

CITY OF TECUMSEH  
COUNCIL STUDY SESSION  
TECUMSEH CITY HALL  
MONDAY, JUNE 5, 2017  
6:30 P.M.

AGENDA

1. Call to order
2. Roll call
3. Approval of Agenda
4. Study Session Topics:
  - A. Expiration of the Water & Sewer Tap Fee Residential New Construction Incentive
  - B. Review of City Manager's Recommended Water and Sewer Rate Schedule for FY 2017-2018.
5. Council Comments
6. Adjournment

*The City of Tecumseh provides for reasonable accommodations for its programs, services and meetings under Title VI of its Non-Discrimination Policy and Limited English Proficiency Policy, with an advance 7 day notice to Dan Swallow at 517 424 6555.*



**TO:** Tecumseh City Council

**FROM:** Dan Swallow  
City Manager

**DATE:** May 19, 2017

**RE:** Water & Sewer Rates for FY 2017-18  
*PRELIMINARY RECOMMENDATION*

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There are two primary considerations that go into setting Water and Sewer rates- cost of operations & maintenance, and amortization of long-term capital improvement needs. As we discussed during the budget preparation, operations and maintenance costs have been increasing at a rate of 2-3% annually primarily due to increasing costs for personnel, contracts and supplies. The future capital needs were addressed in the recently completed Asset Management Plan for wastewater, and Reliability Study for water that were researched and prepared by TetraTech Engineers.

Over the last several years, the capital needs have been accumulating, and the Wastewater Asset Management Plan and Water Reliability Study identified several essential projects that need to be completed in the next 5 years. The water and sewer rates I will be recommending for FY 2017-18 set the City on the path to addressing those highest priority capital projects, as well as covering on-going operational expenses.

On the sewer (wastewater) side, the Asset Management Plan identified seven (7) priority projects that for funding reasons were grouped into two phases (Phase I & II). The Phase I projects include the M-50 Sewer, Trunk Sewer Improvements, the Country Club Pump Station and Sludge Pump Replacement, at a total estimated cost of \$1,149,000. Phase II projects include Transformer Replacement, Actuator Replacement, and Sewer Defect Repairs, for an estimated cost of \$912,000. With the assistance of TetraTech Engineers, the City has submitted a State Revolving Fund (SRF) loan application to the Michigan Department of Environmental Quality. We anticipate this Project Plan will be approved, which will enable the City to obtain low interest loans for the identified projects.

On the water side, the Water Reliability Study identified several recommended projects including the Democratic-Van Buren-Union Street Water Main Loop, Russell Road Parallel Main, and Westhaven Blvd. Parallel Main. Each of these projects is intended to improve the overall reliability and flow in the City's water system. Longer-term, the City also needs to set aside funds for the rehabilitation or replacement of the water tower on N. Occidental. In the past few years, the Water Fund cash reserves have been depleted due to a necessary water well replacement project and operating deficits, and are now below recommended levels.

To pay for the recommended capital improvements, the City will need to adjust water and sewer rates. However, rate increases will be kept to the minimum needed to finance the projects and maintain operations. Based on the project estimates, the **COMBINED** water and sewer rates

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will need to be increased 38¢/1,000 gallons of usage. For a typical residential customer that uses about 6,000 gallons a month, this means an increase of \$2.22/month. Because the City bills quarterly, this mean the typical residential bill will increase about \$6.66/quarter.

The next step in reviewing water & sewer rates is to look at the components of the rates, which include two (2) parts- **1) Usage** (based on water meter readings), and **2) Readiness to Serve Charge** (quarterly flat fee). The largest portion of a typical bill is the Usage. The Usage for both water and sewer is calculated from the difference in quarterly water meter readings. The Usage in thousands of gallons (or portion thereof) is then multiplied by the applicable rate. The Readiness to Serve Charge is applied as a flat fee on each meter to cover capital costs to maintain the system. For example, the City must maintain and improve the Wastewater Treatment Plant, even if no one is using the system. In the past, the City also separated out a line item for debt service, but I believe that can be confusing and this recommendation combines the debt service with the Readiness to Serve charge.

When looking at water & sewer rates, we also want to check to see if we are remaining competitive other communities. While each system is unique, rates that are too far out of alignment with similar communities could indicate that the system has some inherent inefficiency. Based on a statewide survey conducted through the Michigan Municipal Executives association in 2016, the Tecumseh's water and sewer rates are currently in the bottom ¼ of communities across the State of Michigan. Therefore, even with the proposed increases, the City water and sewer rates will remain low relative to other communities.

