

CHARTER TOWNSHIP OF FENTON SEWER SYSTEM FINANCIAL OVERVIEW AUGUST, 2011

Fenton Township receives numerous inquiries regarding the sewer use fees that were increased in 2006. The Township is sensitive to these concerns and understands that the higher sewer use fees represent a financial burden for our citizens and businesses. This overview includes background information and provides details to explain the current financial status of the Fenton Township's sanitary sewer system.

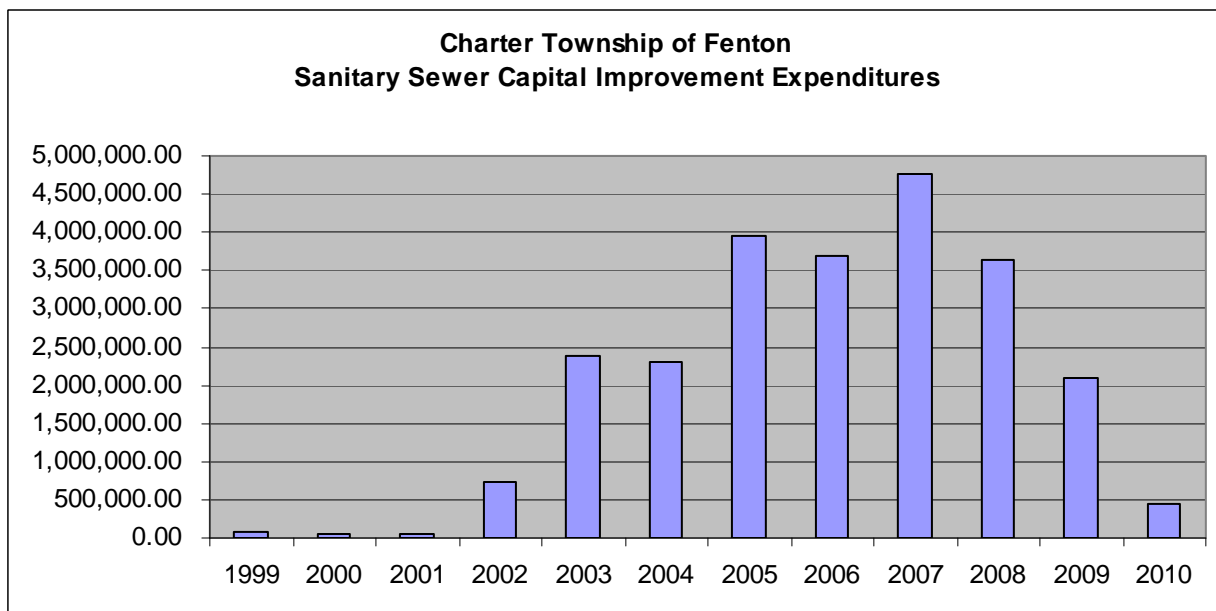
Background

Fenton Township entered into an Administrative Consent Order (ACO) with the Michigan Department of Environmental Quality (MDEQ) in 2002. This ACO mandated that the Township improve its sanitary sewer system in order to minimize the risk of sewage spills and overflows. It was then that Fenton Township implemented an aggressive program to:

- Conduct a video inspection of the Township's entire sanitary sewer system.
- Identify problem areas and determine the most cost-effective rehabilitation methods.
- Complete the necessary repairs, upgrades and/or replacements to restore the system to an adequate level of operation.

Fenton Township spent approximately \$24 million from 2002-2010 on the sewer rehabilitation project, (see graph below). The work completed included:

- Comprehensive inventory of the entire sewer system, including GPS location of nearly 2,500 manholes.
- Cleaning & video inspection of the entire sewer system (approximately 97 miles of sewer pipe inspected every 5 years on a rotating cycle).
- Excavation and replacement of approximately 6 miles of sewer pipe.
- Lining of approximately 5 miles of sewer pipe.
- Repaired more than 200 inflow/infiltration defects.
- Refurbished & repainted 22 sewer pump stations.
- Raised over 400 manholes to the proper grade.
- Repaired/rebuilt 45 manholes.



