

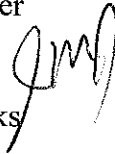


**Howard County**  
*Internal Memorandum*

**Subject:** Testimony- Proposed Wholesale Water Agreement with Baltimore City

**To:** Lonnie R. Robbins,  
Chief Administrative Officer

**Thru:** James Irvin, Director  
Department of Public Works



**From:** Don Campbell,  
Water & Sewer Planning Division, Manager  
Department of Public Works

**Date:** June 20, 2017

We are seeking a County Council bill to approve the draft Wholesale Water Agreement with the City of Baltimore. This agreement is the first comprehensive water supply agreement between the City and Howard County that establishes a commitment by the City to guarantee supply capacity to the County and a commitment by the County to purchase water from the City, which will boost the financial stability of the Baltimore regional water system.

*Background and Context*

The Baltimore water system supplies treated water to four regional jurisdictions; the City of Baltimore, Baltimore County, Howard County and Anne Arundel County. Baltimore County owns certain components of the water system within its boundaries and a share of the central system; however, Howard County and Anne Arundel County are bulk customers that receive treated water at specific metered connections to the Baltimore system and have no ownership stake in the Baltimore system.

Under current agreements between Baltimore City and the surrounding jurisdictions, the cost of supplying water to Howard County is recovered through a wholesale volumetric rate (expressed as dollars-per-gallon of water purchased). The volumetric rate pays for the City's raw and finished water infrastructure development costs (capital and debt) as well as the operation and maintenance of the City's water supply, treatment and distribution systems.

Howard County and the surrounding jurisdictions also share in the capital costs of constructing new water conveyance facilities (pipelines, pumping stations and water storage tanks) that are required to increase supply capacity to the jurisdictions or to areas within the system. The agreements define the facilities to be constructed and establish the basis for sharing the project costs among the participating jurisdictions, which are generally based on the projected water demand or the volume of flow attributable to each participating jurisdiction. For Howard and Anne Arundel Counties, the projected water demands or volume of flows specified in the agreements

are water “purchase rights” from the City system and do not obligate the City to guarantee water supply capacity to either jurisdiction.

In March 2009, the City contacted each of the jurisdictions (Baltimore County, Anne Arundel County and Howard County) to discuss cost participation in the proposed Fullerton Water Filtration Plant as well as additional infrastructure upgrades and improvements required to comply with federal Safe Drinking Water Act regulations and to replace aging infrastructure. The potential cost impacts of these projects are substantial, requiring over \$500 million in new capital funding obligations on the part of Baltimore City and potential capital funding obligations of \$100 million for Howard County.

Following initial meetings between the City and the surrounding jurisdictions regarding the development of cost sharing agreements for the upcoming projects, Howard County approached the City seeking a comprehensive master water agreement that would chronicle Howard County’s participation in the Baltimore water system and ensure that the County receives a commitment for water supply capacity and greater participation and transparency in the establishment of water rates. Our goals included establishing a fair and equitable method for paying our fair and equitable share of the costs to operate and maintain the Baltimore water system while also addressing our concerns regarding water supply and water rates.

#### *Benefits of the New Agreement*

After several years of negotiations between City and Howard County DPW and legal staff, a final draft of the Wholesale Water Agreement has been prepared and is being submitted for approval. With the proposed new wholesale water agreement, Baltimore City is now proposing a new financing structure for wholesale water rates for Howard County.

The new rate structure will replace the single volumetric rate with a rate structure divided into two components: (1) a volume charge based on the County’s monthly metered flow that pays for the County’s proportionate share of the City’s O&M costs for producing and conveying potable water to Howard County, and (2) a fixed charge that consists of the County’s share of capital costs associated with the Core System assets, which serve Howard County. Rather than asking the participating jurisdictions to share in the capital costs of constructing major new facilities, Baltimore City will now finance and build the major facilities required to serve the City and its wholesale customers.

The new agreement accomplishes these objectives:

1. Obligates the City to provide the County’s projected Average Daily Water Demand of 38.5 MGD and Maximum Daily Demand of 57.7 MGD throughout the 40-year term of the Agreement.
2. Assures that Howard County will only participate in funding those facilities and infrastructure that provide benefit to Howard County (the “Core System”).

3. Includes a Cost-of-Service Model, reviewable by the County, that provides transparency in the development of the user rates and ensures the capital costs previously paid by each jurisdiction are credited to the jurisdiction and not included in the user fees.
4. Ensures that Baltimore City provides water to Howard County at the actual costs for capital, operation and maintenance of the Baltimore water system.
5. Provides for regular calibration of the Billing Meters for accuracy.
6. Provides that the water sold to the County shall comply with all enforceable federal and state drinking water standards for water quality.
7. Boosts the financial stability of the Baltimore City water system through a long-term partnership and ensuring a reasonable rate-of-return on debt and equity.
8. Provides the County with a 40-year agreement for water supply with an option for early termination.

We believe the new agreement resolves uncertainties about the future of the County's water supply and recommend approval of the proposed Wholesale Agreement. Representatives of this department will be present at the public hearing to respond to any questions or concerns. If you require further information concerning this matter or have additional questions, please do not hesitate to contact me at your convenience.