

Frequently Asked Questions (FAQs)
About Chatham Borough's Water and Sewer Revenue Systems

1) How much revenue does Chatham Borough need to collect to operate and maintain its water and sewer systems?

A: The annual budget is about one million dollars for the water system, including operation, maintenance, debt service and capital improvements for the wells, treatment facilities, storage tanks and distribution piping. The annual budget is about one and one-half million dollars for the sanitary sewer collection and treatment facilities, including operation, maintenance, debt service and capital improvements.

2) How does Chatham Borough collect revenue for its water system?

A: Chatham Borough has had a water utility separate from the general municipal budget for many years. Like most towns and utility authorities around us, Chatham Borough collects the revenue it needs to operate, maintain and upgrade its water system through fees based on water usage. While some towns and utility authorities around us have opted to switch their systems to a tiered system that sets higher rates for increasing usage, Chatham Borough has stayed with a single rate system. The Water and Sewer Advisory Committee reviewed various water revenue systems in 2005 and recommended we keep the current system.

3) Why did Chatham switch from a system that collected revenue primarily through property taxes to pay for its sanitary sewer system to one that collects revenue primarily through a user charge based on water usage?

A: In a word, fairness. The old system unfairly had small users subsidizing large users, taxable properties subsidizing tax-exempt properties, residential users subsidizing commercial and industrial users, and even Chatham Borough taxpayers subsidizing Chatham Township taxpayers. The first move toward a user charge system began in 1989, but the rates were not increased sufficiently over the years to make a significant impact.

In 2002, the issue was researched again, and it was decided to transition totally to a user charge system over a three-year period. In 2005 the majority of the Sewer and Water Advisory Committee recommended keeping this system with a few minor changes and the Borough Council has agreed with this recommendation.

4) My sewer bills are higher now. How is this fairer than before?

A: Four years ago, when we started the latest transition from a primarily tax-based revenue system to one that was primarily usage-based, most property owners using small amounts of water did not even receive a sewer bill and the

sewer revenue was buried in the property tax bill and not identified separately. As we transitioned to the new system, we gradually raised the sewer usage charge to move more of the revenue into the sewer bill, which made it more visible and it also increased each year as the equivalent amounts were removed from the property tax rate. We also combined the old annual sewer billing system with the existing quarterly water bill system, so the combined quarterly bills for water and sewer are greater than the old water bills alone.

5) But if my sewer bills are higher, how am I saving money?

A: As most commercial, industrial, apartment and tax-exempt properties are larger water users relative to their tax assessments than residential properties are, there has been a shift of the sewer revenue toward these larger users, resulting in a lower sewer charge to most residential properties. Studies of residential properties in town have shown that the majority of them are paying less with the user charge system than they would with the tax-based system.

6) But I could deduct the sewer fees in my property taxes from my Federal and State income for tax purposes, and now I can't?

A: That issue was also considered in the analysis. Commercial, industrial and apartment property owners can deduct user charges as well as property taxes as a business expense, so this decision doesn't change their tax situation. While in the entire USA, only 34% of taxpayers itemize, a review of IRS data indicate that more than 60% of Chatham taxpayers do. However, there are still many that take the standard deduction and many that fall victim to the Alternative Minimum Tax (AMT) that does not allow deductions for local property taxes. Many Chatham residents also cannot take further advantage of the NJ income tax deduction as they already exceed the maximum property tax allowed. Analysis of the present tax deductions available indicates that the majority of Chatham residents still are paying less with the user charge system even after tax benefits.

IRS projections are that the AMT will continue to affect more and more Chatham residents in the future, as it is not indexed for inflation. The President's Advisory Committee on Taxation released its report on November 1, 2005 recommending changes to simplify the tax code. While it recommends eliminating the AMT, it also recommends eliminating the deductibility of local (property) and state taxes to make up for the tax revenue lost. In either case the result is the same; either keeping or eliminating the AMT continue to favor the user charge system as more favorable for an even greater number of Chatham residents in the future.

7) Our partner in the Madison-Chatham Joint Meeting (MCJM) Wastewater Treatment Plant charges their residential customers for sewers through their taxes, why shouldn't we do the same?

A: Madison is one of the three remaining towns in Morris County that still charge their customers for sewers through property taxes. They do charge tax-exempt properties, such as Drew University, based on water usage. The other 35 towns with sewers charge sewer fees based on water usage or use a flat fee for residential and usage for commercial. The operating, maintenance and capital budgets for the MCJM are allocated to each town based on the estimated flow (usage) from each town as determined annually by the number of residential units and water usage of the commercial, industrial and tax-exempt properties. Nothing in our agreement with Madison dictates how each municipality obtains the revenue to fund their share of the budgets. There are also no properties along the Madison/Chatham Borough border that are partially in each Borough.

There are, however, about 60 properties along the Chatham Borough/Chatham Township border that pay taxes to both. Therefore, it is appropriate to have the Chatham Borough and Township sewer revenue systems compatible to prevent over or under-charging these properties on the border. Chatham Township charges each residential property discharging to their sewer system a flat user charge, and charges commercial properties based on water usage. If a border property discharges to the Chatham Borough sewer system, we would not collect sufficient revenue from a tax-based system by taxing only a portion of the property. Likewise, if a border property discharges to the Chatham Township sewer system, we would be collecting tax revenue for sewers even though we weren't providing the service. Neither situation is fair. A user charge system based on usage resolves this issue.

