



CITY of NOVI CITY COUNCIL

**Agenda Item
Meeting Date**

SUBJECT: Approval of Proposed Water & Sewer Rate Resolutions for 2022-2023

SUBMITTING DEPARTMENT: Finance/Water and Sewer

CITY MANAGER APPROVAL:

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”), formerly Detroit Water & Sewerage Department (DWSD), 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 and a variable rate to its customers. During fiscal year 2016, the City constructed a water storage facility to help alleviate peak hour usage charges from GLWA and ultimately decrease the City’s overall water costs. In the first year of operating the storage facility (2017), the City’s total water costs decreased 23% from the year before. In fiscal year 2018, water costs increased 9%. Estimated costs for fiscal year 2023 are estimated to increase 2.7% from the prior fiscal year

Fiscal Year	Fixed Costs	Contract Volume Costs (Variable)	Total GLWA Costs (Revenue Requirement)	Percent Change from Previous yr.
2016-2017	\$5,122,800	\$12.98	\$8,536,540	-23%
2017-2018	\$5,336,400	\$12.99	\$9,281,889	9%
2018-2019	\$5,557,000	\$12.57	\$9,261,379	0%
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%

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 1.7% 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% from the prior year. The total increase of the City's sewer systems is a combined 3.3% or \$386,797.

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.

The City sets water and sewer rates using a multi-year budget and capital plan, which allows the current year cost increase of 2.7% for water and 3.3% for sewer to be spread out over several years. Prior years' efficiencies in operations have also allowed the City to have no increase or minimal increases in rates over the past three fiscal years and will allow the current year proposed rates to be less than the cost increases. The proposed combined water and sewer rate increase to the average customer for the 2022-23 fiscal year will be approximately 2.5%, or \$24.18 annually for residential 5/8" meter size and approximately 2.4% or \$33 for a large user with a 1" meter. The net increase in the overall rate includes no change to the water fixed fee, a 2.5% increase in the water variable rate, no change to the fixed sewer rate, and a 5.0% increase in the variable sewer rate.

The City expects a small net operating cash outflow (loss) in fiscal year 2023 even with the increased rates. The City's capital reserves will be used to help offset the 2023 budgeted capital costs of \$5.1 million. In addition, the City anticipates approximately \$10 million in capital improvements previously authorized and appropriated in fiscal year 2021/2022 to be completed during fiscal 2023. Overall, the cash reserve balance is expected to be reduced in fiscal year 2022/2023 from approximately \$42.8 million to \$27.7 million. 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 2022-2023

**RESOLUTION
WATER RATES**

WHEREAS, the City of Novi through the Code of Ordinance, Section 34 has empowered itself to acquire, Construct, and operate a water supply system; and,

WHEREAS, by Section 34-19 the City of Novi may establish rates to operate said system; and,

WHEREAS, certain rates must reflect the costs of usage and consumption; and,

WHEREAS, certain rates must cover the costs related to administration, construction, maintenance and replacements to the system; and,

WHEREAS, the cost to finance said system demonstrates a need to increase the water rates.

NOW, THEREFORE BE IT RESOLVED that the following rates shall be implemented as the rates of the Water Supply System pursuant to Section 34-19 for all bills rendered after August 1, 2022.

WATER RATES	
<u>Minimum (Fixed) Rate Schedule:</u>	
<u>Meter Size</u>	<u>Minimum Rate per Quarter</u>
5/8"	\$ 56.00
1"	80.00
1.5"	174.00
2"	232.00
3"	665.00
4"	850.00
6"	1,778.00
8"	2,114.00
10"	2,425.00
<u>Consumption Rate:</u> \$3.52 per Thousand Gallons	

NOW, THEREFORE BE IT RESOLVED that the rates related to water fees will be established as follows:

▪ **EQUIPMENT FEES**

<u>Service Size</u>	<u>Meter Size</u>	<u>Public Street Copper</u>	<u>Private Street Copper</u>
1"	5/8"	\$2,139	\$1,565
1"	1"	\$2,297	\$1,720
1.5"	1"	\$3,043	\$2,238
1.5"	1.5"	\$3,313	\$2,505
2"	1.5"	\$4,063	\$2,625
2"	2"	\$4,253	\$2,815

- Service on Public Roads over 60 feet, there will be an additional fee per Right of Way foot of:

<u>SERVICE SIZE</u>	<u>FEE/PER RIGHT OF WAY FOOT COPPER</u>
1"	\$19.00
1.5"	\$22.00
2"	\$24.00

An additional \$ 1,000 fee will be assessed for taps into a concrete water main. A separate additional fee will be assessed if a directional bore is needed (please contact the Water & Sewer Department).

