

Memorandum

To: Honorable President Mercer; Village Council

CC:

From: Chris D. Wilson, Village Manager

Date: 12/21/2012

Re: Sewer Metering and Billing

I have been requested to provide an update on the status of sewer metering and billing in the Village. There have been some important developments relative to this matter and an update at this time would be in order. This memo will provide an analysis of the recent history of sewer metering in the Village, the impact that recent changes have upon the Village and its residents, the Village's position on these changes and the impact of ongoing discussions within the local region regarding the future of sewage infrastructure. Additionally, I will add some recommendations on behalf of Village Administration to address and adapt to these changes in a way that is fair and appropriate for all residents and end users.

As Village Administration has noted many times, the office of the Water Resources Commissioner made a decision to impose a change in the methodology of how sewer bills are calculated for local communities in the Evergreen Farmington Sewage Disposal System (EFSDS). Previously, all communities were charged for sewage consumption based upon water usage. It was long held that water consumption was an accurate and proportional measurement of sewage consumption. In addition, communities within the EFSDS with combined or partially combined systems, including Beverly Hills, would be charged a surcharge for storm water. Local governments were easily able to pass along these charges to the end users (residents) by assessing them a fee for sewage consumption based upon water usage at each residence. This system was efficient, fair and proportional, and not just in the opinion of the Village. The EPA and DEQ had both reviewed this billing methodology and found it to be fair and proportional.

In 2008, the WRC announced that it was proposing to change the methodology by which local governments were to be billed for sewage consumption. The WRC proposed using a system of sewage meters that were constructed in the EFSDS to apportion sewage costs to local governments. The Village of Beverly Hills and some other communities objected to this change primarily for the following reasons:

- The sewage infrastructure and the network of meters within the EFSDS were neither designed nor intended to measure sewer flow for individual communities.
- Sewer meters are not as accurate as water meters. This point is not debated by the WRC. By their own estimates, meters can be inaccurate by 5-10% and still be considered “acceptable”. This acceptable rate of error in certain meters can actually exceed the amount of sewer flow apportioned to local governments, including the Village of Beverly Hills.
- Local governments would no longer have a methodology by which to efficiently and proportionally pass along sewer charges to end users (residents). It is neither feasible nor useful to place sewage meters on individual residences.
- Local governments, particularly those in combined or partially combined communities would now be subject to wild fluctuations in their annual and or quarterly costs for sewage disposal. This would inevitably result in increased rates to end users and negatively impact the ability of these communities to schedule and perform infrastructure repairs and upgrades.
- Communities with combined sewage systems such as Beverly Hills, Birmingham and Bloomfield Township had made significant investments in RTB facilities based upon an assumption that the old billing methodology would remain in place. Had these communities been informed that changes in billing methodology were imminent these investments may have been better used to separate the combined sewers instead of constructing retention and treatment basins.
- The previous billing methodology had been approved and accepted as proportional by the EPA and DEQ as required by the Clean Water Act. The Clean Water Act requires regulated jurisdictions to have a billing methodology approved as fair and proportional to prevent drastic changes in the ways in which communities and end users are charged for sewage disposal. That is exactly what happened here.
- The WRC did not request approval prior to this change and the EPA and DEQ have yet to provide such approval because they have held, as has the Village, that the WRC did not have an adequate history of the ability of the meters within the EFSDS to accurately measure or approximate flow to local communities.

The above referenced points are just a summation of the exceptions that the Village has taken with the change in billing methodology in the EFSDS. In response to the announced implementation of these changes, many communities in 2009 passed significant increases in water and sewer rates. These decisions were predicated on information provided by the WRC on what they anticipated future costs of member communities to be. The Village, upon recommendation by Village Administration *did not* increase sewer rates in either 2009 or 2010 in response to the changes in billing methodology. The Village *did not* increase rates when other communities did because Village Administration believed, and the DEQ on behalf of the EPA later confirmed, that the WRC lacked an adequate historical analysis to provide any estimation or approximation as to what the change in billing methodology would mean to local communities.

As early as 2009, Village Administration was requesting that the WRC not implement any changes in billing methodology until a five year history of the use of sewer meters to allocate flow to local communities could be accomplished. In their analysis of the new sewer billing methods put into use in the EFSDS, the DEQ agreed that further historical evidence on the

effectiveness and proportionality of the use of this new billing methodology would need to be provided before they could approve such a system. Tellingly, the Village's auditors are now advising us to complete a five year analysis of our costs for sewage disposal costs and use this analysis to set our rates for end users at an appropriate level. This analysis is ongoing.

