



CITY of NOVI CITY COUNCIL

Agenda Item 8
July 27, 2015

SUBJECT: Approval of Proposed Water & Sewer Rate Resolutions for 2015 – 2016.

SUBMITTING DEPARTMENT: Finance/Water & Sewer

CITY MANAGER APPROVAL:

BACKGROUND INFORMATION:

The Finance Department and Department of Public Services annually reviews and proposes 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 increase from the Detroit Water & Sewerage Department (DWSD) for water services and the combined pass-through increase from the Oakland County Water Resource Commission (OCWRC) for sewer services.

DWSD charges both a fixed rate and a variable rate to its customers. Over the past two years, the increase in the fixed rate has been the same percentage increase as the variable rate that DWSD charges the City. The DWSD rate increase in fiscal year 2013-2014 was 11.4% and in fiscal year 2014-2015, 6.9%. In fiscal year 2015-16, DWSD has significantly altered its fee structure from volume based to fixed based. Moving forward, regardless the volume of water purchased by its customers/municipality's, residents will be burdened with a much higher fixed annual cost. These fixed costs are 60% of the annual total cost billed in Fiscal Year 2015-16 to Novi versus 30% fixed cost billed in the prior year. The City's 2015-16 fixed cost has increased **116.2%** and the variable rate has decreased by **28.3%**. An overall water and sewer increase of 21% would be needed to meet the increased cost requirements from DWSD and the County at the projected sales volume.

Fiscal Year	Fixed Costs	Contract Volume Costs (Variable)	Total DWSD Costs (Revenue Requirement)	Percent Change from Previous yr.
2013-2014	\$2,912,040	\$22.18	\$9,632,580	
2014-2015	\$3,111,852	\$23.70	\$10,458,852	8%
2015-2016	\$6,727,200	\$16.99	\$11,212,560	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 (the largest of three systems within the City) has an overall rate increase from the prior year of 3.2%. The increase in cost was incorporated into the overall change in the sewer rate for this system. The City's sewer rates also include a minimum rate to cover a portion of the City's fixed costs. The rate for the Novi-Walled Lake Sewer System increased approximately 2.3% over the prior year.

City Administration has estimated the annual cost for both the fixed and variable charges based upon the revenue requirement from DWSD. The estimated total cost for water

from DWSD along with all other operating, maintenance and replacement costs for the water system have been included in our annual water rate analysis. The proposed water rates include a minimum rate, or readiness to service charge, which incorporates the fixed portion of DWSD's rate along with a portion of the City's fixed costs.

Due to the change in the manner in which DWSD bills its customers the City of Novi would need to increase the rates for the average customer by more than 15% to cover the significant rate increase. **The City has concluded to not pass on the entire DWSD cost increase.** The proposed combined water and sewer rate increase to the average customer for the 2015-16 fiscal year will be approximately 8.25.% or \$78 annually for residential customers but can range greatly for individual customers, especially commercial and industrial customers (depending on size of meter, consumption, etc.). The fixed fees charged by the City to our customers for both water and sewer have been significantly increased while the variable rates have significantly decreased to be consistent with how the City is being charged by DWSD and the County. The water equipment rates, inspection fees and miscellaneous charges are unchanged and consistent with the City's current vendor contract for water installation fees, the current cost of our equipment and a 15% administrative fee.

In late fiscal year 2013-14 the City started construction of a water storage facility. Construction on the facility is almost complete and the operations are currently in its testing phase. One of the goals of this facility is to better manage our wholesale water rates and the peak day demand of the water system. By filling the storage tank during off peak times and distributing these reserves to our customers, the City will be more likely to adhere to the contractual limits with DWSD and avoiding potentially higher water rates. The City will begin to see results from the new storage facility in 2016 after proving, and testing is complete and the tank has been brought online.

Attached for your information and consideration are the following:

- Water & Sewer Rate Resolutions
- Water & Sewer Revenue Allocation and Rate Billing Example in Dollars
- Map – Novi Sanitary Sewer Districts
- Additional Water & Sewer Rates Information Memos

The City of Novi Water & Sewer Fund, the Oakland County Water Resource Commission (OCWRC) and the Detroit Water & Sewerage Department (DWSD) are all not-for-profit entities and therefore rates are intended and required to cover costs. The American Water Works Association (AWWA) recommends government agencies be prudent in the computations of reserves, either through depreciation or through a future debt service reserve to cover current and future replacement infrastructure costs.

RECOMMENDED ACTION: Approval of Proposed Water & Sewer Rate Resolutions for 2015 – 2016.

