



CITY OF ANN ARBOR

PRE-PROPOSAL Sign-In Sheet

BID NUMBER: RFP#885

DATE: 2-12-14

BID NAME: Water & Wastewater System Capital Cost Recovery Study

PRINTED NAME	SIGNATURE	COMPANY	PHONE NO.	E-MAIL ADDRESS
1. Vic Cooperwasser	<i>Vic Cooperwasser</i>	TetraTech	734-213-4063	vic.cooperwasser@tetratech.com
2. Roland Alix	<i>Roland Alix</i>	HRC	248-454-6385	ralix@hrc-engr.com
3. Miranda Thompson	<i>Miranda Thompson</i>	HRC	(248) 454-6305	mthompson@hrc-engr.com
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5. Mark TenBroek	<i>Mark TenBroek</i>	CDM Smith	313.230.5615	tenbroekmj@cdmsmith.com
6. MARK BERRYMAN	<i>Mark V. Berryman</i>	A2	734-794-6576	MBERRYMAN@A260V.ORG
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8. Robert Stevenson	<i>Robert Stevenson</i>	ARCADIS	419-213-1646	ROBERT.STEVENSON@ARCADIS-US.COM
9.				
10. CALL-IN:				
11.	Brian Jewett	Black + Veatch		jewettb@BV.com
12.	Ed Donahue	Municipal + Financial Services Group		edward.donahue@mtfgllc.com
13.				
14.				
15.				
16.				

Water & Wastewater System Capital Cost Recovery Study



RFP 885
Pre-Proposal Meeting
February 12, 2014

Schedule

Question Deadline	Tues, February 18 (3pm)
Proposal Due Date	Fri, February 28 (10am)
Consultant Interviews	March 25-26
Council Authorization	June 2
Notice to Proceed	Mid-June

Study Duration - 6 months?

New Fee Schedules Effective July, 2015

RFP Requirements

- Page limit – 30 sheets (60 sides) not including resumes & attachments
- 1 original + 7 hardcopies + 1 digital
- Fee proposal – 2 copies – separate sealed envelope

RFP Requirements

- Work Plan
 - Identify tasks w/staff person and hours
- Can't change std contract/legal documents

Purpose of Study

- Develop cost recovery philosophy & fee structure for connections to water & sanitary mains
 - Equitable, understandable & defensible
- Concerns raised on current fee schedules (affordability & methodology)
- NOT A RATE STUDY

Key Components

- Improvement charges & connection charges
- Good understanding of city's history/evolution of these fees
- Benchmarking of other communities
- Public engagement strategy

Current Types of Fees

<http://www.a2gov.org/government/publicservices/customerservice/Pages/WaterUtilityConnectionsCosts.aspx>

- Improvement Charges
- Connection Charges
- Tap Fees
- Meter Set Fees
- Disconnection Fees

Improvement Charges

- Covers cost of main constructed to directly serve the property
- Prior to 2003
 - Properties special assessed based on project cost
 - Twp parcels – cost carried until time of annexation (with no cost forwarding)
 - Vacant lots assessed at time of construction

Improvement Charges

In 2003

- Fixed IC Established
 - 2013 Sanitary Fixed IC \$24,665
 - 2013 Water Fixed IC \$15,552
- Apply to 1st time residential connections who have never paid historical special assessment (eg. newly annexed twp parcels)
- Calculation based on past 10 projects - cost fwd - averaged
- Goal to streamline assessment process, establish equity of charges to new city parcels, recovery of costs

Improvement Charges

In 2007

- Vacant residential lots - Credit based IC established
 - Credit is based on decade of main construction
- Vacant non-residential lots – Adjusted IC established
 - Paid difference between previously paid amount & cost forwarded amount
 - If no historic IC paid, new IC is calculated based on proposed usage of system

Improvement Charges

In 2007

- Developer constructed mains w/in benefited development
 - After 2 years, a calculated IC amount due
 - After 10 years, IC is calculated based on vacant city lot method

Connection Charges

- Cover property's share of system wide costs
 - eg, transmission mains, trunklines sewers, WTP, etc.
- Fee schedule implemented in 2004
- Based on water main tap size
- Prior to 2004, fka "permit charges"

Available Data

- Database of historical special assessment costs
- Fixed improvement charges historical calculations
- Improvement charge calculators

Available Data

- City Code, Chapter 12 & 27
- Improvement charge flow charts
- Most Recent A2 Sewer/Water Rate Study

Questions

Thanks for attending!