▪ **METERING EQUIPMENT FEES**

<u>SIZE</u>	<u>METER</u>	<u>METER HORN</u>	<u>FLANGES</u>	<u>STRAINER</u>	<u>RADIO REMOTE</u>
5/8"	\$ 117	\$ 67	N/A	N/A	\$ 104
1"	220	121	N/A	N/A	104
1.5"	449	N/A	157	N/A	104
2"	597	N/A	205	N/A	104
3" (Compound)	2,524	N/A	587	815	104
4" (Compound)	3,436	N/A	814	1,084	104
6" (Compound)	5,191	N/A	1,307	2,112	104

8" and larger Compound and Turbine meters and equipment will be actual costs plus 15% City of Novi Administrative Fee

MISCELLANEOUS CHARGES

Miscellaneous Inspection Fee	\$ 90
Turn-off or Turn-on Service (regular hours)	90
Turn-off or Turn-on Service (Saturdays or Evenings)	175
Turn-off or Turn-on Service (Sundays or Holidays)	250
Water Meter Test	85
Unmetered Water – Single Family Residential Construction	105
Unmetered Water – Non-Single Family Residential Construction	365
Permits to Use Fire Hydrant Fees:	
Backflow Preventer & Meter Deposit: 1” meter	500
Backflow Preventer & Meter Deposit: 2” meter	1900
Backflow Preventer & Meter Deposit: 3” meter	1900
Hydrant Deposit	200
Permit Fee	60
Inspection Fee	60
Rental Fee	\$3.00/per day, \$20/per month

WATER TAP FEES

For the privilege of tapping into the Water Supply System, there shall be a charge of One Thousand Eight Hundred Fifty Dollars (\$1,850.00), multiplied by the unit factor set forth in the Unit Factor Chart as adopted by the City Council. With the exception of those users served directly by the water main constructed and financed by Special Assessment District Number 126 who will be charged Five Hundred Dollars (\$ 500.00) multiplied by the factor set forth in the Unit Factor Chart.

SPECIAL RATES

For miscellaneous services for which, in the judgment of the City Council a special rate should be established, such rates shall be established and charged in accordance with the schedule of rates adopted by resolution of the City Council.

CERTIFICATION

I HEREBY CERTIFY that the foregoing is a true and complete copy of a resolution adopted by the City Council of the City of Novi at a regular meeting held the 25th day of July 2022.

By: Cortney Hanson
Its: City Clerk

RESOLUTION
Huron-Rouge Sewer Rates

WHEREAS, the City of Novi through the Code of Ordinance, Section 34-145 has established that the rates are to be sufficient to provide for the payment of the expenses of administration and operation and such expenses for the maintenance of the system as are necessary to preserve the same in good repair and working order, to provide for the payment of the sewage disposal charge required to be paid to the county, to provide for the annual payments required to be made to the county in connection with the Huron-Rouge System, to provide for the payment and interest as required by the contract with the county, and to provide for the payment of such other expenditures and funds for the system as this division may require. Such rates shall be fixed and revised from time to time as may be necessary to produce these amounts.

WHEREAS, Oakland County has notified the City of Novi that their charge to us for sewage disposal has remained constant for 2022-2023,

WHEREAS, the cost to finance said system demonstrates that the sewer rates will be increasing,

NOW, THEREFORE BE IT RESOLVED, that the following rates shall be implemented as the rates of the sewer system pursuant to Section 34-145 for all bills rendered after August 1, 2022.

Base Sewer Rates	
<u>Minimum (Fixed) Rate Schedule</u>	
<u>Meter Size</u>	<u>Minimum Rate Per Quarter</u>
5/8"	\$30.00
1"	50.00
1.5"	85.00
2"	105.00
3"	320.00
4"	410.00
6"	850.00
8" or larger	995.00

\$4.44 per thousand gallons for metered consumption, and
\$113.28 per quarter/per tap unit for un-metered consumption

INSPECTION FEE

Sewer Inspection Fee.....\$90.00

High Strength Pollutants (HSP) and for Industrial Waste Control (IWC)

WHEREAS, the pass-through surcharges from the Great Lakes Water Authority for High Strength Pollutants (HSP) and for Industrial Waste Control (IWC) which are regulated by the Clean Water Act and may change every year.

