

#### 4. DISCUSSION – Water and Sewer Rates

Mr. Spaman stated the new Water and Sewer Rates would become effective on July 1, 2002. He stated the Financial Services Committee and the Water and Sewer Advisory Board had met several times to review the proposed increases.

Mr. Spaman stated the proposed rate changes to Section 54-744 (Nonresidential surcharge) and Section 54-745 (High strength surcharge) were rates from the Detroit Water and Sewer Department passed on to commercial and industrial customers with no markup, although the rates had increased approximately Twenty-five (25%) Percent.

Mr. Rouse explained a survey was conducted to determine the Hydrant Meter Rates charged by neighboring communities. He stated residents and vendors were charged these rates for use in filling swimming pools or at construction projects. He explained the rates were adjusted to be competitive with the adjoining communities, although there was very little request for this service.

Mr. Rouse discussed a Cost Analysis for Hydrant Meters, noting these were pass-through charges for meters. He stated the analysis represents the costs to install meters, which were updated and have increased.

Mr. Rouse discussed a Cost Analysis for Water Taps, noting these were pass-through charges for water taps. He stated the survey determined the cost of providing the service, which was updated and has increased.

Mr. Rouse discussed a Cost Analysis for Water Meters, noting some of the charges had decreased, while others had increased. He explained these are basically pass-through charges to the customers.

Mr. Spaman stated it had been approximately seven (7) years since the Hydrant Meter, Water Tap and Water Meter rates had been adjusted.

Mr. Spaman explained a Detroit Water and Sewer Department (DWSD) survey for the Comparative Water Rates, which depicts the 2001/2002 DWSD Charges; the Community Retail Charge; the Total Community Charge, and the Community Percentage of Markup. He indicated a similar survey was conducted for the Comparative Sewer Rates. He noted One Hundred Eighteen (118) communities were included in the Water Rate Survey, of which Rochester Hills was the eighth (8<sup>th</sup>) lowest for water charges, and twenty-sixth (26<sup>th</sup>) lowest for sewer charges.

Mr. Spaman stated the current average markup for water was One Hundred Forty-seven (147%) Percent, while the City of Rochester Hills charges Twenty-seven (27%) Percent. He noted the markup for sewer was One Hundred Sixty-seven (167%) Percent, and Rochester Hills charges One Hundred Two (102%) Percent.

*(Arrive Member Golden: 6:25 PM)*

Mr. Spaman discussed a letter received from the DWSD in February, 2002, setting forth the Fiscal Year 2002/2003 Water and Sewage Rates and Charges. He noted a Schedule for the Clinton-Oakland District Approved Suburban Sewage Rates was received in April, 2002, which included an Annual Look-Back Adjustment of Four Hundred Twenty-three Thousand (\$423,000.00) Dollars for the Rochester Hills portion.

Mr. Spaman discussed a chart regarding the Water and Sewer Commodity, Customer and Capacity Charges for Years 2000, 2001 and the proposed 2002. He noted prior to the Black & Veatch Study, water commodity and capacity charges were subsidized. Mr. Spaman discussed the purpose of the Black & Veatch Study, which was to reduce the Water and Sewer Fund surplus to targeted levels. He stated the Black & Veatch Study anticipated water rates would increase Five (5%) Percent per year, and sewer rates would increase Three (3%) Percent per year.

Mr. Spaman stated the 2001 water increase was Thirteen (13%) Percent, and the 2001 sewer increase was Seven (7%) Percent. He stated some of the Operating and Maintenance (O&M) Costs were still being subsidized. He explained the proposed increases in the water and sewer charges for 2002. He indicated the recommended 2002 water rates would result in water revenues of Nine Million (\$9,000,000.00) Dollars, expenses of Eleven Million (\$11,000,000.00) Dollars, resulting in a shortfall of Two Million (\$2,000,000.00) Dollars. He stated the recommended 2002 sewer rates would result in revenue of Six Million, One Hundred Thousand (\$6,100,000.00) Dollars in revenue; Eight Million, Nine Hundred Thousand (\$8,900,000.00) Dollars in expenses, resulting in a shortfall of Two Million, Eight Hundred Thousand (\$2,800,000.00) Dollars. Mr. Spaman stated Two Million, Five Hundred Thousand (\$2,500,000.00) Dollars of the sewer shortfall was the result of debt payment.

