



Leanne Scott <scottl@rochesterhills.org>

Water/sewer rates

2 messages

Theresa Mungiolit <mungiolit@rochesterhills.org>

Sat, May 10, 2025 at 8:41 PM

To: Joe Snyder <snyderj@rochesterhills.org>, Leanne Scott <scottl@rochesterhills.org>

Joe,

Thanks for the info on the water/sewer rates. Why are the rates going up this year? I don't see a mention of GLWA or them raising the rates to us. Can you provide more details on *discuss scenarios for water and sanitary sewer rates based on notices received by water and sanitary sewer disposal service providers?* Does Oakland County have anything to do with these rate increases? How many years in a row is the increase? What is the percent increase during that time period?

There is starting to be unrest in the community regarding tax/fee increases. We will need a clear, concise explanation to the community and show who is passing on the rate increases to RH and why. Thanks for your help with this.

Theresa

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Joe Snyder <snyderj@rochesterhills.org>

Mon, May 12, 2025 at 10:25 AM

To: Theresa Mungiolit <mungiolit@rochesterhills.org>

Cc: Leanne Scott <scottl@rochesterhills.org>

Good morning Councilperson Mungiolit,

First off, hope you had a nice Mother's Day weekend.

Regarding the proposed W&S rates for the upcoming rate year, there are several factors involved:

1) Operating Gain or (Loss) from the prior year

* The water side has been consistently running with an operating (loss) for the past several years. This is somewhat by design as the the WSAC has approved the use of some of the W&S Fund Balance over the past several years to offset some of the water rate increases. The 'smoothing' option has been supported multiple times by the WSAC to use a portion of fund balance over a number of years to 'smooth' our annual rate increases. However, we are now at a point where the W&S Fund Balance is now getting pretty close to it's 25% minimum target, and we will not be able to use as much (if any) fund balances to offset rate increases moving forward.

* The sewer side has been running much closer to breakeven each year. Part of this is due to the fact that sanitary sewer volumes are much more consistent from year-to-year as there is less seasonal demand (i.e. water use in a hot & dry summer season vs a cool and wet summer season = it's hard to predict the weather). As there was on operational 'gain' last year for sewer, that helps to offset a bit of the providers increase this year.

2) Estimate of W&S volume

* Water volumes have been decreasing over the past several years, while sanitary sewer volumes have remained very flat. For a W&S utility this is a bit of a problem, as there are many fixed costs that don't ebb & flow with W&S usage (i.e. staff, repair parts, maintenance, etc...). As those fixed costs generally increase marginally from year-to-year, with less or the same volume to 'spread' the costs over this results in rate increases just to cover the fixed costs.

* Historically we have used a rolling 3-year average to estimate W&S volumes, this tends to capture some high & low volume years to give a rough estimate of the upcoming year's volume. One issue on the water-side in particular, volumes have consistently been decreasing year-over-year so we're estimating future volumes (which are trending lower) off of higher 3-year historical data. The result is that by using the 3-year average prediction method, the past several years we have over-estimated our anticipated water volume and have ended up selling less than anticipated. To make up for the

revenue miss, some fund balance reserves have been used = which is OK as we have the reserves and we have been trying to get closer to the 25% minimum target. As we're now getting much closer to the minimum target, we can't afford to have more revenue misses due to overestimating water volumes. This year we decided to use last year's water usage (which was a low volume year) as our conservative volume estimate.

3) Supplier rates

* On the water side, GLWA rates will increase by +5.8%. This is relatively consistent among all GLWA customers this year. GLWA explained the need for the rate increases primarily due to their infrastructure demands. Since GLWA was formed ~ 7-8 years ago they operated under a mandate that they would keep their annual water increases under 4.0%, that mandate expired last rate year. GLWA stated that the 4.0% rate changes were not adequate to keep up with their infrastructure demands and they consequently have incurred a lot of deferred maintenance. As well, much of their system is aging and will require rehabilitation and replacement over the next several years. They also cited the increased costs of sanitization chemicals.

