CITY OF GRAND BLANC

Proposed Water & Sewer Rate Increases

Fiscal Year 2024-2025 Projects & Preparing for the Future





City of Grand Blanc's Mission

The continuing mission and purpose of the City of Grand Blanc is to foster community excellence, to enhance the quality of life for all people in the community, and to prepare the community for the future by sharing a strategic vision and a plan of action for improvement in: economic development, infrastructure (including transportation, water and sewage & drainage services), public safety (including police and fire prevention & suppression services), education, health care, culture and recreation.

The City of Grand Blanc's Current Rates

The City of Grand Blanc is certainly striving to reduce the impact of inflation and overall rising costs of maintenance. The City of Grand Blanc Leadership takes no pleasure in raising rates, but recognizes their responsibility to maintain the system and provide high quality water. Water rates go up for businesses and residents alike. The City of Grand Blanc wrote this informational pamphlet to help all citizens understand why rates are going up and what the City of Grand Blanc is doing to help inform citizens.

Currently, the City of Grand Blanc's rates are being set every year using recommendations from the water and sewer rate report from Michigan Rural Water Association conducted annually. This report allows us to see where the rates should be set to maintain a healthy water and sewer fund balance. This helps with the yearly budget process. The report takes many factors into consideration when proposing increases such as labor, projects, outstanding loans, and many other cost factors.

The water base rate is based on the meter size, for example most residential meters are set at $25.00, commercial meters are higher. The difference is a larger meter allows more water through the meter per second making the water system work harder, a smaller meter allows less water through the meter per second. Water usage is billed at $3.51 per 100 cubic feet. The sewer base rate is $36.97. Sewer usage is billed at $4.12 per 100 cubic feet.

Water Sales

Water sales from 2021 to 2022 decreased 11.5%. However, water usage increased slightly from 2022 to 2023 by .3%. Water usage in 2022 was 28,688,326 cubic feet, water usage in 2023 was 28,790,100 cubic feet. This increase could be due to many reasons. 2021 still had a few remaining COVID-19 impacts. Many people were still working from home. It seems to have leveled off and remained constant during the 2022 and 2023 years. We would anticipate this water usage to continue to stabilize in future years.

Projects

The City of Grand Blanc has many water projects that need to be completed to maintain the excellence in water quality and reliability delivered to residents. One of the benefits to our quality water is that there is no need to use a water softener in your home. This is a cost savings for every resident. Water softeners require maintenance and other costs. Water quality is our #1 Priority when taking on these costly projects.

These projects include:

Sewer Projects –

- Reid Road Pump Station - $717,793
  Replacement and upgrade of a sanitary sewer pumping station built in 1969 that has reached its service life. Replacement and upsizing of the piping from the pump station to the collection system.
- Additional Infiltration Inflow Project - $23,000
  State Regulation that prevents Stormwater from leaking into the sanitary sewer. Fines would be incurred if this project was not done.

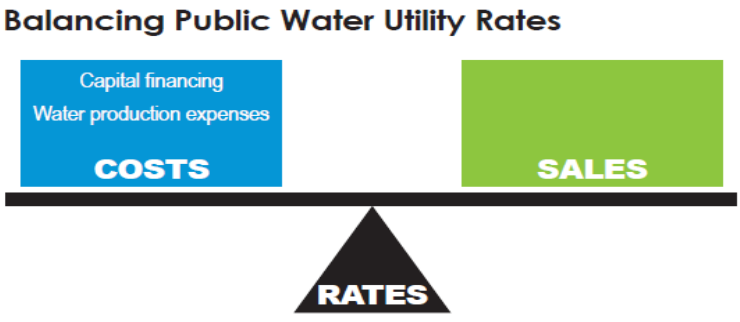
Years 2023-2024-No American Rescue Plan Act (ARPA) Funds available
Water Projects -

- Potential Replacement of Water Mains constructed during 1930-1950 - Project estimated cost of $3.4 million
  Replacing an upsizing older watermains that have a higher than desired failure rate in order to increase reliability, safety and fire flow volume.
  Some of these projects will also be funded using some grants received from Genesee County, such as the Reid Road Pump Station, Reid Road Force Main and Water Main Projects. Even with grant funding, there is a significant cost that will need to be funded by the City.

