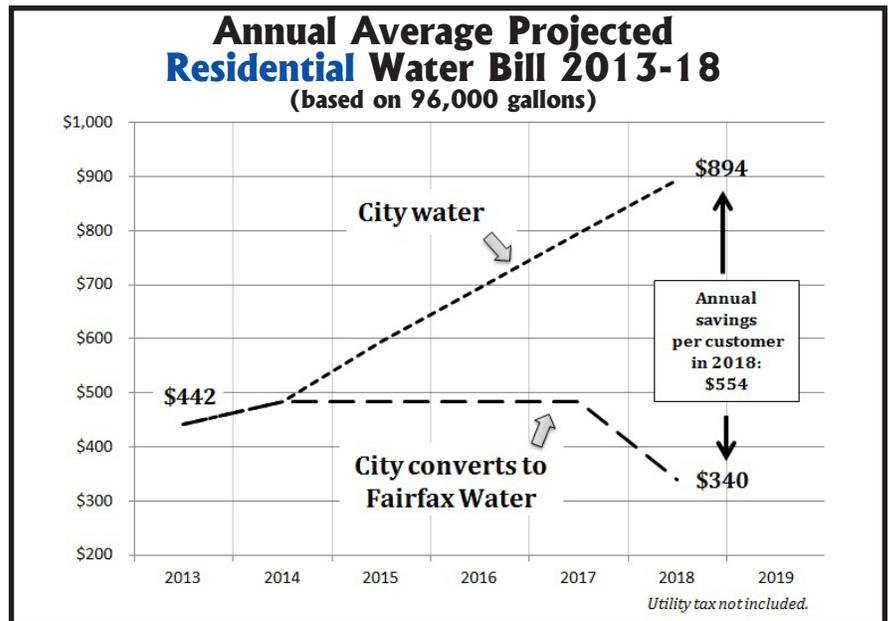
- **Encourage Economic Development:** City businesses will pay a lower rate – and be equal to what competing businesses pay in the county thereby helping the city recruit and retain businesses. Currently, the rates for water service for average commercial customers of the city are more than 80 percent higher than for commercial customers of Fairfax Water.

- **Continues Successful and Cost - Effective On-Going Partnerships with Fairfax County:** Currently, the city contracts with Fairfax County for a number of services. This has proven to be cost-effective and enables a high level of service. The city will ensure any proposed water agreement will deliver the same services as our residents and businesses currently receive.

- **Resolve Pending Litigation:** Seeking to lower water rates for county residents, Fairfax County officials last year passed a measure that sought to control the water rates charged to their residents receiving water from other jurisdictions. Declaring this measure unfair, the city joined other affected Northern Virginia water-producing jurisdictions asserting their rights to fairly charge customers for the cost of their water. As a result of the litigation, the parties entered into a mediation process overseen by the federal court. This mediation resulted in a tentative agreement that is more financially beneficial to city water customers. The proposed agreement also resolves the pending litigation and saves additional legal costs.

- **Long-Term Reduction in City Workforce:** If the city ceases operation of its own water treatment and distribution facilities, affected city employees will be offered employment with Fairfax Water for a minimum of three years. The city will ensure impacted employees' pension and benefit obligations are equalized.

- **Maintain the City of Fairfax's Excellent Credit and Bond Rating:** The city's history of sound fiscal management and provision of high quality services has earned the city the highest possible credit ratings, thereby lowering its costs when capital improvement projects must be funded through bonds. An agreement with Fairfax Water will ensure future capital cost savings while lowering costs for water services for all city customers.





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Conclusion: Converting to Fairfax Water is Consistent With the City's Goal of Securing the Most Cost-Effective Services

The decision to create a water supply and treatment plant and operate an independent water system more than 50 years ago was an innovative and cost-effective means to serve the water needs of our community. Over time, circumstances changed and new methods of meeting challenges and responsibilities emerged.

The initial efficiencies and cost-effectiveness of the city's water system have changed. The city's water system faces new realities and new challenges:

- Increased costs
- Reduced customer base
- Changing technologies
- Increasingly stringent federal and state standards
- Necessary system upgrades

Consistent with the city's tradition of securing cost-effective and high value services, the Mayor and City Council believe it is in the city's best short- and long-term interests to take this opportunity to convert to Fairfax Water to serve city residents and businesses.

Please share your thoughts at these scheduled meetings:

- Public Hearing: Tuesday, March 12 — City Council regular meeting and work session
7 p.m., City Hall Annex (City Council Chamber) *(televised on Cityscreen-12)*
- Outreach Meeting: Thursday, March 21
7 p.m., Stacy C. Sherwood Community Center, 3740 Old Lee Highway
- Public Hearing: Tuesday, March 26 — City Council regular meeting and work session
7 p.m., City Hall Annex (City Council Chamber) *(televised on Cityscreen-12)*
- Outreach Meeting: Saturday, April 6
11 a.m., Stacy C. Sherwood Community Center, 3740 Old Lee Highway
- Public Hearing and Anticipated Action: Tuesday, April 9 — City Council regular meeting and work session
7 p.m., City Hall Annex (City Council Chamber) *(televised on Cityscreen-12)*

Even if you're unable to attend these meetings, please contact the Mayor and City Council regarding this matter; see contact information above.