



TO: Mayor and Council

FROM: Howard S. Lazarus, City Administrator

CC: Tom Crawford, CFO
Derek Delacourt, Community Services Area Administrator
Craig Hupy, Public Services Area Administrator
Brett Lenart, Planning Manager
Susan Pollay, Executive Director, DDA
Cresson Sloten, Systems Planning Manager

SUBJECT: Council Agenda Responses

DATE: 4/17/17

CA-2 – Resolution to Waive Sidewalk Occupancy Fees for West Liberty Street Construction

Question: While the waiver request seems reasonable given the construction impacts, I'm wondering if we've ever done sidewalk occupancy permit waivers like this before? (Councilmember Lumm)

Response: No, we have not had a previous instance of granting this type of waiver.

CA-6 - Resolution to Approve a Professional Services Agreement with CalAmp Inc., for Automated Vehicle Location System Expansion (\$78,865.00)

Question: The numbers don't seem to box. Perhaps I'm missing something, but the equipment is listed as \$46,195 in the cover memo, the hosting services as \$35,460, but the total is shown as \$78,865? (Councilmember Lumm)

Response: Thank you for pointing this out. The total amount of \$78,865 is correct; however, the itemized equipment costs are actually \$43,225 as opposed to \$46,195 as indicated. The resolution has been updated to reflect the correct equipment amount.

C-1 - An Ordinance to Amend Sections 2:63, 2:64, and 2:69 of Chapter 29 (Increase Water, Sewer, and Stormwater Rates) of Title II of the Code of the City of Ann Arbor

Question: While I understand the revenue increase is a function of changes in rates for all users (not just the average single-family user) as well as changes in volume, I'm having difficulty in reconciling the 2.7% rate increase indicated for water on the budget slide 10 with the 6.75% revenue increase indicated in the C-1 cover memo. What is the percentage increase in volume that's reflected in the 6.75% year-to-year revenue increase? (Councilmember Lumm)

Response: The 2.7% rate increase for water as indicated on budget slide 10, isolates the increase from the FY 17 average residential quarterly water bill (\$54.32) to the proposed FY 18 average residential quarterly water bill (\$55.80). The 6.75% increase reflects the increase necessary in the overall revenue requirement and assumes a 3.03% increase in volume.

Question: The water rate proposal eliminates the rate differences between "residential 1" rates and "residential 2" rates that exist currently. The impact is that the rates for the two higher-volume "residential 2" classifications both increase by 81% year-to-year. Can you please elaborate on why the change is being made and approximately how many higher-volume "residential 2" customers there are? (Councilmember Lumm)

Response: Residential 2 refers to the customer class that has both a domestic and a water only meter. As recommended by our existing cost-of-service, the current rate structure does not currently have a rate differential between residential 1(\$1.51/unit) and residential 2 (\$1.51). Water only usage is billed at a separate rate and is billed at the same rate regardless of number units. The FY 18 proposed rates do not include any changes to the existing structure and does not include a differential between Residential 1 (\$1.55) and Residential 2 (\$1.55).

Question: What is the rationale for increasing the per unit water rates by a higher percentage for higher volume users (all the commercial users as well as the higher-volume residential users) than for the low-volume residential users and widening what are already large gaps in the residential tiers (per unit water rates more than double from tier 1 to tier 2 and almost double again from tier 2 to tier 3)? (Councilmember Lumm)

Response: In 2006 the City undertook a cost-of-service study, which established our current rate structure as an inclining block-rate structure. An inclining block structure

represents increased costs to provide service to large users; as well as, a means to incent conservation.

Question: The proposed residential storm water rate changes reflect a 30% increase in each of the four impervious area-based rates, but a significant decrease in the fixed customer charge component. What is the rationale for these relative changes? Also, what is the rationale for raising the residential rates by an average of 16%, but raising the base quarterly stormwater discharge rate (presumably the rate paid by non-residential users) by 40%? (Councilmember Lumm)

Response: The recent cost-of-service study reviewed both the customer related fees (billing, postage, public education, and administration) and the runoff related component (management/operation of the system). The two components were adjusted to accurately reflect the appropriate cost recovery for each component. This resulted in decreased customer charges and an increase of run-off related charges. Both the residential and commercial stormwater bills are based on the same per acre charge of \$595.45 per acre.

Question: On sewer rates, I had inquired in prior years about the various components underlying the sewer rates and why the charge for the “Systems Planning and Administration” component keeps growing while the charge for capital expenditures falls. It is happening again in the FY18 proposal.