* On the sewer side, OCWRC rates will increase by +9.9%. This is consistent among all communities in the OCWRC drainage district. Similar to GLWA, OCWRC explained the need for their rate increases based primarily on their infrastructure demands. OCWRC recently completed a sanitary sewer inspection study and found that their infrastructure was in poorer shape than they had anticipated. One major concern is a very large sanitary sewer line in the district which is in critical condition and is anticipated to cost ~ \$100M to rehabilitate over the next 3-years. Due to the cost, OCWRC will be rehabilitating this section of their sanitary sewer main over the next 3-years addressing the most critical repairs this year, followed by the next levels of criticality the next 2-years. OCWRC will be bonding out the year #1 repairs this year and will be incorporating those debt costs into the rates structure this upcoming rate year. Similar to GLWA, OCWRC's infrastructure is aging as well and higher levels of rehabilitation and replacement is needed to keep up with the infrastructure demands of the system.

4) Debt Service

* Only on the Sanitary Sewer side, no Water debt.

* As previously mentioned, OCWRC is in the midst of a \$100M sanitary sewer main repair & replacement project over the next 3-years. Year #1, they will be bonding ~ \$15M to address the most immediate critical repairs and will incorporate that debt service into their rate structure. Year #2-#3 they also anticipate bonding the remaining \$85M, but they will be assigning that debt service directly to the communities based on their proportion of the sanitary sewer district. As the City's proportion of the district is 21% I'll most likely recommend that the City participates in the OCWRC's bond issuance and not 'pre-pay' as we have done in several other OCWRC bonds over the past several years. These dollars are just too big and the W&S Capital Fund reserve is needed to address the City's W&S infrastructure needs over the long-term as our own City infrastructure is hitting the 50-60 year mark (i.e. University Hills watermain this year) and is going to need replacement.

Attached is the presentation to the WSAC from April 30.

Regarding your other questions:

Why are the rates going up this year? I don't see a mention of GLWA or them raising the rates to us. Can you provide more details on discuss scenarios for water and sanitary sewer rates based on notices received by water and sanitary sewer disposal service providers?

* See the above narrative as well as the WSAC presentation. In short, primarily due to higher costs to support our provider's infrastructure demands.

Does Oakland County have anything to do with these rate increases?

* OCWRC is a separate agency / commission from Oakland County / County Operations, with their own elected Commissioner (Jim Nash). I'd have to say very little (if any) portion of the rate increases have to do with Oakland County Operations but much more to do with the level of OCWRC infrastructure needs.

How many years in a row is the increase? What is the percent increase during that time period?

* On the sanitary sewer side (besides this large +9.9% annual increase for the 2025-26 rate year) the past 6-years sanitary sewer rates to the City have been minimal. Over the past 6-years our rates have actually decreased 4-times, with increases 2-times (last year our Sewer rate decreased (5.1%)). Interestingly the City's monthly sanitary sewer rate in 2019-20 was \$749K per month, in 2025-26 the City's monthly rate will be \$748K per month. OCWRC projects future rate increases moving forward to be in the +5% per year range. Over the past 6-years, the City's annual sewer charge has increased an average of +1.6%

* On the water side, over the past 6-years the GLWA average increase to the City has been ~ +2.5%. Part of the reason for the modest rate increases the past several years has been the City's participation as a member of NOCWA. GLWA projects future rate increases moving forward to be in the +5% per year range. Over the past 6-years, the City's annual water charge has increased an average of +3.1%

Apologies for the rather long response. As you can see there are lots of factors and considerations that come together in establishing annual W&S rates.

In summary: We've been able to keep our rates a little lower than they needed to be by using a portion of our W&S operating reserves, but now we're nearing a point where we can't continue to do that 'subsidy' at that level for much longer. Volumes are declining or flat which spreads the fixed costs over fewer units. Our suppliers are facing their own levels of deferred maintenance on their infrastructure which places upward pressure on their respective rates.

I'll touch on some of these points this evening during my comments on the proposed 2025-26 W&S rates.

If you have any additional questions, comments, concerns prior to tonight please let me know.

Thank you,
Joe



innovative by nature

Joe Snyder
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Finance Department
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2025-2026 = WSAC W&S Rate Review (Fiscal).pdf
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