NOW, THEREFORE BE IT RESOLVED, the City of Novi will collect the HSP and IWC surcharges as determined by the Great Lakes Water Authority.

SEWER TAP FEES

For the privilege of tapping into the Sanitary Sewer System, there shall be a charge of Two Thousand Seven Hundred Twenty Dollars (\$2,720.00), multiplied by the unit factor set forth in the Unit Factor Chart as adopted by the City Council.

CERTIFICATION

I HEREBY CERTIFY that the foregoing is a true and complete copy of a resolution adopted by the City Council of the City of Novi at a regular meeting held the 25th day of July 2022.

By: Cortney Hanson
Its: City Clerk

RESOLUTION
Novi-Walled Lake Sewer System

WHEREAS, the Oakland County Drain Commission (OCDC) operates the Novi-Walled Lake Treatment Plant for the Cities of Novi and Walled Lake; and

WHEREAS, certain rates must reflect the costs of providing services;

USAGE FEE

NOW, THEREFORE BE IT RESOLVED that the new rate to the user of this system is established at \$109.69 per unit per quarter for all bills rendered after August 1, 2022.

SEWER INSPECTION FEE

WHEREAS, OCDC operates and maintains the Novi-Walled Lake Treatment Plant, and all sewer infrastructures for effluent to the plant;

NOW, THEREFORE BE IT RESOLVED, the City of Novi will collect the pass-through OCDC sewer inspection fee as determined by the OCDC.

INDUSTRIAL PRETREATMENT PROGRAM (IPP)

WHEREAS, the pass-through IPP surcharges from OCDC are regulated by the Clean Water Act and change every year;

NOW, THEREFORE BE IT RESOLVED, the City of Novi will collect the IPP surcharge as determined by the OCDC.

CERTIFICATION

I HEREBY CERTIFY that the foregoing is a true and complete copy of a resolution adopted by the City Council of the City of Novi at a regular meeting held the 25th day of July 2022.