	1	2	Y	N
Mayor Gatt				
Mayor Pro Tem Staudt				
Council Member Casey				
Council Member Markham				

	1	2	Y	N
Council Member Mutch				
Council Member Poupard				
Council Member Wrobel				

**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 actual 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, 2015.

WATER RATES		
Minimum (Fixed) Rate Schedule:		
<u>Meter Size</u>	<u>Minimum Rate per Quarter</u>	<u>Minimum Rate per Month</u>
5/8"	\$ 80.00	26.66
1"	114.00	38.00
1.5"	248.00	82.66
2"	332.00	110.66
3"	950.00	316.66
4"	1,214.00	404.66
6"	2,540.00	846.66
8"	3,020.00	1,006.33
10"	3,464.00	1,154.66
Consumption Rate: \$3.05 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"	\$1,725	\$1,340
1"	1"	\$1,865	\$1,480
1.5"	1"	\$2,670	\$1,865
1.5"	1.5"	\$2,865	\$2,060
2"	1.5"	\$3,440	\$2,520
2"	2"	\$3,580	\$2,660

- 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</u>
	<u>COPPER</u>
1"	\$17.00
1.5"	\$18.00
2"	\$21.00

An additional \$ 1,500 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"	\$ 150	\$ 40	N/A	N/A	\$ 86
1"	260	70	N/A	N/A	86
1.5"	450	N/A	70	N/A	86
2"	575	N/A	90	N/A	86
3" (Compound)	2,085	N/A	90	735	86
4" (Compound)	2,980	N/A	130	890	86
6" (Compound)	3,790	N/A	210	1,665	86

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	800
Backflow Preventer & Meter Deposit: 3" meter	1200
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 27th day of July 2015.

By: Maryanne Cornelius
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 by 3.2% for 2015-2016,

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, 2015.

<u>Base Sewer Rates</u>		
<u>Minimum (Fixed) Rate Schedule</u>		
<u>Meter Size</u>	<u>Minimum Rate Per Quarter</u>	<u>Minimum Rate Per Month</u>
5/8"	\$30.00	10.00
1"	50.00	16.66
1.5"	85.00	28.33
2"	105.00	35.00
3"	320.00	106.66
4"	410.00	136.66
6"	850.00	283.33
8" or larger	995.00	331.66

\$3.40 per thousand gallons for metered consumption, and
\$87.13 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 Detroit Water and Sewer Department 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 Detroit Water and Sewerage Department.

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 27th day of July 2015.

By: Maryanne Cornelius
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 actual costs of providing services;

USAGE FEE

NOW, THEREFORE BE IT RESOLVED that the new rate to the user of this system is established at \$84.37 per unit per quarter for all bills rendered after August 1, 2015.

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 27th day of July 2015.

By: Maryanne Cornelius
Its: City Clerk

Example of Water and Sewer Charges using Huron Rouge Metered Rate			
	2014-2015	2015-2016	Increase
Quarterly:			
Water			
Fixed rate	\$ 40.00	\$ 80.00	
22,500 gallons	\$ 92.93	\$ 68.63	
Sewer			
Fixed rate	6.00	30.00	
22,500 gallons	\$ 96.75	\$ 76.50	
Quarterly	\$ 235.68	\$ 255.13	\$ 19.45
Annually	\$ 942.70	\$ 1,020.50	\$ 77.80
	Estimated increase		8.25%
NOTES:			
Example is based on annual water consumption of 90,000 gallons and a 5/8 meter. Rates include an increase from Detroit Water and Sewerage Department and Oakland County Water Resource Commission.			

In a memo from the City's Water and Sewer Senior Manager, dated March 12, 2015 (see attached), it was noted the City would need to increase the commodity (variable) rate 21% in order to meet operational cost markup from DWSD. A 21% increase in the commodity charge would have resulted in a water (not including sewer) billing of \$151 compared to the above water charge of \$148. An average annual user's (90,000 gallons) water bill will increase 12%, sewer bill will increase 4% for a combined increase of 8.25%.

The above suggested water and sewer rates were derived in an effort to match the City of Novi's revenue to its cost structure. The above 2015-2016 proposed water fixed rate will generate just under the \$6,730,000 DWSD fixed revenue requirement cost. On the sewer side, the City's fixed cost from OCWRC is approximately \$6,388,000, yet, the sewer fixed fee will only generate approximately \$2,060,000.

