



RESIDENTIAL BILLS SEE SURGE

The Metropolitan Sewer District residential rates average about \$7.50 per 1,000 gallons.



MILES AND MILES OF MAINTENANCE

MSD maintains 3,000 miles of sewers in a service area that covers 290 square miles in Hamilton and parts of Butler, Warren and Clermont counties.

Slowing rise of water rates

MSD chief looks for collaborative ways to cut costs

BY JON NEWBERRY
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Tony Parrott is working to cut Hamilton County water and sewer bills by more than \$100 million, but ratepayers probably shouldn't run out and spend the money just yet.

Savings in operating expenses might be real enough for the 230,000 homes and businesses served by the Metropolitan Sewer District of Greater Cincinnati (MSD). But those savings will be more than offset by mounting infrastructure costs that have tripled sewer rates since 1999.

Customers now pay much more for sewer service than they do for tap water. Those rates are typical for urban areas in the Eastern U.S. and Great Lakes regions with aging sewer systems, according to water industry officials.

That's why Parrott, executive director of MSD, is leading an effort to combine functions of his organization with those of the Greater Cincinnati Water Works, which supplies clean water to most of the same customers. Both agencies are run by the city of Cincinnati. They have a combined annual budget of \$363 million and some 1,200 employees.

Parrott's quest began in 2011 with a request for a feasibility study from Cincinnati City Council. In response, MSD and the Water Works developed a shared-services plan that's projected to save between \$68 million and \$105 million over the next decade.

Spiraling costs of upgrading the county's aging sewer infrastructure – to improve water quality in the region's rivers – has made these moves critical.

"The cost is becoming a financial burden for customers," Parrott said.

He thinks the savings over the next decade can grow once they implement the plan and eliminate redundant positions as people retire.

Of 190 full-time-equivalent employees who are nearing retirement at both agencies, Parrott said, 85 of them won't be replaced.

Whatever the savings, that money will be dwarfed by the \$200 million MSD plans to spend – each and every year for the next 20 years – to comply with U.S. Environmental Protection Agency mandates for sewer system upgrades.

"How do I sustain myself as a public utility and do that?" Parrott asked. "This is part of the answer."

More than 80 percent of the combined utilities' costs are fixed expenses, he said. So Parrott is focused on reducing the costs he can control and on developing other revenue streams to help offset the rising costs he can't.

"It doesn't do away with the need for rate increases," he said, "but they'll be lower than they would be otherwise."

That's something he said repeatedly during a recent one-hour meeting.

Cincinnati isn't alone there – or in the move to combine water and sewer services, said Adam Krantz, spokesman for the National Association of Clean Water Agencies in Washington, D.C. He cites two factors moving the industry – the EPA's aggressive push to reduce storm water overflows and steadily falling water usage as people become more environmentally aware and cost-conscious.

Rather than managing water in separate silos, the trend is to manage it as "one water, one resource" and look for the best way to address all the interrelated issues, Krantz said. Cincinnati deserves a lot of credit for its work in that regard, he added.

Parrott pulled out a chart showing a steady 25-year decline – accelerating over the past 10 – in the average amount of water used by Water Works customers. It has gone from 155,000 cubic feet per account in 2000 to 118,000 in 2011. A big factor is the loss of high-usage industrial



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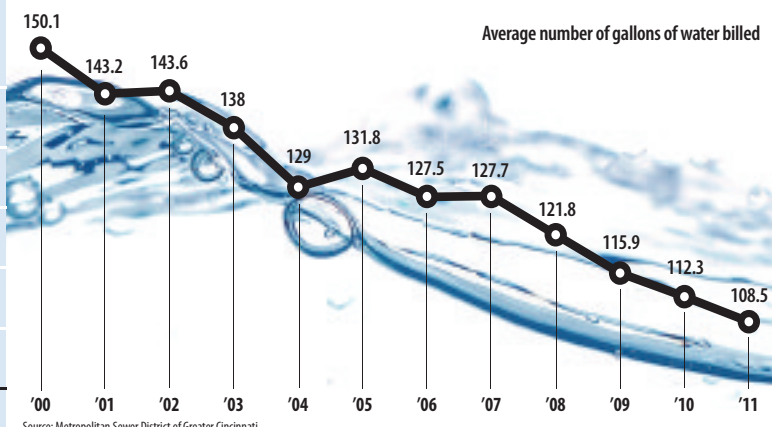
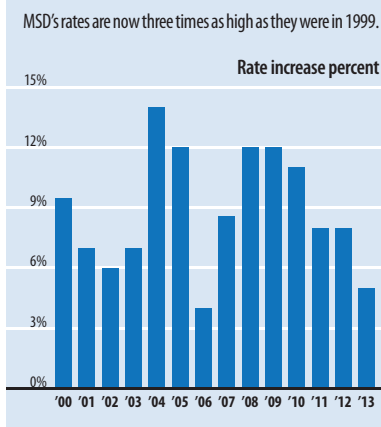
customers that have closed or moved. That's a big problem for MSD, because it charges for sewer service based on how much water a customer uses.

As a consequence, residential users now pay more than twice as much to get rid of a gallon of wastewater as they pay for a gallon of clean tap water. All of which gives high-usage businesses even more of an incentive to move elsewhere.

"At some point it becomes unaffordable and they have to move," said Jeff Rexhausen, an economist at the University of Cincinnati's Economics Center who has worked with cities on water and sewer issues. "The sewer district loses revenue and the county loses jobs. It's a double whammy."

USAGE EBBS

The average number of gallons of water billed by MSD, based on water usage, has declined steadily since 2000, forcing the utility to charge higher rates per gallon.



Source: Metropolitan Sewer District of Greater Cincinnati



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