



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

**1000 Rochester Hills Dr.
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248.656.4630
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Legislative File No: 2006-0197

TO: Mayor and City Council Members

FROM: Julie Jenuwine, Finance Director, ext 2535

DATE: May 26, 2006

SUBJECT: Water & Sewer Rate Changes effective July 1, 2006 – First Reading to amend Ordinance Sections 54.741 and 54.743 of Article XII, Utilities, of Chapter 54, Fees of the Code of Ordinances of the City of Rochester Hills and repeal conflicting ordinances.

REQUEST:

Request that City Council accept the first reading of an Ordinance to amend Sections 54.741 and 54.743 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).

REASON FOR THE CHANGE:

As required by Section 102-62 of the City of Rochester Hills Ordinance, the water and sewage charges have been reviewed 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.

A “Breakeven” methodology is being used to set the rates for the July 1, 2006 water and sewage *Commodity* and *Customer* charges as well as the *Sewage Flat* rate, as this methodology was used beginning last year. The “Breakeven” methodology for setting the City’s water and sewage *Customer* and *Commodity* rates are based on the Operating & Maintenance Fund having operating revenue meeting operating expenses, target cash balance equaling 90 days of operating expenses plus annual depreciation, capital & lateral revenue *not* utilized to offset operating expenses (rather its transferred into the W&S Capital Fund) and funds equivalent to annual depreciation be transferred into the W&S Capital Fund. The rates also assume that future capital improvement projects will be accomplished as reported in the FY2007 Capital Improvement Plan with the exception of the DPS Facility constructed with cash and the reservoirs removed. These proposed rates beginning July 1, 2006, only start the implementation of the objective of operating revenue meeting operating expenses and does not completely reach the objective for operating fund balance levels. Both water and sewer cash balances will be below target cash balance until 2008 (see schedules A and B attached), as discussed last year the goals for breakeven and target fund balance would be implemented over a few years, in order to stabilize rate increases.

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: 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.

Beginning July 1, 2006 DWDS's water *Commodity* charge to the City will be \$1.718 per Ccf (3.12% increase) and the sewage disposal *Commodity* rate will be \$1.067 per Ccf., plus a fixed DWSD monthly charge of \$.072 per Ccf. The Oakland County Drain Commission sewage rate will be \$.159 per Ccf. The total sewage *Commodity* charge to the City will be \$1.298 per Ccf (3.59% increase).

The proposed water *Commodity* rate is \$2.62 Ccf, a 6.94% increase. This increase is projected for the next three years (see schedule A attached). Sewer *Commodity* is proposed to increase to \$2.43 Ccf, a 7.39% increase for three consecutive years (see schedule B attached).

The City's *Capacity* charges are proposed to increase 3%.

Sewage non-metered Flat rate is proposed to increase from \$18.08 to \$25.92 per month. In past years this charge has not been fully charged at a "breakeven" level. This proposed rate will accomplish that.

The *industrial surcharge rates* and the *industrial waste control charges* from the OCDC continue to be a pass through to our customers and are listed in the enclosed ordinance. The City has not been notified of any rate increases, as these are proposed to remain the same.

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 increase approximately 2% or to \$13.16 per bill. See schedule D attached.

The DPS annually reviews the meter, taps, hydrant, flow test, and city engineering fees. There are no changes to these fees at this time.

These proposed water and sewage rate changes have been discussed over the last few months and are endorsed by the Financial Services Committee (not unanimously) and the Water & Sewer Rate Board.

PROCESS:

Vendor Name and Address:

N/A

Reason for Selection:

N/A

Method of Purchase:

N/A

BUDGET:

The approval of these water and sewage rates for July 1, 2006 will assist toward the objective of funding the operating and capital expenses of the Water & Sewer Funds, as required by Section 102-62 of the City of Rochester Hills Ordinance,

RECOMMENDATION:

It is recommended that City Council accept the first reading of an Ordinance to amend Sections 54.741 and 54.743 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).

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		