MEMORANDUM



TO: CARL JOHNSON, FINANCE DIRECTOR/CFO
FROM: TIM KUHN, WATER AND SEWER SENIOR MANAGER TDK
SUBJECT: DETROIT WATER AND SEWER DEPARTMENT FY15/16 RATES
DATE: MARCH 12, 2015

Background

The Detroit Water and Sewerage Department (DWSD) issued preliminary FY15/16 rate information at the February 24, 2015 Customer Rates Meeting. The schedule of charges presented at the meeting indicated no increase in the overall water system operations budget. However, the lower usage observed over the past several years produced a downward revision in usage projections resulting in higher unit costs. This memorandum provides a summary of the rates schedule of charges from DWSD, the key factors impacting the rates proposal, and recommendations to buffer the proposed rate increases to our customers.

Revenue Requirements and Water Purchases from DWSD

Revenue requirements, which are the City of Novi's share of the DWSD water system budget that are collected by DWSD through water purchases, has increased by an annual average of 10.6% per year since FY12-13. For the FY15/16 rate proposal, DWSD has increased the City of Novi's revenue requirement from \$10,459,400 to \$11,212,000 resulting in a net increase of 7.2%. The \$752,600 increase in the City of Novi revenue requirement can be attributed to two major factors:

1. Departure of City of Flint from the DWSD System
\$375,300 (or 49.9%) of the proposed revenue requirement increase is attributed to the loss of Flint as a DWSD customer. As such, the revenue requirement that was previously assigned to Flint was re-allocated to all remaining DWSD customers, including Novi.
2. Increase in Cost of Service Allocation for Peak Hour Surcharge
\$377,200 (or 51.1%) of the proposed revenue requirement increase is attributed to the fact that other wholesale customers, such as Farmington Hills, elected to construct water storage facilities to trim peak flows from DWSD. In doing so, these customers reduced their peak usage surcharge from DWSD, which was then re-allocated to all other customers that do not have storage. It should be noted that the City of Novi is currently in the final stages of constructing storage and should be able to realize peak usage surcharge savings in FY16/17.

During the same period, water sales have decreased by an annual average of 8.4% per year. Figure 1 illustrates the trends in revenue requirements and water purchases from

DWSD since FY12-13. It should be noted that the FY14/15 usage figures are current through March 3, 2015, and that the remainder of the usage for FY14/15 was projected by assuming that same usage for the same period in FY13/14. The figure also depicts projections for FY15/16 for the following scenarios:

1. Scenario 1 (4 Year Trend Extrapolation) – This projection assumes that the trend from the previous 4 years will continue into FY15/16 using a linear extrapolation.
2. Scenario 2 (Previous Two Years Average Sales) – This projection assumes that the FY15/16 usage will be an average of the usage from the two previous fiscal years.
3. Scenario 3 (DWSD Sales Projections) – This projection, which was adopted by DWSD, assumes that the FY15/16 usage will be similar to an average of the usage observed during a two year period ending October 1, 2014.

Regardless of the projection used, the usage is expected to remain well below the peak usage observed in FY2012. The trend toward lower usage within the City of Novi can be attributed to several factors including more efficient plumbing fixtures and the trend toward increased groundwater aquifer-supplied irrigation systems within the City of Novi.

For FY13/14 and FY14/15, lower water purchases by Novi produced a negative variance in revenues to DWSD as indicated in Table 1:

Table 1: Negative Revenue Variances Relating To Reduced City of Novi Water Purchases

Fiscal Year	Projected Volume Sales (Thousands of Cubic Feet - Mcf)	Projected Sales Revenue	Actual Volume Sales (Thousands of Cubic Feet - Mcf)	Actual Sales Revenue	DWSD Revenue Shortfall
FY13/14	303,000	\$9,632,600	268,059	\$8,857,589	(\$775,011)
FY14/15	310,000	\$10,459,400	246,092	\$8,944,236	(\$1,515,164)

DWSD has been able to offset the revenue shortfalls relating to reduced water purchases from the City of Novi for the fiscal years listed in Table 1 through the reduction in operation costs achieved through the DWSD optimization program, which includes reductions in staffing levels, renegotiation of labor contracts among other items. However, looking forward to FY15/16, DWSD has significantly modified the rate structure to account for reduced water purchases from wholesale customers such as Novi in an effort to stabilize budgeted revenues.