By: Cortney Hanson
Its: City Clerk

Example of Water and Sewer charges using Huron Rouge Metered Rate

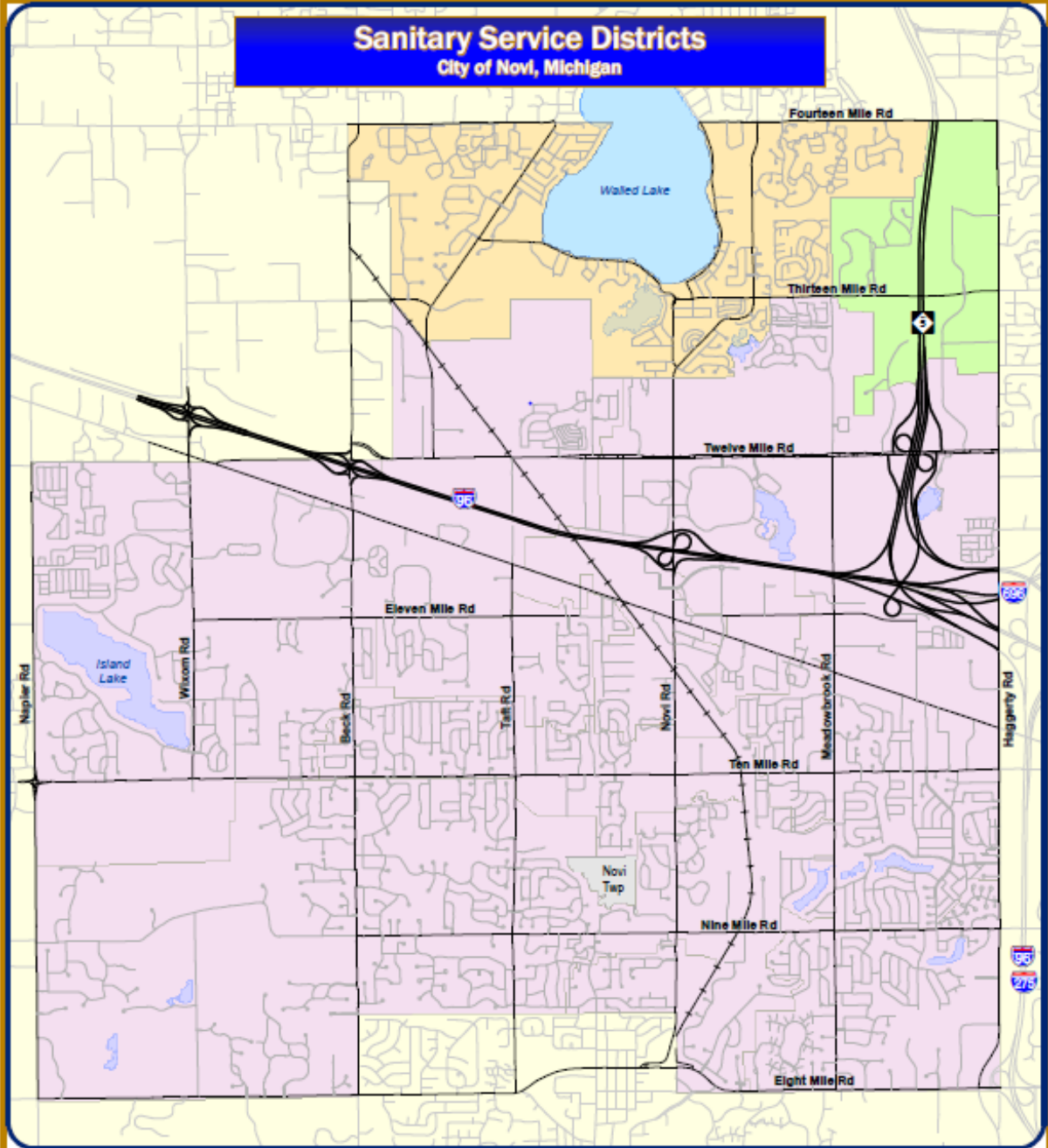
	<u>2021-2022</u>	<u>2022-2023</u>	<u>Increase</u>
Quarterly:			
Water			
Fixed rate	\$ 56.00	\$ 56.00	
20,000 gallons	\$ 68.60	\$ 70.32	
Sewer			
Fixed rate	\$ 30.00	\$ 30.00	
20,000 gallons	<u>\$ 86.60</u>	<u>\$ 90.93</u>	
Quarterly	<u>\$ 241.20</u>	<u>\$ 247.25</u>	\$ 6.05
Annually	\$ 964.80	\$ 988.98	\$ 24.18
		Estimated increase	2.5%

Note:

Example of Water and Sewer Charges using Huron Rouge Metered Rate Department and Oakland County Water Resource Commission.

Sanitary Service Districts

City of Novi, Michigan



Map Author: Karl Blough
 Date: July 28, 2019
 Project: Sanitary Service Districts
 Version #: 1.0

MAP INTERPRETATION NOTICE

Map information depicted is not intended to replace or substitute for any official or primary source. This map was intended to meet National Map Accuracy Standards and use the most recent, accurate sources available to the people of the City of Novi. Please contact the City GIS Manager to confirm source and accuracy information related to this map.

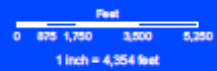
Sanitary Service District

- Commerce Township
- Huron-Rouge
- Walled Lake



City of Novi

Engineering Division
 Department of Public Works
 26900 Lee BeGole Drive
 Novi, MI 48375
cityofnovi.org



MEMORANDUM



TO: PETE AUGER, CITY MANAGER
FROM: CARL JOHNSON, FINANCE DIRECTOR
SUBJECT: WATER & SEWER RATES
DATE: JULY 19, 2022

The Finance Department has analyzed the water and sewer rates for fiscal year 2022-2023. 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 2.7% from the prior year, while the variable fee increased 2.6%. GLWA estimates a combined fixed and variable fee increase of 2.7%, or \$256,900. OCWRC charges a fixed monthly sewer fee and stated that the City's cost will increase 1.7% for the Huron Rouge Sewage Disposal System district, along with an estimated 4% increase for the Walled Lake-Commerce Sewage Disposal System, for a total net increase in sewage disposal costs of 3.3% or \$386,797.