Attachment A

2014 Rates IC Calculator (Residential, connecting to pre-2004 mains)					
Boxes highlighted in yellow are the variables that need to be filled in for each property.					
Site/location: xxx					
	Water			Sewer	
Year of Connection =		2014		2014	
Year of Construction =		1999		1999	
N =		15		N =	15
Mean Quarterly Residential Water Usage (Y)					
	WATER			SEWER	
Cost/Unit (Water)	<u>Units Sold</u>	<u>1/4'ly Bill (Water)</u>	Cost/Unit (Sewer)	<u>Units Sold</u>	<u>1/4'ly Bill (Sewer)</u>
\$1.35	7	\$9.45	\$3.65	7	\$25.55
\$2.85	12	\$34.20	\$3.65	12	\$43.80
Y=	19		Y=	19	
Total Mean Quarterly Commodity Charge		\$43.65			\$69.35
Total Mean Annual Commodity Charge		\$174.60			\$277.40
2013 Non-Capital Repair Cost portion of Commodity Charge per Unit =	\$1.07			\$1.43	
Amount to Subtract From Total Mean Annual Commodity Charge =	\$81.32			\$108.68	
Capital Repair Cost per Year (4 Quarters): (Y)(4)(CC) =	\$93.28			\$168.72	
Total Capital Repair Cost Portion of IC Due at Connection: (N)(Y)(4)(CC) =	\$1,399.20			\$2,530.80	
Total Improvement Charge for a Property That Paid a Prior Special Assessment or Improvement Charge					
	\$1,399.20			\$2,530.80	
Determination of Improvement Charge - Property with Unpaid Prior Special Assessment or Improvement Charge					
	WATER			SEWER	
Original Special Assessment or Improvement Charge =	\$7,636.70	*		\$10,245.00	
Total Improvement Charge for a Property That Did Not Pay a Prior Special Assessment or Improvement Charge					
	\$9,035.90			\$12,775.80	

Attachment B

2014 IC Calculator (Residential, Part of "Benefited Development"); chapter 12, 1:277						
Site/location: xxx						
Calculate	Year of Connection = 2014					
	Year of Construction = 2008					
	X = 4					
Mean Quarterly Residential Water Usage (Y)						
	WATER			SEWER		
Cost/Unit (Water)	Units Sold	1/4'ly Bill (Water)	Cost/Unit (Sewer)	Units Sold	1/4'ly Bill (Sewer)	
\$1.35	7	\$9.45	\$3.48	7	\$24.36	
\$2.85	14	\$39.90	\$3.48	14	\$48.72	
Y=	21	\$49.35	Y=	21	\$73.08	
TOTAL 1/4'ly BILL		\$49.35			\$73.08	
System Unit Avoided Cost/Unit (Incremental Rates)		\$1.07			\$1.43	
AMC _r = 4*[(Qrt'ly Bill)-(System Unit Avoided Cost* Y)]=		\$107.52			\$172.20	
Determination of Improvement Charge						
	WATER			SEWER		
IC _i =	\$11,194.00			\$17,877.00		
Multiplication Factor =	1.34			1.17		
IC _f =	\$ 14,999.96			\$20,916.09		
[IC _f + X(AMC _r)] - IC _i =	\$430.08			\$688.80		
IC _c = min (IC _f ; IC _i + X[AMC _r]-IC _i) =	\$430.08			\$688.80		

Attachment C

2014									
(Non-Residential, Connection to Existing, Non-SAD Main, 1:278(8) C)									
Project Name xxxxx									
File No.									
Calculated Improvement Charge (Water)									
Year of Connection = 2013									
Year of Main Construction = 1995									
X = 16									
	Table A Flow Rate (gpd)/unit	Square Footage/ Unit	Daily Flow (gpd)	Annual Flow (gallons)	Annual Flow (Units [100 cfl of Water])	Cost/Unit	System Unit Avoided Cost	AMC_c	IC - Water
Table A Use									
Non-Medical Office	0.06	12,789.00	767.34	280,079.10	374.39	\$3.45	\$1.07	\$892.70	\$16,068.55
restaurant	30.00	52.00	1,560.00	569,400.00	761.13	\$3.45	\$1.07	\$1,814.85	\$32,667.31
pizza	0.15	1,346.00	201.90	73,693.50	98.51	\$3.45	\$1.07	\$234.88	\$4,227.90
spa	0.30	1,946.00	583.80	213,087.00	284.84	\$3.45	\$1.07	\$679.17	\$12,225.11
	0.00	0.00	0.00	0.00	0.00	\$3.45	\$1.07	\$0.00	
									\$65,188.87
Calculated Improvement Charge (Sanitary)									
Year of Connection = 2013									
Year of Main Construction = 1995									
X = 16									
	Table A Flow Rate (gpd)/unit	Square Footage/ Unit	Daily Flow (gpd)	Annual Flow (gallons)	Annual Flow (Units [100 cfl of Water])	Cost/Unit	System Unit Avoided Cost	AMC_c	IC - Sanitary
Table A Use									
Non-Medical Office	0.06	8,000.00	480.00	175,200.00	234.19	\$3.48	\$1.43	\$480.10	\$8,641.73
	0.00	0.00	0.00	0.00	0.00	\$3.48	\$1.43	\$0.00	\$0.00
	0.00	0.00	0.00	0.00	0.00	\$3.48	\$1.43	\$0.00	\$0.00
	0.00	0.00	0.00	0.00	0.00	\$3.48	\$1.43	\$0.00	\$0.00
	0.00	0.00	0.00	0.00	0.00	\$3.48	\$1.43	\$0.00	\$0.00
									\$8,641.73