Proposed Rate Changes from DWSD

In an effort to stabilize revenues from wholesale customers, DWSD has modified the rate structure in two key ways:

1. Reduction in Sales Projections to Customer Communities

Due to revenue shortfalls over the past several years, DWSD has reduced sales projections to its wholesale customers. The revised projections of usage are based on an average of the usage observed during a two-year period ending October 1, 2014. For the City of Novi, the sales projection has been reduced from 310,000 thousands of cubic feet (Mcf) to 264,000 Mcf. This lower usage projection reduces the risk that DWSD will not achieve revenue requirements during low usage periods. However, DWSD's reduction in usage projections compels wholesale customers to consider reducing their usage projections to avoid the risk of revenue shortfalls during low usage years, but this modification would come with the consequence of higher unit costs.

2. Increase in the Proportion of Charges that are Assessed at a Fixed Rate
DWSD has modified the rate structure to allow fixed charges to account for 60% of total charges. For the current FY15/16 rate proposal, \$6,727,200 (60% of total revenue requirement) will be assessed to Novi in 12 monthly payments of \$560,600, while the remainder of the revenue requirement will be assessed at a commodity rate of \$16.99 per Mcf (40% of total revenue requirement divided by usage projection of 264,000 Mcf). The higher proportion of fixed charges increases the proportion of revenue that is collected by DWSD regardless of how much water is purchased by the wholesale customers. However, this change in the rate structure compels wholesale customers to consider increasing the fixed share of the charges to their customers to avoid revenue shortfalls, but this change would come with the consequence of higher fixed costs to the customer.

Impact to Novi Water Customer Rates

Figure 2 depicts the expected City sales revenues compared to purchase costs from DWSD for past fiscal years and for the different usage projections for FY15/16, assuming that the rates are not adjusted. The Figure indicates that in past years, the City markup on water sales to cover operational costs has ranged from \$1.9M to \$2.3M. Under all usage scenarios for FY15/16, the current rates result in revenue shortfalls such that Novi's operational costs are not covered. Clearly a rate increase is required to cover the increase in costs from DWSD and the annual operations budget. The City of Novi should consider the usage projections and fixed rate share of water sales when developing the proposed rates to customers for FY15/16. To this end, several rate structure scenarios were evaluated to assess the impacts of modifying fixed share of rates and usage projections:

1. Commodity Rate Increase with No Modification to Fixed Charges
Assuming the DWSD projected sales volume of 264,000 Mcf for FY15/16, Figure 3 illustrates that a 21% increase in the commodity rate is required to meet the operational cost markup. Based on this scenario, the quarterly bill for the average customer that uses 22.5 units (1,000s of gallons) per quarter (which assumes 2.5 persons per household with 100 gallons per person per day) would increase from \$133 to \$151 (or a 13.5% increase). It should be noted that by relying on commodity rate increases with no change to fixed charges, it only increases the reliance on commodity sales as this portion of revenue becomes a larger part of total revenue.

2. Fixed Charges Modified to Account for 60% of total costs and Resulting Changes to Commodity Rates

Assuming the DWSD projected sales volume of 264,000 Mcf for FY15/16, Table 2 below illustrates the needed fixed charge modifications in order to meet the operational cost markup. Based on this scenario, the quarterly bill for the average customer that uses 22.5 units per quarter (which assumes 2.5 persons per household with 100 gallons per person per day) would increase from \$133 to \$154 (or a 15.8% increase) and the average fixed rate would double from the current fixed rate while the commodity rate would decrease from \$30.89 per Mcf to \$19.86 per Mcf.

Table 2: Required Fixed Charge Modifications to Meet Operational Costs

Billing Meter Size	Number of Customers	Current Quarterly Fixed Charge	Required Fixed Quarterly Charge to Meet City Operational Markup	Fixed Charge per Year with fixed charge modification	Total Charge per Meter Size with Fixed Charge Modification
5/8" Unit	9,145	\$40.00	\$94.00	\$376.00	\$3,438,520
1"	3,321	\$57.00	\$133.95	\$535.80	\$1,779,392
1.5"	584	\$124.00	\$291.40	\$1,165.60	\$680,710
2"	777	\$166.00	\$390.10	\$1,560.40	\$1,212,431
3"	73	\$475.00	\$1,116.25	\$4,465.00	\$325,945
4"	47	\$607.00	\$1,426.45	\$5,705.80	\$268,173
6"	9	\$1,270.00	\$2,984.50	\$11,938.00	\$107,442
8"	1	\$1,510.00	\$3,548.50	\$14,194.00	\$14,194
10"	1	\$1,732.00	\$4,070.20	\$16,280.80	\$16,281
				Total Charge	\$7,843,087
Revenues from Commodity Charges					
264,000	Mcf				
\$19.86	per Mcf				
\$5,242,301					

