

MEMORANDUM

DATE: December 16, 2003
TO: The Board of Directors
FROM: Larry M. Foster, General Manager, James City Service Authority
SUBJECT: Independent Water System Rates

The County's Subdivision Ordinance requires that a developer proposing a major subdivision - six lots or more - build a water system to serve the development. Upon completion, the developer is required to dedicate the water system infrastructure to the James City Service Authority (JCSA) for maintenance and upkeep. The JCSA currently operates six "independent" water systems. The number of customers served by the individual water systems ranges from less than 20 to 136 customers, with a total of 332 customers served by the combined independent water systems. As a comparison, the Central Water System serves approximately 16,000 customers. Customers of the independent systems pay the same fees as those served by the Central Water System. Because of the economies of scale, it costs more to operate the independent water systems than the revenues generated from service fees.

In preparation of the Fiscal Year 2005 Budget, the JCSA performed a rate study to ensure that the current rate structure is adequate to meet the financial needs of the organization. As part of the scope of services, Municipal and Financial Services Group, who performed the rate evaluation, was asked to conduct a cost of service study for the independent water systems and make recommendations on how the difference in cost versus revenues can be minimized.

Attached is a copy of the study. Representatives of Municipal and Financial Services Group will attend the work session to discuss the study, review the alternatives identified, and make recommendations.

In summary, the study verified that:

- Operation and maintenance costs for independent water systems exceed revenues;
- Fees paid by Central Water System customers subsidize the independent water systems; and
- A \$4,000 fee per lot to be deposited to an income-producing trust is necessary to offset the operating deficit.

Staff recommends that the Board maintain a uniform rate structure for all customers and that the Regulations Governing Utility Service be amended to establish a \$4,000 fee for each lot within an independent water system. The fee would apply to lots recorded after the approval of the amended Regulations. It is further recommended that the fee be paid when the subdivision of the lot is recorded. If this recommendation is accepted, staff will bring a specific amendment to the Regulations to the Board in early 2004.

Larry M. Foster

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Attachment