Percent of user fee (FY16, FY17, FY18)

Admin (9%, 10%, 12%)

Capital (38%, 35%, 33%)

Can you please provide more detail on this calculation or explanation of what is causing this – we keep being told we need to (and are) reinvesting in the sewer capital infrastructure, yet the trend in these percentages is not consistent with that message. (Councilmember Lumm)

Response: The Administration/Systems Planning increase in the percentage of the annual sewer rate is reflective of increased operating costs (Municipal Service Charge/IT Costs) and one-time studies and plans both in previous and the upcoming fiscal year. These studies include the costs-of-service study; as well as, asset management and master planning of the sewer system. These items are budgeted within Administration/Systems Planning and are used in our capital and financial planning of the fund.

Question: Thanks for the March 24th staff response on rates in other Michigan cities. Couple of follow-up questions. First, do the other Michigan cities listed have a stormwater charge as well? Also, the response indicates the water and sewer bill in Ann Arbor is \$130.42 for a residential customer with 17 units a quarter. Unless I’m doing the math wrong, the water bill for someone with 17 units in Ann Arbor would be \$66.50 (17 units X \$3.25/unit plus minimum of \$11.25 residential customer charge) and

the sewer bill would be \$84.69 (17 units X 4.32/unit plus minimum of \$11.25 customer charge) for a total of \$151.19. What am I missing? (Councilmember Lumm)

Response: The Other Michigan cities used in the comparison do not have separate stormwater charges.

The comparison only included the water and sewer portion of the utility bill.

Average Residential Quarterly Water Bill:	\$ 55.80
Average Residential Quarterly Sewer Bill:	\$ 89.11
Less Early Payment Discount (10%)	<u>(\$ 14.49)</u>
Average Residential Quarterly Bill:	\$130.42

DS-1 - Resolution to Approve Interim Operations Services Agreement with Recycle Ann Arbor for Ann Arbor Material Recovery Facility (MRF) (Estimated \$1,272,216.00 - \$1,375,992.42/Year in First Year)

DS-2 - Resolution to Approve Interim Operations Services Agreement with Waste Management of Michigan, Inc., for Ann Arbor Material Recovery Facility (MRF) (Estimated \$1,172,236.10/Year in First Year)

Question: When Council authorized negotiating with Recycle Ann Arbor (RAA) on March 6th, the cost premium of RAA's loose load approach was \$57K over WMM's baled approach. The hope was to negotiate a price more "competitive" with WMM, but now RAA's premium for loose load is even higher at \$100K. What happened and what changed? (Councilmember Lumm)

Response: The cost analysis with the March 6th item included the fees for operation of the waste transfer station, which are no longer included and affect the total costs in the comparison. Also, the Recycle Ann Arbor (RAA) base cost included in their initial proposal for the loose loading performed at the waste transfer station, and in the March 6th comparison, was \$146.00/ton. The base cost for performing the loose loading at the MRF under the proposed contract is \$154.76/ton.

Question: The cover memo on March 6th stated that "If the benefits are not documented, the agreement should allow the city to require RAA to forego loose loading of recyclable material and shift to baling of recyclable, but at a price that does not exceed the price proposed by WMM for those services." That seems awfully clear that if the city were to require RAA to do baled, it would be at no more than WMM's cost for baled, yet this agreement would pay RAA \$203K (17%) more a year for baled than WMM's price. Isn't that inconsistent with the intent of the March 6th resolution and what would be the explanation to residents be of why the City is paying a 17% premium for the same approach/service? (Councilmember Lumm)

Response: Although the cover memo puts the language of the resolution in context, the resolution's fifth criterion was that the cost be competitive with the cost of Waste

Management's proposal. After having worked through the four other required criteria included in Resolution R-17-070 approved on March 6, 2017 in the other negotiation sessions, the actual fees for the loose load and baled approaches were submitted by Recycle Ann Arbor at the final session at the end of the day on March 31, 2017. The analysis and comparison of these costs were performed during the week of April 3, 2017 and resulted in staff bringing the two related resolutions to Council for determining if the requirement of a competitive cost has been met. Although Resolution R-17-070 set a March 31, 2017 deadline to complete negotiations with Recycle Ann Arbor, since staff wasn't able to perform the cost comparative analysis until the week of April 3rd, on April 11, 2017 staff contacted the Recycle Ann Arbor negotiation team with the results of this fee analysis and comparison and asked that they review their proposal and to inform the City if the fees could be reduced. Recycle Ann Arbor contacted the City this past Friday (April 14, 2017) afternoon stating that for the baling process if they (Recycle Ann Arbor) "take the commercial cardboard to Detroit and the residential to Dayton, this would be a potential and approximate savings of \$13,000/month." Staff is not aware of a Detroit facility included in the team's workplan, and does not have any specific detail on the fee adjustment that may result in this reduction. If there is a reduced fee from Recycle Ann Arbor that would result in such savings being achieved, there would still be a 4.4% premium (estimated at approximately \$48,000/year) for Recycle Ann Arbor to bale compared to Waste Management.