Recommendations Going Forward

Based on the rates proposal from DWSD, the City should consider the following recommendations:

1. Given that it may be necessary to modify fixed charges to match the DWSD rate structure, it may be appropriate for the Finance Department to procure a consultant to perform a Novi-specific rates study. As mentioned previously, the City of Novi is currently constructing a water storage facility to supplement the DWSD feeds during peak demand conditions to reduce the peak demand surcharge from DWSD. The Storage Tank Feasibility Study that was completed in October 2011 and

a recent evaluation of the rates model indicate that the City's revenue requirement from DWSD could be reduced by as much as \$1.7M to \$4.0M once the storage tank is in service. It may make sense to perform a rates study to evaluate the competing effects of the FY15/16 revenue requirement increase and the FY16/17 rates savings from the proposed water storage tank. It may also make sense to hold off on steep rate increases for the FY15/16 (with lower reserve savings during that fiscal year) given that significant rates savings will be achieved in FY16/17 due to water storage tank peak shaving operations (with high reserve savings anticipated for that fiscal year).

2. Given the potential for steep increases in rates due to lower usage in the future, the City may consider delaying design and construction for all non-essential capital improvements projects to from FY15/16 to FY16/17 such that the proposed rate increases can be reduced for FY15/16. Once the rates savings are achieved through the water storage project in FY2017, the City can continue to implement capital improvements projects as outlined in the Capital Improvements Program. One non-essential project that might be deferred is the Pressure Reducing Valve (PRV) Redistricting project at Meadowbrook and 13 Mile Road (CIP project number 091-16). This project is currently budgeted for FY15/16 and could be delayed to FY16/17 with a total estimated cost of \$436,100 that could be deferred. If we were to defer \$436,100 in capital projects from FY15/16 to FY16/17, initial calculations indicate that the commodity rate increase could be reduced from 21% to 15%. Based on this reduction, the quarterly bill for the average customer that uses 22.5 units per quarter (which assumes 2.5 persons per household with 100 gallons per person per day) would increase only from \$133 to \$147 (or a 10.5% increase)

Please let me know if you have any questions or comments regarding this memorandum.

cc: Rob Hayes, Director of Public Services/City Engineer
Scott Roselle, Water & Sewer Asset Manager
Mike Andrews, Water and Sewer Financial Specialist

