

MEMORANDUM



TO: VICTOR CARDENAS, CITY MANAGER
FROM: CARL JOHNSON, FINANCE DIRECTOR
SUBJECT: WATER & SEWER RATES UPDATE
DATE: JULY 11, 2024

The Finance Department has analyzed the water and sewer rates for fiscal year 2024-2025. In our review of rates, we looked 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 the changes in rates our providers of water and sewer services charge us (Great Lake Water Authority, or "GLWA," and Oakland County Water Resource Commissioner, or "OCWRC"). GLWA charges the City a fixed fee and a variable fee. The fixed fee increased 2.3% from the prior year, while the variable fee increased 4.2%. GLWA estimates a combined fixed and variable fee increase of 2.4%, or \$245,514. OCWRC charges a fixed monthly sewer fee. The City is still waiting for the estimated increase for the Huron Rouge Sewage Disposal System district but has estimated an increase of 5%. The Walled Lake-Commerce Sewage Disposal System is estimated to increase 7.4%. The total net increase in sewage disposal costs is estimated to at 7% or \$922,341. The total third party water and sewer fees are estimated to increase by a combined 5% or \$1,167,855.

Other operating costs include salaries and fringes, equipment, maintenance, and cleaning costs, which are estimated to increase by inflation. Efficiencies in operations over the past few years have continued to allow the City to have lower increases than most of our surrounding communities. In an effort to minimize the annual rate increase while still covering the current operating and capital costs, we recommend to City Council to increase the variable water rate by 6%, or 22 cents per 1,000 gallons consumed, and to increase the variable sewer rate by 9%, or 42 cents per 1,000 gallons consumed. There are no recommended increases to the fixed charges for either water or sewer.

The variable rate in 2013 for water was \$3.86 per 1,000 gallons. Due to various rate reductions over the past 8 years, the \$3.95 per 1,000 gallons proposed water rates are just slightly above the 2013 rates. In addition, the \$5.14 per 1,000 gallons proposed sewer rate is less than a dollar above the City's \$4.25 per 1,000 gallons rate back in 2013. The average residential user with a 5/8" meter will only see a 5.0% increase, or \$51.89 annual increase to their bill, which is equal to the third party combined costs increase for water and sewer. The current estimate is that with the recommended new rates, the Water and Sewer Fund will have a \$2.12 million increase in operating cash flow.

In addition to the operating costs of the system, the City must also manage the Water and Sewer Fund's capital needs and cash reserves. Included in the projected cash flow above is approximately \$1.1 million in tap-in fees from new users to offset current and

future capital needs. The Water and Sewer Fund has approximately \$13.8 million in ongoing construction projects that were originally budgeted in FY 2024 that will continue into FY 2025, since they were not completed by year-end.

The Water and Sewer Fund has two significant ongoing projects requiring significant funding over and above the operating rates. The first is the estimated \$18-24 million project related to the WRC Huron Rouge Sewer Disposal System Interceptor Rehabilitation. The City will be paying \$6 million in fiscal 2025 and the balance will be covered by debt issued by the County. Once the debt is issued, the Water and Sewer Fund will be billed annually for the debt service which could be as much as \$1 million per year for the next 20 years. The second item began in FY 2023 which is the lengthy process of replacing the Asbestos-Cement water lines originally identified during a capital needs assessment in approximately 2017. The original estimated cost was nearly \$40 million, and \$4.5 million was budgeted annually in the six-year CIP until the project is complete. Due to the current escalating cost of goods and services, the estimated \$40 million cost has increased by 45%, making the estimated cost closer to \$58 million. The following are the significant capital projects budgeted for FY 2025:

- Asbestos-Cement water line replacement \$2.5 million
- Water main loop connection – Beck (Dunhill to Casa Loma) \$873,343
- Water main loop connection – Southwest (8 & 9 mile, Napier 7 Garfield) \$5,521,006

We will continue to monitor the water and sewer rates and cash reserve balance on an annual basis and make recommendations as needed to adjust them as facts and circumstances change. Special thanks to the DPW team for their assistance and support with our annual analysis!