Attachment D

2014 IC Calculator (Non-Residential, Within Benefited Dvlp, Connecting within 10yrs, 1:277(7))													
Project Name		XXXXX											
File No.		XXXXX											
Developer's Cost to Build		\$10,000.00											
Number of Buildings		2											
Approximate Cost/Building		\$5,000.00											
Calculated Improvement Charge (Water)													
Year of Connection =		2014		Developer's Cost to Build Water Main =								\$ 10,000.00	
Year of Main Construction =		2009		Number of Buildings =								2	
X =		3		Water Main Cost/Building (IC) =								\$ 5,000.00	
Cost Fwd Factor Based on Year of Main Construction		1.34											
Table A Use		Table A Flow Rate (gpd/unit)	Square Footage/Unit	Daily Flow (gpd)	Annual Flow (gallons)	Annual Flow (Units 100 cfl of Water)	Cost/Unit	System Unit Avoided Cost	AMC	Cost Forward For Each Building (ICf)	IC - Water		
Non-Medical Office		0.06	5,107.00	306.42	111,843.30	149.50	\$3.45	\$1.07	\$356.48	\$6,700.00	\$1,069.44		
Retail		0.03	5,107.00	153.21	55,921.65	74.75	\$3.45	\$1.07	\$178.24	\$6,700.00	\$534.72		
				0.00	0.00	0.00	\$3.45	\$1.07	\$0.00	\$6,700.00	\$0.00		
				0.00	0.00	0.00	\$3.45	\$1.07	\$0.00	\$6,700.00	\$0.00		
				0.00	0.00	0.00	\$3.45	\$1.07	\$0.00	\$6,700.00	\$0.00		
Calculated Improvement Charge (Sanitary)													
Year of Connection =		2014		Developer's Cost to Build Sanitary =								\$ 10,000.00	
Year of Main Construction =		1980		Number of Buildings =								2	
X =		32		Sanitary Cost/Building (IC) =								\$ 5,000.00	
Cost Fwd Factor Based on Year of Main Construction		2.88											
Table A Use		Table A Flow Rate (gpd/unit)	Square Footage/Unit	Daily Flow (gpd)	Annual Flow (gallons)	Annual Flow (Units 100 cfl of Water)	Cost/Unit	System Unit Avoided Cost	AMC	Cost Forward For Each Building (ICf)	IC - Sanitary		
Non-Medical Office		0.06	5,107.00	306.42	111,843.30	149.50	\$3.48	\$1.43	\$306.48	\$14,400.00	\$9,897.41		
Retail		0.03	5,107.00	153.21	55,921.65	74.75	\$3.48	\$1.43	\$153.24	\$14,400.00	\$4,903.70		
				0.00	0.00	0.00	\$3.48	\$1.43	\$0.00	\$14,400.00	\$0.00		
				0.00	0.00	0.00	\$3.48	\$1.43	\$0.00	\$14,400.00	\$0.00		
				0.00	0.00	0.00	\$3.48	\$1.43	\$0.00	\$14,400.00	\$0.00		

Improvement Charge Process (rev. 3/23/10)

GLOSSARY OF TERMS

Residential, or Residential Unit = A one or two-family residential structure

Benefitted Development = The land served, and the development on the land served, by water main improvements and/or sanitary sewer improvements privately financed and constructed

Improvement Charge (IC) = The charge to a property, or to a unit on a property, upon connection to the public water main or sanitary sewer system, representing the allocated cost of the water main/sanitary sewer improvement that serves that parcel or unit

IC Fixed charge = The charge per residential unit for water main/sanitary sewer improvements set by City Council annually.

