

Byrne, Randall (Treasury)

From: Gerald Ambrose <gambrose@cityofflint.com>
Sent: Tuesday, March 24, 2015 12:43 PM
To: Hollins, Harvey (GOV)
Cc: Workman, Wayne (TREASURY); Byrne, Randall (Treasury); Koryzno, Edward (Treasury)
Subject: Water - fixed charges
Attachments: Fixed charge calculation1.docx; EM Statement on Water 3.24.2015.pdf

Harvey,

You had requested additional information on the fixed charges used in Flint's water rates. Hopefully the attached helps. I have also included some additional information showing that many of the recent increases in rates were done prior to the EM being appointed. And also, a reminder that the system was in a deficit position when the EM came on board, making additional increases necessary.

While the system is now solvent, it is not as strong as it once was. And the real challenge for all of us is to figure out how to get rates down to an affordable level. But it cannot be done by simply reducing rates!

I am sure you are aware that the Council voted last night to "do everything in their power" to return to the Detroit system. I am attaching my statement in response.

Call if you have questions.

Jerry

RESIDENTIAL WATER/SEWER RATES - FIXED AND COMMODITY CHARGES

General statistics indicate that the average person uses between 80 and 100 gallons of water per day, or between 2,400 and 3,000 gallons per day. The City's general estimate for the average residential bill is based on consumption of approximately 5,200 gallons per day (7 units * 745 gallons. So the average we use is not out of line if the average number of users in a residence is around 2.

At \$149 average costs per month, Flint's charges are very high in comparison to other systems, and an issues which must be addressed. Unfortunately, the Flint system, which has the capacity to serve a population of more than 200,000, now serves a population of approximately 100,000. The system, as currently configured today, needs between \$65 million and \$70 million in revenues annually to operate. One cannot simply reduce rates without affecting the ability of the system to operate.

Like many systems, Flint charges both a fixed charge and a commodity charge to generate revenues. The concept of the fixed charge is that there is a certain amount of the utility system which must operate regardless of how much of the commodity is used. Operation and maintenance of the system, including building, treatment, and distribution infrastructure, as well as debt service, are examples.

On the other hand, chemicals, utilities, and staffing to a certain extent vary with the amount of the commodity and can thus be linked to usage.

In Flint, the total fixed charge for the water and sewer bill accounts for approximately 40% of the average residential users bill. The amounts determined to be "fixed charges" were established many years ago, and the water rate study done for the City in 2014 made no recommendations for change.

The Flint system, which more than 10 years ago was very stable financially, had declined into a deficit financial position by June 30, 2012. Significant rate increases, many of which were enacted before the State assigned an Emergency Manager in late 2011, were necessary to stabilize the financial position of the system. Other decisions, including the decision to partner with Genesee County in the KWA, and the decision to utilize the Flint River for an interim period, were made with the goal of stabilizing rates and moderating future increases. Safety, quality, and affordability are the key priorities going forward.

Following is the detail of the water and sewer rate components.