



**City of Rochester Hills
AGENDA SUMMARY
FINANCIAL ITEMS**

1000 Rochester Hills Dr.
Rochester Hills, MI 48309
248.656.4630
www.rochesterhills.org

Legislative File No: 2008-0292

TO: Mayor and City Council Members

FROM: Julie Jenuwine, Finance Director, ext 2535

DATE: June 19, 2008

SUBJECT: Water & Sewer Rate Changes effective July 1, 2008 – Second 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:

Request that City Council accept the second reading of an Ordinance to amend Sections 54.741, 54.743 and 54.744 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 (changes enclosed) as recommended by the Water & Sewer Rates Technical Review Committee.

REASON FOR THE CHANGE:

Once again this year the Water & Sewage Rates Technical Review Committee discussed the water and sewage rate analysis developed by the Fiscal Office. As required by Section 102-62 of the City of Rochester Hills Ordinance, the water and sewage charges have been evaluated to provide revenue for; the payment of the expenses of administration and operation, expenses for maintenance of the water and sewage disposal system as are necessary to preserve the system in good repair and working order, and to provide for such other expenses.

A “Breakeven” methodology was utilized to develop rate recommendations for water and sewage *Commodity* and *Customer* charges as well as the *Sewage Flat* rate to begin on July 1, 2008. This rate methodology has been utilized for the past few years. The “Breakeven” methodology for setting the City’s water and sewage *Customer* and *Commodity* rates are based on the following policies:

- W&S Operating Fund revenues meet operating expenses (in 2009)
- target cash balance equal to 90 days of operating expenses plus annual depreciation *
- capital & lateral revenue is *not* considered operating revenue and is *not* utilized to offset operating expenses (rather its transferred into the W&S Capital Fund to fund capital projects) and
- monies equivalent to annual depreciation be transferred into the W&S Capital Fund for financing of future capital projects. The rates also assume that future capital improvement projects will be accomplished as reported in the FY2009 Capital Improvement Plan (Water Reservoir project analysis is excluded).

The proposed rates continue the execution of the above objectives. *It is very important to note that the W&S Operating Fund cash balance levels for both water and sewer are projected be meet target cash balance in 2014.

Water and Sewage Disposal purchased by the City:

- Effective September 3, 2008 DWDS's *water Commodity* charge to the City will be \$2.254 per 100 cubic feet (11.92% increase) and DWSD's *sewage disposal Commodity* rate to Oakland County Drain Commission will be \$1.223 per 100 cubic feet (a rate of \$1.139 per 100 cf., plus a fixed DWSD monthly charge of \$0.084 per 100 cf.), a 5.3% increase. Although the DWSD rates are not effective until September 3, 2008, it is recommended that Rochester Hills begin these recommended rate adjustments effective July 1, 2008 as a DWSD water charge 'true-up' for will occur.
- Effective July 1, 2008 the Oakland County Drain Commission's (OCDC) operation and maintenance mark-up on the sewage rate will be \$0.193 per 100 cubic feet. In addition, the OCDC has implemented a new charge of \$0.243 per 100 cubic feet for repairs to the Oakland-Macomb Interceptor. This results in an OCDC sewage *Commodity* charge to the City of \$.436 per 100 cubic feet, a 147% increase. The combined sewage disposal from both DWSD and OCDC is \$1.659, a 24% increase.

The following bullets identify the Committee's various rate recommendations:

- **Water Commodity rate** is \$3.44 per 100 cubic feet, an 11.92% increase.
- **Sewer Commodity** is proposed to increase to \$3.29 per 100 cubic feet, a 19.64% increase.
- The City's **Capacity** charges are proposed to increase 3% (listed in the enclosed ordinance).
- The Customer Charge includes the cost of servicing customers, connections, bills, meter reading, postage, etc, as described in City Ordinance Article 1, Section 102-26. The water and sewer **Customer** charge is proposed to remain constant at \$13.16 per bill.
- **Sewage Non-metered Flat** rate is proposed to increase from \$29.33 to \$35.10 (19.67% increase) per month.
- The various **industrial surcharge rates** from the DWSD continue to be a 'pass through' to Rochester Hills' customers and are decreasing between 11% and 23% (listed in the enclosed ordinance).
- The various **industrial waste control charges** from the DWSD continue to be a 'pass through' to Rochester Hills' customers and are increasing 18% (listed in the enclosed ordinance).
- The DPS annually reviews the meter, taps, hydrant, flow test, and city engineering fees. There are no changes to these fees at this time.

It is important to note that the past and proposed rate structures deliberately do *not* mirror the Black & Veatch Consultants report performed in 1999. Some of the differences are as follows; the fire capacity is not charged to the Fire department and a special rate is not given for area maintenance meter consumption surcharge (in accordance with City Council policy), and the capacity charge has not been specifically defined.

These proposed water and sewage rates along with six other rate scenarios have been discussed to various degrees over the last few months resulting in the above rates endorsed by the Water & Sewers Rate Technical Review Committee.

Note: cf = cubic feet

BUDGET:

The approval of these water and sewage rates for July 1, 2008 will assist toward the objective of funding the operating and capital expenditures of the Water & Sewer Funds, as required by Section 102-62 of the City of Rochester Hills Ordinance,

RECOMMENDATION:

Recommend that City Council accept the second reading of 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 (changes enclosed) as recommended by the Water & Sewer Rates Technical Review Committee.

RESOLUTION

NEXT AGENDA ITEM

RETURN TO AGENDA

APPROVALS:	SIGNATURE	DATE
Department Review		
Department Director		
Budget Content: Finance Director		
Purchasing Process: Supervisor of Procurement		
Mayor		
City Council Liaison		