In cooperation with TetraTech, City staff has developed a proposed FY 2017-18 rate schedule that takes into account the above described considerations. I will be recommending a 2¢/thousand gallons increase in the sewer rates and a 36¢/1,000 gallons increase in the water rates. I will also be recommending elimination of the large user discount for water and simplification of the sewer fixed quarterly charges by combining the Debt Service and Readiness to Serve. We have reallocated the Readiness to Serve charge based on meter flow capacity, so for *most* meter sides that will actually go **down**. Below is a summary of the current FY 2016-17 and proposed FY 2017-18 sewer and water rates:

## SEWER / WASTEWATER

Description	Current (FY 2016-17)	Proposed (FY 2017-18)
Commodity Usage:	\$4.53 / 1,000 gallons	\$4.55 / 1,000 gallons
Debt /System Dev.:	\$6.76 / meter / quarter	<i>NA- Combined</i>
Readiness to Serve: (1" meter or smaller)	\$6.30 / meter / quarter	\$13.74 / meter / quarter
1.5" meter:	\$31.98 / meter / quarter	\$45.81 / meter / quarter
2" meter:	\$60.22 / meter / quarter	\$73.29 / meter / quarter
3" meter:	\$136.29 / meter / quarter	\$146.58 / meter / quarter
4" meter:	\$239.60 / meter / quarter	\$229.03 / meter / quarter
Multi-family:	\$55.51 / meter / quarter	<i>NA - Eliminated</i>

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## WATER

Description	Current (FY 2016-17)	Proposed (FY 2017-18)
Commodity Usage:	\$1.84 / 1,000 gallons	\$2.20 / 1,000 gallons
Over 100,000 gallons	\$1.71 / 1,000 gallons	NA- Eliminated
Readiness to Serve: (1" meter or smaller)	\$4.95 / meter / quarter	\$4.09 / meter / quarter
1.5" meter:	\$22.50 / meter / quarter	\$13.63 / meter / quarter
2" meter:	\$36.00 / meter / quarter	\$21.81 / meter / quarter
3" meter:	\$72.00 / meter / quarter	\$43.62 / meter / quarter
4" meter:	\$112.00 / meter / quarter	\$68.16 / meter / quarter

A typical single family residence will utilize approximately 18,000 gallons per quarter or 6,000 gallons per month. Based on this type of Usage, I have estimated the financial impact on a typical consumer per quarter and per month. **As you can see below, the estimated increase for a typical consumer would be a total of \$6.66 / quarter or \$2.22 / month for FY 2017-18.**

Single Family Residence Example (18,000 gallons / quarter)						
Typical Usage of 18,000 gallons per quarter	Sewer CURRENT	Sewer PROPOSED (July 1, 2017)	Water CURRENT	Water PROPOSED (July 1, 2017)	Combined Water & Sewer CURRENT	Combined Water & Sewer PROPOSED (July 1, 2017)
Usage	\$81.54	\$81.90	\$33.12	\$39.60	\$114.66	\$121.50
Readiness to serve	\$13.06	\$13.74	\$4.95	\$4.09	\$18.01	\$17.83
<b>TOTAL /Quarter:</b>	\$94.60	\$95.64	\$38.07	\$43.69	<b>\$132.67</b>	<b>\$139.33</b>
<b>TOTAL /Month:</b>	\$31.53	\$31.88	\$12.69	\$14.56	<b>\$44.22</b>	<b>\$46.44</b>

The proposed rates will be presented to City Council for your consideration at the **June 19, 2017** Council meeting. Todd Amstutz and I stand ready to explain in more detail how we arrived at this recommendation, or present these recommendations at a Council Study Session (*If Requested*) prior to the June 19 meeting.

Thank you-



Daniel E. Swallow

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**TO:** Tecumseh City Council

**FROM:** Dan Swallow  
City Manager

**DATE:** May 31, 2017

**RE:** Residential New Construction Incentive – Water & Sewer Tap Fees

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Following the Great Recession, the housing market in Michigan was slow to recover. In the City of Tecumseh, there were new residential developments that started before the recession, but were stagnant with limited interest in new construction. In 2013, in an effort to incentivize new residential construction and encourage interest in the idle residential developments; the City chose to waive water and sewer tap fees for single family residential units (1" water meters and 6" sanitary sewer taps). The other water and sewer tap fees remained unchanged. These fees were then scheduled to phase back in at 50% on July 1, 2016 and revert back to the previously established fees on July 1, 2017.

Prior to this action, a 1" water meter tap fee was \$2,500, and the 6" sewer tap fee was also \$2,500. For the 3-year timeframe between 2013 and 2016 these fees were waived, and in the current fiscal year they are \$1,250 each. Unless some other action is taken by City Council, they will return to \$2,500 each on July 1, 2017 (See attached Agenda Review Form 3/25/13).

