

Ann Arbor Water and Wastewater System Capital Cost Recovery Study

Public Engagement Stakeholder Meeting Summary

September 30, 2014 – 4:00 p.m. to 5:30 p.m.

Participant List (see attachment)



1. **Welcome and Project Background** – Troy Baughman, Project Manager, City of Ann Arbor
 - a. The City has retained Black and Veatch to conduct a water and wastewater system capital cost recover study. This study will review the way charges, paid by builders, developers, and residents are currently calculated for connection to the city’s water and sewer system.

2. **Introduction to Project Team** – Brian Jewett, Black & Veatch
 - a. Black and Veatch have local knowledge and experience working in Ann Arbor.
 - b. The Black and Veatch Project Team includes:
 - i. David Koch – Black and Veatch, Engagement Lead
 - ii. Brian Jewett – Black and Veatch, Project Manager
 - Brian is currently working with American Water Works Association (AWWA) to update the M1 Manual (national guidebook for utility rates and fees).
 - iii. William Zieburtz – QA/QC Lead
 - Bill is the former Chair of the AWWA Rates and Charges Committee.
 - iv. Teresa Weed Newman – Project Innovations, Public Engagement Lead
 - c. The Black and Veatch team is dedicated to a collaborative approach to meeting project objectives.

3. **Project Concepts and Approach** – Brian Jewett
 - a. Michigan does not have a formal statute defining how capital costs are set. Some states do dictate the charge payment structure. The primary job is recovering capital cost for past system investment and providing for system improvements in the future. The selected method for recovering capital charges will comply with the Bolt Test.
 - b. The five elements to be considered in defining a new method for capital cost recovery charges are:
 - i. Defensibility
 - ii. Equitability
 - iii. Cost Recovery
 - iv. Simple Administration
 - v. Customer Understanding
 - c. Why Capital Cost Recovery Charges?
 - i. Needed to maintain existing level of service in the system.

- ii. New growth pays equitable share.
 - iii. Encourages disciplined capital improvement planning.
 - iv. Promotes comprehensive planning and growth management.
 - v. Guarantees level playing field.
- d. The industry standard steps for developing a new method for capital cost recovery are:
- i. Determine method of approach.
 - Is Plan Based (increased level of service and master plan driven) or Demand Based (same level of service and CIP driven) approach most appropriate for Ann Arbor?
 - Is Buy-In (to existing assets) or Incremental (growth related) approach most appropriate for Ann Arbor? A combination of Buy-in and Incremental methods reflects both past investments and future needs and is common to have a combination of these scenarios at water and wastewater utilities.
 - ii. Determine system demand using Master Planning documents, City Planning documents, SEMCOG data, and Census data.
 - Low growth, moderate growth, and high growth scenarios will be reviewed when determining system demand projections.
 - iii. Determine facility costs.
 - Common methods for identifying facility costs include:
 - OC = Original Cost
 - OCLD = Original Cost Less Depreciation
 - RC = Replacement Cost
 - RCLD = Replacement Cost Less Depreciation
 - iv. Determine credits.
 - Past special assessments
 - Past contributions
 - Dedicated revenues, e.g. grants
 - Current outstanding debt & potential future debt
 - Present Value approach on debt service payments – use nominal interest rate on debt
 - Real Interest Cost approach – nominal interest rate less inflation rate
 - v. Determine fee mechanism.
 - Tap size vs. Meter size
 - May result in lower charge for residential connections
 - Equivalency unit (REU)
 - Progressive
 - Persons per household
 - Square footage for non-residential
 - Plumbing Fixture Units (as established by building code)

- Usually in current dollars
- vi. Calculate charges.
 - Benchmarking in “apples to apples” method
 - Cash flow analysis
 - Phase-in charges / Payment installment plans
 - Accounting of charges
 - Annual reporting
 - Indexing

4. **Next Steps** – Brian Jewett

- a. **September 2014**
 - i. Data review and analysis
 - ii. Initial stakeholder meetings
- b. **October - November**
 - i. Capital charge methodology development
- c. **December - January**
 - i. Stakeholder meetings to discuss findings/recommendations
 - ii. City Council workshop
- d. **February - April**
 - i. Finalize recommendation & report
 - ii. Seek City Council approval
- e. **July 2015**
 - i. Ordinance adoption by Ann Arbor City Council.

