



City of Rochester Hills
AGENDA SUMMARY
FINANCIAL ITEMS

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Legislative File No: 2017-0225

TO: Mayor and City Council Members

FROM: Joe Snyder, Chief Financial Officer, Ext. 2534

DATE: May 15, 2017

SUBJECT: Water & Sewer Rate Changes effective July 1, 2017 – First Reading to amend Ordinance Sections 54.741, 54.743, 54.744 and 54.745 of Article XII, Utilities, of Chapter 54, Fees of the Code of Ordinances of the City of Rochester Hills, to modify water and sewer rates and fees, repeal conflicting ordinances

REQUEST:

We are requesting that City Council accept, for first reading, an Ordinance to amend Sections 54.741, 54.743, 54.744 and 54.745 of Article XII, Utilities, of Chapter 54, Fees of the code of Ordinances of the City of Rochester Hills, Oakland County Michigan, to modify the water and sewage rates and fees and repeal conflicting ordinances as recommended by the Water & Sewer Technical Review Committee.

REASON FOR CHANGE:

The Water & Sewer Technical Review Committee met and discussed several rate scenarios for water and sewer rates developed based on recent rate change notices received by North Oakland County Water Authority (NOCWA) of changes to Great Lakes Water Authority (GLWA) water rates and the Oakland County Water Resources Commission (OCWRC) for changes to sewer rates. As required by Section 102-62 of the City of Rochester Hills Ordinance, water and sewer rates have been evaluated to provide the revenue needed to support the payment of administrative, operational and maintenance expenses of the water and sewer disposal system necessary to preserve the system in good repair and working order, and to provide for such other expenses as needed.

A “Breakeven” (user fees must cover water and sewer expenses) methodology was utilized to develop rate recommendations for the water and sewer *Commodity* and *Customer* charges as well as for the *Sewer Flat* rate to begin on or about July 1, 2017 and end June 30, 2018. This is the same rate methodology that has been utilized by the City in the past. The “Breakeven” methodology for setting the City’s water and sewer *Customer* and *Commodity* rates are based on the following strategies:

- Water & Sewer Operating Fund revenues cover operating expenses;
- Capital & lateral revenue is *not* considered operating revenue and is *not* utilized to offset operating expenses. Those funds are set aside in the W&S Capital Fund to fund future capital projects;
- Funding equivalent to the annual depreciation expense of the water & sewer fund, is transferred to the Water & Sewer Capital Fund for the repair and maintenance of the City’s water and sewer infrastructure; and
- Recommended rates also assume that future capital improvement projects will be accomplished as reported in the Capital Improvement Plan (CIP) using the Water & Sewer Capital Fund and not from user rates.

The rates being proposed are based on meeting the above objectives of the Water and Sewer system.

Recent rate notices from NOCWA for the City's *water Commodity* charge and OCWRC for the City's *sewer disposal Commodity* charge were examined by the Water and Sewer Technical Committee using three rate options: 1). Adjust the 2017-18 rates as a straight pass through, 2). Hold rates at current levels, and 3). Look at rates using a multi-year (smoothing) approach.

Based on their review and discussion, the Water and Sewer Technical Review Committee makes the recommendation of using a **multi-year approach (Option #3)** to provide stability to water and sewer rates for the next four years:

- ***Water Commodity rate*** is \$5.81 per 100 cubic feet, a **1.9% increase**
- ***Sewer Commodity rate*** is \$5.81 per 100 cubic feet, a **3.8% increase**.
- The ***Customer Charge*** includes the cost of servicing customers, meter replacement, billing and collection, meter reading, postage, etc, as described in City Ordinance Article 1, Section 102-26. The water and sewer customer charge is recommended to decrease from \$6.00 per bill to \$5.54 per bill (\$2.77 water and \$2.77 sewer), a **(7.7%) decrease**.
- ***Sewage Non-metered Flat rate*** is proposed at \$69.72 (12 units @ \$5.81/unit) per bill, a **3.8% increase**.
- The various ***industrial high surcharge rates*** from GLWA continue to be a 'pass through' to Rochester Hills' industrial customers. DWSD adjustments to these rate types are **increasing** by an average of **0.5%** as listed in the enclosed ordinance.
- The various ***nonresidential (industrial) surcharge (waste control) rates*** from the GLWA continue to be a 'pass through' to Rochester Hills' industrial customers. GLWA adjustments to these rate types are **increasing** by an average of **4.0%** as listed in the enclosed ordinance.
- The DPS group annually reviews the meter, taps, hydrant, flow test, and City engineering fees. There are no changes being proposed with this request.

Overall, the average residential user (12 units per billing cycle) will see their water and sewer bill go from \$141.60 to \$144.98 a \$3.38 per bill, or a 2.4% increase.

Flat Rate Sewer customer's total bill (Sewer Charge + Customer Charge) will increase from \$73.20 per bill to \$75.26, a \$2.06 per bill an increase of 2.81%.

The proposed water and sewer rates along with other rate scenarios were discussed and reviewed with the Water & Sewer Technical Review Committee resulting in this recommendation.

BUDGET:

The approval of the water and sewer rates effective on or about July 1, 2017 will assist with the objective of funding the operating expenditures of the Water & Sewer Fund, as required by Section 102-62 of the City of Rochester Hills Ordinance,

RECOMMENDATION:

We recommend City Council accept, for first reading, amendments to Ordinance Sections 54.741, 54.743, 54.744 and 54.745 of Article XII, Utilities, of Chapter 54, Fees, of the code of Ordinances of the City of Rochester Hills, Oakland County Michigan, to modify the water and sewer rates and fees and repeal

conflicting ordinances (changes enclosed) as recommended by the Water & Sewer Technical Review Committee.

APPROVALS:	SIGNATURE	DATE
Department Review		
Department Director		
Budget Content: Chief Financial Officer		
Purchasing Process: Supervisor of Procurement		
Mayor		
Deputy Clerk		

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