City of Fraser

CENTENNIAL COMMUNITY

FRASER CITY COUNCIL AGENDA
SPECIAL MEETING
CITY COUNCIL CHAMBERS
33000 GARFIELD, FRASER, MI 48026
THURSDAY SEPTEMBER 26, 2024 - 6:30 P.M

1. **CALL TO ORDER**
2. **PLEDGE OF ALLEGIANCE**
3. **ROLL CALL OF COUNCIL MEMBERS**
4. **APPROVAL OF AGENDA**
5. **CITIZEN PARTICIPATION**
6. **NEW BUSINESS**
   a. Set Public Hearing Date and Time for Consideration of RZ23-02 - Sheetz Conditional Rezoning Application
   b. Utility Rate Presentation by Municipal Analytics
   c. Set Public Hearing Date and Time for Consideration of Water and Sewer Rates for Fiscal Year 2024-2025
7. **ADJOURNMENT**

THE CITY OF FRASER WILL PROVIDE NECESSARY REASONABLE AUXILIARY AIDS AND SERVICES TO INDIVIDUALS WITH DISABILITIES AT THE MEETING UPON FOUR DAYS NOTICE TO AUGUST GITSCHLAG, CITY CLERK AT (586) 293-3100.
IT IS THE POLICY OF THE CITY OF FRASER THAT NO PERSON, ON THE BASIS OF RACE, CREED, COLOR, RELIGION, NATIONAL ORIGIN, OR ANCESTRY, AGE, SEX, MARITAL STATUS, OR DISABILITY SHALL BE DISCRIMINATED AGAINST, EXCLUDED FROM PARTICIPATION, DENIED THE BENEFITS OF, OR OTHERWISE SUBJECTED TO DISCRIMINATION IN ANY PROGRAM OR ACTIVITY FOR WHICH IT IS RESPONSIBLE.

Water and Sewer Utilities Rate Study

Prepared for

City of Fraser, Michigan

September 2024

by **Municipal Analytics**

Municipal Analytics

Insights and applications for better financial management

2075 W. Stadium Blvd, #3895
Ann Arbor, MI 48106
734.623.8033

September 16, 2024

Elaine Leven, City Manager
City of Fraser
30000 Garfield Road
Fraser, MI 48026

Dear City Manager Leven:

We have completed our analysis of the revenue requirements for the City of Fraser's water and sanitary sewer utilities. The primary goal of this study has been to determine the rates required to produce adequate revenues to fund the City's water and wastewater utility operations, maintenance and replacement (OM&R), capital and debt service requirements. The resulting recommendations for rates and financial management of the utilities are summarized in this report.

In addition to determining the City's rate requirements, this study also included a review of existing policies and ordinances related to utility financial management and rate setting. The City has been provided recommendations to align these documents with best practices and industry standards.

Municipal Analytics appreciates the opportunity to work with the City on this study.

If you should have any questions about this analysis, please do not hesitate to contact me at 734-623-8033.

Very truly yours,

John Kaczor
Principal

CITY OF FRASER
WATER AND SEWER UTILIITES
RATE STUDY REPORT

TABLE OF CONTENTS

SECTION 1. INTRODUCTION

This report presents a recommended rate structure calculated to fully fund the City of Fraser's water and wastewater utility operations in future years. In summary, the objectives of this study were to:

- Determine the total cost of providing water and sanitary sewer services
- Evaluate the rate impacts of proposed capital projects and test financing alternatives
- Develop a long-term financial plan to ensure the utilities remain financially stable
- Develop a long-term rate track to smooth out rate adjustments and minimize rate impacts on customers

With support and input from City staff, we have prepared a rate strategy that meets the project objectives and ensures financial stability of the Water and Sewer Fund.

1.1. Background

The City of Fraser owns and operates a public water distribution system and a wastewater collection and conveyance system, serving approximately 5,100 customers in the city. Fraser contracts with the Great Lakes Water Authority (GLWA) for the supply of treated water and the treatment of wastewater. Additionally, Fraser is a member of the Macomb Interceptor Drainage District (MIDD) and the Oakland-Macomb Interceptor Drainage District (OMID). The city contributes to the costs of these districts as part of the wastewater conveyance system.

Operating and maintaining public utilities requires regular investment in infrastructure and qualified employees to ensure the efficient and safe provision of utility services. As costs and operating demands change, it is essential that the utility's rates be periodically evaluated and adjusted. Through this process, rate equity is assured, and the financial health of the enterprise fund can be monitored and maintained.