The policy basis behind tap fees is that that this revenue helps offset the new equipment costs and system improvements that are necessitated by the increased demands on the water and sewer systems. For example, the increased water requirements from new construction may ultimately require upgrades to one of the City's wells, or improvements to the City's water tower. Tap fees are a way to require new development to help pay for the water and sewer system improvements. In other words, the tap fees help recover the costs for the impact new development has on these systems. Without the tap fees, the costs for these system improvements would have to be recovered through water and sewer rates. The recent rate model that TetraTech completed assumed the City would be receiving revenue through tap fees. If the reduced tap fee schedule is extended, that rate model will need to be adjusted.

The waived or reduced tap fees reduce the cost for the builder and/or developer for new construction. This reduced cost is an incentive for them to build additional units. However, there is no good way to know how big an impact the \$2,500 - \$5,000 reduction will have on the sales of new units. This difference in cost and its impact is highly market dependent. In a strong housing market, purchasers are willing to pay a little more and the incentive is not necessarily needed. However, in a weaker or marginal market this price difference could generate additional sales and still provide the builders and/or developers the profit they need to invest in additional units.

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There is some evidence that the waived and reduced tap fees incentivized builders and developers to build additional units over the last few years. City staff is aware that the builders that are currently operating in the Buttermilk and Bonner Hills developments applied for additional building permits prior the 50% phase out on July 1, 2016. We anticipate the same thing could happen prior to the expiration on July 1 this year. City staff has also been approached by a potential developer for the idle Red Mill Pond residential development, who stated that the reduced fees would incentivize them to build additional units.

In summary, it is a policy decision by City Council whether you feel it is more important that new development helps offset the new equipment costs and system improvements that are created by the increased demands on the water and sewer systems; or it is more important to incentivize new single family residential construction which could help stimulate activity in our new residential developments.

As noted above, one of the primary determining factors in how effective this incentive could be is the state of the housing market. Currently, the market is relatively strong and the lack of existing housing stock for sale is pushing purchasers to new construction. However, we don't know how long this strong market will last and an incentive that reduces the costs *could* be helpful in sustaining the interest in new residential construction.

Thank you-

A handwritten signature in black ink that reads "Daniel E. Swallow". The signature is written in a cursive, slightly slanted style.

Daniel E. Swallow

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**Agenda Item Review Form**  
**City Council**  
**City of Tecumseh**

<b>Agenda Item Number:</b> 9, New Business, Item No. 3	<b>Submitted by:</b> Kevin Welch
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<b>Item:</b> Residential New Construction Incentive Program	<b>Department:</b> City Manager
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**Summary:**

Residential New Construction Incentive Program

In an effort to incentivize new residential construction, the City of Tecumseh could offer the following incentive program.

For the period April 1, 2013 through June 30, 2016, 1" water and 6" sewer tap fees will be waived by the City for all residential units started during the applicable time period.

For the period July 1, 2016 through June 30, 2017, 1" water tap fee will be \$1,250 and 6" sewer tap fee will be \$1,250, for all residential units started during the applicable time period.

Effective July 1, 2017, all tap fees will revert back to the amount in effect on March 31, 2013.

Note: In all cases, the developer is responsible to pay the City for the actual material cost the City will incur for installation of the tap if applicable. Boring costs, if any, will be the responsibility of the developer. City labor charges, during normal working hours, will not be charged to the developer.

The City reserves the right to terminate or modify this incentive plan at any time. Unless extended by City Council approval, this program will automatically end by the expiration dates.

The incentive will be effective only if construction activity takes place during the incentive dates.

**Recommendation:**

**RESOLUTION**

The City Council of the City of Tecumseh hereby resolves:

To adopt a policy to offer a residential new construction incentive program.

**Council Action:**

Approved

Denied

Continued

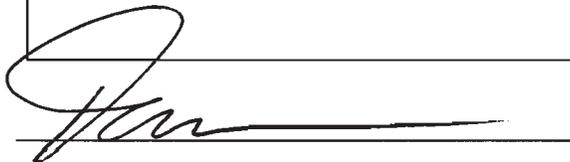
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**Bid/Purchase Item:**

Budgeted \$ \_\_\_\_\_

\_\_\_\_\_ Page(s) in FY Budget

Not Budgeted

  
\_\_\_\_\_  
Signature

Kevin M. Welch, City Manager  
\_\_\_\_\_  
Title

3/25/13  
\_\_\_\_\_  
Date