

TOWNSHIP OF ALPENA

For immediate release – February 27, 2014

Alpena Township's Position on City of Alpena's Bid to Take Over the Township's Water and Sewer System

1. *The City wants control and de-facto ownership of the Township's water and sewer system.*

The City claims it has not presented a proposal to take over the Township's water and sewer system.

The City presented a plan to have a "unified" system. Under the City's proposal, the City would determine rates and physically manage the whole system – including the water and sewer systems constructed and owned by the Township – through the City's longtime contractor, United Water.

The Township would have to shut down its water and sewer department, including layoffs of all personnel, which would make it very costly and burdensome for the Township to get out of the unified system agreement in the future and start running its own system again if the agreement did not work out.

In the City's proposed scenario – even though the City states that the Township would still own the Township's system – if the City exercises all rights of ownership, the City has taken complete control of the system.

What are the ramifications of the City's taking complete control of the system in a "unified" agreement?

- A. The City will have the ability to arbitrarily set rates.
- B. The City will conduct all maintenance, billing, and customer service.
- C. The City will have the ability to determine whether and when the expansion of the system will occur; that is, ***the City will have the ability to control development or non-development in the Township***, and steer developers from prime locations in the Township to more undesirable brownfields and other vacant lands in the City.

- D. The Township would no longer be able to operate its own separate water and sewer department, and the department would be shut down. This effectively locks the Township into a permanent agreement with the City.
- E. The City will be able to divert payments made by Township customers that should be used to maintain the Township water and sewer systems to the long-deferred maintenance of the City's system.
- F. The City will be able to defer needed continuing maintenance of the Township water and sewer systems – as it has for so many years with its own system – and leave the Township customers with terribly compromised water and sewer systems.
- G. ***The City will have completed a de-facto annexation of portions of the Township*** – an annexation that was defeated at the ballot box in 1976.

2. *City and Township negotiations to date:*

Late 1950s: Early steps taken to provide water and/or sewer service to areas of Alpena Township.

1969: Greater Alpena Area Water and Sewer Study was prepared, as authorized by the City and Township. The purpose of this study was to examine the feasibility of expanding existing water and sewer facilities in the City and extending these facilities into the Township. For the City and Township to have been eligible for federal grants for improving and extending existing systems, any updated or new facilities of the City and Township were required to be consistent with a program designed to provide area-wide water and sewer service beyond the City's corporate limits.

1971: City and Township agreed to allow the City's annexation of Township lands, to allow for the development of the US-23 North Industrial Park and the Alpena Community College campus.

1976: The City attempted to annex Township residential areas. This attempt went to an election and the proposal failed.

1977: Shortly after the residential annexation attempt was voted down, the City and Township entered into an agreement for the City to provide wholesale water and sewer services to the Township. This July 25, 1977 agreement is sometimes referred to as the "master agreement." The City only provides the Township wholesale water and sewer service under the master agreement, and the Township therefore made a major financial commitment to construct and operate its own water and sewer systems for Township residents, who have paid rates over the years to operate and maintain those Township systems as well as to compensate the City for wholesale services.

The master agreement is still in effect. The master agreement was set to expire after 35 years, on July 25, 2012. **But**, the master agreement specifically states that it does not expire if it is not feasible for the Township to obtain water and sewer service by other means. It is neither financially nor geographically feasible for the Township to obtain water and sewer service from anywhere other than the City of Alpena. **The master agreement is still in effect**, and the City is misinterpreting the agreement in claiming it has expired; **the agreement does not allow the City to unilaterally revoke the agreement and dictate terms to the Township.**

Early 1980s: Rate disputes occurred between the City and Township. Through extensive negotiations between 1983 and 1988, the City and Township developed a formula to determine water and sewer rates that the City would charge to the Township, and the master agreement was amended to include this new rate formula.

3. The Township is a wholesale water and sewer customer of the City.

The Township is not “just another customer,” as the City has suggested.

The master agreement recognizes that the Township is a **wholesale** customer of the City, not a retail customer. The City does not use its entire production plant and sewage treatment plant to service the Township. Nor does the City utilize 100% of its water distribution system or 100% of its sewage collection system to service the Township. The City simply delivers bulk water and receives bulk wastewater at limited points in the City’s system. It is therefore necessary for the Township to own, operate, and maintain its own water and sewer systems to ensure quality delivery and collection of water and wastewater within the Township.

The rate formula amendment to the master agreement specifically quantified the apportionment of costs of the City’s systems between the City and Township. The master agreement states that rates charged to the Township must be based on a cost-of-performance basis; that is, the Township pays the City for the proportion of the City’s system that is attributable to producing and transmitting water and receiving and treating sewage for the Township. Additionally, those costs cannot include increased capitalization of the City’s system.