In recognition of the importance of updating and maintaining rates sufficient to fund these vital community services, the City engaged Municipal Analytics to undertake a rate study to identify longer-term expenditure trends, cash reserve needs, capital funding capacity, and other financial conditions of its water and sewer utilities.

1.2. Scope of Study

To gain an understanding of Fraser's sewer and water utilities' finances and operations, we reviewed the City's utility budget, financial reports, billing records, debt obligations, capital needs, utility ordinances and other documents. The study focused on determining the revenue required to fully satisfy the cash needs of the Water and Sewer Enterprise Fund. Revenue requirements were then considered in light of the City's customer base and user charge system, and recommendations were made regarding the rates required to fund OM&R, capital and debt service expenditures. The City has been provided an Excel-based Utility Financial Analytics tool to aid in future rate evaluation.

SECTION 2. ANALYSIS

Determining sufficient utility rates requires a number of financial and customer inputs, assumptions, policy considerations and customer impact analysis. These inputs have been integrated into a

comprehensive rate model, developed in Excel spreadsheet format. In this section, each of these components is addressed, to provide a framework for the developed rates presented in Section 3.

2.1. Rate Model

To calculate revenue requirements and the resulting rates needed to fund the water and sewer utilities, we have prepared an Excel-based rate model. The model encompasses the financial and customer data needed to prepare a thorough rate analysis. The multi-year financial plan is driven by a number of assumptions and integrates the anticipated capital improvement investments expected in the coming years. Outputs of the model include summary charts and tables displaying the interaction between budgets, capital investments, assumptions, debt, rates, cash balances, and other metrics. Through the use of the model, the rates outlined in Section 3 were developed and tested. The final rate recommendations are based on annual operating costs and necessary capital investments identified by City staff. The model has been provided to the City administration for ongoing future use in setting rates.

2.2. Sewer Operating Budget

Sewer operating expenditures totaled approximately $5.94 million in FY 23-24. Included in this total are wholesale sewer treatment (GLWA) costs of about $3.35 million, debt service payments of about $1.45 million, and capital outlays of $582,000. All other cash outlays account for about $550,000.

Sewer revenues are composed primarily of user charges ($4.44 million). Other revenues include penalties, interest earnings, grants, and miscellaneous revenues.

2.3. Water Operating Budget

Water utility expenditures last fiscal year totaled about $3.24 million. Wholesales costs of water paid to GLWA accounted for $1.38 million of this amount, while debt service cost totaled $221,000 and capital outlays accounted for $589,000. All other water expenditures totaled just over $1 million.

Water-related revenues come primarily from user charges ($3.28 million).

2.4. Customer Base

The City's sewer and water utilities serve about 5,100 customers within the City.

Based on population trends over the past 40 years, the number of customers is assumed to remain stable over the forecast period considered in this study. The rate model assumes the number of customers will remain unchanged.

Metered usage is also assumed to remain consistent with 2023 and 2024 levels. Actual usage may vary considerably based on weather, consumer choices, utilization of water saving devices, industrial production and other variables. It is important to monitor actual metered volumes over an extended time to establish average annual usage for rate-setting purposes.

2.4. Existing Debt

The City of Fraser is currently responsible for about $13.3 million of outstanding debt associated with the MIDD, OMID and City wastewater systems. The annual debt service on these obligations is just over

$1.5 million. Additionally, the City has about $2.9 million of outstanding water system debt. Annual debt service expenses on this debt amount to $250,000.

2.5. Rate Structures

Water and sewer rates are comprised of a monthly base charge, which varies by customer water meter size, and a commodity charge, billed per hundred cubic feet (CCF) of metered water.

Sewer and water rates currently in effect are:

SEWER RATES	
	2024
Monthly SEWER Base Charge	
5/8 inch	$ 10.10
1 inch	$ 10.10
1.5 inch	$ 22.73
2 inch	$ 40.41
3 inch	$ 90.93
4 inch	$ 161.66
6 inch	$ 363.73
8 inch	$ 646.64
Commodity Charge:	$ 10.44

WATER RATES	
	2024
Monthly WATER Base Charge	
5/8 inch	$ 15.16
1 inch	$ 15.16
1.5 inch	$ 34.10
2 inch	$ 60.62
3 inch	$ 136.40
4 inch	$ 242.49
6 inch	$ 545.60
8 inch	$ 969.95
Commodity Charge:	$ 5.48

An analysis of actual and budgeted revenues reveals sewer commodity (variable) charges account for close to 82% of revenue from rates. Water commodity revenues account for close to 70% of revenue from rates. Meanwhile, sewer costs are nearly 100% fixed, and water fixed costs are over 60% fixed. These percentages are driven primarily by the charges from GLWA.