IC_C = Cost forwarded IC

IC₀ = The IC established initially for a unit within a benefited development at the time of construction. For residential units, the IC is the applicable fixed charge improvement charge in effect on the date the main was dedicated to and accepted by the city.

IC_u = IC at time of connection for a unit in a benefited development

IC_{ov} = The IC calculated for a unit outside a benefited development

System Unit Avoided Cost = The cost per 100 cf of:

- processing and deliver of water (water), or
- collection and treatment of sewage (sanitary)

X = Number of years of applied escalation and is equal to:

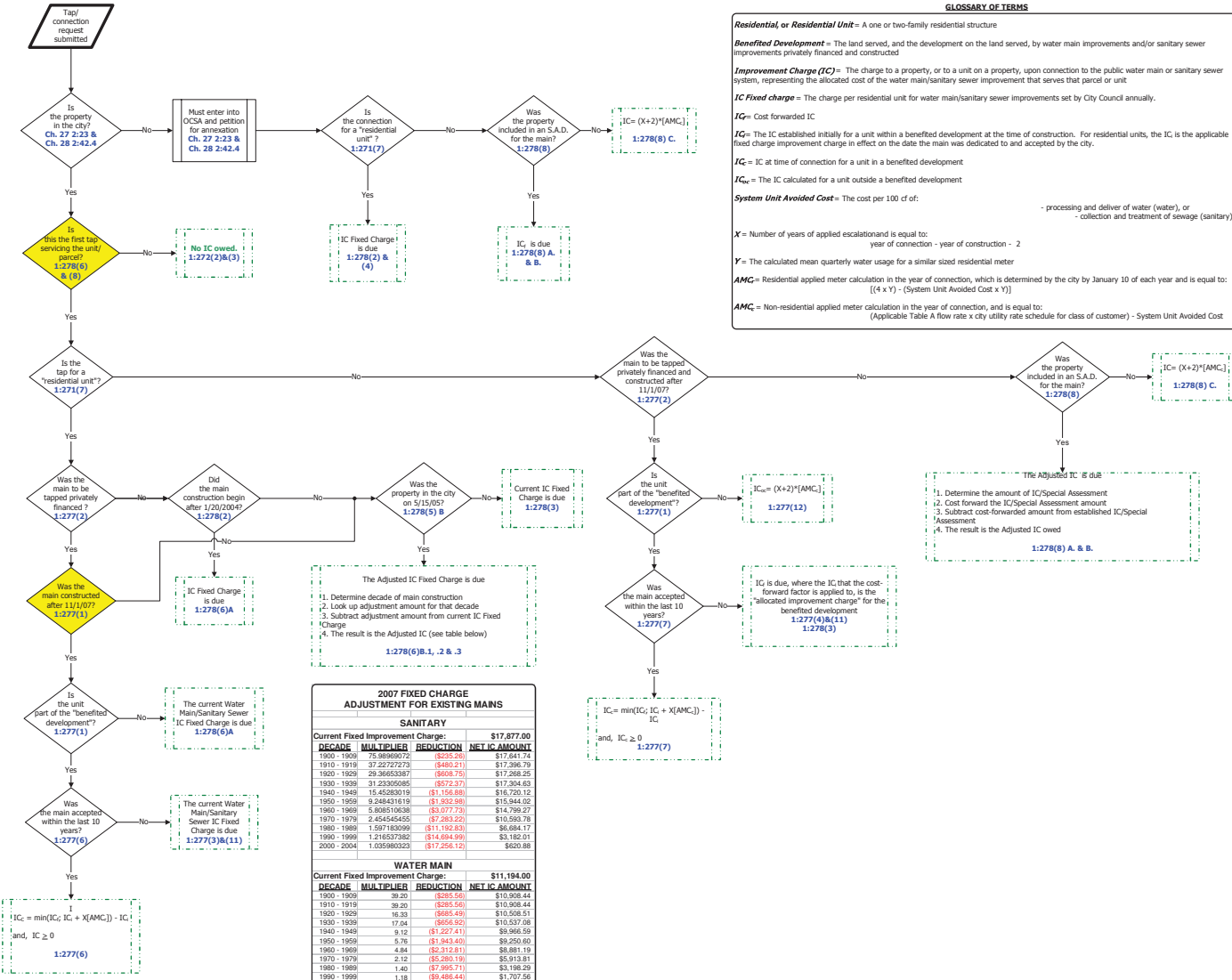
$$X = \text{year of connection} - \text{year of construction} - 2$$

