

June 27, 2011

To: Water and Sewer Customers
Re: 2011 Increase in Utility Rates

Ann Arbor Township uses a formula adopted in 2005 to establish the rates for water and sewer services. Using that formula, we adopted a \$0.77 per unit increase in water rates (16.5%) and an \$0.81 per unit increase in sewer rates (16.9%) effective July 1. The rate increase will be reflected in your October bill.

Each of these services is purchased from the City of Ann Arbor at rates set by the City calculated on their estimated "average cost of recovery per unit." To the cost charged by the City, the Township adds the actual cost of operating and maintaining the water and sewer systems within the Township, divided by the number of units of service used by Township customers. The formula established in 2005 uses the investment interest earned on the water and sewer system's reserves to offset the cost of operations, by deducting the interest earned from the costs.

The City of Ann Arbor's pass-through charges for water and sewage treatment increased that cost by \$0.20 and \$0.25 per unit respectively. These pass-through charges are our single largest cost, representing about 60% of our overall rate. This is also the largest factor in our year-over-year rate increase.

The second largest factor in our rate increase is due to an approximate 8% drop in water and sewer usage by Township residents. While we support our customers' efforts to reduce unnecessary water consumption, our fixed costs now must be spread over fewer units. When our fixed costs are divided by 8% fewer units, the cost of each water and sewer unit increased by \$0.20 and \$0.17 respectively.

The third largest factor in the rate increase is the significant reduction in the rate of interest earned on our utility reserves. State law defines the investment options available for public funds, and the interest rates associated with these options have dropped with the economic downturn. Last year, for example, we reduced the combined cost of water and sewage units by \$0.97 by deducting earned interest. This year our combined interest reduction is only \$0.66.

Our fourth largest factor affecting the rate increase is the additional asset maintenance and replacements costs on our aging system, which accounts for a water and sewer per unit increase of \$0.15 and \$0.16 respectively.

In combination, these four factors account for \$0.70 of the \$0.77 increase in the cost of each unit of water and \$0.74 of the \$0.81 increase in the cost of each unit of sewage treatment. The remaining increases are the result of increases in the Township's Utility Department operating costs and other miscellaneous income and expense items.

We regret the large rate increase this year. Please know we continue to look for ways to improve our operating efficiency and the costs that we can control.

Michael Moran, Township Supervisor