5. **Question and Answer** – All

- a. Q: What is the Bolt Test? A: This refers to a judgment in the Bolt v. City of Lansing case in the 1990s. The case involved a property owner challenging Lansing’s newly imposed stormwater utility fee, arguing that the fee was a tax levied without voter approval. The Michigan Supreme Court ruled against the utility and developed a test for user charges. In order to avoid classification as a tax, a user charge must serve a regulatory purpose rather than a revenue-raising purpose.
- b. Q: Will you benchmark against other utilities? A: Fee calculations will be benchmarked against other similar utilities in an “apples to apples” comparison closest to Ann Arbor.
- c. Q: Will today’s presentation be posted on the City’s website? A: Yes, the location of the information will be announced when it is available.
- d. Q: Is it your belief that growth is paying more than their share? A: The team hasn’t begun to analyze the data.
- e. Q: Will closer homes in the Township Islands have to connect to the system immediately? A: This is a policy decision related to Council’s decision to annex.
- f. Q: How can you lower fees when some people have already paid higher fees? A: Ann Arbor’s current fee structure is based on buy-in to the existing system. The consultants will do the study

and recommend a method for assessing charges. The method for assessing charges going forward will be based on the input provided by the consulting team.

- g. Q: Will the evaluation consider fire suppression systems? A: The foundational question for setting capital cost recovery fees is the size of system that is required to supply peak demand including fire flows. The cost is based on the system being ready to serve these demands. The peak demand and fire suppression requirements will be reviewed in depth.
- h. Q: New connection charges are assessed to users and rate payers. Is it inequitable to charge to rate payers? A: Redevelopment is still occurring and the challenge is to not double dip.
- i. Q: Did connection fees quadruple in the last few years? A: The purpose of this study is to examine the current charges and most equitable way to go forward.
- j. Q: What is the difference between improvement charges and connection charges and can they be amortized? A: Improvement charges include the cost to install pipes in the street fronting the property and currently can be amortized up to 20 years for residential depending on the amount of the cost. The improvement charges are amortized based on a sliding scale at 1% above the City's finance charge. Connection charges include the cost for treatment plants, pump stations, reservoirs, and infrastructure built to handle peak demand. Connection charges cannot be amortized.
- k. Q: What is considered past contribution? A: Previously donated assets by developers will be examined as part of this study.
- l. Q: When will decision regarding Geddes Rd. neighborhood sewer charges be made? A: Preliminary recommendations from this study are anticipated in early 2015. City Council will be the ultimate approving body which we are planning to seek in February-April 2015 timeframe.
- m. Comment: The Geddes Rd. and Riverview neighborhood residents that are not part of Ann Arbor now have paid for their own water/sewer systems and improvements. We are looking at having to connect to Ann Arbor's water/sewer system, pay higher utility fees, and pay higher taxes. A: It is important to remember that the utility is self-sustaining and is not in any way supported by taxes.
- n. Comment: We paid several hundred thousand dollars in improvement charges to connect to the city system and it is inequitable for developers and has a snowball effect for future residents. Give and take is necessary, please look at this carefully.

PARTICIPANT LIST

Name	Representing
Catherine Allen	
Scott Betzoldt	
Melissa Beveridge	Homeowner
Sue Cutler	Homeowner
Jeff Fessler	
Jay Holland	
Jerome Johnston	Homeowner
Daniel Ketelaar	Urban Group
Mike Martin	First Martin Corp.
Darren McKinnon	First Martin Corp.
Julie Seagraves	
Ryan Stanton	Ann Arbor News
Richard Timmons	Colliers
Anca Trandafirescu	
Troy Baughman	Ann Arbor Systems Planning, Project Manager
Craig Hupy	Ann Arbor Public Services Administrator
Cresson Sloten	Ann Arbor Systems Planning, Unit Manager
Brian Jewitt	Black and Veatch, Project Manager
Teresa Weed Newman	Project Innovations
Bill Zieburz	Black and Veatch