Mr. Spaman discussed a Memorandum received from the Oakland County Drain Commission detailing Fixed Monthly Charge and O&M increases. He noted the forecasted numbers for next year include increases for both water and sewer of at least Fifty (50%) Percent.

Member Hill questioned the number of years the deficit would continue, and whether operating costs would continue to increase. Mr. Spaman explained the commodity increases were built into the model. He stated the model was designed to be at the target numbers by the year 2007; however, the proposed increases will cause the target numbers to be met by the year 2003.

Member Hill questioned when the deficit would be eliminated. Mr. Spaman indicated the deficit would be eliminated next year, given the recommended percentages. He noted the deficit was not a deficit in the Fund Balance.

Member Hill questioned whether the percentage increases for 2002 should be higher. Mr. Spaman stated the target balance for 2007 was Thirteen Million (\$13,000,000.00) Dollars, and the proposed percentage increase would reduce that Fund Balance to the target balance gradually each year.

Member Golden noted the Black & Veatch Study was not the first study conducted to reduce the Fund Balance. Mr. Spaman noted the Black & Veatch Study resulted in a ten (10) year plan through 2007.

Mr. Spaman discussed the current commodity, customer and capacity charges for water, noting the recommended increase for each. He stated the average customer water usage had dropped last year about Ten (10%) Percent.

Mr. Spaman reviewed the current commodity, customer and capacity charges for sewer, noting the recommended proposed increase, which were impacted by the Annual Look-Back Charge.

Mr. Spaman indicated the combined proposed increase for both water and sewer customer charges resulted in a Twenty-eight and six-tenths (28.6%) Percent increase for the average consumer.

Member Hill noted the proposed increase for this year as compared to the increase last year was not that significant, and questioned whether the proposed increase should be higher. Mr. Spaman indicated the increases could have been more.

Member Holder questioned what the projection for 2002 had been last year. Mr. Spaman indicated the projection was Forty-four and one-half (44.5%) Percent.

Vice President Barnett requested an explanation of the proposed increases as adjusted year to year. Mr. Spaman indicated constant yearly percentage increases would cause the Fund Balance to go below the target levels. He explained the capital program had revenue; however, the balance would not be enough to support large capital needs.

**Lee Zendel, 1575 Dutton Road**, stated the DWSD would be raising rates for the next five (5) years because they require funds to rehabilitate the current water and sewer system. He suggested residents be informed about installing an area maintenance meter to reduce sewer charges for lawn and garden watering.

Member Golden stated she understood the City of Pontiac had plans to acquire part of an abandoned railroad corridor to provide sewer service to adjoining communities. She questioned whether any information had been obtained by the Administration regarding that matter. She referred to the previous discussion about raising rates higher, but noted the Administration had been trying to reduce the Fund Balance for several years.

*(Enter Member Robbins: 6:50 PM)*

Mr. Spaman noted Rochester Hills was below the market compared to what other communities were charging for water and sewer.

Member Hill noted although the Fund Balance was in the process of being reduced, she questioned whether future infrastructure repairs would deplete the Fund too quickly. She cautioned against not raising the water and sewer rates enough and not anticipating future capital improvements.

Vice President Barnett noted the work conducted by the Financial Services Committee, the Water and Sewer Advisory Board, and the Administration regarding these rates and in preparing their proposal. Mr. Spaman explained the different scenarios discussed in determining the proposed rates.

Member Hill stated she did not feel the Operations & Maintenance (O&M) Fund should be relied upon to cover improvement costs. Mr. Spaman stated the plan had been devised for the next five (5) years to meet the target levels in 2007.

Member Duistermars noted the difficulty in forecasting water and sewer rates for the current year, due to the fact the DWSD did not provide that information more than six (6) months in advance. Mr. Rousse explained the DWSD estimates costs on a quarterly basis; conducts an audit of the costs at the end of the year, resulting in a final adjustment.

