

Reprint of a Times News Article by John Guerrero:

Nearly all of Millcreek Township's residents get their water from the same sizable source -- Lake Erie. All the water goes through the same cast-iron intake pipe more than 1.5 miles into the lake, and it gets treated at the same plant. What isn't the same, much to the anger of some residents, are their quarterly bills for that water. That's because Millcreek residents served by the Millcreek Township Water Authority pay more than their neighbors who get billed by Erie Water Works.

Case in point: Sandy D. Smith and her husband paid \$77.70 for their most recent Erie Water Works quarterly bill. The Smiths, of 3506 Sterrettania Road, used 18,700 gallons of water.

But near the Smiths, Louis Arcovio, a widower who lives alone in a condominium at 3927 Vista Drive, south of McDowell High School, is paying a higher rate as a customer of the Millcreek Water Authority. His most recent quarterly bill came to \$58.10, but he only used 8,000 gallons of water. If he had used 18,700 gallons, like the Smiths, his bill would have spiked to \$116.42.

Sandy Smith, 56, said she's pleased to be one of the customers paying a lower bill, but never realized the disparity in rates until the Erie Times-News contacted her. "I just thought everything was the same. ... because I just figured it was all Erie water," she said.

Arcovio, 83, said it's all the same water from the same lake, with one difference. "It's Erie Water Works water that is marked up," he said.

Boiling point

The issue over water rates has simmered in Millcreek for about a decade and has reached its boiling point, pushed by citizens group Cheaper Cleaner Water and a new Millcreek supervisor who made equal water rates a central theme of his campaign.

Now the Erie Water Works, the Millcreek Water Authority and Millcreek supervisors are in talks -- albeit deliberate and infrequent -- that could end that imbalance and regionalize more water services.

The Erie Water Works has proposed a zero-payment lease of the Millcreek water system and a guarantee of equal water rates for 7,424 Millcreek Water Authority customers, including about 7,200 residential customers and about 200 commercial customers. All 7,424 customers now pay more than an estimated 10,000 of their neighbors, who get cheaper bills as Erie Water Works customers.

But little is cut and dried in this long-standing debate.

George Riedesel, Millcreek Water Authority executive director, doesn't concede that Erie Water Works would even provide equal rates. But Richard Figaski, the new supervisor, said he believes Erie Water Works would honor its commitment. And he said Erie Water Works would put an "out clause" in the offer that would kick in if Millcreek doesn't like how the lease plays out.

Figaski is eager to move on the lease, which the independent seven-member Millcreek Water Authority Board would have to approve. The other option would be for the supervisors to dissolve the authority, take back the water system and agree to the lease.

Supervisors Brian McGrath and Joseph Kujawa said they, too, support equal rates for all Millcreek customers, but they're not ready to back a lease until some issues get resolved, such as proportional representation on the nine-member Erie City Water Authority Board, where now only one city-appointed Millcreek resident sits.

McGrath, Kujawa and the Millcreek Water Authority also are awaiting the results of a Millcreek Water Authority-commissioned \$20,000 financial assessment of Erie Water Works. McGrath is an Erie Water Works customer, Figaski is a Millcreek Water Authority customer and Kujawa gets his water from a well.

Within a month, Erie Water Works will present a more specific lease proposal, said Paul Vojtek, Erie Water Works' chief executive.

Every drop they take

Figaski said just about every drop of water that the Millcreek Water Authority gets is purchased in bulk from Erie Water Works, which has nearly 52,000 customers in Erie and surrounding communities. About 3 percent of the Millcreek Water Authority's water comes from a well. The cleanliness of that well water is another matter of dispute between Cheaper Cleaner Water and the Millcreek Water Authority.

The Millcreek Water Authority doesn't pump the water from the lake or treat it at the Richard S. Wasielewski Water Treatment Plant, at the foot of Sommerheim Drive in Millcreek. Erie Water Works runs that plant and the Chestnut Street Water Treatment Plant, which is currently not in service for water distribution. The Wasielewski Treatment Plant handles all the water, including the water the Millcreek Water Authority buys from Erie Water Works.

"All they do is transport the water. It's a redundancy and it adds a layer of expense that's not needed," Figaski said.

Erie Water Works has a total budget this year of \$29.6 million. The Millcreek Water Authority's budget is \$4.9 million. Riedesel has never disputed that his authority's residential water rates are higher than Erie Water Work's rates in Millcreek. He and Vojtek are Millcreek residents who pay the higher rates as Millcreek Water Authority customers.

The roots of water expansion

The cost of water wasn't always an issue in Millcreek. As late as the 1960s, Millcreek was largely rural with farms and dirt roads. There wasn't yet an upper Peach Street shopping district or a Millcreek Mall. Much of the township's water supply as late as the 1980s came from wells and private water systems, Riedesel said.