The recommended rate structure presented in Section 3 of this report adjusts rates gradually to better align fixed revenues with fixed costs.

2.6. Cash Balances and Reserve Targets

According to the latest audited financial statement of the City, dated June 30, 2023, the Water and Sewer Fund had an available cash and equivalents balance of $9,524,524.

Fraser does not currently have a formal cash reserve policy for its Water and Sewer Fund. In lieu of a formal policy, the rate model uses the following reserve levels as cash reserve targets:

- Operating reserve: 90 days O&M expenditures
- Debt service reserve: 100% of annual debt service payments
- Capital reserve: average 5-year capital plan

When these targets are applied, the cash reserve target level for 2023 was $5,128,575. The Water and Sewer Fund is in a healthy cash position, with cash reserves in excess of the target level.

By maintaining an appropriate level of cash reserves, the City will be able to better plan its capital investment and rate strategy to minimize rate increases and ensure financial stability. Available cash can also be used to fund emergency repairs, match grant funds and smooth rates over time.

2.7. Assumptions

The financial outlook of the sewer and water operating fund is based on several assumptions, as outlined below:

FYE 6/30:	2025	2026	2027	2028	2029	2030	2031
General inflation	3.0%	3.0%	2.5%	2.5%	2.5%	2.5%	2.5%
Payroll	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%	2.5%
Hospitalization Ins	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
Utilities	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	5.0%
GLWA Sewer	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
GLWA Water	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%	6.5%
Administration	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Each line item of the budget has been assigned one of these assumptions**,** which were reviewed and affirmed as reasonable by the City's management team.

In developing the model, alternative assumptions were tested. The chosen assumptions are believed to be the most likely outcome, although it would be very unlikely to have actual future values exactly match the assumptions. In forecasting future costs and revenues, it is important to consider trends more than actual values. Since we cannot predict the future, it is often best to adopt one year of rates at a time. Further adjustments can be made each year to the financial and/or customer information as actual current numbers become available. This will allow the most accurate rate calculation each year.

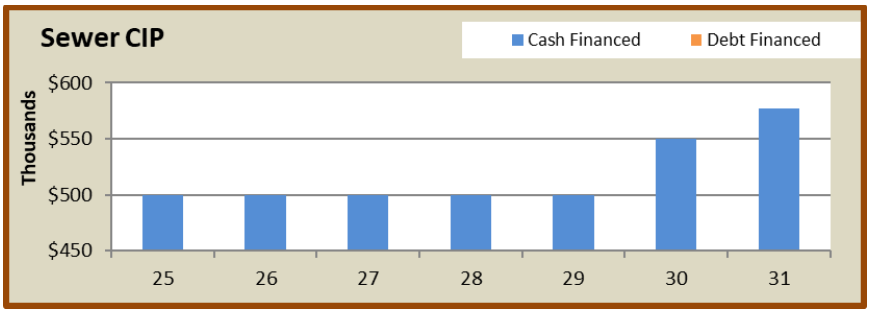
2.8. Capital Improvement Plans

The City has identified anticipated capital improvements that will be required in the near and more distant future. Capital investments consist of projects intended to reduce the potential for critical failure, extend the useful life of the utility systems, comply with regulatory requirements and meet anticipated future demands. In summary, capital projects include:

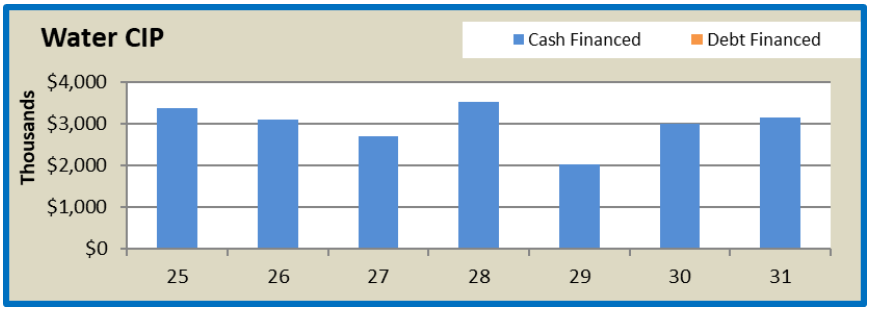
- Repair/replace sections of sewer collection system and water distribution mains
- Meter replacement
- Replacement or improvements to valves and hydrants
- Replacement of equipment, technology upgrades, engineering evaluations
- Televising and cleaning of sewer mains

