



**CITY OF NOVI CITY COUNCIL**  
**JULY 31, 2023**

**SUBJECT:** Approval of Proposed Water & Sewer Rate Resolutions for 2023-2024

**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 partial 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 5.9.% from the prior year, while the variable fee increased 2.0%. GLWA estimates a combined fixed and variable fee increase of 5.9%, or \$580,230. As the table shows below, this is the largest increase from GLWA in the past five years.

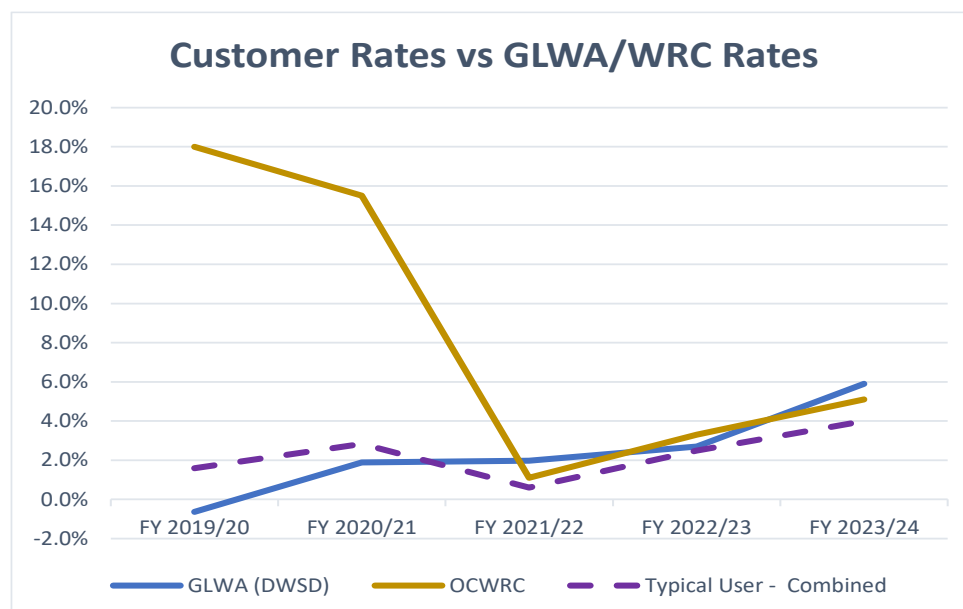
| <b>Fiscal Year</b> | <b>Fixed Costs</b> | <b>Contract Volume<br/>Costs (Variable)</b> | <b>Total GLWA Costs<br/>(Revenue<br/>Requirement)</b> | <b>Percent<br/>Change from<br/>Previous yr.</b> |
|--------------------|--------------------|---------------------------------------------|-------------------------------------------------------|-------------------------------------------------|
| 2019-2020          | \$5,521,200        | \$12.12                                     | \$9,201,000                                           | -.6%                                            |
| 2020-2021          | \$5,625,600        | \$12.69                                     | \$9,375,495                                           | 1.9%                                            |
| 2021-2022          | \$5,736,000        | \$13.08                                     | \$9,560,592                                           | 2.0%                                            |
| 2022-2023          | \$5,890,800        | \$13.42                                     | \$9,817,492                                           | 2.7%                                            |
| 2023-2024          | \$6,238,700        | \$13.69                                     | \$10,397,722                                          | 5.9%                                            |

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 a 5.2% rate increase from the prior year. The rate for the second system, the Novi-Walled Lake Sewer System and Commerce arm, is estimated to increase 4.8% from the prior year. The total increase of the City's sewer systems is a combined 5.1% or \$626,360.

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 5.9% for water, 5.1% 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 just passing along the rate increases from GLWA and OCWRC with only 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 2023-24 fiscal year will be approximately 4.0%, or \$39 annually for residential 5/8" meter size and approximately 4.3% or \$73 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 6.25% 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 4% compared to the system's vendor increases of 5.9% (water) and 5.1% (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 \$3.73 per 1,000 gallons proposed water rates are still below the rate from 2013. In addition, the \$4.72 per 1,000 gallons proposed sewer rate is just 47 cents higher than the City's \$4.25 per 1,000 gallons rate back in 2013.

The proposed rates are expected to generate a \$1.475 million net operating cash inflow (gain) in fiscal year 2024 which will be used to offset a small amount of the budgeted \$24 million in capital costs. The City's current capital reserves (fund balance) will be used to help offset the balance of the 2024 budgeted capital costs of \$24 million (\$22.525 million from fund balance). In addition, the City anticipates approximately \$14 million in capital improvements previously authorized and appropriated in fiscal year 2022/2023 to be completed during fiscal 2024. Overall, the cash reserve balance will be significantly reduced in fiscal year 2023/2024 primarily due to an \$18 million County mandated sewer interceptor project that had been in the works for many years and is finally moving forward. The City does not expect large increases from OCWRC or GLWA in the short-term, but if that happens, the City will continue to work to minimize future rate increases to City customers.

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 2023-2024