



Legislation Text

File #: 19-0724, **Version:** 2

Resolution to Revise the City of Ann Arbor's Water Rate Structure Adopted in July 2018

Whereas, On June 18, 2018, Ann Arbor City Council adopted on a contested (7-4) vote a proposal from city staff that significantly re-structured Ann Arbor's water rates effective July 1, 2018 including (1) establishing a new multi-family customer class (2) adding a fourth volume-based tier to single-family residential rates and (3) eliminating the tier structure in the commercial customer class; and

Whereas, The effects of the re-structuring were to shift approximately \$2M annually in cost from multi-family customers to single-family residential customers and to substantially increase the cost penalties charged to higher volume single-family residential water users including customers with large families; and

Whereas, Prior to the July 2018 re-structuring, the City had three volume-based residential pricing tiers where the highest (Tier 3) rate was \$5.89 per CCF (1 CCF = 748 gallons) or 3.8 times the lowest (Tier 1) rate of \$1.55 per CCF and residential customers understood and generally accepted the range and rationale for it; and

Whereas, The July 2018 re-structuring dramatically increased - more than doubled - both the top residential volume-based rate as well as the range of residential rates from low to high. The new Tier 4 rate of \$14.08 per CCF is 2.4 times the previous highest rate (\$5.89 per CCF in Tier 3) and the range of rates is now almost 8 times (low of \$1.77 per CCF to high of \$14.08 per CCF) - compared with the previous range of 3.8 times; and

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; and

Whereas, In recognition of the significant changes in structure and the resulting community push-back and opposition, city council adopted Resolution R-18-499 on December 17, 2018 directing the City Administrator to "re-visit the water rate structure and specific rates adopted in July 2018 and present to Council a report outlining feasible alternatives that would mitigate the adverse financial impacts of the July 2018 ordinance on single-family residential customers": and

Whereas, In response to resolution R-18-499, 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, City Council believes:

- It is appropriate to reduce the top residential rate and the resulting high-to-low range of

residential rates that were so dramatically increased in July 2018

- The three residential tiers and range of rates from high to low (3.8 times) that existed prior to July 2018 was a reasonable approach reflective of system peaking costs and conservation objectives
- That to be consistent with the residential tiering approach as well as the objectives of incentivizing conservation and reflecting seasonal peaking impacts on system costs, it is appropriate and necessary to adopt a commercial tiering mechanism that recognizes the commercial seasonal peaking impacts;
- Any revisions to the water rate structure adopted July 2018 and currently in place should be revenue neutral to generate sufficient funding for necessary water system and water quality improvements

Whereas, City staff has proposed water, sewer and stormwater rate increases effective July 1, 2019 and first reading of the related ordinances are scheduled for consideration by City Council on April 15, 2019;

RESOLVED, That effective July 1, 2019, the city's water rate structure will be revised as follows prior to any rate increases that may be adopted effective July 1, 2019

- **Residential Customer Class** - three tier structure that increases the specific rates and breakpoints in effect prior to July 2018 proportionally by the amount necessary to capture the same additional revenue captured from the residential class in the 2018 re-structuring, thereby maintaining the same high to low rate range of 3.8 times that existed prior to July 2018 (Arcadis Residential Options 2 & 4 adjusted to mirror structure in place before July 2018)
- **Commercial Customer Class** - seasonal rate structure charging a higher, uniform rate during the Summer months and a lower rate in the Winter months to reflect the peaking impacts on system costs in Summer (Arcadis Commercial Option A - Seasonal Alternative);

RESOLVED, That the specific rates in these revised residential and commercial structures will be set at levels that generate the same annual revenue to the City as generated by the current structure and rates and any rate increases adopted effective July 1, 2019 will be applied to these revised rates;

RESOLVED, That City staff prepare and present for Council consideration a revised water rate ordinance as prescribed above no later than the May 6, 2019 Council meeting; and

RESOLVED, That prior to August 31, 2019, the City Administrator will present to Council a report outlining the specific steps (and costs) necessary to implement the *Arcadis Commercial Option B - "Peaking" Alternative*

Sponsored by: Councilmembers Lumm, Eaton and Griswold