Figure 1: DWSD's Revenue Requirements and Novi's Water Purchases since FY12/13

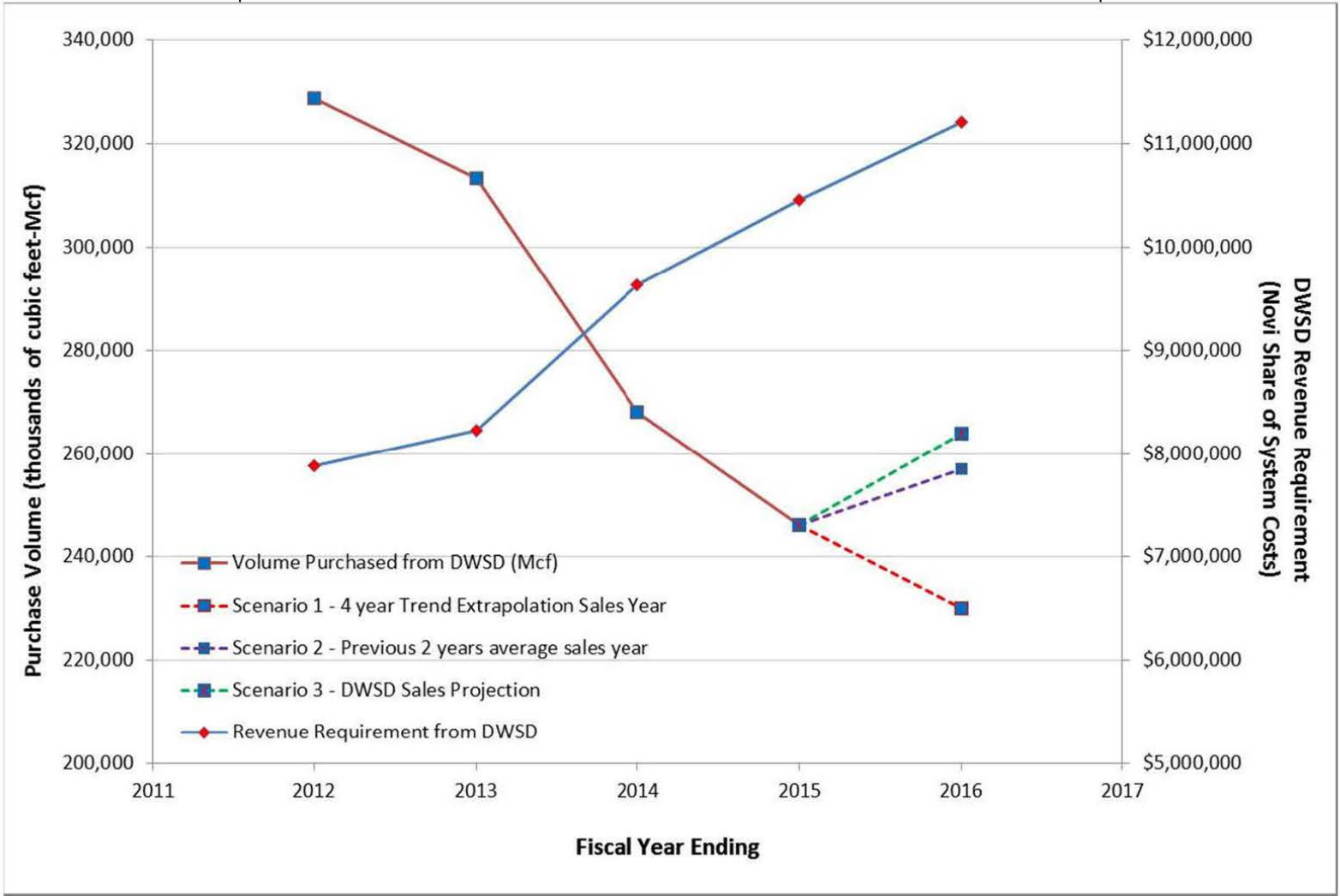
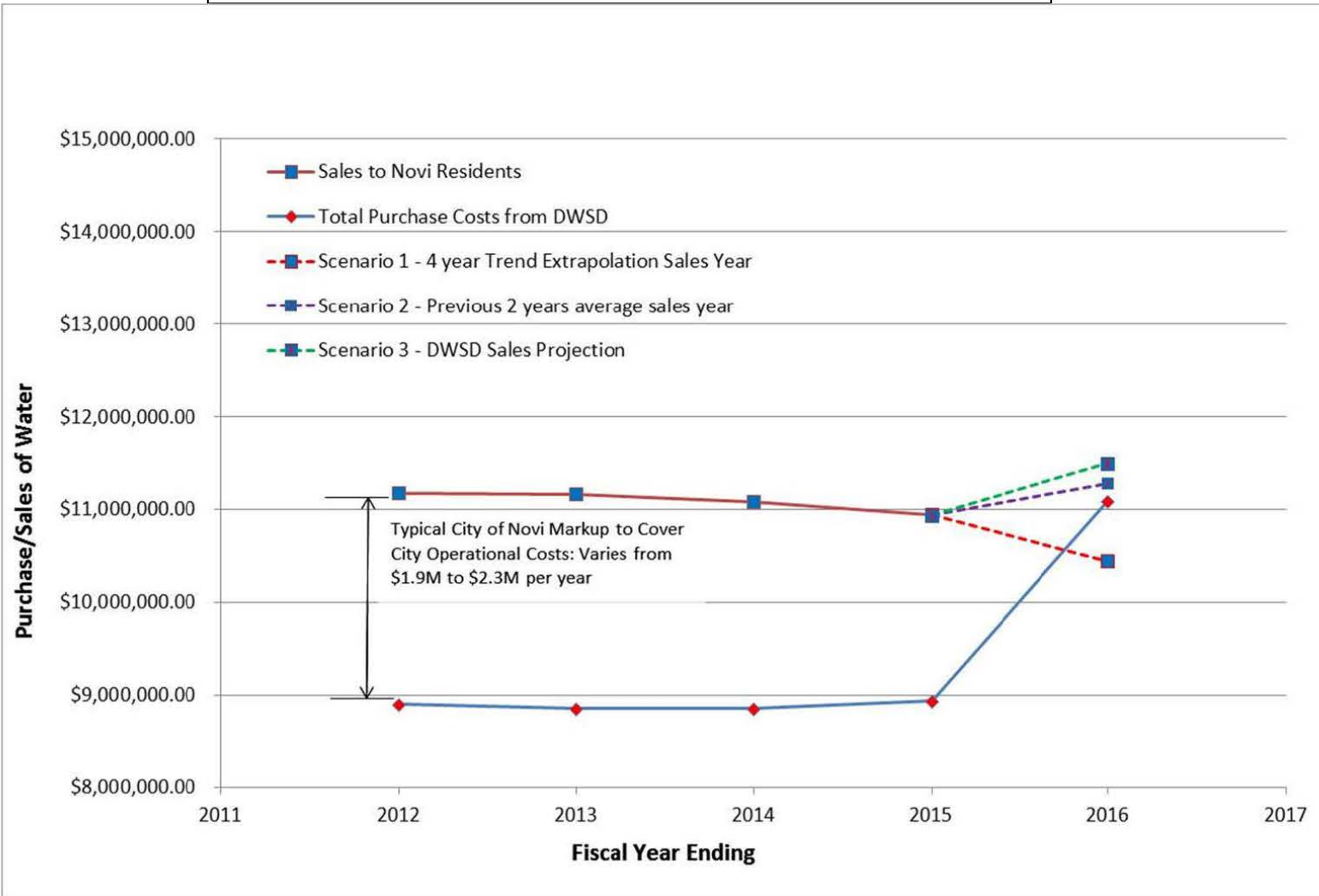