8) Why not charge a flat sewer user fee to each residential property like Chatham Township does?

A: In reviewing the water usage patterns for residential properties in Chatham Borough, it was noted that even within small random samples of 30 to 60 properties, the water usage varied by a factor of about ten (1500 to 15,000 cu ft/year), whereas the property assessments varied only by a factor of 2 (\$400,000 to 800,000), and there was no correlation between water usage and assessments. For industrial properties, variations in usage by a factor of as much as 100 were noted for properties assessed at equal values. A flat fee did not appear fair for any property class based on this great a variation in usage. Chatham Township does not receive residential usage data from their water provider (New Jersey American Water Company) to allow a usage-based fee.

9) If I use a lot of water for irrigation or other outside purposes, aren't I being charged for water that never goes to the sewer?

A: During the winter months the flow measured at the MCJM is essentially equal to the water pumped from the wells in Chatham and Madison. In the summer months the water pumped is somewhat higher than the flows to the plant. However, the additional water pumped in the summer in Chatham is only about

10% of the total water pumped during the year. If everyone had the same usage pattern, we could charge a 10% higher rate on 10% less water, but the results for everyone would remain the same.

We have always allowed additional meters to be installed for determining irrigation and other non-sewer uses, and for very high irrigation users these now may make economic sense. For a case where sewer fees were included in taxes, having the extra meters would not help a high irrigation user reduce their taxes. We have seen recent cases where highly assessed properties with high irrigation usage were able to cut their sewer costs in half (from what their costs would be if sewer fees were in taxes) by using meters on a water-usage based system.

Rather than push more property-owners toward installing additional meters, the Water & Sewer Advisory Committee and the Borough Council modified the sewer revenue system to give a fixed (1000 cubic feet) water usage credit per quarter for irrigation and other outside usage against the sewer bills sent out during the 3rd and 4th quarters of each year, recognizing those bills cover the period of greatest outside water usage. Heavy users using more than 1000 cubic feet for outside water usage during those periods are still entitled to install meters and pay for actual usage. Giving a percentage credit instead of a fixed credit would unfairly benefit commercial users to the detriment of residential customers due to the small amount of irrigation done by commercial properties compared to their large overall usage.

10) Why did we increase the sewer charge rate from \$3.50 to \$4.30 and am I now going to pay 20% more?

A: The \$4.30 rate is the rate necessary to fully recover the sewer system costs; however, last year a portion of the sewer costs remained in the taxes and the recommendation of the Sewer & Water Advisory Committee, which was adopted by the Borough Council, was to retain about 15% of the sewer costs in the tax rate. To accomplish this, the 2000 cubic feet irrigation credit was instituted for all properties paying taxes. Thus the 2005 and 2006 annual sewer service charges remain about the same for the average residential users. For example, a property using 8000 cubic feet per year would have paid \$280 in 2005 and paid only \$258 in 2006 (on 6000 cubic feet); a property using the residential average of 10,000 cubic feet per year would have paid \$350 in 2005 and paid only \$344 in 2006 (on 8000 cubic feet); and a property using 12,000 cubic feet per year would have paid \$420 in 2005 and paid \$430 in 2006 (on 10,000 cubic feet). The rate has been held constant for 2007.

11) It has been suggested that a user-charge system encourages water conservation, but if we reduce water consumption will we really save much money?

A: Water conservation is important for several reasons, the most important being that the aquifer that we draw our water from has been severely stressed in the past and could be again in the future as growth occurs around us. Several towns drawing their water supplies from this same aquifer have been in danger of exceeding the allocations allowed them by the NJDEP and have been forced to find other, less suitable or more expensive sources. Chatham Borough has also pumped right up to its allocation in past summers and was in danger of getting fined by the NJDEP. The MCJM has also operated recently very close to its design capacity.

While it is true that reducing water consumption from our current levels will not reduce our costs significantly, the opposite is not true. Higher consumption could open us up to fines if we exceed our water pumping allocation or require very expensive expansion of our sewage treatment plant. Therefore, water conservation is an important tool for cost-avoidance.

12) Are there any other factors that affect the choice of sewer revenue system?

A: There is one other factor that many towns have considered in setting or changing their sewer revenue system. Both the USEPA and the NJDEP have grant and low-cost loan programs that require certain parameters be met to qualify for them. One of these requirements is a qualified user-charge system. Both programs require the municipalities to have a system that charges large commercial and industrial customers based on water usage. They also require that the revenue for operation and maintenance of the sewer system be allocated out proportionately to each property class based on usage. A property tax-based system would not meet these requirements in Chatham Borough, as the usage is not proportional to the tax assessments for the various property classes.

Morristown and Parsippany both changed their sewer user-charge systems to usage-based systems to qualify for grants and low-cost loans for major upgrades to their sewage treatment plants. If new NJDEP regulations require us to make a major upgrade to the MCJM, it will be helpful to have a user-charge system that qualifies us for lower cost financing options.