



City of Rochester Hills
AGENDA SUMMARY
FINANCIAL ITEMS

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Legislative File No: 2019-0450

TO: Mayor and City Council Members

FROM: Joe Snyder, Chief Financial Officer, ext 2534

DATE: October 21, 2019

SUBJECT: Oakland-Macomb Interceptor Drainage District
Special Assessment Roll #1 (2019 Series Bond) Pre-Payment Option

REQUEST:

City Council is requested to approve the pre-payment of the City of Rochester Hills Special Assessment #1 relating to Series 2019 Bonds for the Oakland-Macomb Interceptor Drainage District.

REASON FOR PURCHASE:

On September 18, 2019, the Drainage Board for the Oakland-Macomb Interceptor Drain Drainage District ("Drainage District") approved Assessment Roll No. 1 for the extension and improvement of the Oakland-Macomb Interceptor Drain ("OMID Drain"). Attached is a copy of the 2019 Assessment Roll and the assessment to the City of Rochester Hills. This letter is presented in accordance with Section 526 of Chapter 21 of the Michigan Drain Code of 1956 ("Drain Code"), as amended, MCL 280.526, which among other things, requires the Chairperson to certify the assessment to each public corporation, and allow, should the community determine expedient, to prepay the assessment and avoid interest and finance charges associated with the anticipated 2019 bond issue for this project segment.

In the way of background, the terminus of the OMID Drain is the Northeast Sewage Pumping Station ("NESPS") located on Outer Drive north of 7 Mile Road within the City of Detroit, and also includes the North Interceptor-East Arm, a seven mile 8' to 13' diameter sewer extending from the NESPS to Gratiot Avenue (collectively, "wastewater facilities"). These wastewater facilities were originally constructed by the City of Detroit in the 1970's and serve over 850,000 residents and businesses, including the City of Rochester Hills, along with 22 other communities located in Macomb and Oakland Counties. The present condition of the wastewater facilities requires significant rehabilitation and improvements. The estimated cost of this rehabilitation project (the "Project") is approximately \$88 Million.

In the past, the Detroit Water and Sewerage Department (now, Great Lakes Water Authority, "GLWA"), would have undertaken the repairs and improvements, along with the day-to-day maintenance and operations of the wastewater facilities, and included them in the rates charged to each community. However, earlier this year the Drainage Board and GLWA agreed to amend the wastewater services contract to permit the Drainage District to assume the capital improvement and day-to-day maintenance responsibilities of the wastewater facilities. Under this agreement, GLWA would continue to have operational responsibilities since the NESPS requires careful coordination with the regional system operated by GLWA.

In fiscal year 2018-19 (ending July 1, 2019), the annual charge to the Drainage District (and passed on to each of the communities within the Drainage District) was more than \$10.5 Million dollars. With the Drainage District's assumption of the capital improvement and day-to-day maintenance responsibilities, and the annual GLWA charge for operations (which has been reduced to from \$10.5 Million to \$2.1 Million per year),

the Drainage District believes that the proposed rehabilitation project can be undertaken without the necessity of increasing the rates to accommodate the Project. In other words, they anticipate that there will be sufficient savings associated with maintenance, and the bonding for the Project, that there should be no significant increases to rates charged to sewer customers associated with this Project.

As noted above, attached is a copy of the 2019 Assessment Roll No. 1 for the first segment of this Project. The first segment involves acquisition and contribution in aid to capital payment to GLWA in the total amount of \$11,920,000. This project cost was part of the agreement between the Drainage District and GLWA and has the added benefit of eliminating any prior debt on the wastewater facilities. The prior debt allocated to the Drainage District is estimated at \$4M per year which would not be allocated going forward, resulting in an approximate 3-year payback.

Please be advised that each community has the option of prepaying their entire share for this segment of the Project. However, in order to prepay, the Drainage District must have a certified copy of a resolution from the community's governing board attesting to the fact that their community would like to prepay their assessment. A certified copy of the resolution should be submitted to the Drainage District Secretary no later than November 1, 2019. If the Drainage District does not receive a certified resolution by that date, the community will be included in the 2019 Bond issue for this segment, and their assessment will be collected over six (6) years.

Once the community has decided to prepay their entire assessment and adopts a resolution to that effect, the community cannot rescind that decision. The entire assessment will be due by December 2, 2019. This is necessary in order to size the proposed 2019 Bond issue for this segment.

The City of Rochester Hills has been allocated an 8.1106% share for the first phase of this multi-year project. If the City elects to prepay the Assessment, \$966,783.52 will be due by December 2, 2019. There will be no increase needed on sanitary sewer rates as there are no corresponding future debt service payments.

If the City does not elect to prepay the Assessment, the cost to the City over the next 6-years including bond financing costs and interest payments will total \$1,013,784.45, a difference of an additional \$47,000. It is estimated that "if" the City kept the funds in reserve, those funds could generate approximately \$36,000 in investment income over the same time period. If the City elects to bond this phase of the project, the sanitary sewer rate could increase by an additional \$0.18 per unit (or 2.9%) to generate the funding needed to pay the corresponding annual debt service next year.

The City of Rochester Hills has included the estimated prepay amounts for the City's proportionate share of the remaining \$88M Project in the FY 2020 Adopted Budget and FY 2021 Projected Budget.

PROCESS:

Vendor Name and Address:

Oakland County Water Resources Commission (OCWRC)
One Public Works Drive, Building 95 West
Waterford, MI 48328-1907

Reason for Selection:

Contractual Obligation

Method of Purchase:

Purchase Order

BUDGET:

Funding for the prepayment option on the Special Assessment was included as part of the FY 2019 3rd Quarter Budget Amendment.

Fund Name	Department Account No	Account No. Description	Budget Amount	Cost	Remaining Budget
Water & Sewer Capital Fund	593.972000	Mains & Services	\$970,000.00	\$966,783.52	\$3,216.48

RECOMMENDATION:

City Council is requested to approve the pre-payment of the City of Rochester Hills Special Assessment #1 relating to Series 2019 Bonds for the Oakland-Macomb Interceptor Drainage District.

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

Contract Reviewed by City Attorney Yes N/A