



CITY OF NOVI CITY COUNCIL
JULY 22, 2024

SUBJECT: Approval of Proposed Water & Sewer Rate Resolutions for 2024-2025

SUBMITTING DEPARTMENT: Finance/Water and Sewer

BACKGROUND INFORMATION:

The Finance Department and Department of Public Services annually review and propose water and sewer rates for City Council consideration. The City of Novi purchases treated water and sewer services from other governmental entities. The attached rate schedules incorporate the charges from the Great Lakes Water Authority ("GLWA") for water services and the combined pass-through increase from the Oakland County Water Resource Commission (OCWRC) for sewer services.

GLWA charges both a fixed rate (60% of cost) and a variable rate (40% of cost) to its customers. 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. As the table shows below, this is consistent with increases from GLWA over the past five years.

Fiscal Year	Fixed Costs	Contract Volume Costs (Variable)	Total GLWA Costs (Revenue Requirement)	Percent Change from Previous yr.
2020-2021	\$5,625,600	\$12.69	\$9,375,495	1.90%
2021-2022	\$5,736,000	\$13.08	\$9,560,592	2.00%
2022-2023	\$5,890,800	\$13.42	\$9,817,492	2.70%
2023-2024	\$6,238,700	\$13.69	\$10,397,722	5.90%
2024-2025	\$6,385,200	\$14.26	\$10,643,236	2.40%

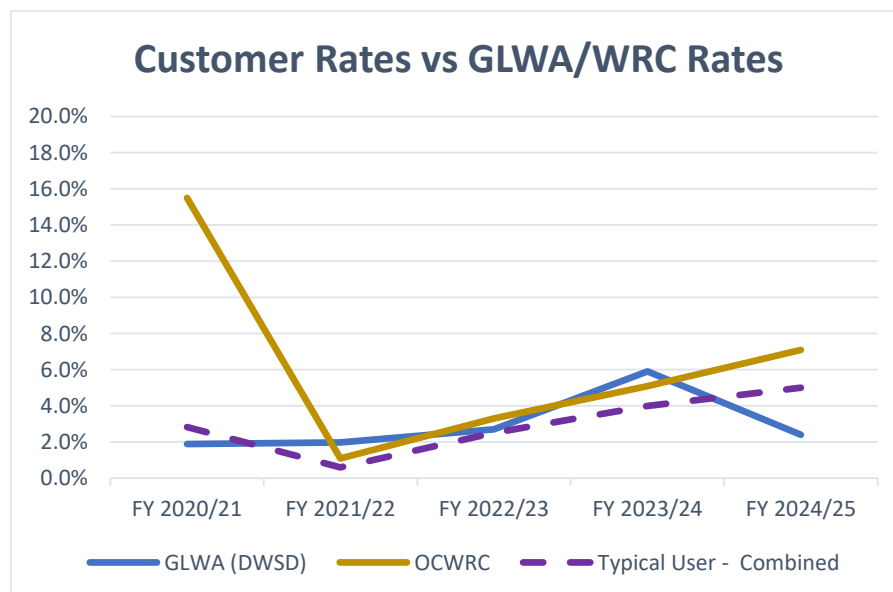
The Oakland County Water Resource Commission (OCWRC) has also moved from a former variable rate charged to users to a fixed rate. The Huron Rouge Sewage Disposal System ("HRSDS") (the largest of two systems within the City) has an estimated 5.0% rate increase from the prior year. The County has not provided an official

increase to the Huron Rouge System at time of rate setting. The rate for the second system, the Novi-Walled Lake Sewer System and Commerce arm, is estimated to increase 7.4% from the prior year. The total increase of the City's sewer systems is a combined 7% or \$922,341. The total third party water and sewer fees are estimated to increase by a combined 5% or \$1,168,000.

Additional costs to be covered by the water and sewer user fees include annual operating costs such as salary and fringes, maintenance and cleaning costs, current equipment costs, and vendor contracts for water installation fees which are expected to increase by the rate of inflation.

The City sets water and sewer rates using a multi-year budget and capital plan, which allows the current year cost increase of 2.4% for water, 7% for sewer and numerous capital needs to be spread out over several years. In the current year, the City's increase in rates is primarily passing along, to the average user, the combined 5% rate increases from GLWA and OCWRC. The increase to customers will allow a small amount for capital needs for the existing system. Prior years' efficiencies in operations have also allowed the City to have minimal increases in rates over the past several fiscal years. The proposed combined water and sewer rate increase to the average customer for the 2024-25 fiscal year will be approximately 5.0%, or \$52 annually for residential 5/8" meter size and approximately 5.4% or \$97 for a large user with a 1" meter. The net increase in the overall rate includes no change to the water fixed fee, a 6.0% increase in the water variable rate, no change to the fixed sewer rate, and a 9.0% increase in the variable sewer rate.

The chart below details the rate increases from GLWA and OCWRC compared to the rate increases to the variable water and sewer rates passed onto the City's users. As the graph shows, the City's typical user's combined water and sewer bill for the past five years has been below the increases from the City's third-party water and sewer providers. This is especially true in fiscal years 2020 and 2021 when WRC's increases were 18% and 15%, respectively, yet the typical user only saw a 1.5% and 2.8% increase in fiscal years 2020 and 2021.



In the current year, the city's typical user will still see an increase to their water and sewer bill of 5% compared to the system's vendor increases of 2.4% (water) and 7% (sewer), as stated previously.

To put it in perspective, the variable rate in 2013 for water was \$3.86 per 1,000 gallons. Due to various rate reductions since 2013, 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 proposed rates are expected to generate a \$2.12 million net operating cash inflow (gain) in fiscal year 2025 which will be used to offset a portion of the 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 Expansion. 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.

The City of Novi Water & Sewer Fund, the Oakland County Water Resource Commission (OCWRC), and the Great Lakes Water Authority (GLWA) are all not-for-profit entities and therefore rates are intended and required to cover operating, maintenance, capital replacement and rehabilitation, and debt service costs.

RECOMMENDED ACTION: Approval of Proposed Water & Sewer Rate Resolutions for 2024-2025