The rehabilitation of the sewer system has now been substantially completed, although the process of inspection and repairs on a lesser scale will continue on an ongoing basis. These system improvements have been costly, however it is vitally important that the entire sewer system maintains an acceptable level of operation in order to protect the health, safety and welfare of our residents, schools and businesses. It was this need for extensive rehabilitation of the Township's sewer system due to its age and condition, combined with several economic factors, that created the situation in 2006 where the Fenton Township Sewer Fund was not able to meet the financial needs of the sewer system, which resulted in the increase in user fee rates to their current level.

At the time of the rate increase in 2006, there were four primary factors involved in the Township's need to generate additional revenues:

1. Even though the Township had already allocated approximately \$10 million to sewer system improvements, it was estimated that an additional \$20 million would be needed to complete the necessary repair, upgrade and rehabilitation of the sewer system over the next several years.
2. Genesee County increased their charge to Fenton Township by \$33.00 per quarter per unit in 2006. These costs relate to the operation and maintenance of the main interceptor sewer lines and the sewage treatment plant.
3. The Sewer Fund was experiencing a reduction in revenues due to lower levels of new development, (i.e. new connections to the sewer system).
4. A sewer debt retirement tax millage that was initiated in the 1960's, (originally 1.5 mills), had dwindled to approximately 1/10 of one mill in 2006 due to Headlee restrictions, (this millage has since completely expired).

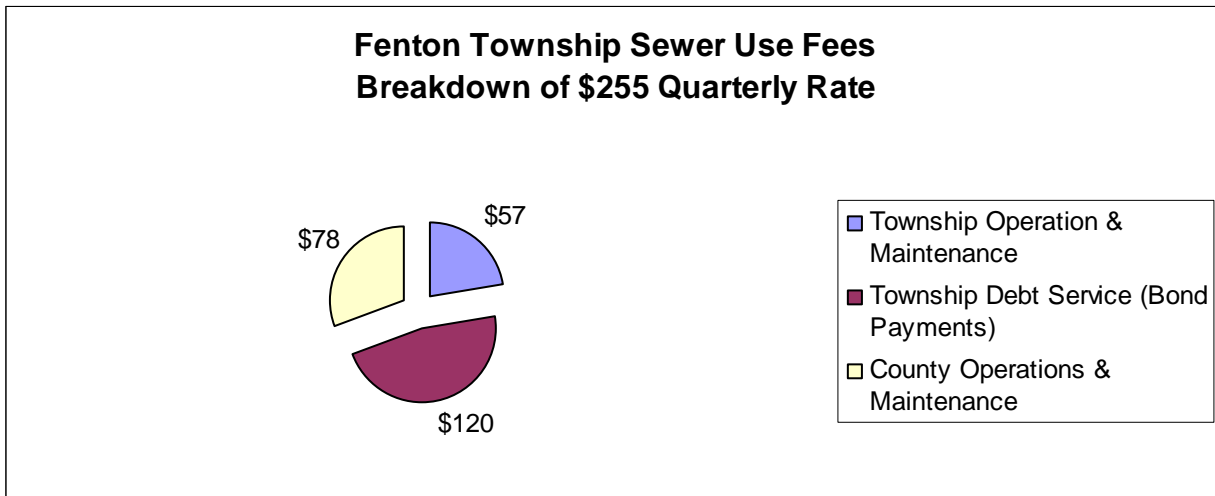
As an enterprise or "business-type" fund, the Township's Sewer Fund is required to be self-supporting. Revenues generated in the Sewer Fund must cover both the cost of ongoing operation & maintenance of the sewer system, (Township and County), and the cost of periodic bond payments to retire the debt issued to construct, expand and/or improve the system. There are four different ways for the Township to generate revenues for the Sewer Fund:

1. Connection fees
2. Property taxes (voted millage)
3. Special assessments
4. User fees

The Township Board developed and introduced an integrated financial plan proposal in 2006 that included a mix of property taxes (millage), special assessments and user fees. The Township Board placed a 2-mill tax proposal on the ballot in August of 2006, but that proposal was not approved by the voters. The Township also initiated proceedings to establish five separate special assessment districts to generate a portion of the needed revenues. Concerns raised at the special assessment public hearings, however, made it clear that the property owners did not feel that special assessments were equitable and an overwhelming majority of those in attendance indicated a preference for an additional rate increase rather than special assessments.