The total cost of the identified sewer projects for fiscal years ending 2025-2031 is estimated to be $3.6 million. Water capital investments are expected to be close to $21 million over the same period. These investments are expected to be financed through cash reserves and rates.

The level and timing of anticipated sewer capital investments is summarized in the following chart:



Expected investment in the water system is summarized in the chart below.



2.9. Borrowing

As noted, the rate model assumes future capital improvements related to City utility infrastructure will be funded with cash, rates and reserves. The City could consider issuing debt to fund a portion of its water capital needs in the coming years, but this is not expected to be necessary if the City continues regular investments in the water and sewer infrastructure.

While the City may be able to fund its own capital needs without issuing new debt, it will likely continue to pay debt service on allocated costs from MIDD and OMIDD.

SECTION 3. RESULTS

Using the Utility Financial Analytics Tool developed specifically for the City of Fraser, the above-described variables and assumptions were integrated into a cash-based budget forecast. Working with water and sewer operations separately, annual expenditures were allocated to fixed versus variable costs. The fixed costs for each utility were divided by the number of residential meter equivalents to determine the monthly base charges required. Variable costs were divided by the estimated annual billable units to determine the rate per 1,000 gallons. The results of this analysis are summarized in the following subsections.

3.1. Budget Forecast: Sewer

Each line item in the water and sewer operating budget was forecasted using the assumptions discussed in section 2.7, above. Appendix A includes detailed budget information for the Water and Sewer Fund. A summary of the sewer budget forecast through FY 2031 is presented below:

Sewer Revenues	Budget 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031
User Charges & Rates	5,385,390	5,809,414	6,438,112	6,884,733	7,370,889	7,684,191	7,825,092
Penalties & Interest	360,000	386,866	386,866	378,677	378,102	382,628	381,568
Tap Fees	0	0	0	0	0	0	0
Other Revenues	60,000	151,583	151,583	179,474	135,660	154,575	155,323
Total Sewer Revenues	**5,805,390**	**6,347,863**	**6,976,561**	**7,442,884**	**7,884,651**	**8,221,394**	**8,361,983**
Sewer Cash Expenditures							
Labor	125,188	128,324	131,532	134,820	138,191	141,645	145,186
Debt	1,750,200	1,665,708	1,670,833	1,713,341	1,754,149	1,791,244	1,355,699
Wholesale Sewer Treatment	3,800,000	4,047,000	4,310,055	4,590,209	4,888,572	5,206,329	5,544,741
Professional & Contracted Services	200,000	233,470	233,470	220,970	221,977	227,472	225,972
Capital Outlays	814,000	500,000	500,000	500,000	500,000	550,000	577,500
Other Operaing Expenditures	243,061	325,136	332,137	360,158	333,317	356,321	364,485
Total Sewer Expenditures	**6,932,449**	**6,899,638**	**7,178,026**	**7,519,498**	**7,836,206**	**8,273,011**	**8,213,583**
Net Sewer Cash	**(1,127,059)**	**(551,775)**	**(201,465)**	**(76,613)**	**48,445**	**(51,618)**	**148,400**

As indicated by the forecasted net revenues for the sewer utility, the developed rates are expected to be sufficient to cover the cash needs of the utility in some years and fall short in other years. This variability is related primarily to the objective of keeping rates as low as possible while also producing sufficient revenues over a long period to achieve targeted cash reserve levels. In years of net reduction in cash, reserves are strategically used to moderate rate requirements. Reserves increase when net cash flow is positive.

3.2. Budget Forecast: Water

Similar to the sewer utility, assumptions related to operating costs, capital needs and debt service were applied to the water budget. The resulting forecast was used as the basis for future revenue requirements.

