



## Legislation Text

---

**File #:** 18-2119, **Version:** 2

---

Resolution Directing the City Administrator to Develop and Present to Council by March 31, 2019\* a List of Feasible Alternatives to Revise the Recently-Adopted Water Rate Re-structuring Ordinance to Mitigate the Adverse Impacts of the Ordinance on Single-Family Residential Customers (*\*Title corrected to reflect amended date*)

Whereas, In a March 2018 work session, City staff presented to Council a proposal to re-structure City water rates that subsequently generated a significant amount of resident concerns, questions, and opposition;

Whereas, City Council adopted the controversial proposal on a contested (7-4) vote on June 18, 2018 and the re-structured rates became effective on July 1, 2018:

Whereas, The most significant revisions in the re-structuring were (1) establishing a new multi-family customer class (2) adding a fourth volume-based tier to single-family residential rates and (3) eliminating the tiers in the commercial customer class;

Whereas, The water rate re-structuring was revenue neutral to the City, but shifted approximately \$2 million of annual costs from multi-family customers to single-family residential customers;

Whereas, The City has indicated that water utility rate increases in the 6% to 10% range are planned for January 1, 2019, July 1, 2019 and the following couple of fiscal years before leveling off at increases more approximating inflation, and the cumulative effect on single-family customers of those increases - on top of the re-structuring-related increase July 1, 2018 of 10-20% (or more) - is dramatic with customers paying 50%+ more in five years' time;

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

Whereas, Ann Arbor's structural approach is not common - staff has indicated that of the cities benchmarked, only Madison, Wisconsin has a multi-family customer class and single-family residential volume-based pricing tiers;

Whereas, Ann Arbor's structural approach (or rates) are not mandated by state law - the state requires only that rates be "proportional" to costs, but does not define "proportional" or prescribe how costs should be calculated, how customer classes should be established, or whether volume-based pricing should be utilized. As an example of the broad flexibility allowed under state law, East Lansing, Michigan does not have customer classes or tiers at all (e.g. there is one flat rate for a gallon of water regardless of how much is used or what type of customer you are); and

Whereas, The rate in the newly established 4<sup>th</sup> volume-based pricing tier for single family residential customers is excessive and punitive - in Ann Arbor, the high volume unit rate is 8 times higher than the low unit rate (\$14.08 per CCF vs. \$1.77 per CCF) while in Madison, the high volume rate is 2.75 times the low volume rate;

Whereas, City Council recognizes that re-visiting prior decisions results in additional staff effort and should occur only rarely to address significant policy or resident impact matters,

Whereas, City Council believes the water rate re-structuring (and specific rates) put in effect in July should be re-visited with an objective of mitigating the significant adverse impact and burden on single-family residential customers; and

Whereas, The Winter is the low-volume period for water usage (and costs to customers) and potential revisions to the ordinance should be implemented prior to the Spring of 2019;

RESOLVED, That City Council directs the City Administrator to re-visit the water rate structure and specific rates adopted in June 2018 and present to Council a report outlining feasible alternatives that would mitigate the adverse financial impacts of the June 2018 ordinance on single-family residential customers; and

RESOLVED, That it is Council's expectation that:

- the Administrator will provide the report by March 31, 2019 in order to provide time for ordinance provisions prior to Spring 2019
- that the report will include pros/cons of a broad range of feasible, potential alternatives including, but not limited to - eliminating the 4<sup>th</sup> Tier in single-family residential; re-instating the water rate structure in place prior to July 1, 2018 (permanently, or at least until water utility rate increases return to levels approximating inflation); adopting volume-based pricing tiers in the commercial customer class to reflect peaking impacts; establishing potential other customer classes, adopting a single-flat water rate city-wide
- the alternatives presented will be revenue neutral to the city and will not adversely affect the City's ability to re-invest in our aging water utility infrastructure

Sponsored by: Councilmembers Lumm, Bannister, Ramlawi, Eaton and Griswold

**As Amended and Approved by Ann Arbor City Council on December 17, 2018**