That left user fees as the only revenue source option for the Township Board. Therefore, effective September 1, 2006, the sewer use fees were increased to \$85.00 per unit per month, making the quarterly bill for most residential customers \$255.00. The current breakdown of the quarterly sewer use billing rate of \$255.00 per unit is as follows:

<u>Fee Component</u>	<u>Quarterly</u>	<u>Monthly</u>
Genesee County (Operation & Maintenance)	\$ 78.00	\$ 26.00
Fenton Township (Operation & Maintenance)	57.00	19.00
Fenton Township (Debt Service)	120.00	40.00



It is important to understand that the cost of the repairs was not directly funded by the user fees. Bonds were sold to provide the funds to pay for the system rehabilitation. The user rate increase generates the revenue necessary to make the periodic payments on those bond issues.

Summary and Current Projections

The sewer use rates were increased drastically in 2006 because, by process of elimination, it was the only revenue source available to the Township to pay for the state-mandated sewer system rehabilitation. The increase in sewer use fees generates revenue to make the periodic payments on bonds issued to fund the cost of the system repairs.

The sewer system rehabilitation project has been completed, however the bonds issued to fund the work won't be paid off until the late 2020's. A sewer user rate decrease is not anticipated within the next several years. If we rely solely on our current cash flow model, which uses very conservative projections, the sewer use rates would not be decreased at all in the next 5-6 years and would not drop below \$200 per quarter for at least 14 years. That outlook could change drastically, however, based on a number of factors, such as voter approval of a millage proposal, or if the volume of new connections increases significantly above current projections. Either one or combination of both of these factors could lower the sewer use rates significantly.

The Fenton Township Board understands that the sewer use rates represent a burden on the finances of our residents and businesses. Unfortunately the Township is faced with a situation where the higher rates are the only viable alternative at this time. We will continue to closely monitor the status of the Sewer Fund to ensure its long-term financial stability, while also making sure the entire sanitary sewer system is properly maintained to provide consistent and reliable service to our citizens.

Although Fenton Township's sewer rates are higher than other communities, our property tax millage rates are among the lowest in Genesee County. As a result, it is still less expensive to live in Fenton Township, as compared to many surrounding communities. An analysis was developed to look at all local government related costs for those surrounding communities. These costs include property taxes, sewer fees and costs for fire protection, trash collection and mosquito control services (if not included in property taxes). The result is the following "Cost of Living" comparison:

**CHARTER TOWNSHIP OF FENTON
 COMPARISON OF NEIGHBORING COMMUNITIES
 "COST OF LIVING"
 (TAXES AND OTHER GOVERNMENT FEES, CHARGES & ASSESSMENTS)**

Assumed Taxable Value		\$90,000				
Community >	Fenton Township	City of Fenton	City of Linden	Mundy Township	Grand Blanc Township	City of Grand Blanc
2010 Population >	15,552	11,746	3,991	15,082	37,508	8,276
<u>Taxes (2010 millage rates)</u>						
Fenton	2,721.97	3,646.76				
Lake Fenton	2,662.01			3,163.98		
Linden	2,608.67		3,566.20			
Grand Blanc					3,146.77	3,503.96
Sewer Use Fee	1,020.00	550.10	471.40	331.93	400.70	538.49
Police						
Fire Protection	65.00					
Trash Collection	120.00	226.90	145.20	108.60	120.72	
Mosquito Control	24.00					
TOTAL						
Fenton	3,950.97	4,423.75				
Lake Fenton	3,891.01			3,604.50		
Linden	3,837.67		4,182.80			
Grand Blanc					3,668.19	4,042.45
Average	3,893.22	4,423.75	4,182.80	3,604.50	3,668.19	4,042.45
Average "Cost of Living"						
City of Fenton	4,423.75					
City of Linden	4,182.80					
City of Grand Blanc	4,042.45					
Fenton Township	3,893.22					
Grand Blanc Township	3,668.19					
Mundy Township	3,604.50					

Please see below for the answers to some of the most commonly asked questions regarding Fenton Township's sewer system. If you have further questions issue please contact the Township office at (810) 629-1537.