Figure 2: Novi's Projected Sales Revenues versus Cost with No Adjustment to Rates





April 10, 2015

Dear DWSD Wholesale Water Customer:

RE: DWSD FY 2016 Wholesale Water Schedule of Charges

On March 11, 2015, the Detroit Water and Sewerage Department (DWSD) Board of Water Commissioners approved a schedule of wholesale water charges for Fiscal Year 2016. These service charges continue to incorporate our ongoing efforts to control expenses while providing quality water services to all our customers.

The FY 2016 BUDGET reflects a slight decrease in total system costs compared to the FY 2015 BUDGET. Thus the new charges are not designed to recover any additional costs of providing water service. In each of the last several years, the water system has experienced a revenue shortfall, created by a declining demand in billable water units from a majority of customers. The new charges are designed to address the fundamental revenue shortfall.

To address the continued usage decline and revenue shortfall, DWSD has:

- re-evaluated the method for determining each customer's annual purchased water volumes. For purposes of developing the FY 2016 charges, each customer's annual purchased water volumes are based on the average of its previous twenty-four (24) month usage (through September 2014).
- increased the portion of each customer's allocated share of the budget that is recovered through the Fixed Monthly Charge component of the charge schedule. The existing (FY 2015) charges recover approximately forty percent (40%) via this element. The new (FY 2016) charges will recover sixty percent (60%) through Fixed Monthly Charges.

The approval of the new charge schedule comes as a result of a lengthy collaborative process with representatives of our suburban wholesale and Detroit retail customers, and reflects input we have received as part of that process. The Department continues to extend its thanks to the efforts of the Water Technical Advisory Committee and related activities of the Customer Outreach Program. The Board of Water Commissioners and the DWSD staff, values their continuing participation and feedback through these forums.

If you are a wholesale water customer under an old contract, the Department would like to offer you the opportunity to negotiate a new model contract. Currently, the vast majority of our wholesale water customers are under the water model contract. The model contracts offer customers many advantages compared to the old contracts. Please feel free to contact us to obtain more information.



April 10, 2015
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The FY 2016 charge schedule for your community is indicated on the enclosed document. This schedule of charges will apply to sales and service beginning July 9, 2015, and will be effective on all bills rendered by the Detroit Water and Sewerage Department as of August 1, 2015. *With the August 1, 2015 billing, you will receive prorated charges which will include eight days based on the FY 2015 charge schedule and 23 days based on the FY 2016 charge schedule.*

It continues to be our pleasure to provide you these services. If you have any questions regarding the upcoming changes in unit costs and charges, or other related matters in this letter, please contact Jon Wheatley, Public Finance Manager at (313) 224-4771.

Sincerely yours,

A handwritten signature in cursive script that reads "Sue F. McCormick".

Sue F. McCormick
Director

Enclosures

**APPROVED FISCAL YEAR 2015-2016
WATER RATES**

Community: **Novi**

Recommended Fixed Monthly Charge (a): \$560,600

Recommended Consumption Rate (b): per Mcf \$16.99

(a) Applied every month, irrespective of amount of water purchased.

(b) Applied to metered water purchases.



April 10, 2015

Dear DWSD Wholesale Sewage Customer:

RE: DWSD FY 2016 Wholesale Sewage Schedule of Charges

On March 11, 2015, the Detroit Water and Sewerage Department (DWSD) Board of Water Commissioners approved a schedule of wholesale sewage charges for Fiscal Year 2016. These service charges continue to incorporate our ongoing efforts to control expenses while providing quality sewage treatment and disposal services.