Starting in the mid-1950s, Millcreek's supervisors worked out a deal with the city of Erie -- which then ran the municipal water system through its water department -- to supply some residents with water from Lake Erie, he said.

Near the border between the two municipalities, Millcreek built waterlines, assessed customers for the cost and turned over that infrastructure to the city, Riedesel said. But Riedesel said the city, partly because of an aging water system, "could not and would not" extend those lines farther into the township. Millcreek created its own water authority in 1974 to get the job done, he said. That's why Millcreek customers today are served by two water utilities.

The city agreed to create the Erie City Water Authority, which assumed operation of the city's water system on Jan. 1, 1992, and has invested \$160 million in improvements, Vojtek said.

Fear of flight

A governmental consultant based in Erie said politics was also at play when the city ran the water system. From the 1950s into the 1980s, the city, "for largely political reasons, was unwilling to extend water services beyond its boundaries outside of Lawrence Park Township, Wesleyville Borough, and the portion of Millcreek Township it presently serves," Alan Kugler said in a 2008 water project report he prepared for Millcreek supervisors and the Millcreek Water Authority.

In an interview, Kugler said he believes those political reasons were a fear of both suburban flight and loss of wealth through an economic and housing boom in Millcreek and other neighboring communities. "Ironically, it happened anyway. If the city had aggressively marketed its water, so many people would have come to the region that the city would not have lost the population it did," said Kugler, owner of PA Futures consulting.

The city's population peaked at 138,440 in 1960, and the latest U.S. Census estimate from 2008 puts it at 103,817. Millcreek's estimated population is 51,799, up from about 28,400 in 1960. In the report, Kugler recommended a transfer of both water systems to a newly created regional or county authority that would own and operate all water works. He said total equality of water rates could only be reached through such a regional approach. Kugler said in his report that if that were not possible, the alternative would be for Erie Water Works to lease Millcreek's water system.

"And I guess that's where we are at this moment," said Kugler, a Millcreek resident who pays the lower Erie Water Works rate. "I think the current situation is untenable and it must be corrected. The disparate water rates within Millcreek Township cannot be permitted to continue," he said. Arcovio, the Vista Drive resident, is a member of Cheaper Cleaner Water. He agreed the two-tier rate system must go. "It's unfair to have people living in the same township paying two different water rates," he said.

Details of a dispute

Riedesel said his water company must charge more for two reasons: its bulk-water purchase costs, and its shorter-term borrowing. Nearly half of the Millcreek Water Authority's budget accounts for the water it buys in bulk from Erie Water Works, he said. The bill came to about \$2 million for 755.5 million gallons of water in 2009. Riedesel and the authority claim that Erie Water Works has overcharged the authority since the mid-1990s, an argument that the Erie utility disputes.

Millcreek Water Authority customers also pay a higher bill because of the utility's philosophy of shorter-term borrowing, Riedesel said. That means larger upfront principal payments, but less interest overall. "You minimize the interest you're paying ... because you're paying over a shorter period of time," Riedesel said. The authority's long-term debt, including interest, is about \$7 million and it has no loan longer than 10 years. Riedesel said the gap in future rates could narrow as Millcreek pays off its remaining debt while Erie Water Works' debt "will continue to be out there and possibly be growing."

Vojtek acknowledged his utility's significant debt, which he put at \$213.7 million in principal. Riedesel said that number would jump by another \$187 million with interest. And Riedesel said Erie Water Works must make annual lease payments to the city of Erie, with the 2010 amount at \$2.9 million. The city puts that money into its general fund and uses it to help balance its budget.

With the debt and payment obligations to the city, Riedesel said, "you'll start to see our concern" about Erie Water Works' finances and a possible merger of the two water systems. He said no one seems to know how a merger would affect the Millcreek Water Authority's employees. Vojtek said that hasn't been discussed yet.

Water Works response

Vojtek said Erie Water Works has had to borrow to fix parts of a system as old as 150 years and to meet "ever-changing water quality standards." He said Erie Water Works has done "a very good job in balancing rates for our customers with needed upgrades and improvements to our system."

Countering Riedesel's argument for short-term borrowing, Vojtek said that longer-term borrowing spreads out the payments and keeps them lower. As for Riedesel's claims about troubling finances, Vojtek pointed to Standard & Poor's "A" rating and stable outlook for the Water Works' revenue bonds. He also said the utility can handle the lease payments to the city.

Guarantee or not

Figaski, the Millcreek supervisor, said Millcreek residents don't care about the lease between Erie Water Works and the city, bulk-water prices and other issues that are complicating a move to merge the two water systems. "All they want is equal water rates, and this will guarantee it. This will give it to them," he said.

The tenor of the debate thus far, however, sounds less like a guarantee of a lease. It sounds more like a maybe.