



## Legislation Text

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**File #:** 20-1571, **Version:** 2

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### Resolution Regarding Water Rate Structure

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 sub-classifications in the Non-Residential customer class; and

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; and

Whereas, The re-structuring was revenue-neutral in total, but shifted approximately \$1.7M 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; and

Whereas, The primary beneficiaries of the cost shifting to single-family residential customers were landlords, commercial customers, and the University of Michigan, and it is not clear whether the lower rates to landlords have been passed on to tenants; and

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

Whereas, In December 2018, council adopted a resolution to obtain a "second opinion" on the restructuring, and in March 2019, Arcadis Inc. presented to council feasible and legal water rate structure tiering alternatives for residential (four alternatives) and non-residential customers (two alternatives) that were revenue neutral to the city; and

Whereas, Arcadis concurred with the addition of the multi-family customer class, but indicated that Ann Arbor's high to low range of rates within the residential customer class were much wider than are typically used and "may warrant additional consideration"; and

Whereas, On June 1, 2020, City Council approved a resolution directing City Staff to 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

Whereas, City Staff continue to support the water rate structure adopted in 2018; and

Whereas, Arcadis Residential Option 4 would revert to three residential tiers (same as before the re-structuring) and re-sets the tiers on a logical basis (Tier 1 = average indoor use; Tier 2 = average outdoor use; Tier 3 = above average outdoor use); and

Whereas, The high-to-low range of residential per gallon rates under Arcadis Residential Option 4 would be a more reasonable 4.1 times - close to the 3.8 times prior to the re-structuring - and in their pros and cons Arcadis indicated no substantive cons and several pros in Residential Option 4 including:

- Is cost based and meets the cost of service objective
- Is a tier design that's correlated with customer usage
- Maintains a strong conservation signal/incentive
- Eliminates the high 4<sup>th</sup> Tier rate

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 sub-classifications in the non-residential customer class where the peaking impact on the system (on both a percentage and absolute basis) was even greater; and

Whereas, Arcadis presented two commercial options (A) Seasonal Alternative and (B) Peaking Alternative, and while the commercial peaking alternative is most consistent with the residential structure, staff have indicated current systems are not able to support that alternative; and

Whereas, Arcadis indicated that compared with the current flat rate, Commercial Option A:

- Is cost based and meets the cost of service objective
- Reflects the system's higher costs resulting from Summer peak demand
- Sends a greater conservation signal
- Is more comparable/similar to the residential structure
- Is consistent in that the seasonal rates are the same for all commercial customers

Whereas, City Council believes adopting Arcadis Residential Option 4 and Commercial Option A would represent improvements and reasonable adjustments to the 2018 re-structuring.

RESOLVED, That City Council directs the City Administrator to implement the Arcadis Residential Option 4 structure with the next change in City of Ann Arbor water rates;

RESOLVED, That City Council directs the City Administrator to implement Arcadis Commercial Option A with the next change in City of Ann Arbor water rates; and

RESOLVED, That City Council directs the City Administrator to report to Council as soon as it is known what the specific residential and commercial rates would be under Arcadis Residential Option 4 and Arcadis Commercial Option A that would generate the same annual revenues in each of the two customer classes that are generated under the structure and rates currently in place.

Sponsored by: Councilmembers Lumm and Eaton  
Revised October 14, 2020