Y = The calculated mean quarterly water usage for a similar sized residential meter

AMC = Residential applied meter calculation in the year of connection, which is determined by the city by January 10 of each year and is equal to:

$$AMC = [(4 \times Y) - (\text{System Unit Avoided Cost} \times Y)]$$

AMC_{nr} = Non-residential applied meter calculation in the year of connection, and is equal to:
 (Applicable Table A flow rate x city utility rate schedule for class of customer) - System Unit Avoided Cost



2007 FIXED CHARGE ADJUSTMENT FOR EXISTING MAINS			
SANITARY			
Current Fixed Improvement Charge:			\$17,877.00
1900 - 1909	75.98969072	(\$235.20)	\$17,641.74
1910 - 1919	31.22727273	(\$449.27)	\$17,192.47
1920 - 1929	29.26665937	(\$608.75)	\$17,266.25
1930 - 1939	31.23392085	(\$572.97)	\$17,304.83
1940 - 1949	15.45280119	(\$1,156.88)	\$16,720.12
1950 - 1959	9.248431619	(\$1,832.98)	\$15,944.02
1960 - 1969	5.808510638	(\$3,077.78)	\$14,799.57
1970 - 1979	2.454454455	(\$7,263.22)	\$10,593.78
1980 - 1989	1.597183099	(\$11,182.83)	\$6,684.17
1990 - 1999	1.216537382	(\$14,694.99)	\$3,182.01
2000 - 2004	1.036989323	(\$17,256.12)	\$503.89
WATER MAIN			
Current Fixed Improvement Charge:			\$11,194.00
1900 - 1909	39.20	(\$285.56)	\$10,908.44
1910 - 1919	39.20	(\$285.56)	\$10,908.44
1920 - 1929	16.33	(\$685.49)	\$10,508.51
1930 - 1939	17.04	(\$656.92)	\$10,537.08
1940 - 1949	9.12	(\$1,227.41)	\$9,966.59
1950 - 1959	5.76	(\$1,943.40)	\$9,250.60
1960 - 1969	4.84	(\$2,312.81)	\$8,681.19
1970 - 1979	2.12	(\$5,260.19)	\$5,913.81
1980 - 1989	1.40	(\$7,995.71)	\$3,198.29
1990 - 1999	1.18	(\$9,486.44)	\$1,707.56
2000 - 2004	1.05	(\$10,660.95)	\$533.05

MEMORANDUM

TO: Mayor and Council

FROM: Sue F. McCormick, Director, Water Utilities Department

DATE: December 15, 2003

SUBJECT: Ordinance to Amend Sections 2:21, 2:22 and 2:23 of Chapter 27 and Section 2:42.4 of Chapter 28 of Title II of the Code of the City of Ann Arbor (Connection Charges)

Capital cost investment is the most significant factor contributing to increasing current and future water and sewer revenue requirements. Improving capital cost recovery is a key strategy in minimizing future water and sewer rate increases. In a review of current capital cost recovery practices, staff identified that charges for customers newly connecting to the water and/or sewer systems were considerably lower than those charges that would be calculated using standard industry practices. Recognizing that the capital recovery charges have a major impact on the rate requirements, Council requested that staff prepare rate increase recommendations for water and sewer rates to be considered concurrently with the proposed connection charges and the proposed water and sewer improvement charges.

During the recently conducted cost of service studies Carter-Burgess reviewed staff calculations for water and sewer connection charges prepared by Water Utility staff and confirmed their accuracy. Connection charges as recommended are based on the equity "buy-in" concept which recognizes the investment that current customers of the system have made in treatment plant, storage, transmission mains, etc. often referred to as the common assets of the system, since they serve all customers. New customers "buy-in" to the system based on the amount of the system that is required to serve their peak requirement or demand. As such, the "buy-in" is proportional to their potential demand for service which is determined by the size of their 'tap'(s) or connection(s) to the water system. Over time the connection charges for each system will vary, increasing as the amount of investment in common assets increases.

Current ordinance provisions combine the cost of the meter, meter assembly, meter installation and "buy-in" as a permit charge which varies by meter size. When the direct cost of the meter, meter assembly and meter installation are removed, the remainder is less than 5% of the connection charge calculated by standard practice methods. The proposed changes implement standard practice methodology in the calculation of connection charges as well as change the schedule of charges to apply to the size of the tap(connection) to the water system as opposed to meter size. The permit charge is removed from reference

in the ordinance. Charges for meters and meter installations are established in the Water Utility fees and charges that are reviewed annually and amended by Council resolution from time to time.

