

MEMORANDUM



TO: VICTOR CARDENAS, CITY MANAGER
FROM: SABRINA LILLA, DEPUTY FINANCE DIRECTOR
SUBJECT: WATER & SEWER RATES
DATE: JULY 15, 2025

The Finance Department has analyzed the water and sewer rates for fiscal year 2025-2026. During the review staff look at both operating and capital costs of the system. The largest impact to the City's operating costs of the water and sewer systems are changes in rates by our service providers (Great Lake Water Authority, or "GLWA," and Oakland County Water Resource Commissioner, or "WRC"). GLWA charges the City a fixed fee and variable fee, whereas WRC charges only a fixed fee.

Other operating costs include salaries and fringes, equipment, maintenance, and cleaning costs, which are estimated to increase by inflation. Over the last decade efficiencies in operations and the water storage facility have allowed the City to absorb increases for customers, as compared to the increases in costs to the City.

The table below shows the increases in costs to the City from GLWA and WRC as well as the City's increases or decreases in rates going back 10 years. Over the past 8 years, the average user has not seen an increase in their water and sewer bills greater than 5% while the City has seen significant increases (including double digits on the sewer side). In addition, GLWA's local communities were not seeing increases greater than 4% for a few years, however; inflation and their capital investment resulted in a 6.3% increase in water rates for Novi in fiscal year 2026.

	RATE INCREASES/DECREASES										Proposed
	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19	FY 2019/20	FY 2020/21	FY 2021/22	FY 2022/23	FY 2023/24	FY 2024/25	FY 2025/26
GLWA	7.2%	-23.9%	8.7%	-0.2%	-0.6%	1.9%	2.0%	2.7%	5.9%	2.4%	6.3%
WRC	3.8%	2.8%	0.6%	1.3%	21.3%	15.5%	1.1%	3.3%	5.1%	7.0%	4.2%
City Water	12%	-16%	0%	2%	2%	2.0%	1.0%	2.5%	6.0%	6.0%	8.0%
City Sewer	4%	6%	0%	8%	3%	7.0%	1.0%	5.0%	6.25%	9.0%	6.0%
Typical User - Combined	8%	-8%	0.0%	3.2%	1.6%	2.8%	0.6%	2.5%	4.0%	5.0%	4.7%

In addition to the rising costs of service providers, the City has undergone significant capital projects over the last five years. The projects have been paid directly by the fund's cash reserves. No debt was incurred, and therefore no interest expense was paid, on all except the WRC Interceptor (WRC bounded 1/3 of the ~18M total). These significant projects cost ~\$51.7M and are listed below:

▪ 8 Mile Equalization basin	\$10.1 Million
▪ 9 Mile Gravity Relief Sewer	\$11.35 Million
▪ WRC Interceptor HRSDS	\$6.0 Million
▪ AMI Metered Water System	\$3.79 Million
▪ DPW Building	\$3.04 Million
▪ Sanitary sewer and manhole rehab	\$2.66 Million
▪ Howell Walled Lake Sanitary Sewer	\$2.58 Million
▪ Walled Lake District Sanitary Sewer	\$2.43 Million
▪ Vactor Station and DPW Parking Lot	\$1.84 Million
▪ Lanny/Drakes Lift Station Upgrade	\$1.06 Million
▪ I-96 Sanitary Sewer Cross	\$1.02 Million
▪ Westminster Sub Water Main	\$976,000
▪ Sanitary Sewer Force Main Replace	\$960,000
▪ Grand River Sanitary Sewer	\$590,000
▪ Vactor (sewer cleaner)	\$482,000
▪ Garfield Pump Station	\$471,000
▪ PCCP Water Main Inspection	\$437,000
▪ 10 Mile Loop Connection	\$402,000
▪ 14 Mile Watermain Transmission	\$392,000
▪ Valve/Gate Well Replace 13 Mile	\$307,000
▪ Flint/Bond Street Water Main	\$268,000
▪ Cranbrook Water Main Replace	\$215,000
▪ Water Main Loop Connection -SW	\$210,000
▪ Sanitary Lift Station Access	\$136,000

The City's current cash and investments balance in the Water and Sewer Fund is:

June 30, 2025, cash and investments	\$15M
FY 2025 remaining budgeted capital projects to take place in FY 2026	(\$10.7M)
FY 26 budgeted use of fund balance (includes \$2.7 million of capital projects	<u>(\$1.1M)</u>
Estimated cash balance June 30, 2026	\$3.2M

Given the significant investment in the system and the low rate increases over the past ten years, staff recommend gradually recuperating the City's cash reserve balance. In an effort to increase cash reserves now, the DPW Department has recommended the FY 2025 asbestos/cement water main project be postponed saving the fund \$2.7M and FY 27 and 28 be reduced from \$2.5M to \$1.5M per year.

The proposed water variable rate increase of 8% and the proposed sewer variable rate increase of 6% below is estimated to generate \$2.6 million in cash which covers the majority of the budgeted \$2.7 million in capital outlay. The average user will see only a 4.7% increase in their total water and sewer bill.

Example of Water and Sewer charges using Huron Rouge Metered Rate

	<u>2024-2025</u>	<u>2025-2026</u>	<u>Increase</u>
Quarterly:			
Water			
Fixed rate	\$ 56.00	\$ 56.00	
20,000 gallons	\$ 79.00	\$ 85.32	
Sewer			
Fixed rate	\$ 30.00	\$ 30.00	
20,000 gallons	\$ 102.80	\$ 108.97	
Quarterly	\$ 267.80	\$ 280.29	\$ 12.49
Annually	\$ 1,071.20	\$ 1,121.15	\$ 49.95
Estimated increase			4.7%

Furthermore, last month staff were notified of improvements to the Walled Lake Wastewater Treatment Plant. WRC is managing the project and Novi's share is estimated to cost ~\$4M. Typically, Novi has paid these costs upfront to the County as the cash flow allowed. Given the current cash reserve balances, staff is recommending financing the costs with WRC, which will be built into our quarterly operating fees.

Staff will continue to monitor the water and sewer rates and cash reserve balance on an annual basis and make recommendations as circumstances change. The rate increase discussed herein will be presented for consideration to City Council at the July 28, 2025, Council Meeting.