

The background of the slide is a light gray gradient with several realistic water droplets and bubbles of various sizes scattered across it. The droplets have highlights and shadows, giving them a three-dimensional appearance.

WATER & SEWER RATES THE CITY, THE TOWNSHIP, & THE END USER/CUSTOMER

PUBLIC INFORMATION SESSION NOVEMBER 5, 2015

How We Got to Where We Are - A History

- The original agreement was executed in 1977 with a 35 year life. The agreement expired on July 25, 2012. This is being contested by the Township.
- In 1988 an amendment was approved that established a formula to set rates.
- This formula was renewed from time to time through the next 24 years.
- The formula was a contentious issue at each renewal.
- The formula established rates to the Township that were below the cost of the benefit received, from the City's perspective.
- The formula expired on July 25, 2012.

How We Got to Where We Are - A History

- In 2012, the City commissioned a rate study, with Gosling Czubak, to evaluate the rates charged to City of Alpena customers, including Alpena Township.
- The City originally contacted Alpena Township officials to determine if they wished to participate in the overall rate study. Alpena Township officials declined.
- The draft rate study was presented to the Alpena City Council in April of 2013.
- The rates developed by Gosling Czubak and proposed for City customers met the current and future maintenance and replacement needs of the water and sewer facilities.
- Maintenance and replacement needs are in excess of \$3.6 million per year.
- The rates proposed at that time to meet that need, were determined by the City Council to be too large of an increase to place on the customers and directed staff to develop rates that would be more acceptable.

The Unified System Proposal

- Concurrently with this, the City also solicited information from Alpena Township officials and utilized current City costs to develop a unified rate for presentation to Alpena Township officials. This was presented as an option to replace the expired rate agreement. This concept was based on the premise that all customers would pay the same rate whether in the Township or in the City and each entity would retain ownership of their respective systems.
- The City developed this rate to determine if the concept was viable rate-wise. This was just the beginning step in an attempt to develop a long term operational plan for a unified water and sewer system for all customers.
- Many ongoing discussions would be needed to determine whether the concept was operationally and structurally feasible. Many questions for both parties would need to be addressed if the process were to move forward.

The Unified System Proposal

- Before this step could commence, Alpena Township officials terminated any discussions of a unified system with a rejection letter from Township Attorney James Florip. This letter stated the proposal, which only addressed potential rates at that time, was a “Fate Accompli” and a takeover of the Township water and sewer system.
- To ensure the information on this proposal was available to all, a joint City Council/Alpena Township public meeting was held, at the initiative of the Mayor, on January 15, 2014 at the APlex. The proposal was again rejected by the Alpena Township Board.
- With the denial by the Township, the City proceeded in developing water and sewer rates for all City customers, including Alpena Township.

New City Rate Structure – March 2014

- New water and sewer rates for all customers, including the Township, were adopted by City Council in March 2014.
- Council elected to have the new rates, as proposed by staff, implemented over a two-year schedule. \$9.74/1,000 for year-1 and \$10.30 for Year-2.
- Greg Sundin, City Manager, issued a letter to Alpena Township outlining the new rates to be charged to them, \$9.74/1,000, the then current rate.
- Alpena Township issued a letter and a board adopted resolution rejecting the new rates. The Township continued paying at the same rates they have been since 2010-2011, \$6.38/1,000 gallons.
- The City issued an invoice to Alpena Township at the new rates.
- Alpena Township did not pay the invoice in full and only paid at the 2010-2011 rates.
- With failure to pay in full and past due, the Alpena City Council authorized the City Attorney to initiate litigation against the Township.

Township Rates and Costs 2010-2014

- While the City conducted the rate study, rates charged to Alpena Township were held at those established in 2010-2011 until new rates were adopted in 2014. Billing to the Township at these new rates started in May of 2014.
- From 2011 through March 2014, with no increase in cost from the City, Alpena Township increased rates to their customers 23.8%.
- These rates are depicted in the following chart:

| Year | City Rates | | Township Rates Charged By City | | Township Rates Charged to Customers | |
|-----------|------------|---------|--------------------------------|----------|-------------------------------------|-----------|
| | Water | Sewer | Water | Sewer | Water | Sewer |
| 2010-2011 | \$ 3.14 | \$ 3.93 | \$ 2.906 | \$ 3.475 | \$ 5.48 | \$ 5.92 |
| 2011-2012 | \$ 3.45 | \$ 4.13 | \$ 2.906 | \$ 3.475 | \$ 6.71 | \$ 6.60 |
| 2012-2013 | \$ 3.80 | \$ 4.54 | \$ 2.906 | \$ 3.475 | \$ 6.93 | \$ 7.19 |
| 2013-2014 | \$ 4.18 | \$ 4.99 | \$ 2.906 | \$ 3.475 | \$ 6.92 + | \$ 7.19 + |