UNDERSTANDING FACTORS THAT IMPACT WATER RATES

Setting Water Rates is a Balancing Act

Setting the price for a pair of running shoes is pretty straight forward. The cost must include the manufacturing facility, equipment, materials, labor, advertising, and distribution. Of course, profit is also incorporated into the price. Public water utilities operate under a non-profit model. Rates are based on the cost to produce the projected water demand for the coming year. The projected demands (sales targets) are provided by the city's communities and are critical to effective rate making. If actual sales are lower than planned, as they have been, rates have to increase the next year for a new lower projected volume. Rate makers are continually balancing the known (current costs) with the unknown (how much water will be sold next year). If they are too optimistic about the future and keep rates stable, they will find further shortfalls and the need to raise rates further will occur year after year.



Operating a public water utility requires rates that balance costs and sales. While a decline in sales may reduce expenses related to water production, the accrued costs of capital force rates to increase to maintain the balance.

Fixed Costs are the Major Challenge for Rate-Makers

An estimated 80% of the costs of running a major utility water system are fixed. These costs include capital financing, most operational and maintenance costs, such as reading water meters, repairing water main breaks and inspecting/repairing fire hydrants. Fixed costs are difficult to reduce without sacrificing the mission of providing safe, reliable water. For example, the City of Grand Blanc can't decide to inadequately treat its water, to shut down a water plant three days a week, to close off water mains or to refuse to pay principal and interest on its debts.

Utilities are Fixed Cost Intensive Businesses

Water and sewer utilities are capital-intensive, that is, "fixed cost" businesses. Why? Because of the water treatment and transmission infrastructure. Water infrastructure costs more than the infrastructure for electric, gas or telecommunications industries. The National Association of Water Companies has estimated to earn $1.00 in sales, it takes nearly $3.40 in infrastructure investment. Replacing and rehabilitating aging water mains, pumps, and treatment facilities requires large capital investments. Water utilities must maintain equipment and qualified, well-educated staff to meet peak demands and emergencies in the summer, during a water main break. This constant readiness requires continued investment.

The City of Grand Blanc's water system infrastructure is comprised of 4 production wells, 3 treatment plants, (2) 500,000-gallon elevated storage tanks, 43 miles of water main, 517 valves, and 434 hydrants. The City of Grand Blanc has the ability to finance capital improvements with 20-year bonds so costs are spread over multiple years rather than immediately through rates in a single year.

Workforce Impacts

Water utilities are further challenged by a new workforce not yet qualified but currently on the fast track for certification. Required skills are also rising as treatment processes become more sophisticated and technology-driven. Thus, the shortage of workers and higher knowledge skills could impact future labor costs. The AWWA estimates that nearly half of water utility workers could retire in the next ten years. The City of Grand Blanc has changed from a defined benefit pension to a defined contribution retirement plan. The City of Grand Blanc continues to employ cost-saving measures that focus on streamlining operations to make them more efficient.

Our current staff is relatively small for all the services they are able to provide. Our staff is comprised of a DPW Director, Superintendent, Foreman, five Maintenance employees and one Part-Time Maintenance employee. The staff also has a few summer helpers that help with small projects such as lawn maintenance, hydrant painting, event preparation and other projects. This year, we need to add an additional full-time employee to the roster to learn and assist with projects. A full-time Maintenance employee works in the water treatment plants, on snow removal, water main breaks, spring and fall clean-ups, leaf pick-ups, and other more intensive projects. There is also an emergency on-call employee every week that watches over park opening and closing, water treatment, other daily duties and alerts.

A 2020 EPA study estimated that $600 billion is needed for water infrastructure improvements over the next 20 years.



Working to Control Utility and Chemical Costs

Water production and distribution are energy-intensive services due to the amount of pumping required to move water across the city. Low lift pumping is used to bring raw water into treatment plants and high lift pumping is used to maintain water levels in the elevated storage tanks. When peak water use coincides with peak electrical use, it means higher energy costs. Electrical use costs the City of Grand Blanc about $220,000 per year. The City of Grand Blanc is constantly working with Consumers Energy to limit electrical rate increases and have converted older pumps to high efficiency pumps with VFD's to limit electrical consumption. Consumers Energy has started a peak time surcharge on energy costs. This extra cost during peak times add to our costs. The City of Grand Blanc uses several chemicals in the treatment process. The cost of chemicals used in water treatment have increased across the board.