The proposed ordinance changes are proposed to be effective March 1, 2004, allowing customers some time to obtain a permit to connect under existing permit charges prior to new connection charges taking effect. After March 1, a typical new residential connection (1 inch) will incur a \$2350.00 water connection charge and a \$2160.00 sewer connection charge.

Connection charges apply to newly connecting customers of the water and sewer systems and to customers who upgrade their service. For those properties upgrading an existing service they are provided a credit for the equivalent connection charge previously paid. A meter size/equivalent tap size conversion table is incorporated to provide a basis for the credit calculation. The majority of service upgrades take place on commercial properties where an expansion takes place or there is a significant change in use of the property.

These connection charges are also the basis for charges paid to the City by the Townships for each customer newly connecting to the Township's water and/or sewer system and for their customers who upgrade their service. Under the terms of our service agreements with the Township's each Township recovers those costs from their customers in whatever manner they deem appropriate.

An additional provision is proposed to allow for immediate collection of improvement and connection charges from Township properties that connect with deferred annexation provisions. Currently these charges are held in abeyance until annexation occurs and an assessment can be made. To further improve the rate of capital recovery, the proposed ordinance changes in Section 2:23 and 2:42.4 would permit a similar payment schedule option as offered in the assessment process, but would result in periodic billing on the utility bill.

Prepared by: Karen Fletcher, Asst. to Director Water Utilities
Reviewed by: Sue F. McCormick, Director Water Utilities
Approved by: Roger Fraser, City Administrator

MEMORANDUM

TO: Mayor and Council

FROM: Sue F. McCormick, Director, Water Utilities Department

DATE: January 5, 2004

SUBJECT: Ordinance to Amend Sections 1:271, 1:272, 1:274 and 1:278 of Chapter 12, and Sections 1:284, 1:286, 1:289, 1:292, 1:293 and 1:301 of Chapter 13 of Title I of the Code of the City of Ann Arbor (Revised)

Section 1:278(4) of the attached ordinance was revised to simplify the section. The changes from first reading are highlighted in yellow.

Prepared by: Abigail Elias, Chief Assistant City Attorney
Reviewed by: Sue F. McCormick, Director Water Utilities
Approved by: Roger Fraser, City Administrator

MEMORANDUM

TO: Mayor and Council

FROM: Sue F. McCormick, Director, Water Utilities Department

DATE: December 15, 2003

SUBJECT: Ordinance to Amend Sections 1:271, 1:272, 1:274 and 1:278 of Chapter 12, and Sections 1:284, 1:286, 1:289, 1:292, 1:293 and 1:301 of Chapter 13 of Title I of the Code of the City of Ann Arbor

Current ordinance provisions establish improvement charges for individual public improvement projects at the time of project construction and hold those charges constant for all properties benefiting by that project regardless of their date of connection or annexation. This approach does not recover the actual cost of the improvement, since it does not account for expenses associated with financing or depreciation. As a result, the costs not recovered by improvement charges result in higher water or sewer rates than would otherwise be required and place a burden on other funding sources.

The proposed ordinance changes to Chapters 12 and 13 streamline the special assessment process for extension of city water and sanitary service to City of Ann Arbor residents, implement fixed charges for residential properties connecting to city water and sanitary service and provide for annual adjustment of improvement charges to reflect current costs. These changes are proposed to be effective January 21, 2004 or upon the effective date, which ever is later. For residential properties the fixed water and sewer improvement charges apply to properties served by projects initiating construction after the effective date. Improvement charges for residential properties that can be served by projects constructed prior to the effective date, are not impacted.

The proposed changes accomplish the following:

- Provides for annual adjustment of improvement charges (excluding residential water and sewer improvement charges) for all types of public improvements to reflect current costs
- Provides for similarly situated residential parcels, receiving similar benefit from water and sewer projects, to receive similar improvement charges (residential fixed water and sewer improvement charges)
- Provides for annual review of residential fixed improvement charges for water and sewer and adjustment of the fixed charges by council resolution
- Provides improved capital cost recovery which relieves a burden on the water and sewer rates and increases the recovery of cost to other sources of funds for constructing capital improvements

- Streamlines the approval process for residential water main and sanitary sewer improvement projects financed through special assessments

Concurrent with the second reading of the proposed changes, Council will be presented with a resolution to establish the fixed water and sewer improvement charges for residential properties. Adoption of these ordinance changes and subsequently the residential fixed water and sewer improvement charges for 2004 are critical to minimizing water and sewer rates in FY 2003/04 and beyond.