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 allowed the City to have no rate increases or lower increases than most of our surrounding communities. In an effort to minimize the annual rate increase while still covering the current operating costs, we recommend to City Council to increase the variable water rate by 2.5%, or 9 cents per 1,000 gallons consumed, and to increase the variable sewer rate by 5%, or 22 cents per 1,000 gallons consumed. There are no recommended increases to the fixed charges to 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 7 years, the \$3.52 per 1,000 gallons proposed water rates are still well below the rate from 2013. In addition, the \$4.55 per 1,000 gallons proposed sewer rate is just slightly higher than 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 2.5% increase, or \$24.18 annual increase to their bill, which is less than the 2.7% and 3.3% costs increase for water and sewer, respectively. The current estimate is that with the recommended new rates, the Water and Sewer Fund will have a small net loss 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 \$10 million in ongoing construction projects that were originally budgeted in FY 2022 that will continue into FY 2023, since they

were not completed by year-end (total budget of \$25 million for all projects, \$15 million completed/paid in FY 2022 and \$10 million balance remaining). In addition, the Fund will use approximately \$3 million of cash reserves to cover the \$5.1 million of new capital projects budgeted in Fiscal Year 2022-23. There is another \$12.9 million of capital budget in the City's CIP plan for Fiscal year 2024 thru Fiscal Year 2025. Beginning in FY 2023, the Water and Sewer Fund started 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 as the actual bids received in June 2022 on the first piece of the project to be replaced in FY 2023 came in \$2 million higher than the \$4.5 million estimate.

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!

FY 2023 Suburban Wholesale Water Service Charge Schedule Calculation *

Novi

	2/23/22	6/2/22	Effective 7/1/22
	Originally	GLWA	Final
	Approved	Board	Modified
	<u>Charges</u>	<u>Modifications</u>	<u>Charges</u>
	\$	\$	\$
MODIFIED 6/2/2022			
EFFECTIVE JULY 1, 2022 FOR ALL BILLS			
ISSUED ON OR AFTER AUGUST 1, 2022			
<u>FY 2023 Revenue Requirements</u>			
1 Wholesale Revenue Requirement	9,043,400		9,043,400
2 Detroit Ownership Adjustment	599,500		599,500
3 Flint KWA Debt Service Adjustment	174,800		174,800
4 Highland Park Bad Debt Adjustment	32,100	(32,100)	0
5 Total Amount Required from Charges	9,849,800	(32,100)	9,817,700
<u>FY 2023 Service Charge Design</u>			
6 Fixed Monthly Charges @ 60%	5,909,900	(19,300)	5,890,600
7 Commodity Charges @ 40% (a)	3,939,800	(12,900)	3,926,900
<u>FY 2023 Service Charge Schedule</u>			
8 Fixed Monthly Charges - \$/month	492,500	(1,600)	490,900
9 Commodity Charges - \$/Mcf (b)	13.46	(0.04)	13.42

(a) Commodity Revenue Requirement adjusted to match 12 "rounded" monthly payments

(b) Based on Projected Water Purchases of 292,600 Mcf



June 21, 2022

Mr. Pete Auger, Manager
City of Novi
45175 West Ten Mile Road
Novi, Michigan 48375

RE: Huron-Rouge Sewage Disposal System FY2022-2023 Rate

Dear Mr. Auger:

The Water Resources Commissioner's Office provides operation and maintenance services for the Huron -Rouge Sewage Disposal System. Each year, the WRC conducts a review of the financial condition of the funds used for this system and provides recommendations for the operation and maintenance needed to maintain the system. Additionally, the WRC develops a budget, establishes a monthly charge to be paid by the City and maintains a reserve fund in trust for the system.

We have reviewed the financial condition of the Huron-Rouge Sewage Disposal System fund for the operational period ending September 30, 2021. Based on the projected costs for the operation and maintenance, the monthly charge will be \$821,198.33 for the 2022-2023 rate year, beginning July 1, 2022. This charge will be billed to the Novi SDS fund with Oakland County which will then bill the City of Novi for the services provided by the Huron-Rouge SDS along with the expenditures associated with the Novi SDS local system.

If you have any questions regarding this matter, please feel free to contact me at 248-858-1539.

Sincerely,

Ben L. Lewis