

January 26, 2012

Chairman of the Board and
Loudoun Water Board Members

The Water and Sewer Rate Study Report for developer initiated community systems is submitted herewith. This report has been prepared by Municipal & Financial Services Group, the rate consultant on this project.

The guiding principles for this rate analysis are Loudoun Water's long standing policy on community systems and Loudoun County's Comprehensive Plan. Loudoun Water's policy, which supports the County's Comprehensive Plan, states:

"Rates associated with Community Systems shall be such as to permit the system to be financially self-sustaining, with all operation, maintenance and replacement costs being paid by the users and/or owners of all properties in the service area served by or capable of being served by the system(s)."

The Comprehensive Plan states:

"Communal water and wastewater systems must be financed by the developer or by those who will be directly served by the system. The financing plan must be designed, organized, and operated to be financially self-sustaining to pay all costs incurred by the LCSA for operation and maintenance and to provide appropriate reserves."

At your Board meeting on January 12, 2012, all members reaffirmed their commitment to the existing policy. Therefore, we are not considering a uniform rate for central and community systems customers together.

The rate analysis recommends a phase in of rate increases over a three year period to achieve full cost recovery in 2014. At your January meeting, the Board voted to take no action adopting rates for 2013 and 2014, and defer action on the 2012 rates to the February 9, 2012 meeting. In addition, the Board directed staff to re-evaluate the option to assess rates to each individual system based on their specific cost of service. We understand your intention is to consider rate increases for 2013 and 2014 later this year after reviewing whether to keep a uniform community system rate or set rates separately for each community.



You'll recall that in 2008, community systems were consolidated for rate setting purposes to provide economies of scale and reduce the risk of significant rate impacts to a small customer base for major capital repairs.

The 2011 rate review identifies the need for significant rate increases. The rates in community systems have been maintained at existing rates since January 2009 with no adjustment to cover, at a minimum, inflationary increases in costs. The last rate study was conducted in 2008 and since that time, operating expenses have exceeded study estimates. Also, the capital improvements program (CIP) for community systems is significantly more than the capital needs identified in the previous study. The increased capital needs precipitate a need for additional repair and replacement reserve contributions.

Virginia Code, Section 15.2-5136 authorizes the Board to fix and revise rates, fees and other charges for water and sewer service. As required by the Code, a public hearing was conducted on the proposed rates on January 5, 2012. After your approval of the rates, no further review or approval is required. The willingness of the Board to adopt rates that achieve a fair and equitable recovery of costs demonstrates your commitment to fiscal integrity. That attribute is also identified by the credit rating agencies as a strength that contributes to Loudoun Water's financial soundness.

Thank you for remaining committed to fiscal integrity and financial leadership.

Respectfully,

Dale C. Hammes
General Manager