Question: The cover memo indicates that under the WMM contract, the city gets 60% of the revenue if revenues per ton exceed WMM's \$132/ton processing and hauling fee, but that RAA does not have a similar provision. Have the revenues exceeded \$132/ton at any point over the last few years? (Councilmember Lumm)

Response: The revenues that were experienced over the last few years under the ReCommunity contract were calculated under a very different basis than the published rates included in the current Waste Management contract. The time to research this information under the ReCommunity contract is such that it cannot be performed in time to provide this response.

Question: Am I correct that in terms of the residuals, RAA is committing to 10% or lower with loose load and that WMM's rate for baled is currently 11%? (Councilmember Lumm)

Response: Yes.

Question: Also, how will the City verify these residual numbers and what other criteria will the City use to assess the benefits of the loose load approach? (Councilmember Lumm)

Response: There are to be Material Composition Audits performed at least three times during the twelve month term of the contract that will measure the residual numbers. The other criteria are: Greenhouse gas (GHG) measure will be tracked, with

the main component being the average weight per load of loose loaded recyclables which is to be no less than 20.5 tons/load; and, Revenues, where the total commodity values will be compared to the corresponding commodity values using the Waste Management indices and must exceed the Waste Management values.

Question: In terms of the discussion and calculations in the cover memo related to the environmental impacts of the two approaches, my takeaway is that in using the EPA's model of the value of reduced GHG emissions, RAA's commitment of a 1% reduction in residuals with loose load would result in a social cost of carbon value ranging from \$21K to \$62K a year, which would reduce RAA's premium over WMM from \$100K to \$38K to \$79K – am I reading that correctly? (Councilmember Lumm)

Response: It would reduce the premium from a holistic viewpoint by providing a “value” to the social and environmental costs of GHG emissions. But it will not reduce the dollars invoiced by and paid to Recycle Ann Arbor by the City, so the “premium” in dollars actually paid by the Solid Waste fund would not be reduced by this amount.

Question: Regarding the two possible six-month extensions, would those be at the same prices as in this proposal or would the City Administrator be authorized to agree to different prices/terms? (Councilmember Lumm)

Response: The Recycle Ann Arbor contract includes a 3% escalator on the fees that would go into effect on July 1, 2018 if the contract is extended beyond June 30, 2018. If the Waste Management of Michigan contract would be awarded and then extended beyond twelve months, the charges would be adjusted based on any increase in the Consumer Price Index (CPI) during the first twelve month period.

DS-3 - Resolution to Authorize the Sale of Development Rights above the City's Underground Parking Structure Located at 319 S. Fifth Ave. to Core Spaces and Appropriate Funds for Outside Legal Services (8 Votes Required)

Question: Regarding incorporating into the agreement Core Spaces offer to add 2.5% additional workforce housing units (9 units) for \$1.475M, is the plan to implement that regardless of whether/not the DDA agrees to fund it? If so, how would the City plan to fund the portion the DDA does not fund? (Councilmember Lumm)

Response: No. The additional workforce housing will only be implemented if financed by the DDA. In staff discussions with Jennifer Hall (AAHC) & Andrea Plevak (Community Development), it was felt that it's expensive to create affordable housing downtown and that City affordable housing resources should be utilized for projects that can leverage other funds, which is not the case with this project. Staff's recommendation is for the DDA to determine whether they believe it's a good use of their housing funds.

Question: If the City (or DDA) purchases the 9 additional units for \$1.475M, that translates to over \$160K a unit. Can you please provide the financial backup/detail behind that calculation and why staff is recommending the purchase at that price? Also, does that \$1.475M purchase result in the net proceeds from the sale being reduced for the purposes of calculating the affordable housing contribution? (Councilmember Lumm)

Response: At this point in time, Core Spaces has only provided a verbal explanation of the method used to calculate the \$164k/unit. The staff recommendation is for the DDA to consider purchasing the additional 9 units, which includes a comfort level on the cost, from their resources. Any potential use of the \$5 million in proceeds projected to be transferred to the Affordable Housing trust fund would require separate Council approval. At this time, the \$5 million transfer to the trust fund is not recommended as the source of funding for the 9 additional units.