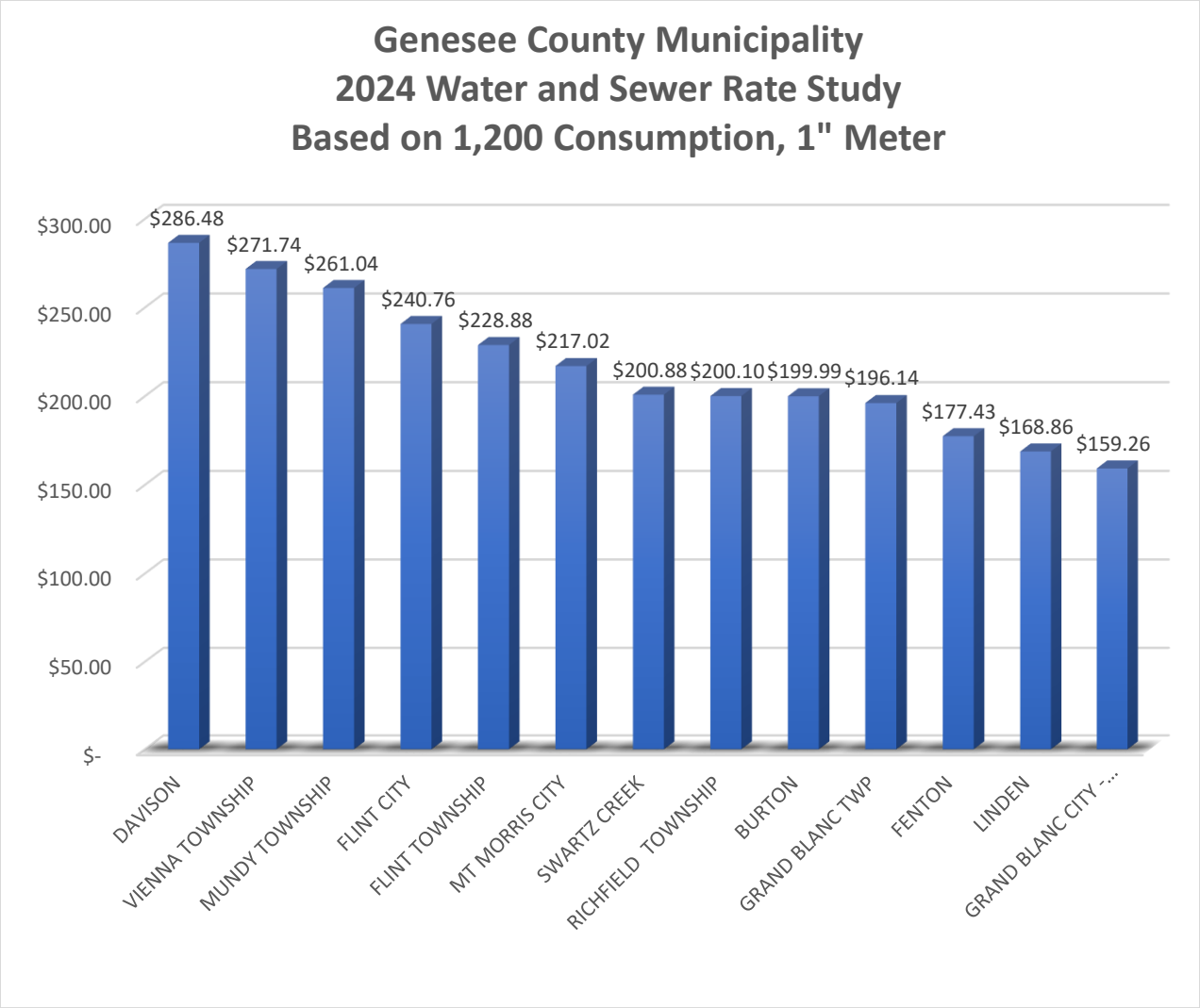


Pumping is a significant water production expense. Electrical usage also increases during higher demand days in the summer.