QUESTIONS & ANSWERS

Why did the Township need more money for the sanitary sewer system?

As explained in the overview, there were four primary factors affecting the Township's need to begin generating additional revenues in 2006:

1. The Sewer Fund was experiencing a reduction in revenues due to slower growth, (i.e. new connections to the sewer system).
2. The proceeds of the bonds previously issued to finance sewer repairs had been spent, however it was estimated another \$20 million would be needed to complete the necessary repair, upgrade and rehabilitation of the sewer system over the next several years.
3. Genesee County increased their charge to Fenton Township by \$33.00 per quarter per unit as of August 1, 2006. These costs are related to the operation and maintenance of the main interceptor sewer lines and the sewage treatment plant. The Township's Sewer Fund could not absorb this increase without passing it on to the sewer system users.
4. A sewer debt retirement tax millage that was initiated in the 1960's, (originally 1.5 mills), had dwindled to approximately 1/10 of a mill in 2006 due to Headlee restrictions, (this millage has since completely expired).

How much of the sewer system needed to be repaired or replaced?

The initial video inspection process identified over 1,000 segments of sewer line with defects in need of repair or replacement, (a segment is a span of sewer pipe that extends from one manhole to the next and can range in length from 50 to 400 feet). In those 1,000+ segments of sewer pipe, over 5,000 individual defects, (broken pipe, cracks, leaks, root intrusions, etc.), were identified. Not all defects were high priority and many did not need to be addressed immediately. After a careful review and assignment of priorities, the Township Engineer determined that about half of the identified defects, (approximately 500+ pipe segments and 2,000+ defects), were considered to be priority items and needed to be either repaired or replaced as part of the project to be funded under the \$20 million cost estimate.

I read in the newspaper that the Township saved millions of dollars by utilizing an alternative repair method for the Torrey Road sewer line. Shouldn't that reduce the total amount needed?

It is true that the Township saved \$3 to 4 million by using a state-of-the-art pipe lining process on the Torrey Road sewer main, instead of the traditional and more costly "open cut" method. As a result, the bond issue sold in 2007 was downsized from \$15 million to \$11 million. From an overall project perspective, although the Township authorized the sale of up to \$20 million in bonds, a total of only \$13.6 million was issued, and there are no plans to issue any additional debt in the foreseeable future.

Why did the sewer system need so much repair and rehabilitation?

Most of the Township's sanitary sewer system was installed in the 1960's and 70's, using clay pipe, which is not as flexible or durable as the plastic pipe used today. The many lakes in Fenton Township also means that we have a very high water table and soil types that are less than ideal for sewer lines. The sewer lines are subjected to a great deal of underground movement and shifting, which causes the pipes to sag, crack and break. For many years we could only fix problems that became apparent due to a spill or an overflow. With the introduction of newer technology, we have the ability to use cameras to inspect the inside of sewer lines and identify problems before they become too large. This video inspection process allowed the Township to identify 30-40 years worth of accumulated problems in a relatively short time.

Why wasn't something done sooner to generate more revenues?

The Township did not know the extent of the needed system improvements until we were well into the state-mandated sewer rehabilitation project. As recently as the end of 2004 the Township was still maintaining a healthy cash reserve in the Sewer Fund and it appeared that the existing fee structure would be adequate to fund the needs of the sewer system. When it became apparent that the volume of new connections in 2005 would fall well short of projections, the Township implemented a relatively small user rate increase at that time to help offset this shortfall.

Several other factors, which were not known until late 2005 or early 2006, created the situation that resulted in the 2006 rate increase.

1. The unexpected drop to 110 new connections in 2005 was the lowest total in more than 10 years. This number has fallen even further, with 61 new connections in 2006, 22 in 2007, 10 in 2008, 10 in 2009, 4 in 2010 and only 2 so far in 2011.
2. The review, evaluation and prioritization of needed sewer system improvements were not completed until early 2006.
3. The 2006 Genesee County increase to the rate charged to Fenton Township was communicated to the Township only a few months prior to implementation and the Township's Sewer Fund could not absorb this increase without passing it on to the sewer system users.

