

**ANN ARBOR CHARTER TOWNSHIP
UTILITIES COMMITTEE MEMORANDUM OF
RECOMMENDED WATER AND WASTEWATER RATES AND FEES**

To: Ann Arbor Charter Township Board of Trustees
From: Ann Arbor Charter Township Utilities Committee
Re: Water and Wastewater Connection Fees and Commodity Rates
Date: November 15, 2005

1. Connection Fee. A connection fee will be charged for each new connection (or upgraded connection) to the water or sewer system. Connection Fees will be determined by adding together the cost of the following four (4) components:

1. Ann Arbor City connection (tap) fees charged to Ann Arbor Township
2. Equity buy-in charge – to recover an equitable portion of the present value of the common assets of the system based on the book value and useful life of the system. The equity buy-in for each user is computed by dividing the present value of the system by the number of residential equivalent users. (Each tap size is assigned a residential equivalent user number based on engineering standards.)
3. Inspection and Installation fees.
4. Meter/Material Cost.

There will be two separate equity buy-in charges:

1. Group 1 includes parcels that were part of the original special assessment district (“SAD”) and parcels that have already paid a benefit fee. Group 1 parcel owners have already paid the SAD portion of the equity buy-in, and therefore will only pay an equity buy-in for the additions to the system since the SAD.
2. Group 2 includes all parcels not in Group 1. Group 2 parcel owners will pay an equity buy-in based on the present value of the entire system.

Connection Fees for new connections will be determined each year based on changes in City connection fees, changes in inspection and installation fees, changes in meter/material costs, and changes in the present value of the system.

2. Rates/Commodity Charges. Commodity charges, also known as rates, will be charged for each unit of water consumed or sewer use. Rates will be determined by adding together the cost of the following three (3) components:

Water Rates:

1. Ann Arbor City water rates charged to Ann Arbor Township
2. A share of the Township’s current costs of operating the water system. This share is determined by dividing the operating costs of the water system for the prior year by the total cubic feet of water consumed in the Township during the prior year.
3. A share of the current year use (wear and tear) of the water system based on the book value and useful life of the water system assets. This number is determined by dividing the current year system depreciation expense (as a measure of wear and tear) by the total cubic feet of water consumed during the prior year.

Sewer Rates:

1. Ann Arbor City sewer rates charged to Ann Arbor Township
2. A share of the Township's current costs of operating the sewer system. This share is determined by dividing the operating costs of the sewage system for the prior year by the total cubic feet of sewer use in the Township during the prior year.
3. A share of the current year use (wear and tear) of the sewer system based on the book value and useful life of the sewer system assets. This number is determined by dividing the current system depreciation expense (as a measure of wear and tear) by the total cubic feet of sewer use during the prior year.

Commodity Charges will be determined each year based on changes in the City rates, changes in Township operating costs, and changes in costs associated with current year system use.

3. Basis for Rates & Fees. The recommended components of the Connection Fees and Commodity Charges are based on the October 2005 Ann Arbor Charter Township Cost of Service Study ("Study") prepared by the Township engineering firm of Ayers, Lewis, Norris and May (now Stantec) and advice from the Township attorneys concerning permissible charges under existing law.

4. Study Recommended Rates and Charges. As set forth in the Study, the Township engineers recommend that the Township continue to charge a fixed rate for each unit of water consumed and sewer services used and a connection fee for each new (or upgraded) water or sewer connection.

The Study recommends eliminating the existing Township benefit fee (designed to recover an equity buy in component) and replacing it with the equity buy-in which is included in the proposed new connection fee. In addition, as the City will charge the Township based on tap size and not meter size, the Study recommends changing from meter size to tap size in determining connection fees. According to the Study, a 5/8" meter (typical residential customer) is equivalent to a 1" tap.

The following chart sets forth the Study's recommended new rates and connection fees for a typical residential user on a parcel of one acre or less:

STUDY RECOMMENDED RATES AND FEES

Commodity Charges (Rates)	<u>Study Recommended</u>	
	Water Rate	\$3.70
Sewer Rate	\$3.87	
*Connection Fees		
	<u>Group 1</u>	<u>Group 2</u>
Water 1" tap	\$2,585**	\$4,808**
Sewer 1" tap	\$2,393***	\$3,805***
	*plus meter/material costs	
	**includes City pass through charges of \$2,350	
	***includes City pass through charges of \$2,160	

5. Implementation. The Utilities Committee recommends implementing new Township water and sewer rates and charges as follows:

5.1 Methodology. The Township controller has developed an accounting method and spreadsheets for implementing initial and annual changes to the rate and fee structure based on the components described in paragraph 1 and paragraph 2 above and set forth in the Study. The Township accounting method will more precisely allocate the value of system assets between the water and sewer systems. In addition, the Township accounting method will determine equivalent residential users by converting current connections based on meter size to connections based on tap size using the engineering standards set forth in the Study.

5.2 Rate Recommendations. The Utility Committee recommends implementing the new water and sewer rates over a 10 year period to transition the increased cost of full wear and tear for system users. A projected 10 year implementation is set forth in the attached spreadsheet. The proposed transition of rate increases is designed to ensure that system operation costs and City of Ann Arbor charges are fully paid by Township users, while gradually phasing in the system wear and tear component.

The Utility Committee recommends that the first rate change take place on July 1, 2006 with annual changes each July 1 thereafter. This is consistent with the Township's current practice of changing rates on July 1 to incorporate annual City rate changes generally effective on July 1.

The following table summarizes the proposed rate increase for July 1, 2006 and the effective annual increase in cost for an average residential user consuming 30 units per quarter:

PROPOSED JULY 1, 2006 RATE INCREASE

<u>Commodity Charges</u>	<u>Current Rate</u>	<u>Study Recommended Rate</u>	<u>Committee Recommended Rate</u>
Water	\$2.57	\$3.70 (\$136 annual increase*)	\$2.92 (\$42 annual increase*)
Sewer	\$2.69	\$3.87 (\$142 annual increase*)	\$3.09 (\$48 annual increase*)

*assuming 30 units per quarter

5.3 Connection Fee Recommendations. The Committee recommends full implementation of the Study recommended connection fees immediately, including elimination of the benefit fee

Study and Committee recommended connection fees effective for the balance of 2005 through June 30, 2006 are set forth in Appendix 8 of the Study. Typical residential connection fees for a parcel of one acre or less are as follows:

PROPOSED CONNECTION FEE INCREASE

<u>*Connection Fees</u>	<u>2005</u>			<u>Committee Recommended</u>		
	<u>Size</u>	<u>Group 1</u>	<u>Group 2</u>	<u>Size</u>	<u>Group 1</u>	<u>Group 2</u>
Water**	5/8" meter	\$3,350	\$5,450*****	1" tap	\$2,532	\$4,190
Sewer***	5/8" meter	\$3,160	\$4,310*****	1" tap	\$2,341	\$3,400
<p>*plus meter/material costs **includes City pass through charges of \$2,350 ***includes City pass through charges of \$2,160 ****includes benefit charge of \$2,100/acre *****Includes benefit charge of \$1,150/acre 5/8" meter = 1" equivalent tap size (typical residential)</p>						

5.4 Annual Recomputation. The Committee recommends that commodity rates and connection fees be reviewed annually in April or May when the City rate/fee changes are received by the Township, and the Township's costs related to components listed in paragraph 1 and paragraph 2 above are updated and available. Annual changes in rates and fees would be effective each July 1.