



Rochester Hills

Minutes

Financial Services Committee

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5:00 PM

1000 Rochester Hills Drive

DRAFT

2005-0031

Water & Sewer Fund Structure & Financial Discussion

Attachments: Agenda Summary.pdf; W&S - Funding Picture.pdf; Memo Jenuwine 011305.pdf

Committee discussed Water & Sewer Fund Structure and Finances.

Julie Jenuwine, Finance Director, presented the following discussion regarding contradiction between:

City's actual Water & Sewer Fund Structure and Finances Set-Up vs. How the City Ordinance Fund Set-Up Language Reads.

- * Ms. Jenuwine's handout reflects the following contradiction:
- * Handout shows one (1) Water and Sewer Fund having multiple Departments.
- * Currently the one (1) Water and Sewer Fund set-up is where all revenues are placed.
- * Ms. Jenuwine stated expenditures also come out of that one (1) Fund.
- * The Ordinance language reflects how the City "shall" have the Funds set-up as follows:

- * Receiving Fund
- * Operating and Maintenance Fund
- * Replacement Fund
- * Bond Interest and Redemption Fund
- * Improvement Fund
- * Surplus Fund

- * Modifying the Ordinance could eliminate contradiction between Ordinance Fund set-up language and the City's actual revenue placement.

Receiving Fund

- * Receiving Fund has the same function as the current Water and Sewer Fund: Water and Sewer revenue is separated from other revenue.
- * Therefore, Ms. Jenuwine stated that a Receiving Fund is redundant.

- * Receiving Fund used for receiving water and sewer charges.
- * Allocation of revenue is determined and revenue is dispersed.

Operating and Maintenance Fund

- * It is the day-to-day Operations Fund but is called the Water and Sewer Fund.

Replacement Fund

- * Used for replacing what currently exists in the ground.
- * Black & Veatch report states replacement can fall under Operating and Maintenance Fund.
- * Black & Veatch report states two (2) things:
 - * Replacement Fund should be City's annual depreciation Costs.
 - * Replacement Fund should be Fifteen (15%) percent of Operating Costs.
- * Therefore, Black & Veatch says that the Replacement Fund is not necessary because both the annual depreciation and fifteen (15) percent of Operating fall under Operating and Maintenance Fund.
- * Black & Veatch does recognize individual Funds but indicates it is not necessary.

Bond Interest and Redemption Fund

- * City has not had since there are none outstanding.

Improvement Fund

- * For future improvements or expansion of the City system.

Surplus Fund

- * Excess revenues fall into this Fund.
- * Ordinance language reads "whatever Council deems necessary in those Funds".
- * Fifteen (15%) percent Operating language comes from Black & Veatch.

Ms. Jenuwine's recommendation is to separate Funds for the following reasons:

1. Budget shows that the City will Bond out so a Bond Redemption Fund will be needed.

2. Operating Fund and Capital Replacement Fund separated creates a "checks

and balance":

- * When Water and Sewer rates are set annually, Operating Revenues will meet Operating Expenditures.

- * Identify amount in Capital Improvement Fund for future replacements.
- * Prevent unintentional spending of savings.

- * Another possibility is to divide the Funds as indicated per Ordinance language.

- * Two (2) issues:

- * Issue of how our Funding is set-up.

- * Main issue is a recommendation to change from the six (6) Funds down to the following three (3) Funds:

- * Bond Interest and Redemption Fund.
 - * Operating Fund.
 - * Capital Replacement Fund.

- * Ms. Hill stated the six (6) Funds present a better understanding of where the revenue is placed.

- * Ms. Jenuwine consolidated Funds due to the following:

- * Black & Veatch Replacement Fund regarding ninety (90) days Operating plus annual depreciation falls under Operating Fund.
 - * Any Fund that had small amount of money.
 - * Surplus Fund will not be needed at this time.

Committee members discussed current residential Water Rate and subsidization as follows:

- * Water rates are subsidized with the Capital Revenue and Fund Balance.

- * Operating Fund should sustain itself without Capital and Lateral charges and should not be used as Operating Expenditures or for annual depreciation.

- * Annual Depreciation Expense is \$3 million
 - * Capital and Lateral charges are \$1.5 million.

- * Capital and Lateral charges accumulated to \$50 million of intended savings at one time.

- * The July 1, 2005, water rate estimated increase is 17.63% or .38 cents.

- * Currently residents' rate is \$2.18 and would increase to \$2.56.

- * Mr. Lee Zendel, Citizen Representative, explained how City accumulated excess Fund Balance as follows:

- * City charged residents a Capital and Lateral fee for hook-up into the water and sewer system.
 - * City accumulated Capital and Lateral charges of \$50 million which was intended to be used as a future system Replacement Fund.
 - * Residents complained about the City "stock piling" money.
 - * City complied with residents by subsidizing water rates with excess Fund Balance.
 - * City's dilemma is Replacement Fund has been depleted.
- * Committee member stated City needs to be following the Black & Veatch Model.
- * Committee member stated City needs to look at rates for 2006.
- * Ms. Hill's recommendation would be for the City to start following the Ordinance as it pertains to Fund model.

Committee members briefly discussed Radio Read System and affects on customer cost.

- * Radio Read costs will be charged to all residents.
- * Currently Radio Read covers only a portion of the City.

Discussed