Moreover, the Township performs 100% of its own operating, billing, customer service, and maintenance for the extensive Township water and sewer systems, which the Township built and owns. These are costs of doing business that the City builds into its rates for the City’s retail customers. By arbitrarily raising the rates it charges to the Township to retail levels, the City would be double-billing the Township’s residents for these costs of doing business.

4. Current negotiations:

The current round of negotiations commenced several years ago, in preparation for the 2012 expiration of the rate formula amendment. At that time the City, per City Engineer Rich Sullenger, proclaimed that ***“the rate formula is a good formula, it just needs a little tweaking.”*** That position morphed into the City’s current stance: the “unified” system proposal.

What caused the change?

5. The Township has been MASSIVELY subsidizing the City’s water and sewer system.

Most likely what changed the course of the City’s negotiations was that in 2012 the Township was finally able to discover that for years the City had under-reported its total volume water production and sewage treatment figures for use in the rate formula, resulting in an artificially higher proportionate cost of the City’s system which was attributable to servicing the Township. In other words, by understating the amount of water and sewage treatment used by City residents, the City artificially and incorrectly inflated the wholesale water and sewer rates paid by the Township over the last several years.

The Township had for many years continually requested that the City share its total volume master meter readings. And for many years the City replied that either the numbers did not exist or that the meter readings were not accurate, which intentionally and continually kept the Township in the dark.

In 2012 the City finally relented and provided six years’ worth of total volume figures.

For that particular 6-year period (2005-06 through 2010-11), ***the City overcharged the Township by \$1,717,350.32.*** The Township expects repayment of this amount, and repayment of amounts still to be calculated for other time periods that remain in question.

The Township made the City aware of the massive overcharge by letter dated March 27, 2012. To date, the City has refused to respond to that letter.

The Township will analyze additional time periods to determine the total amount of the Township’s overpayment to the City caused by the City’s under-reporting over the years.

This overpayment – based on inaccurate total volume figures supplied by the City – has resulted in a direct and massive subsidy of the City’s operation of its water and sewer system which the City now cannot afford to lose. ***That subsidy of the City’s system has come out of the pockets of Alpena Township rate payers.***

6. Why does the City want to take over the Township's system?

The City has been operating its system for years on the backs of Township rate payers via the Township's overpayments to the City.

The City admits that for years the City has charged very low rates for water and sewer service to City rate payers – rates that have been insufficient to properly maintain and update the City's aging system.

By contrast, over the years, the Township has properly raised rates to its rate payers to keep up with cost-of-service increases, so Township customers have paid for the adequate maintenance and upkeep of the Township's much newer water and sewer systems.

The City has not properly raised rates to its rate payers over the years, and has artificially kept its water and sewer rates low, resulting in massive and growing deficiencies in the City's system that will cost even more to repair and rebuild in the future.

The City is now the owner of an aging system and infrastructure that require substantial updates and frequent maintenance.

Going forward, the City will not have the luxury of the Township's subsidy of the City's systems. The City therefore is looking to capture the water and sewer rates that the Township's system generates from Township residents, and shift the costs of repairing and rebuilding the City's system to the Township's customers, while depriving the Township's water and sewer systems of the necessary funds for maintenance and upkeep.

7. The City's negotiation technique.

Simply stated, the City's "negotiations" consist of the following:

- A. The City has determined that it will establish a unified system, taking over the Township's water and sewer system and operating it as its own.
- B. If the Township agrees to this, the City projects that rates to the Township's resident rate payers will decrease by a few pennies per thousand gallons of usage.
- C. If the Township does not agree to this, the City will increase rates to the Township by approximately 62.5%, which the Township will be forced to pass on to its rate payers, who are already paying retail rates to the Township.

This is what the City refers to as "negotiation."

The City's negotiating technique highlights the City's need to access the funds generated by the Township's water and sewer system.

8. *The Township calls for continued negotiations.*

The Township is willing to enter into true negotiations with the City to find common ground and solutions for common problems and issues. The Township is not willing to be forced and threatened by the City into a one-way solution to the City's water and sewer problems.

City Council's public hearing on water and sewer rates:

The City of Alpena is holding a public hearing on raising water and sewer rates during its regular Municipal Council meeting at 7:00 PM on Monday, March 3, 2014, at the Alpena City Hall. Persons need not be residents of the City to attend and comment. All concerned citizens are urged to attend.

Further inquiries may be directed to:

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A PDF file of this document may be found at the Township's website,
www.alpenatownship.com