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CITY OF ROCHESTER HILLS

**F**iscal

Julie Jenuwine, extension 2535

DATE: April 4, 2006

TO: Financial Services Committee

and Water & Sewer Rates Board

RE: *Preliminary* Water and Sewer Rates effective July 1, 2006

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The purpose of this agenda item is to deliver the *preliminary* City of Rochester Hills' water and sewage rates beginning July 1, 2006 for the City of Rochester Hills water and sewage customers.

System-wide, DWSD is proposing to increase water commodity rates 5.6% and sewage commodity rates 6.1%. Specifically for Rochester Hills, Detroit is proposing to increase the water commodity charge by 3.1% to \$17.18 per Mcf. Detroit's sewage disposal commodity rate for the Clinton-Oakland Disposal System (first tier customer) is proposed to increase 4.0% (or \$0.41) to \$10.67 per Mcf with a fixed monthly charge increasing from \$0.68 to \$0.72. Oakland County Drain Commission (OCDC) sewage rate for the City will remain constant at \$1.59 per Mcf. This sewer commodity charge would amount to the flat sewer utility charge increasing from \$40.08 to \$41.54 (assigned unit usage of 3,200 cubic feet per unit quarterly).

In accordance with Section 102-62 of the City of Rochester Hills Ordinance, these preliminary water and sewage charges have been evaluated in order to provide revenue for the payment of the expenses of administration and operation, such 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. This analysis utilizes the adopted budget expenses along with the latest CIP information. The preliminary rate structure methodology used is based upon language in the City Ordinance. Commodity Charge includes the purchase of water and sewage disposal, electricity and labor related thereto... The Customer Charge includes the cost of servicing customers, connections, bills, meter reading, postage, etc. **By following the requirements of the ordinance and carrying out existing city policies, the Rochester Hills' water commodity rate will need to increase 6.5% (or \$2.61 cf) each of the next three years (see attachment A). The Rochester Hills' sewage commodity rate will need to increase 9.1% (or \$2.47 cf) each of the next three years (see attachment B). The Customer Charge will need to increase to \$13.16 from \$12.91 (1.9%) per bill (see attachment C). And the Capacity Charges are proposed to increase 3%.**

The water and sewage customer and commodity rates are based on the following assumptions:

- The current DWSD's rate setting methodology continues in future years. Although, there is a Technical Advisory Committee evaluating various changes to the rate methodology, as mentioned in prior rate discussions.

- Operating revenue nearly meets operating expenses in FY2008
- Capital & lateral revenue does *not* offset operating expenses rather this revenue is transferred into the W&S Capital fund to help support future capital expenses (policy transfer).
- Operating Fund target fund balance equals 90 days of operating expenses plus annual depreciation (policy).
- All monies beyond the 2006 Operating Fund target fund balance are swept into the W&S Capital Fund.
- Each year annual depreciation is transferred into the W&S Capital Fund to help support future capital expenses (policy transfer).
- DWSD increases water rates 6% annually and sewer rates 4% annually throughout the forecast (with the exception of the one-time decrease due to peak factor benefit).
- Water reservoir is built and City realizes the maximum peak factor benefit, thus DWSD water commodity rate falls in 2008.
- Water reservoir and DPS facility are bonded, all other capital projects utilize cash from the Capital Fund (see attachment F for details).

Please be advised that this rate structure methodology does not completely mirror the Black & Veatch consultant report from 1999. Some of the differences are as follows: fire capacity is not charged to the Fire department; a special rate is not given for area maintenance meter consumption (surcharge); and the capacity charge has not been defined.

Attachments G and H illustrate water and sewer rates for DPS Facility and Water Reservoir alternatives.

### Special Notes:

#### **Updates in forecasting assumptions for Water & Sewer rates relative to the approved 2005-06 rates:**

Sewer - Updated 2006 ODCDC projected sewer charge from 4.0% to 3.59%

Sewer - York Rd. sanitary sewer extension (SS-21) now funded by L.D.F.A. Fund

Sewer - Sanitary sewer rehabilitation program (SS-02B) funded with cash from W&S Capital Fund - not bonded

Water - Crooks Rd. Watermain projects (WS-01B, WS-01C) funded with cash from W&S Capital Fund - not Bonded

Water - Fire Service fee revenue of \$125,000/yr. eliminated due to amended 2000 Ordinance

Water - University Hills project (WS-23) funded with cash from W&S Capital Fund - not Bonded

Water - Updated 2006 projected DWSD water commodity charge from 7.0% to 3.12%

Water - Updated future years' annual DWSD increases from 7.0% to 6.0%, due to trend of recent actual system increases

Water & Sewer - 2004-05 consumption figures revised to actuals (result in a lower projected rate of consumption)

Water & Sewer - Future annual consumption rate increase changed from 2.0% annual increase to 0.0% annual increase

Water & Sewer - Breakeven for Operating in changed from FY 2007 to FY 2008 (Extended 1 year)

Water & Sewer - Changed hospitalization percentage increase from 15% to 7.5% annually

Water & Sewer - Investment income from Capital Fund reverts back to Capital Fund

Water & Sewer - Updated with final debt service schedule for Sheldon Rd. projects (SS-10 & WS-11) (60% Sewer / 40% Water)

Water & Sewer - Changed proceeds from sale of Leticia property (\$6,000,000) to go to Capital Fund rather than the Operating Fund

Water - Water Reservoir additional annual operating costs are included as part of analysis in the amount of \$120,000

Water & Sewer - Washington, Stoney Creek, Mill Race Water & Sewer project (SS-14 & WS-14) paid with cash – not bonded

Water & Sewer - Capital & Lateral Fees increased in FY 2009-2010 due to connections to the Washington (SS-14 & WS-14)