Question: Can you please provide the rationale for recommending the agreement reflect the 12% of units at 150% of fair market rent alternative rather than the 9% of units at 120% alternative? (Councilmember Lumm)

Response: Staff discussions including Jennifer Hall (AAHC) & Andrea Plevak (Community Development) would recommend the 150% over the 120% because the difference in the income levels served is not that different so it's better to obtain a greater number of units.

Question: What makes this development unique that would require use of outside counsel or is the need for outside counsel just a workload issue? (Councilmember Lumm)

Response: Similar to other transactions such as First and Washington/City Apartments, outside counsel will be used because of expertise in transactions of this type as well as workload in the City Attorney's Office. Staff attorneys will still manage and work closely with outside counsel in order to minimize the use of outside counsel time to the greatest extent possible.

Question: On page 4 of the CBRE offering the site is described as encompassing 35,112 square feet. That is considerably smaller than the are used to calculate the permissible FAR and the required affordable housing required to acquire the premium of additional building height and FAR. Can you provide an explanation of how the FAR was calculated and who decided to use the larger "site" size in making the calculations? The offering is found here:
http://www.a2gov.org/departments/city-administrator/Documents/Library%20Lot%20RFP%20Responses/Ann_Arbor_OM_FINA_L_REDUCED_2.27.2015.pdf#search=Offering%20memorandum
(Councilmember Eaton)

Response: Please see response to Question 1 under Planning Related Follow-up Questions in the April 17, 2017 memo to Council, which is also posted on the City's Library Lot web page: <http://www.a2gov.org/departments/city-administrator/Pages/Library-Lot-RFP-Responses.aspx>

Question: It has been reported that, if approved, the CORE spaces proposal would generate \$600k to city and \$300k to general fund. Is that \$300 to the general fund unrestricted, or are the AAATA and employee benefits funds included in that calculation? What is the breakdown of the \$600k by millage? (Councilmember Warpehoski)

Response: The estimated allocation of property taxes is as follows:

	<u>Amount</u>
	(000s)
<u>City</u>	
General Fund	\$ 306
Solid Waste millage	92
Street/Sidewalks millage	79
Park Maintenance/Impvt	41
Open Space Acquisition	18
Total City	<u>\$ 536</u>
Ann Arbor Public Schools	\$ 797
State Education Tax	225
WISD	205
Washtenaw Community College	129
Washtenaw County	234
AAATA	103
Library	71
Total All Entities	<u><u>\$ 2,300</u></u>

Question: I regularly see hundreds of open spaces at the Library Lane parking structure during daytime hours (usually 300+). Why doesn't the DDA release more of these spaces for monthly parking permits? (Councilmember Warpehoski)

Response: The DDA has striven to maintain a substantial number of hourly parking spaces in the Library Lane parking structure to ensure that members of the public coming to the downtown Library, the E. Liberty commercial area, the Federal Courts and post office, and other nearby destinations have parking spaces available when they

arrive. The structure generally has up to 600 cars parked during the peak period of 11am-3pm, which leaves several dozens of parking spaces for the occasional surge, due to special programs at the Library or attendees coming to events such as Sonic Lunch concerts.

Question: If the resolution passes, what would be the following decisions before Council? (Councilmember Warpehoski)

Response: If the resolution passes, Council contractually agrees to sell the development rights which will allow the development to move forward. Subsequent transaction documents, such as the condominium master deed, will come to Council for review and will require six votes for approval. Also, the site plan will undergo the same process of approval as other site plans in the City, and will require Council approval with six votes.

Question: Would the agreement come back to Council for final approval? If so, how many votes would that project require? If the developer requests a planned project to address the desire to pull the massing away from Liberty Street, how many votes would the planned project require? (Councilmember Warpehoski)

Response: No. The sale agreement for the development rights will be drafted consistent with the resolution, and will not come back to council for any further consideration. If the developer requests a planned project, the planned project site plan will require Council approval with six votes.

Question: Would the developer operate under prevailing wage guidelines for the skilled trades? (Councilmember Warpehoski)

Response: The City is selling the development rights to the property. It is not entering into a contract for construction of the development for the City by Core Spaces. Since the developer is funding the project and not the City, Core Spaces is not obligated to operate under the City's prevailing wage guidelines.