The initial analysis of Village Administration on the use of the sewer meters in the EFSDS is that, in comparison to the old methodology, the new methodology would *not* result in significant changes to either the amounts or proportions that local communities pay over the long term. This change would result in significant fluctuations on a quarter by quarter basis in the amount and proportion that communities pay without providing these communities with an adequate means of passing this volatility along to end users. The inevitable result will be high sewage rates for *all* communities and end users as local governments will be required to build reserves from the payments of end users in periods of lower bills to cover the costs in periods when bills are higher. This phenomenon will be most evident in communities with combined or partially combined sewage systems, like the Village of Beverly Hills.

The risk of costs for sewage disposal exceeding charges obtained from the previous billing methodology based upon water consumption were previously spread amongst all communities in the EFSDS and did not have an impact on end users. The EFSDS had built in reserves, currently in excess of \$15 million, contributed to from the payments of all communities and end users in the EFSDS to handle such fluctuations. The Village requested, as a matter of fairness, that these reserves be returned to the communities, and therefore the end users who built them up to help offset some of the volatility that they were now being forced to accept. This did not happen.

In 2011, and 2012, two years *after* the implementation of the billing methodology, Village Administration proposed increases in water and sewer rates to address the volatility that has resulted from the change in sewer billing methodology in the EFSDS. It has been asserted that the Village Administration has had no plan to address the changes that were brought forth by the new sewer billing methodology from the WRC. These assertions have no basis in fact or reality. The Village of Beverly Hills has been the most outspoken of all member communities in the EFSDS in opposition to the changes in billing methodology that have resulted in higher sewer costs for this community and its residents. At times, the Village of Beverly Hills has stood alone in this opposition. I am proud to have been a part of that and feel that the facts have confirmed the Village's concerns and continue to do so.

As it stands today, residents in the Village have begun to feel the impact of increased utility rates, particular for sewage disposal. The current costs for sewage disposal are more than double the costs for water on a per unit basis. This phenomenon is not unknown within the region. According to the most recent analysis by the Detroit Water and Sewerage Department their costs for sewage disposal are more than 1.5 times greater than their costs for water treatment. In response to the outsized impact that sewage disposal costs are having on our residents I am going to ask Council to consider two items in the upcoming year: 1. Moving from quarterly to monthly billing and 2. Reconsideration on the prohibition of the use of separate meters for exterior water use (sprinkling) and absolution from sewer charges on such metered water use.

The Village has received some good news relative to sewage recently and it would be appropriate to pass that along at this time as well. The Village and other member communities have been participating in a workgroup regarding a Long Term Corrective Action Plan (LTCAP) for the Evergreen Farmington Sewage Disposal System (EFSDS). The LTCAP is necessary to resolve ongoing sewer overflows from the EFSDS. This workgroup has identified multiple projects necessary as part of the LTCAP, prioritized these projects and assigned an estimated construction cost to each one. In addition, the work group has been assigned with determining an appropriate cost sharing of these costs amongst EFSDS communities.

The Village has long held the position that our response to any needed capacity in the Village as part of a LTCAP would be to utilize our portion of the Acacia RTB that the residents of this community supported financially through construction and operation. Accordingly, we would not be supportive of the assigning of significant costs to the taxpayers of the Village of Beverly Hills required in a LTCAP. Other member communities have had the opportunity to support or fund infrastructure projects similar to the Acacia Park Basin but have chosen to forego the expense. Accordingly, other EFSDS communities other than Beverly Hills would need to be responsible for the majority of the costs for future capacity needs.

The cost sharing options reviewed by the workgroup have largely supported the Village's position. The group has identified projects in excess of \$132,000,000 with the highest priority projects estimated at \$77,000,000. Of the various options considered, the consensus of the workgroup was an option that allocated \$0 in cost to the Village of Beverly Hills. I have drafted a letter of support to the WRC for this option. Other communities are looking at some significant costs for the LTCAP while others like the Village of Beverly Hills will have no or very minimal costs. Some communities had cost estimates in excess of \$20 million and multiple had costs in excess of \$1 million. These costs will have to be borne by the end users in those communities. Residents in the Village of Beverly Hills will greatly benefit from the efforts of previous Council's and Administration's to fund and build the RTB's.

In January 2013 there will be a change in the office of the Water Resources Commissioner. Jim Nash defeated current WRC John McCulloch in the November 2012 election and will be assuming the position next month. It is the expectation of the Village that Mr. Nash will follow through with the work of the LTCAP workgroup and its recommendations. As to the current sewer metering methodology, Village Administration cannot predict what course of action will be taken or what is even possible at this time. The Village has had the opportunity to express its concerns over the current billing methodology with Mr. Nash, particularly with regard to accuracy and CWA compliance. Village Administration is confident that WRC Nash will work with the Village to the best of his ability and will be responsive to the position of the Village and the needs of its residents.