



City of Rochester Hills  
AGENDA SUMMARY  
FINANCIAL ITEMS

1000 Rochester Hills Dr.  
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[www.rochesterhills.org](http://www.rochesterhills.org)

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Legislative File No: 2023-0395

**TO:** Mayor and City Council Members

**FROM:** Joe Snyder, Chief Financial Officer, x2534

**DATE:** August 14, 2023

**SUBJECT:** Oakland-Macomb Interceptor Drainage District  
Clinton River Water Resource Recovery Facility Drainage District  
Optimization Project Phase I – Electrical Improvements

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**REQUEST:**

The Rochester Hills City Council is requested to not approve the Prepayment of the City of Rochester Hills Special Assessment relating to Clinton River Water Resource Recovery Facility Drainage District Optimization Project Phase I – Electrical Improvements Drainage Bonds for the Oakland-Macomb Interceptor Drainage District, but rather to pay its apportionment of Roll No. 1-A in relation to the CWSRF bond issue in installments with interest.

**REASON FOR PURCHASE:**

On Monday August 7, 2023 the City of Rochester Hills received a Community Notification Letter from the Oakland County Water Resources Commission (OCWRC) Drainage Board regarding a Special Assessment relating to an upcoming Drainage Board Project.

**Project Description:**

The Drainage Board for the Clinton River Water Resource Recovery Facility Drainage District (CRWRRF) will soon commence work on the Optimization Project Phase I – Electrical Improvements Project (Project). The Project intends to upgrade and replace aging electrical infrastructure at the CRWRRF. The Project will improve plant reliability and help to mitigate unapproved discharges as required by the Michigan Department of Environment, Great Lakes, and Energy (EGLE). The Project consists of the installation of plant backup generators and cogeneration power/steam generators, replacement of aging switchgear, construction of a new electrical building, and other electrical upgrades to the plant.

The estimated cost for the Project is \$62,645,000, and the final cost will be known after project bids are received on July 25, 2023. Estimates for this project have been challenging due to the volatile electrical supply market and costs will be trued up once the bids are opened. The Drainage Board plans to finance the Project by issuing drain bonds in one or more series.

The Drainage Board expects to issue at least one series of drain bonds to the State of Michigan's Clean Water State Revolving Fund (CWSRF) Program. The Project has been allocated \$38,090,000 of low-interest (1.875%) financing and the CWSRF Bonds are expected to close on September 20, 2023. Additional funding has been requested but the status of that request is unknown at this time. The CWSRF Bonds will relate to the Special Assessment Roll No. 1-A of the Clinton River Water Resource Recovery Facility Drain Optimization Project ("Roll No. 1-A"). The City of Rochester Hills apportionment of this assessment is 10.242% or \$3,901,179.

If necessary, the balance of the Project funding will likely be completed through a combination of additional CWSRF funding, public market bond offering, and/or grants. Current interest rates estimates for the public bond market are about 3.75% to 4.00% for 20 years. Grants, if received, will reduce the overall assessment for all apportioned communities. More details will be communicated as the Project budget and other funding sources are finalized.

**Installment Payments:**

**If the City chooses to pay in installments, no action is required.** EGLE accepted the Project into the FY 2023 Clean Water State Revolving Fund (CWSRF) financing Intended Use Plan. The interest rate on the bonds will be 1.875%, and the bonds will receive principal forgiveness of 10% of the amount financed. It is important to note, per EGLE's FY 2023 CWSRF structuring, the principal forgiveness is only applied to the amount financed.

The CWSRF financing is a draw-based loan. The Drain District will draw against the loan as Project construction proceeds. Semi-annual interest on the bonds will accrue based on the actual dollar amount that has been drawn on the Project. The Drainage District will pay interest on the bonds each April 1 and October 1, beginning April 1, 2024. Oakland County Fiscal Services, on behalf of the Drainage District, will invoice communities for interest due prior to the due date. The CWSRF Bonds are anticipated to close on September 20, 2023. The Drainage Board anticipates (subject to change) that principal payments will begin on October 1, 2027.

If the City of Rochester Hills were to choose not to notify the Drain Board of its intent to prepay and instead to pay the Special Assessment debt in installments, the total cost to the City over the next 24-years is estimated at \$4,332,692, or an average of approximately \$210,000 per year of debt service including principal and interest once principal and interest payments start in Year #5. In Year #5 this amount will equate to an approximate increase in the Sanitary Sewer Commodity Rate of +\$0.07 per unit or a +1.0% increase.