City Established Rate Components

- The rate structure and rates proposed and adopted in 2014 by the City Council for all City customers utilizes the methodology as developed by our consultant in the 2013 rate study.
- The rate structure includes a cost component for:
 - Operation and maintenance of the water plant
 - Operation and maintenance of the sewage plant
 - Operation and maintenance of the sewage collection system
 - Operation and maintenance of the water distribution system
 - Debt service water
 - Debt service sewer
 - Billing service charge
 - Infrastructure maintenance charge
 - Ready to serve charge

City Established Rate Breakdown

The current City of Alpena commodity charge per 1,000 gallons of usage and the percentage of the commodity charge for each component are as follow:

| | | |
|--|---------|-------|
| Operation and maintenance of the water plant | \$ 2.08 | 20.1% |
| Operation and maintenance of the sewage plant | \$ 2.49 | 24.1% |
| Operation and maintenance of the sewage collection system | \$ 0.85 | 08.2% |
| Operation and maintenance of the water distribution system | \$ 0.92 | 09.0% |
| Debt service water | \$ 0.75 | 07.3% |
| Debt service sewer | \$ 0.81 | 07.9% |
| Infrastructure Maintenance Charge water | \$ 1.20 | 11.7% |
| Infrastructure Maintenance Charge sewer | \$ 1.20 | 11.7% |
| Total | \$10.30 | 100% |

In addition, the City charges a ready to serve charge, which for residential customers, is \$30.00 per quarter and a quarterly billing charge of \$5.84.

Comparative Operation and Maintenance Costs

As can be seen below, it costs the City of Alpena \$5.73/1,000 to operate and maintain the collection and distribution system. This is slightly higher than actual costs as a portion of the debt is attributable to the water and sewer plants, which costs \$4.57/1,000 to operate and maintain.

| | | |
|--|----------------------------------|------------------------------|
| Operation and maintenance of the water plant | \$ 2.08 | 20.1% |
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| Operation and maintenance of the sewage collection system | \$ 0.85 | 08.2% |
| Operation and maintenance of the water distribution system | \$ 0.92 | 09.0% |
| Debt service water | \$ 0.75 | 07.3% |
| Debt service sewer | \$ 0.81 | 07.9% |
| Infrastructure Maintenance Charge water | \$ 1.20 | 11.7% |
| Infrastructure Maintenance Charge sewer | <u>\$ 1.20</u> | <u>11.7%</u> |
| Total | \$10.30 \$5.73 | 100% 55.5% |

The cost of \$5.73/1,000 is with 80.6 miles of water main and 69.3 miles of sewer main

Current City/Township Rate Comparison per 1,000 Gallons of Usage

| | City of Alpena |
|-------|----------------|
| Water | \$ 4.95 |
| Sewer | <u>\$ 5.35</u> |
| Total | \$10.30 |

| | Alpena Township |
|-------|-----------------------------------|
| Water | \$ 7.54 + \$4.18 = \$11.72 |
| Sewer | <u>\$ 7.88 + \$4.18 = \$12.06</u> |
| Total | \$15.42 + \$8.36 = \$23.78 |

\$4.18 is the Township added provisional charge

- Alpena Township is not paying the current City of Alpena customer rate of \$10.30/1,000 . They are and have been paying the same rate since 2010-2011 of \$6.38/1,000. What they currently charge generates \$17.40 more for every 1,000 gallons they bill.
- If Alpena Township payed the current City Rate of \$10.30/1,000, the Township would still generate \$13.48/1,000 over that being charged to them as a City of Alpena customer.
- If Alpena Township charged the \$15.42 and paid the \$10.30 currently charged by the City, they would still generate \$5.12/1,000.

Quarterly Invoice to Alpena Township for Service

- Since the inception of the new rates in March of 2014, the City has billed Alpena Township quarterly at the then current rate including ready to serve charges.
- Alpena Township has not paid the invoice amount but has continued to pay the 2010-2011 rate. This has caused arrearages including compounded late charges that are added to each subsequent invoice.
- The September 2015 invoice to the Township was in the amount of \$1,464,003.12 including arrearages. They paid \$357,569.40 leaving them \$1,106,433.72 in default for full payment.
- In July 2015 the City of Alpena raised the Commodity charge to all customers by 5.5%. The rate increase by Alpena Township to its customers prompted calls and ultimately this meeting.

Documents supporting the information provided can be found on the City of Alpena website: alpena.mi.us

The Video of this presentation can be viewed on the City's YouTube channel at : <https://www.youtube.com/user/cityofalpena>

Or using the link on the City of Alpena website

These documents include:

- Current City of Alpena budget
 - Previous annual budgets for the City of Alpena
 - Comprehensive Annual Financial Reports
 - Draft Rate Study
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- Questions can be directed to the following City staff:
 - Greg Sundin, City Manager, gregs@alpena.mi.us, 989-354-1711
 - Rich Sullenger, City Engineer, richs@alpena.mi.us, 989-354-1731