

CHARTER TOWNSHIP OF FENTON SEWER SYSTEM FINANCIAL OVERVIEW APRIL, 2016

Fenton Township continues to receive inquiries regarding the relatively high sewer use fees that Township residents have been paying since 2006. The Township is sensitive to these concerns and understands that the high 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 Fenton Township's sanitary sewer system.

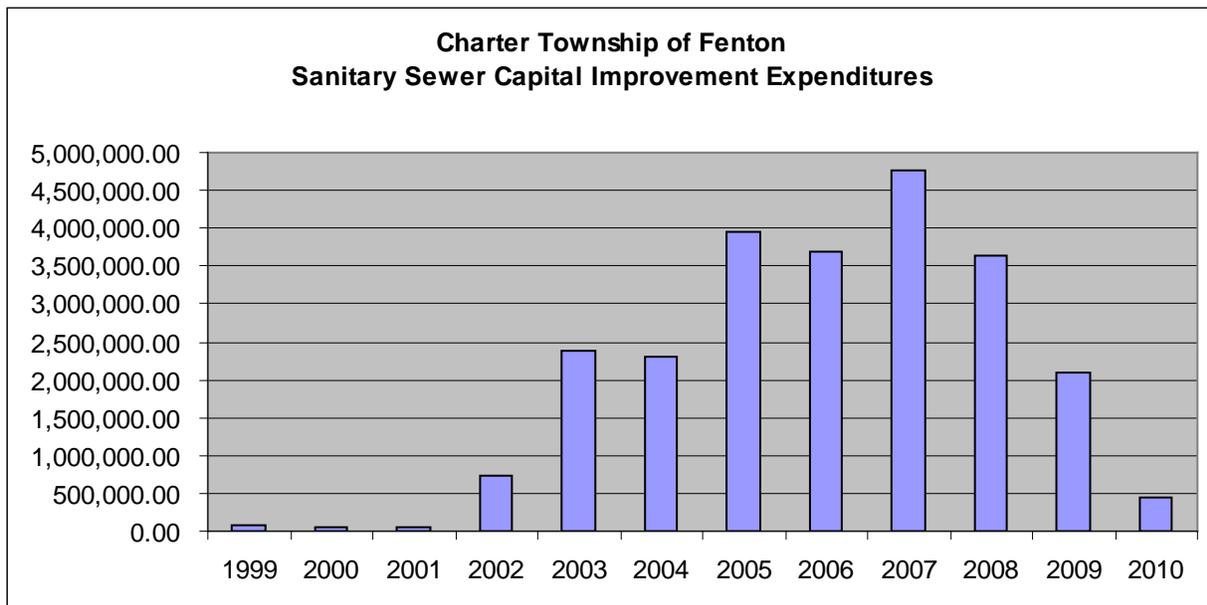
Background

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).
- 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 was substantially completed by the end of 2010, however the process of inspection and repairs on a smaller scale will continue on an ongoing basis. These system improvements were 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 sewage treatment plant and the main interceptor sewer lines.
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 by 2006 due to Headlee restrictions, (this millage expired completely in 2008).

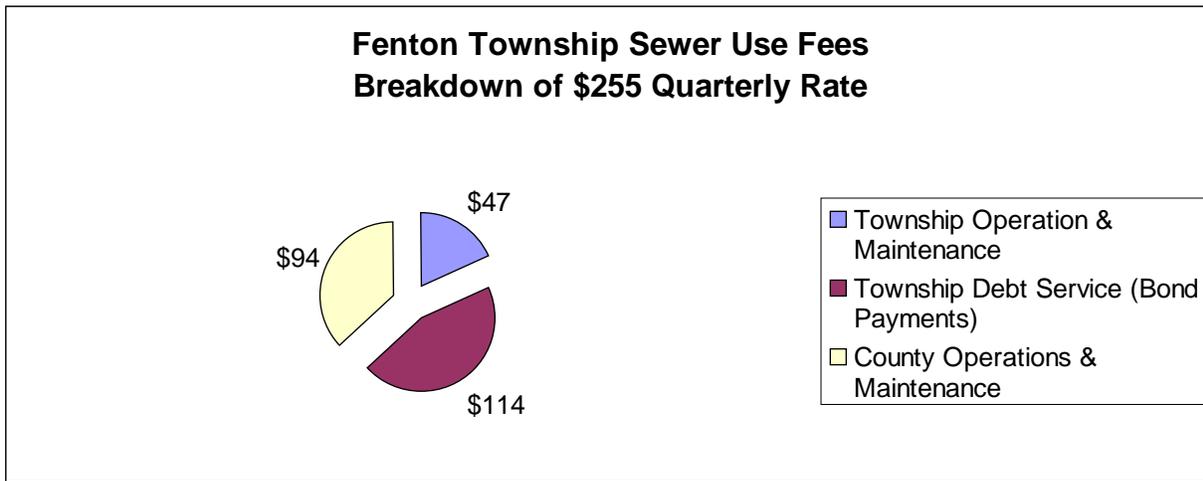
As an enterprise or "business-type" fund, the Township's Sewer Fund is expected to be self-supporting. Revenues generated in the Sewer Fund should cover both the cost of ongoing operation & maintenance of the sewer system, (Township and County), and the cost of periodic bond payments to retire the debt 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:

Fee Component	Quarterly	Monthly
Genesee County (Operation & Maintenance)	\$ 94.00	\$ 31.33
Fenton Township (Operation & Maintenance)	47.00	15.67
Fenton Township (Debt Service)	114.00	38.00



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 large-scale 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 few years. Based on our current cash flow model, the Township may be able to consider a minor rate decrease within 4-5 years, but it will be at least 10 years before the rate could drop below \$200 per quarter. 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 sooner.

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 when 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"
 (PROPERTY TAXES, SEWER FEES & OTHER ASSESSMENTS)**

Assumed Taxable Value 120,000

Community > 2010 Population >	Fenton Township 15,552	City of Fenton 11,746	City of Linden 3,991	Mundy Township 15,082	Grand Blanc Township 37,508	City of Grand Blanc 8,276
Property Taxes	3,749.82	5,113.78	4,918.93	4,099.68	4,333.87	5,080.01
Sewer Use Fees	1,020.00	612.72	555.40	385.44	634.72	607.81
Fire Protection	65.00					
Trash Collection	140.00	128.68	137.04	115.06	106.20	133.56
Mosquito Control	30.00		0.00		0.00	
Total	5,004.82	5,855.18	5,611.37	4,600.18	5,074.79	5,821.38
Average "Cost of Living"						
City of Fenton	5,855.18					
City of Grand Blanc	5,821.38					
City of Linden	5,611.37					
Grand Blanc Township	5,074.79					
Fenton Township	5,004.82					
Mundy Township	4,600.18					

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 to comply with the state mandated Administrative Consent Order (ACO).
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 expired completely in 2008).

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 approximately \$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 has been no new debt issued since then.

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. New connections continued to decline for several more years, bottoming out at 4 in 2010. This Township has experienced a modest increase in new connections for the past five years, but those numbers are still well below the peak years from the mid 1990's through the early 2000's, (see chart below).

1996	217	2003	201	2010	4
1997	171	2004	220	2011	8
1998	213	2005	110	2012	16
1999	438	2006	61	2013	29
2000	225	2007	22	2014	36
2001	162	2008	9	2015	90
2002	160	2009	10		

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.

It is important to note that Genesee County implemented another rate hike in 2014 that increased the Township's costs by approximately \$500,000 per year. Thus far the Township Board has not passed that increase on to the sewer system users. Instead, General Fund dollars have been transferred into the Sewer Fund, enabling it meet the Township's sewer related 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 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. For the past three years, however, the Township has transferred funds from the General Fund to the Sewer Fund to address cash flow issues.

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 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 was paying at that time. Also, regardless of who is responsible for maintenance, the Township would be responsible for the cost of all necessary improvements. Therefore, there does not appear to be any benefit to turning sewer system maintenance 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 connection fee revenue. The economy has improved and development has increased recently. Will that result in a user fee rate reduction?

While development has increased somewhat, the number of new sewer connections is still relatively low compared to the late 1990's and early 2000's and the improvements to the Sewer Fund cash flows have been very modest – not yet enough to allow a rate reduction. If the volume of new connections to the sewer system increases significantly (150-200 units per year), 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.