



JOINT PRESS RELEASE

City of Milan, York Township agree on new terms for the Mooreville Sewer

Milan, Mich- On August 19, 2014 York Township Supervisor John Stanowski and Milan Mayor Michael Armitage signed a memorandum of understanding, outlining terms for the Mooreville Sewer system. "This was a pending issue when I took office, and I am glad that we were able to successfully come to an agreement. It was a pleasure working with Supervisor Stanowski, and I think this is a milestone in intergovernmental relations between the two municipalities. It makes sense to have open communication and dialogue with our neighbors," said Mayor Michael Armitage. "The Mooreville Sewer Rates were skyrocketing for York Township. A review of the contract and the rates revealed a flaw in the rate setting process. Real progress on the resolution of this discrepancy occurred under the new administration of Mayor Mike Armitage and Gerry Scherlinck, Police Chief and City Administrator. The negotiations were worked out, as they should be, between two neighbors seeking a common understanding of the problem. This Memorandum of Understanding will bind our communities to foster a better working relationship in future endeavors," said York Township Supervisor, John W. Stanowski.

In 2002 two sewer agreements were entered into between Milan and York Township involving the construction of a sewage collection and transportation system connecting the Hamlet of Mooreville in the township to the City of Milan sewage treatment system. These agreements

established responsibilities for maintenance, as well as initial fees. The initial fees were noted to be twice the City user fee at the time. The original agreements were a bit gray as to whether or not that “twice the City user fee” formula should be carried forward throughout the duration of the agreements. What was clear in those agreements was that rates could be adjusted, however could not include increased capitalization costs for expansion of the City of Milan sewer system or waste water treatment plant. Fees could be increased to accommodate the costs of enhancements to the sewage transportation system and any required upgrades to the waste water treatment plant not associated with expansion of the City’s system.

In June of 2002, York Township provided the City \$67,840.00 for 32 sewer tap connections at \$2120.00 each. Half of this fee, \$33,920.00, was to set up an escrow account to pay for operating and maintenance charges for the Mooreville Sewer System, the remaining half was supposed to be dedicated to Milan sewer funds as payment for sewer capacity.

The City’s Wastewater Treatment Plant was rehabilitated and expanded between the years 2005-2007. There were two categories of work. Work attributable to new sewer customers based on expanded flow capacity, and work based on required rehabilitation of existing sewer customers. That project was paid for through the issuance of approximately 14 million dollars of bonds.

Effective near the end of 2009, a new rate methodology was implemented to address the bond liability’s continuing impact on the General Fund. That change in methodology resulted in transitioning the Water/Sewer Funds into true self sustaining Enterprise Funds. Until then, the bond liability was being paid for in large part from the General Fund. With the change in

methodology, that bond liability going forward would be paid through sewer and water rates from system users rather than property tax dollars from the General Fund. This transition resulted in an increase in water-sewer rates to address that bond liability and to insure that the Water-Sewer Funds became truly self sustaining. It is at this rate increase point that York argued they should not have been charged the entire rate increases associated with this transfer of the bond of liability, per the original contracts. York further argued that any increases going forward from that date should only have been passed on to them at the proportion of the project associated with rehabilitation, not expansion. A review of the original language in the contracts indicates that position is correct.

Further research into the management of the original contracts indicated that Wade Trim was billing Milan for servicing all 11 lift stations in the system annually under one maintenance and operations billing amount. The Mooreville system had not been being broken out as a separate charge, and the City had in fact been paying the total maintenance and operating fees for the entire system. York had not been being billed for their 1/11th portion of these fees. Therefore, even though the contracts stipulated York was responsible for the maintenance and operating fees associated with their segment of the system, they have were not being billed for it.

In reviewing the original contract language, although somewhat gray, it appeared the initial \$33,920.00 that was passed on to Milan in 2002, should possibly have remained with the Township and used to pay for maintenance and operating expenses. The current fund balance is approximately \$38,410.96. Mooreville's Readiness to Serve fees have been deposited into that account over the years, and some maintenance costs associate with the Mooreville system

have been paid out of it. Essentially, it has increased by about \$5,000.00 since the initial deposit in June, 2002.

The engineer that oversaw the wastewater treatment rehabilitation and expansion was contacted to research that project and determine the proper formula involving expansion versus rehabilitation. In a letter dated, May 19, 2014, Mr. Trevor Wagenmaker of Hubbell, Roth and Clark, confirmed after analyzing the Schedule of Values from Sorenson Gross, the contractor for the project, that the percentage of costs attributable to the existing sewer customers (rehabilitation) was 24% and to the “new sewer customers” (expansion) was 76%. Both York Township and Milan accepted that calculation. Clearly, there are numerous points that required clarification and resolution to address the above issues involving this contract.

The following synthesizes the steps taken and main points agreed upon in an effort to resolve the above issues:

- The Township will assume all responsibilities for the operation, maintenance, and administration of the Mooreville System and will directly pay any costs associated with those responsibilities to their chosen contractor.
- The City will transfer \$33,410.96 from the City’s existing Maintenance Fund for the Mooreville System to the Township, retaining \$5,000.00 from the \$38,410.96 current total.
- Any and all claims regarding billings, rates, charges, and fees are waived by both parties.
- The initial Readiness to Serve fee charged to York will be \$575.26.
- The initial Commodity User fee charged to York will be \$2.48/1000 gallons usage.

Formulas for those calculations, as well as formulas as to how those fees will be increased after the first 6 years of this agreement are included in the MOU.

The term is for 10 years, after which it shall automatically renew for successive one year periods until June 30, 2043, which is just beyond the date that the Township's bonds for the Mooreville sewer expire. Fees can be revisited during the term of this contract, and are subject to another MOU addressing them, however one of the goals of this agreement is to maintain consistency in the fees and fee increases based on the attached formulas through the first 10 years.

York Township had the MOU reviewed and approved by the Rural Development Administration, who oversees the bonds associated with the Mooreville Sewer System.

The City's Attorney, Mr. Steven Mann, has reviewed and approved the attached MOU. He has monitored, provided direction, and been closely involved with the negotiations throughout, as has Mr. John Etter, York Township's counsel.

As noted above, the York Township Board approved the agreement on August 12, 2014.

Since there were some initial indications that this issue could result in litigation, this agreement represents a significant achievement in terms of cooperation, compromise, and a willingness to engage in interest based negotiations. Problems were addressed and solved, resulting in both communities avoiding what could have been considerable legal costs should litigation have occurred.

Mayor Michael Armitage; York Township Supervisor John Stanowski; Mr. Jason Karmol of Wade Trim; Mr. John Etter, York Township Corporation Counsel; Mr. Steven Mann, City Attorney for the City of Milan; Ms. Sherry Steinwedel, City of Milan Clerk/Treasurer; Mr. Thomas Toth, York Township Building and Zoning Official; and Mr. Robert Grostick, City of Milan DPW/Building and Zoning Official have all been involved in the research and development of this final agreement and their hard work and dedication is recognized and appreciated here.

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