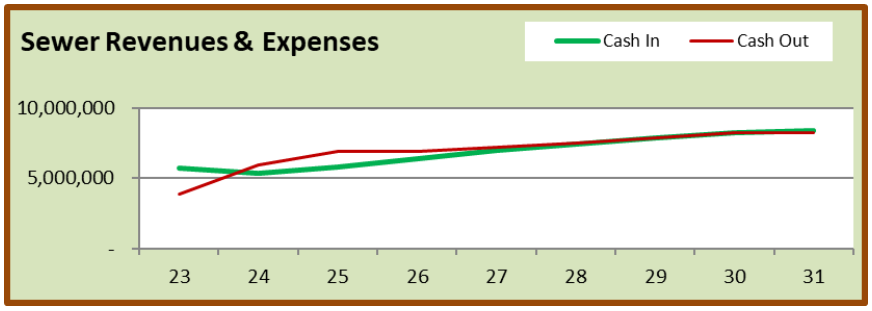
Water Revenues	Budget 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031
User Charges & Rates	4,311,052	5,915,375	6,236,386	6,409,440	6,478,648	6,612,041	6,807,869
Connection Charges	-	-	-	-	-	-	-
Other Revenues	-	-	-	-	-	-	-
Total Water Revenues	**4,311,052**	**5,915,375**	**6,236,386**	**6,409,440**	**6,478,648**	**6,612,041**	**6,807,869**
Water Cash Expenditures							
Labor	255,248	261,629	268,170	274,874	281,746	288,790	296,009
Debt	250,000	252,183	248,183	249,133	249,983	250,733	251,383
Wholesale Water Costs	1,475,000	1,570,875	1,672,982	1,781,726	1,897,538	2,020,878	2,152,235
Professional & Contracted Services	225,000	375,228	375,228	352,593	332,012	358,765	354,650
Capital Outlays	3,551,800	3,097,300	2,711,800	3,534,900	2,028,100	3,000,000	3,150,000
Other Operaing Expenditures	448,630	541,826	552,856	551,267	552,285	578,660	588,652
Total Water Expenditures	**6,205,678**	**6,099,042**	**5,829,219**	**6,744,493**	**5,341,664**	**6,497,826**	**6,792,929**
Net Water Cash	**(1,894,626)**	**(183,667)**	**407,167**	**(335,053)**	**1,136,985**	**114,215**	**14,940**

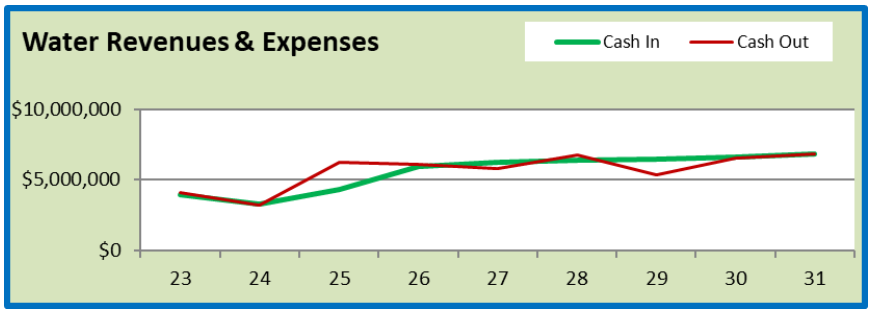
Similar to the estimated fluctuations in sewer net revenues, the forecasted net revenues for the water utility demonstrate the strategy of using some cash to moderate rates and fund capital needs with cash rather than debt.

When combined, the cash balance of the Water and Sewer Fund is estimated to decrease by about $2.55 million over the six-year period evaluated in this report. Forecasted cash reserves based on this strategy are presented in Section 3.6, below.

3.3. Revenue Required from Rates

Revenue from rates should be adequate to cover the cash needs of the utility fund, less any non-rate revenues. Additionally, cash reserve targets need to be considered, and revenue requirements need to be adjusted to account for excesses or shortfalls in cash reserves. As seen below, the recommended rates are expected to generate revenues lower than cash needs in some years and greater in other years. The imbalance between revenues and expenditures reflects an approach that keeps rates as low as possible while also staying close to the target range for cash reserves.





