

# Background

- Water System is a City Utility
  - Not tax supported function.
- Free money is not free – Money for Hayes Interceptor Project has strings
  - State sets requirements for user cost or water rate.

# 2013 State of the System

- Need to cover all fixed costs of the system
- Sewer system over 50 yr life expectancy
  - In process of completing evaluation of system
  - Expect to find repair and rehab needs
- Water system is over 50 yr life expectancy
  - Replacements are problematic due to cost
  - Average replacement cost is \$1 million per mile ...City has 63 MILES of water line!

# 2011 City Rate Study

- Used updated data
- Used corrected projections for usage
  - One impact of new sewer project is all sewer metered instead of by-passing into Clinton River... this increased usage
- Used principles set out by MDEQ
- Resulted in projected 43-46% rate increase which was **NOT ACCEPTABLE!!**
- Intent to split this increase over three-years

# 2015 Rate Increases

- Detroit increased Fraser's fixed cost for water by 48% and commodity rate decreased by 16%.
  - DWSD rate structure changed - more fixed cost in new rate - \$59,800 per month – up from \$39,000 per month.
- Macomb & Oakland County Drain Districts and DWSD increases sewer fixed costs by \$700,000 or 14.3%.
  - All sewer costs are now fixed costs

# 2016-2017 Fixed Cost

<u>CATEGORY</u>	<u>2016 WATER</u>	<u>2017 WATER</u>	<u>2016 SEWER</u>	<u>2017 SEWER</u>
Admin/Fixed Overhead	\$160,000	\$190,000	\$125,000	\$150,000
Billing	\$30,000	\$30,000	\$25,000	\$30,000
OPEB Liability (NEW)		\$270,000		\$180,000
DWSD-Water Fixed Charge	\$717,600	\$763,200		
<b><u>NEW COST-DWSD Look Back</u></b>			\$104,496	-
DWSD/MCWDD/OMI Fixed Charge			\$2,461,032	\$2,525,390
MCWDD & OIMD O&M Fixed Charge			-	-
DWSD CSO Program			-	-
Cash Financed CIP	\$750,000	\$1,000,000	\$450,000	-
Debt Service-MCWDD			\$576,441	\$665,960
Debt Service	\$135,700	Move to Sewer	\$643,973	\$680,000
Depreciation/Replacement	\$407,000	\$535,000	\$800,000	\$800,000
<b>TOTAL</b>	<b>\$2,200,300</b>	<b>\$2,788,200</b>	<b>\$5,185,942</b>	<b>\$5,031,350</b>

# 2015 Rate Changes

- Current rate is not covering all fixed costs.
- Insufficient to cover costs of system and \$1.2 million cash financed CIP.
  - Current fixed and commodity rates need to be adjusted to fit how the City is billed.
- Sewer is billed 100% fixed cost
- Water is now 60% fixed.
- Only variable costs are local O&M costs and GLWA variable water commodity charge.
- 2015 rate must increase to cover the increased costs and apportioned to reflect higher fixed cost compared to commodity charges.

# 2015 Rate Changes

- New proposed Fixed or RS charge to be \$9.48/unit
- New proposed Water Commodity Rate of \$3.37/unit
- New proposed Sewer Commodity Rate of \$1.07/unit
  - Recommend increase of RS for Irrigation Meters from \$1.00/unit to \$2.00/unit
  - Recommend continued use of the \$2.00/unit over residential rates for commercial and industrial customers
- Total new rate of \$13.92/unit an increase of \$.62 or 4.6%.

# 2016 Rate Changes

- Current rate structure does NOT include a fixed cost component.
  - All costs, including RS charge, are based on usage.
  - So all costs, including RS charge, vary every month depending on usage.
  - Higher usage means RS, Water and Sewer costs will increase.
- Recommend interim rate that only reflects actual % increase from providers until rate study is completed.
  - Could include a fixed cost component that will not vary each month.

# 2016 Rate Changes

- This year's interim rate calculated on basis of % increases in fixed and variable water and sewer costs from GLWA and MCWDD
- New costs include OPEB Liability and Bad Debt True Up to cover losses from Highland Park debt
  - Fraser's 2015 revenue to GLWA fell short of contract so additional surcharge to this year's rate to compensate for shortfall.
- New proposed Fixed or RS charge to be \$9.95/unit
- New proposed Water Commodity Rate of \$3.54/unit
- New proposed Sewer Commodity Rate of 1.21/unit.
  - Overall rate is \$14.70/unit or 4.95%