Member Holder stated the Financial Services Committee knew last year the rates would be increased this year; reviewed the recommendations provided by Mr. Spaman, and decided to soften the blow to the residents, knowing the target levels would not be reached until 2007.

Vice President Barnett stated the recommendations were made in conjunction with the current policy, and noted Council had the prerogative to review the policy and make changes if it should be determined the plan was not working.

**Lee Zendel, 1575 Dutton Road**, stated the residents should be informed that out of One Hundred Eighteen (118) communities, Rochester Hills has one of the lowest markups. Member Holder indicated that information could be included in a water bill. Mr. Spaman stated the July water bill would include information about the rate increases, noting the increases became effective July 1, 2002, but were not actually billed until August, 2002.

Member Hill requested a projection of the next five (5) years. Mr. Spaman indicated that would be prepared. Ms. Hill stated future infrastructure capital needs should also be considered along with the anticipated DWSD increases. Mr. Spaman explained there were many factors that could impact the water and sewer rates.

Mr. Spaman stated two (2) components not included in the proposed increases included the DPS Facility Building and the possibility of a water reservoir. Mr. Rousse explained the DWSD uses a rather complex formula in passing along charges, including elevation of a community, pressure in the community, and the location of the community relative to the water plants. He stated the use of a storage reservoir could provide savings by

pumping at off-peak rates. He stated an analysis of the City's water system recommended installing two (2) reservoirs, one (1) in the northwest quadrant of the City, and one (1) in the southeast quadrant. He indicated an estimated cost of Ten Million (\$10,000,000.00) Dollars for the two (2) reservoirs.

Mr. Spaman stated if the cost of the reservoirs was bonded over fifteen (15) years, at approximately Six (6%) Percent, it would cost approximately Seven Hundred Thousand (\$700,000.00) Dollars a year. Mr. Rouse indicated the reservoirs could provide a cost savings of approximately Five Hundred Thousand (\$500,000.00) Dollars a year.

Member Hill clarified the savings would benefit the consumer, not the City, because it was a pass-through cost.

DISCUSSION - DPS Facility

5. Introduction:

Mr. Cope stated the DPS Facilities Committee and Maximus had been working together for several months conducting research, gathering information and investigating the various options available with respect to the DPS Facility. He introduced Roger Thompson, Consultant, Maximus, who conducted a tour of the current DPS Facility, and provided a review of the Executive Summary.

*(Recess: 7:19 PM to 7:30 PM)*

5(ii) Tour of DPS Facility:

Roger Thompson, Maximus, conducted a tour of the current DPS Facility, beginning at 7:30 PM and ending at 8:30 PM. Mr. Thompson noted the problems encountered in the day-to-day operations of the facility, including the lack of dedicated winter storage space for road plows and other equipment required to be stored inside; the height and length problems of the existing bays for the size of equipment being serviced; the inadequate drainage problems in the bay areas; the severe ventilation problems; poor lighting; insufficient storage space; inadequate locker rooms for male and female personnel; roof and wall leak areas, and the lack of an adequate traffic circulation pattern to allow for safe ingress and egress from the various areas of the facility.

*(Recess: 8:00 PM to 8:32 PM)*

5(iii) Project Overview:

Mr. Cope explained on January 7, 2002, City Council authorized the hiring of Maximus to evaluate the options for the DPS facility and develop the program requirements. He stated Maximus completed the Executive Summary detailing four (4) different options as follows:

- Scheme A            Renovate the existing facilities and construct new facilities and areas at the existing site.
- Scheme B            Build entirely new facilities (based on a "virtual plan") on the existing site, east of the existing facilities.
- Scheme C            Build entirely new facilities (based on a "virtual plan") on the City-owned Hamlin Road site.
- Scheme D            Build entirely new facilities (based on a "virtual plan") on the City-owned Hamlin Road site. (Include a footprint of a "virtual plan" for the Rochester Community Schools)

Mr. Cope stated that the Executive Summary, with assistance from the Assessing and Engineering Departments, prepared a Site and Economic Analysis, providing a