Prepared by: Karen Fletcher, Asst. to Director Water Utilities
Reviewed by: Sue F. McCormick, Director Water Utilities
Approved by: Roger Fraser, City Administrator



City of Ann Arbor

301 E. Huron St.
Ann Arbor, MI 48104
<http://a2gov.legistar.com/Calendar.aspx>

Text File

File Number: 07-0129

Agenda

Introduced: 9/21/2007

Current Status: Passed

Version: 1

Matter Type: Ordinance

An Ordinance to Amend Sections 1:271 through 1:275 and Sections 1:277 through 1:278 of Chapter 12, to Add a New Section 1:279 to Chapter 12 of Title I, to Amend Sections 1:281, 1:284, 1:286, 1:292 and 1:295 and to Delete Section 1:283 of Chapter 13 of Title I, and to Amend Section 5:148 of Chapter 58 of Title V of the Code of the City of Ann Arbor (Financing Local Public Improvements, Special Assessments and Territorial Annexations) (Ordinance No. ORD-07-45)

This ordinance amends all of the sections in Chapter 12 except Section 1:276 and adds a new Section 1:279. It also amends certain sections in Chapters 13 and one section in Chapter 58 to conform to and support the amendments to Chapter 12.

In December 2003, certain sections of Chapter 12 were amended to establish the use of fixed rate charges for water main and sanitary sewer improvement charges for residential properties connecting to one or both of these utilities constructed after January 20, 2004. The purpose of this change was to recover the actual cost of these improvements, including their depreciation, with properties paying the current cost of the improvement at the time of the connection through the annual adjustment of the improvement charge fixed rate charge.

It has since been realized that there are other connections to the city's water and sanitary sewer systems where the city is not made whole for its capital, operating and depreciation costs under the current provisions of Chapter 12. The proposed ordinance changes to Chapter 12 include and accomplish the following:

- Provides for individual vacant residential properties to pay the improvement charge fixed charge at the time of its initial connection to the water and/or sanitary systems, with an adjustment to the amount owed based on the decade the main was constructed, recognizing that the property paid an initial share of the capital construction cost, but has not yet contributed to the operation and depreciation of the main.
- Provides for vacant non-residential properties which had an historical improvement charge for the main it is connecting to, to pay the difference in the previously paid improvement charge and the cost-forwarded amount of the improvement charge, again recognizing that the property paid an initial share of the capital construction cost but has not yet contributed to the operation and depreciation of the main.
- Provides for vacant non-residential properties that are connecting for the first time to an existing city main that did not have an historical improvement charge paid directly to the city, to pay an improvement charge based on the proposed usage of the system and the costs of operating and depreciating the system, recognizing that the property paid a share of the initial capital construction cost of the system through the land costs, but has not yet contributed to the operation and depreciation of the main.
- Provides for both residential and non-residential units within a development that connect to water and sanitary sewer mains constructed as part of that same development, to pay improvement charges after two years of the main(s) having become part of the city utility system, for a period of eight years, recognizing that while the developer has contributed these mains to the city, the city has to operate and depreciate those systems without funding contribution from these units until they

are connected and paying utility rates.

Adoption of these ordinance changes is critical to shifting the financial burden for recovery of the investment to serve, including operation and depreciation of the water and sanitary sewer systems, from current utility customers to those future customers for whom the investment is made, at the time of their initial connection to the system.

Prepared by: Cresson Sloten, P.E., Senior Project Manger, Abigail Elias, Chief Assistant City Attorney

Reviewed by: Sue F. McCormick, Director Water Utilities



City of Ann Arbor

301 E. Huron St.
Ann Arbor, MI 48104
<http://a2gov.legistar.com/Calendar.aspx>

Text File

File Number: 13-0505

Agenda # B-4

Introduced: 5/6/2013

Current Status: Passed

Version: 2

Matter Type: Ordinance

An Ordinance to Amend Sections 1:272, 1:274, 1:277, and 1:278 of Chapter 12 (Financing Local Public Improvements) of Title I of the Code of the City of Ann Arbor (Ordinance No. ORD-13-06)

The proposed amendments to Chapter 12 would amend the calculation of the water and sanitary improvement charges for properties connecting to City water mains or sanitary sewer improvements during the period July 1, 2013, through June 30, 2015. This period of time coincides with two City fiscal years. This two year period also allows time for the City to retain a consultant to review the City's water and sanitary sewer fees and charges and make recommendations for revision.