Most notably:

- The FY 2016 wholesale sewage charges continue to consist entirely of fixed monthly charges, as originally established by the “rate simplification” initiative adopted by the Board of Water Commissioners in November 2013.
- DWSD’s FY 2016 BUDGET reflects a slight decrease in total system costs compared to the FY 2015 BUDGET.
- The new schedule of charges reflects a significant decrease of Industrial Waste Control (IWC) charges based on a detailed review of the IWC program costs, and the surcharge rates reflect a moderate decrease.
- Service charges have been designed to recover the same basic total revenue need, but reflect a slight decline in the baseline revenue of the System due to reduced metered volumes, and the results of detailed cost of service analyses for the FY 2016 BUDGET as noted below.

The FY 2016 cost of service allocations reflect an “interim modification” to the share calculations originally established for the current (FY 2015) charges. The Oakland Macomb Interceptor District (OMID) requested, and was granted, a modification related to its pending diversion of flow to the Pontiac Wastewater Plant. As a result, OMID’s share was reduced, and shares for all other customers were slightly increased. The modified share calculations are scheduled to remain in place for FY 2017 and after this initial period, the Rates Work Group (a cross-functional team of DWSD staff and customer community representatives) will review the shares to determine if the methodology for determining shares should be revised. The Rates Work Group will review any requests for additional interim share changes.

As a result of the OMID modification, the fixed monthly charges for most wholesale customers reflect an increase of less than two percent compared to the FY 2015 charges.



April 10, 2015
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I want to extend my thanks once again to the Wastewater Steering Committee for their efforts, and to your representatives who participated in the related activities of the Customer Outreach Program. The approval of the new charge schedule represents the successful results of this collaborative process, with representatives of our suburban wholesale and Detroit retail customers, and the input we received as part of that process. The Board of Water Commissioners and the Department, values your continuing participation and feedback through these forums.

The FY 2016 schedule of charges applicable to you is indicated on the enclosed document. This schedule of charges will apply to sales and service beginning July 9, 2015, and will be effective on all bills rendered by the Detroit Water and Sewerage Department as of August 1, 2015. *With the August 1, 2015 billing, you will receive prorated charges which will include eight days based on the FY 2015 charge schedule, and 23 days based on the FY 2016 charge schedule.*

It continues to be our pleasure to provide you these services. If you have any questions regarding the upcoming changes in rates and charges, or other related matters in this letter, please contact Jon Wheatley, Public Finance Manager at (313) 224-4771.

Sincerely yours,

A handwritten signature in cursive script that reads "Sue F. McCormick".

Sue F. McCormick
Director

Enclosures

**APPROVED FISCAL YEAR 2015-2016
SUBURBAN SEWAGE RATES**

Community: Novi

Servicing Authority: Middle Rouge Valley District

<u>Industrial Specific Charges:</u>	<u>O&M Portion</u>	<u>Capital Portion</u>	<u>Total</u>
<u>Industrial Surcharge Rates, Per Excess Pound</u>			
1. Biochemical Oxygen Demand (BOD) in excess of 275 mg/l	\$0.253	\$0.223	\$0.477
2. Total Suspended Solids (TSS) in excess of 350 mg/l	0.257	0.227	0.483
3. Phosphorus (P) in excess of 12 mg/l	3.788	3.342	7.129
4. Fats, Oils & Grease (FOF) in excess of 100 mg/l	0.244	0.215	0.459

Industrial Waste Control Charge, per month:

Non Residential Meter Size	<u>O&M Portion</u>	<u>Capital Portion</u>	<u>Total</u>
5/8"	\$4.71	\$0.79	\$5.50
3/4"	7.07	1.19	8.25
1"	11.78	1.98	13.75
1-1/2"	25.91	4.35	30.25
2"	37.68	6.32	44.00
3"	68.30	11.46	79.75
4"	94.20	15.80	110.00
6"	141.30	23.70	165.00
8"	235.50	39.50	275.00
10"	329.70	55.30	385.00
12"	376.80	63.20	440.00
14"	471.00	79.00	550.00
16"	565.20	94.80	660.00
18"	659.40	110.60	770.00
20"	753.60	126.40	880.00
24"	847.80	142.20	990.00
30"	942.00	158.00	1,100.00
36"	1,036.20	173.80	1,210.00
48"	1,130.40	189.60	1,320.00