Thus far the current sewer rates are providing adequate funding to meet the Township's financial obligations, including bond payments.

Why not wait for a pipe to break before fixing it? Wouldn't that be cheaper?

Undetected cracks or breaks in the sewer lines can cause two types of problems. Inflow and infiltration of ground water and storm water into the sanitary sewer system increases the volume of water being treated at the sewage plant, thus increasing the overall cost of sewage treatment. Cracks or breaks can also lead to sewer lines becoming blocked, which many times will result in a backup of sewage into one or more homes. Most communities, including Fenton Township, are only able to obtain minimal (if any) insurance coverage for sewage backups. Therefore, the cost to clean up a sewage backup and replace damaged property, (sometimes totaling over \$50,000.00 per occurrence), can become a significant expense to the Township's Sewer Fund. Identifying and repairing problems before they create a catastrophe is much more cost effective.

Our sewer use rates are the highest in Genesee County. Why don't other communities charge that much?

The number of lakes and the topography of Fenton Township make our sanitary sewer system one of the most elaborate and costly to maintain in the entire state. You will not find any community in Genesee County that has anywhere near the 57 pump stations that are operated and maintained by Fenton Township. Therefore it is virtually impossible to make a meaningful comparison of our fee structure with those of other communities because our system is much more costly to operate and maintain. Also, many communities use a mixture of tax revenue (millage), special assessments, connection fees and user fees to fund their system. Fenton Township's currently utilizes only connection fees and user fees.

Why can't the Township use General Fund money to pay for sewer system improvements?

The Sewer Fund is an Enterprise or "business type" fund, and is intended to be self-sufficient. All costs associated with the operation and maintenance of the system should be paid for by revenues generated in the Sewer Fund. While it is legal for the Township to use General Fund money to help pay for sewer system improvements, the General fund does not have excess cash reserves at this time. The total millage currently levied by Fenton Township is less than $\frac{3}{4}$ of one mill, which is among the lowest millage rates in all of Genesee County. This, combined

with other economic factors such as lower property values, has tightened the General Fund budget considerably.

The Township started proceedings to create special assessment districts in 2006. Why was that process stopped?

The initial financial plan considered by the Fenton Township Board included a mixture of all four revenue types, (tax millage, special assessments, connection fees & user fees). When the millage proposal was defeated by the voters, the board decided to continue with special assessment proceedings as originally planned. At the special assessment public hearings many objections were raised regarding the difference in proposed assessment amounts among the five districts. Residents were also opposed to other aspects of the special assessments, (interest cost, requirement to be paid off if the property is sold, assessing properties that were not currently using the sewer system, etc.). This input from the public prompted the Township Board to reconsider this option and the board ultimately decided that a rate increase would be the most equitable method to raise the required revenues.

Why not have Genesee County assume operation and maintenance responsibilities for the Township's sewer system?

The necessity for additional revenues is due to the need to meet bond payment obligations for debt issued to pay for sewer system improvements constructed over the past several years. It is not caused by the everyday operation and maintenance of the system.

That being said, the Township has explored concept of having Genesee County take over operation and maintenance of the sewer system. The Township solicited a cost estimate from Genesee County for annual operation and maintenance and it was higher than what the Township is currently paying. Also, regardless of who is responsible for maintenance, the Township would be responsible for the cost of all necessary improvements. Therefore, there is no benefit to turning our system over to the County.

One of the reasons given for the need for additional funds is a slower economy and decreased development, resulting in lower than projected connection fee revenue. What happens if the economy improves and development increases?

If cash flows improve significantly due to a higher than projected volume of new connections to the sewer system, the Township may be in a position to reduce the user rates at some point. The Township will only collect the revenues necessary to operate & maintain the sewer system, service the related debt and maintain adequate fund reserves. Sewer Fund dollars cannot be spent for any other purpose and the Township is not permitted to accumulate excessive amounts of cash reserves.