City of Grand Blanc Rates Still Among the Lowest

While the City of Grand Blanc is facing challenges, it still provides water at one of the lowest rates in the county. A water system that never increased expenses or rates would not have the money to maintain and upgrade its infrastructure or to build improvements to meet federal regulations. It couldn't implement new cost savings technology. It would not be able to purchase enough chemicals to properly treat and deliver water that is safe to drink. Even more starkly, the utility would not be able to replace the deteriorated water main that was installed at less than $2 per foot in 1950, but costs $200 to $300 a foot to replace today.

Rate increases are frequently viewed as negative when in reality they can indicate a utility is reinvesting in essential infrastructure to provide adequate water supply. While Federal and State financing mechanisms are available, the residents of the City ultimately must bear the cost. Yes, water is free, but a significant infrastructure has to be maintained to treat the water and make it available where and when customers need it. This infrastructure must be operated and maintained by competent professionals. So, the City of Grand Blanc's water rates will likely continue to increase over time. Even so, water rates are still the lowest monthly utility expense for most residents.



Planning for a Future

Here is what we have recently done to help ease the annual water rate increase.

- Removed a tax millage in July 2023 – There was a Water Improvement millage rate of 1.00 per $1,000 taxable value on each summer bill. This millage was removed with last year's Summer Tax Bill. It will not be reinstated.
- Removed Water and Sewer Debt flat fee – There was a $5.00 Water Debt and $5.00 Sewer Debt on every bill during every billing cycle. Those were both removed. The Water Debt payment was completely over. The Sewer Debt was incorporated into the sewer rates.

There are alternative options to raising water and sewer rates.

- Raise Taxes – While this alternative would apply to every property owner, this way does not account for usage. This raise would be applied to the taxable value of a property. The taxable value is no indicator of usage. The cost of water should be based on amount of water used by the property owner.
- Privatize – While this alternative may sound like a good choice, this could always lead to higher rates. It undermines the quality of water under the guise of saving money. Private companies are not accountable to the consumer and their decisions are largely driven by profit. There is always the possibility of bulk water exports. Also, the poor have less access to clean water.
- Defer Maintenance – Cost saving measures should not be done at the detriment of clean, quality water. Deferring maintenance can lead to water quality compromises, eventually leading to quality and reliability levels below City standards.
- Do Nothing – This alternative could allow the State to take over our Water System.

The City of Grand Blanc's Future Rates – Effective August 2024 Bill –

The City of Grand Blanc's rates will need to be raised to match the expenses. The water base rate will be $26.38, an increase of $1.38. Water usage will be billed at $3.69 per 100 cubic feet, an increase of $0.18. The sewer base rate will be $37.84, an increase of $0.87. Sewer usage will be billed at $4.23 per 100 cubic feet, an increase of $0.11. These increases will help fund the new bonds and Interfund Loan payments that were used to complete necessary water and sewer projects, as well as a much-needed new employee to assist on projects and daily tasks.

SOURCES OF INFORMATION AND RECOMMENDED READING

"Driving Them to Drink", Stephen Ursery, American City & County, October 1, 2011

"The Business of Water: It Is Time to Embrace a New Model for Water Services", G. Tracy Mehan III, Bureau of National Affairs, Inc., 2011

"Declining Residential Water Use Presents Challenges, Opportunities", Margaret Hunger, Kelly Donmoyer, Jim Chelius and Gary Naumick, AWWA Opflow, May 2011

"Residential Water Use Trends in North America", Thomas D. Rockaway, Paul A. Coomes, Joshua Rivard, and Barry Kornstein, Journal AWWA, February 2011

Water Primer for the Great Lakes Region, Institute of Public Utilities, Michigan State University, December 2010

"The Conservation Conundrum: How Declining Demand Affects Water Utilities", Janice A. Beecher, Journal AWWA, February 2010

Supply of Critical Drinking Water and Wastewater Treatment Chemicals – A White Paper for Understanding Recent Chemical Price Increases and Shortages, Water Research Foundation, 2009

Rates Obtained from *"Current Water, Sewer and Garbage Rates"*, Wendy Jean-Buhrer on March 28, 2024.