



Legislation Text

File #: 20-0767, **Version:** 2

Resolution Regarding Water Rates

Whereas, Effective July 1, 2018, Ann Arbor's water rates were re-structured including establishing a new multi-family customer class, adding a fourth volume-based tier to single-family residential rates and eliminating the tier structure in the commercial customer class;

Whereas, The re-structuring shifted approximately \$2M annually in cost to single-family residential customers and substantially increased the cost premiums paid by higher volume single-family residential water users including customers with large families;

Whereas, Within the residential customer class, the per gallon rate is 8 times higher for Tier 4 usage than Tier 1 usage and prior to the July 2018, the range from high to low was 3.8 times. In FY19, Tier 3 and 4 usage accounted for 21% of the residential usage, but 53% of the residential revenue collected; Tier 4 accounted for 6% of the usage, but 25% of the residential revenue collected;

Whereas, City staff have indicated that the elasticity assumptions made, and presumably reflected in the Cost of Service study, were understated compared with the actual experience following the re-structuring;

Whereas, A fundamental premise underlying the re-structuring proposal was that volume peaking drives costs, yet the re-structuring proposal was internally inconsistent in its application of that logic - the re-structuring expanded volume-based price tiering for single-family residential, but eliminated the tiers in the commercial customer class where the peaking impact on the system (on both a percentage and absolute basis) was even greater;

Whereas, In response to a Council resolution, Arcadis Inc. developed feasible and legal water rate structure tiering alternatives for residential (four alternatives) and commercial customers (two alternatives) that were revenue neutral to the city, and those alternatives were presented to Council at a work session on March 11, 2019;

Whereas, At that meeting, Arcadis indicated that Ann Arbor's high to low range of rates within the residential customer class were much wider than are typically used;

Whereas, The decision in 2018 to re-structure water rates was not unanimous and there continues to be strong concern regarding the re-structuring both among Council Members and in the community;

Whereas, City Council believes that the City has no higher responsibility than to provide safe drinking water to residents and to ensure adequate funding for re-investment in the water system infrastructure;

Whereas, The COVID-19 pandemic has caused financial hardship for Ann Arbor residents and businesses and it is appropriate for the city to identify actions that can provide relief for them, if even

temporary and relatively small relief; and

Whereas, Deferral of a water rate increase for six months to January 1, 2021 would result in reduction of approximately \$700,000.00 in City revenue.

RESOLVED, That the proposed water rate increase effective July 1, 2020 be deferred until January 1, 2021;

RESOLVED, That City Council authorize that the incremental revenue lost to the Water System as a result of the six-month deferral be recovered in the January 1, 2021 increase;

RESOLVED, That during the six-month period, City staff review the rate structure alternatives presented by Arcadis and present to Council a recommended structure that is feasible, legal and addresses Council's concerns regarding: (1) the wide range of per gallon charges in Ann Arbor's residential customer class, (2) the lack of tiering or any mechanism in the commercial customer class rate structure to incentivize conservation and to reflect the system costs associated with peaking, (3) the validity of the cost of service study results given the actual usage experience subsequent to the re-structuring; and

RESOLVED, That the recommendations be presented to City Council prior to Council's consideration of the January 1, 2021 water rate increase proposal.

Sponsored by: Councilmember Lumm

As Amended and Approved by Ann Arbor City Council on June 1, 2020