The desire to implement the proposed changes for this two year period stemmed from concern over the improvement charges currently charged under Chapter 12 for new connections to the water and sanitary sewer systems. Although the principle underlying the calculation of those charges, to make sure appropriate costs are recovered from new customers so that current rate payers are not improperly burdened, appears to be sound, the formula in effect has raised concerns about the dollar amounts calculated for these improvement charges.

As background and to explain the need to retain a consultant, when making future changes to Chapter 12, specifically improvement charges and to some degree connection fees, it is important that various competing elements are satisfied. The fees must be easy to explain and easy to understand in order to be accepted by the users. The fees must recover costs equitably. The fees must not result either in an undue burden on existing rate payers of the systems or an undue burden on new customers connecting to the systems. In other words, the fees must be easily understood, neither over recover costs nor under recover costs. Any under recovery of costs would place undue and inequitable financial burdens on current rate payers. In order to meet these goals and gain the experiences of other utilities, it is desirable to plan on using a firm that has nationwide experience in this area.

The proposed calculation for improvement charges during this interim period would still serve to recover capital repair costs that have not been paid by the connecting property between the time the water or sanitary sewer line was constructed and the time the property connects to the line. However, the proposed calculations will generally result in improvement charges that are less than the improvement charges as currently calculated. The change is for properties connecting to water and sanitary sewer lines for which construction was begun prior to January 21, 2004.

Instead of requiring a property that is connecting to pay the Fixed Charge Improvement Charge for water or sewer, less any offset if the property had previously paid a special assessment or improvement charge amount, the property would instead pay an amount to cover the capital repair costs portion of the average or mean commodity charge for a residential property for the number of years between the year construction of the main was begun and the date of connection, using the amount in effect at the time of connection. This amount is only a portion of the commodity charges per unit for water and sanitary sewer.

For purposes of this calculation, the mean number of units (1 unit = 100 cubic feet) for a residential property that will be used is 19 per quarter (or 76 per year).

A property that was assessed for and paid the assessment for a water main that was constructed in 1972 and connects in 2013 would pay for 41 years of capital repair costs based on the amount in the 2013 commodity charge per unit for water based on 76 units per year: $(41)(76)(\text{capital repair cost share of 2013 commodity charge for water per unit})$. Based on the mean number of units of 76 per year, the calculation of the current annual capital repair cost share of the commodity charge for water is \$86.12 per year and for sanitary sewer is \$156.56 per year. For a connection to the 1972 water line, this results in an improvement charge of \$3,530.92. For a connection to the 1972 sanitary sewer line, this results in an improvement charge of \$6,418.96.

The capital repair cost portion of the water and sanitary sewer commodity charges may change when the rates for water and sanitary sewer commodity charges change.

If the connection is to a water or sanitary sewer line and related improvements that were privately financed, and if the connection is after the 10 year post-construction window during which a different calculation is already provided for (which is not being amended), the calculation would be the same as the calculation for a property that previously paid a special assessment or improvement charge for the facilities to which the connection is being made.

If there is an outstanding special assessment or improvement charge for the water or sanitary sewer improvements to which the connection is being made because the property has not previously paid an improvement charge or special assessment for those improvements, the outstanding special assessment or improvement charge will be added to and become part of the improvement charge. The improvement charge will otherwise be calculated in the same manner as for a property that had previously paid an improvement charge or special assessment. The most common use of this formula would be for a property that was in a township at the time of construction and to which a share of the construction costs was allocated, to be charged to the property upon annexation - and now upon connection.

For any water and sanitary sewer constructed by the City and for which construction was begun on or after January 21, 2004, the existing Fixed Charge Improvement Charge calculation still will be used to calculate the cost to each benefitted property

and the Fixed Charge Improvement Charge in effect at the time of connection will be charged at the time of connection. In other words, there will be no change to the current calculation of improvement charges for these properties.

The proposed ordinance includes a couple of other amendments. In Section 2:174 the change in the table corrects a drafting error in a prior amendment and the change in the first paragraph after the table clarifies that City Council's ability to reallocate or change the division of costs does not apply to Fixed Charge Improvement Charges because they are not a division or allocation of costs.

Prepared by: Abigail Elias, Chief Assistant City Attorney

Reviewed by: Craig Hupy, Public Services Area Administrator

Approved by: Steven D. Powers, City Administrator

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(See Attached Ordinance as Amended by Ann Arbor City Council on June 3, 2013)

Sponsored by Councilmembers Sabra Briere, Sumi Kailasapathy and Stephen Kunselman