



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

**1000 Rochester Hills Dr.
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Legislative File No: 2005-0185

TO: Mayor and City Council Members

FROM: Julie Jenuwine, Finance Director, ext 2535

DATE: May 24, 2005

SUBJECT: Water & Sewer Rate Changes effective July 1, 2005 – First Reading to amend Ordinance Section 54.745 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 Section 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).

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 proposed to set the rates for the July 1, 2005 water and sewage *Commodity* and *Customer* charges as well as the *Sewage Flat* rate. Due to the Water & Sewer Fund cash (cash equivalents) levels falling drastically over the years, it is recommended that the City abandon the prior years’ methodology of “passing along” the Detroit Water and Sewage Department (DWSD) and Oakland County Drain Commission (OCDC) increases.

The proposed “Breakeven” methodology for setting the City’s future water and sewage *Customer* and *Commodity* rates are based on operating revenue meeting operating expenses, target fund balance equaling 90 days of operating expenses plus annual depreciation, capital & lateral revenue *not* utilized to offset operating expenses (rather its transferred into the Improvement Fund) and funds equivalent to annual depreciation be transferred into the Replacement Fund. The rates also assume that future capital improvement expenses will be as reported in the 2006 Capital Improvement Plan.

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, 2005 DWDS’s water *Commodity* charge to the City will be \$16.66 per Mcf (6.7% increase) and the sewage disposal *Commodity* rate will be \$10.26 per Mcf., plus a fixed DWSD monthly charge of \$0.68

per Mcf. The Oakland County Drain Commission sewage rate will be \$1.59 per Mcf. The total sewage *Commodity* charge to the City will be \$12.53 (3.8% increase) (OCDC letter enclosed).

These proposed rates to the City's customers beginning July 1, 2005, 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. Under this proposal, operating revenues don't equal (breakeven) operating expenses until 2007, and fund balance nearly reaches target level in 2009. Meeting both of the mentioned objectives in the first year would cause water *Commodity* rates to increase 23.5% in each of the first two years and decrease 10.9% in year 2007. Therefore, the *Commodity* rates are proposed to increase in a smoother trend, which translates to \$2.45 ccf, a 12.5% increase in three consecutive years (assuming DWSD raises rates 7% annually). Sewer is proposed to increase to \$2.26 ccf, a 7.8% increase in three consecutive years (assuming OCDC and DWSD raises rates 4% annually). If approved, the City's mark-up (from DWSD and OCDC) for the water and sewage *Commodity* charge will be 47% and 80% respectively.

The City's *Capacity* charges are proposed to increase 5%.

Sewage non-metered Flat rate is proposed to increase from \$12.21 to \$18.08 per month. This charge has not been fully adjusted to a "breakeven" level and is proposed to be phased-in over the next few years.

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 *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 *Customer* charge is proposed to increase 104% or to \$6.45 per bill and the sewer *Customer* charge is proposed to increase 154% or to \$6.45 per bill due to the correction of costs allocation and the purchase of the radio read system (detailed charge is on an enclosed schedule).

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 water and sewage rate changes have been discussed over the last few months and have been endorsed by the Financial Services Committee 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, 2005 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,

Fund Name	Department Account No	Account No. Description	Budget Amount	Cost	Remaining Budget

RECOMMENDATION:

It is recommended that City Council accept the first reading of an Ordinance to amend Section 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).

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		