**Prepayment:**

**Each community electing to prepay its assessments must notify the Drain Board of its intent to prepay and the amount to be prepaid by July 28, 2023.** As the Drain Board did not notify communities until August 7, 2023, they have allowed for a grace period for communities to notify them in case the community does choose to prepay.

If the City of Rochester Hills City Council decides to adopt a resolution approving prepayment following consultation with its local attorney, the adopted resolution shall be included with the prepayment notice. Oakland County Fiscal Services will send the City of Rochester Hills a prepayment invoice in the amount of \$3,901,179.

**Administrative Recommendation:**

Since FY 2014, the City of Rochester Hills has traditionally elected to prepay similar Special Assessments for OCWRC Drain Board projects, forgoing the accompanying debt service interest costs. This particular Special Assessment has different circumstances including the potential to have 10% of the principal forgiven, as this particular Project phase will be financed through the FY 2023 Clean Water State Revolving Fund (CWSRF), as well as a currently low interest rate of 1.875%. If the City of Rochester Hills were to select the prepayment option the City would not be eligible to have 10% of the principal forgiven as the City would not be participating in the CWSRF funding.

In August of 2022, the OCWRC Drain Board anticipated a total cost of \$20,000,000 for the entire Project, and the City conservatively included \$2,500,000 in FY 2023 Budget for its 10.242% share to allow the opportunity to prepay the Special Assessment. This Drain Board Project cost has increased tremendously

and is now anticipated to cost \$62,645,000, with an initial prepay option for the Rochester Hills apportionment of Phase I of the Project at \$3,901,179.

As the first \$38,090,000 of Phase I of this Project is to be funded through the CWSRF program with the 10% principal forgiveness and low interest rate of 1.875%, versus an anticipated second (or more) Special Assessment(s) for the remaining \$24,555,000 of the Project potentially funded through traditional bonds at 3.75% to 4.00% it is recommended by Administration to select the participation in the CWSRF funding for Phase I of the project and to reallocate the \$2,500,000 currently included in the FY 2023 budget for this Project into a future Budget year to cover the City’s anticipated prepayment of the second (or more) Phase(s) of the Project.

If the City were to elect to prepay the total cost of Phase I of the Project, due by September 2023, would be \$3,901,179.

If the City were to elect to participate in the CWSRF financing, the total cost of Phase I is estimated at \$4,332,692 over the 24-year debt service schedule. This equates to a net cost of financing Phase I of the Project through the CWSRF of an additional +\$431,513, or roughly an additional +\$18,000 per year over the next 24-years.

**PROCESS:**

**Vendor Name and Address:**

Oakland County Water Resources Commission (OCWRC)  
 One Public Works Drive, Building 95 West  
 Waterford, MI 48328-1907

**Reason for Selection:**

Contractual Obligation

**Method of Purchase:**

Purchase Order

**BUDGET:**

Partial funding is included in the FY 2023 Adopted Budget, based on the City’s 10.242% share of a previously estimated \$20,000,000 total Project.

| Fund Name                  | Department Account No | Account No. Description                                  | Budget Amount | Cost        | Remaining Budget |
|----------------------------|-----------------------|--|---------------|-------------|------------------|
| Water & Sewer Capital Fund | 593.972000            | Mains & Services:<br>OMID Assessments<br>- NIEA Phase #2 | \$2,500,000   | \$3,901,179 | (\$1,401,179)    |

If the City were to select the prepayment method for Phase I, a FY 2023 3<sup>rd</sup> Quarter Budget Amendment would be presented to draw the remaining (\$1,401,179) required from Water & Sewer Capital Fund Reserves.

If the City were to select the participation in the CWSRF funding for Phase I, the \$2,500,000 would remain in the Water & Sewer Capital Fund Reserves and could then be reallocated towards the potential second (or more) Phase(s) for the Special Assessment for this Drain Board Project.

**RECOMMENDATION:**

The Rochester Hills City Council is recommended to not approve the Prepayment of the City of Rochester Hills Special Assessment relating to Clinton River Water Resource Recovery Facility Drainage District Optimization Project Phase I – Electrical Improvements Drainage Bonds for the Oakland-Macomb Interceptor Drainage District, but rather to pay its apportionment of Roll No. 1-A in relation to the CWSRF bond issue in installments with interest.

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| APPROVALS:                                 | SIGNATURE | DATE |
|--|-----------|------|
| Department Review                          |           |      |
| Department Director                        |           |      |
| Budget Content:<br>Chief Financial Officer |           |      |
| Purchasing Process:<br>Procurement Manager |           |      |
| Mayor                                      |           |      |
| City Clerk                                 |           |      |

Contract Reviewed by City Attorney       Yes       N/A