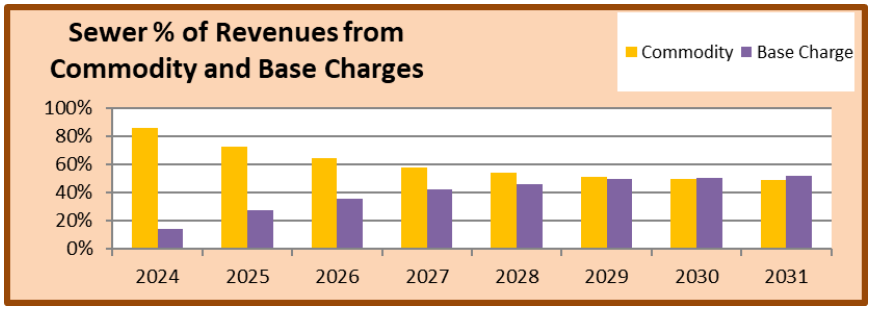
3.4. Rate Requirements: Sewer

As outlined in previous sections, rates have been set at a level slightly lower than the cash needs of the utility over the next 6 years. Cash reserves can be used to moderate rate increases in the initial years. As noted in Section 2.5, above, the recommended rate strategy will transition the mix of fixed and variable revenues to be more in line with fixed costs. Additionally, the ready to serve charge will be adjusted over three years to reflect the standard AWWA ratios between meter sizes. This phased-in approach is intended to lessen the impact on customers while also generating revenue required to fund the sewer utility.

	2024	2025	2026	2027	2028	2029	2030	2031
Monthly SEWER Base Charge								
5/8 inch	$ 10.10	$ 17.89	$ 20.84	$ 24.34	$ 28.28	$ 32.28	$ 34.54	$ 35.77
1 inch	$ 10.10	$ 26.83	$ 41.69	$ 60.84	$ 70.70	$ 80.70	$ 86.34	$ 89.42
1.5 inch	$ 22.73	$ 56.65	$ 85.12	$ 121.69	$ 141.40	$ 161.41	$ 172.69	$ 178.85
2 inch	$ 40.41	$ 95.41	$ 138.96	$ 194.70	$ 226.24	$ 258.25	$ 276.30	$ 286.16
3 inch	$ 90.93	$ 196.78	$ 270.98	$ 365.07	$ 424.20	$ 484.22	$ 518.06	$ 536.55
4 inch	$ 161.66	$ 339.90	$ 458.58	$ 608.45	$ 707.00	$ 807.04	$ 863.44	$ 894.25
6 inch	$ 363.73	$ 727.50	$ 944.95	$ 1,216.89	$ 1,414.00	$ 1,614.08	$ 1,726.87	$ 1,788.49
8 inch	$ 646.64	$ 1,240.33	$ 1,556.39	$ 1,947.03	$ 2,262.40	$ 2,582.52	$ 2,762.99	$ 2,861.59
Commodity Charge:	$ 10.44	$ 9.60	$ 8.83	$ 8.75	$ 8.76	$ 8.84	$ 8.98	$ 8.99

The green-shaded column of rates is what is calculated for the fiscal year ending 6/30/2025. The rate model assumes these rates will be implemented in January 2025.

Note the reduction in the commodity rate for several years, and the offsetting increase in the ready to serve charge. As noted in Section 2.5, sewer costs are nearly 100% fixed. The proposed rate structure will increase revenues derived from a fixed charge to better align with costs. As seen in the chart below, the base charge (RTS) is expected to generate over 50% of sewer revenues by 2031, which is a significant increase over the 14% generated in 2024.



3.5. Rate Requirements: Water

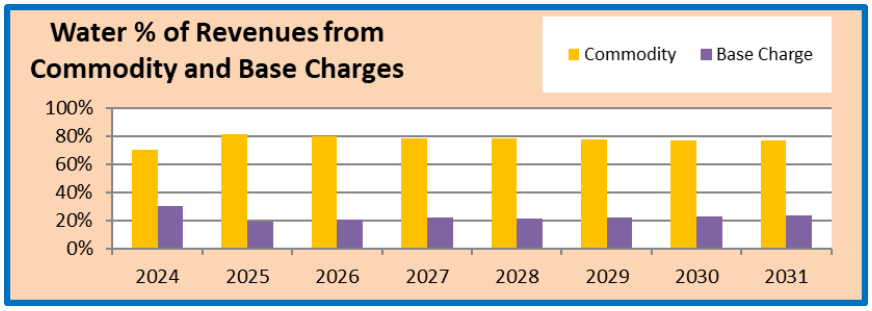
The estimated rate schedule for water is summarized below:

	2024	2025	2026	2027	2028	2029	2030	2031
Monthly WATER Base Charge								
5/8 inch	$ 15.16	$ 9.85	$ 11.58	$ 11.64	$ 11.77	$ 12.38	$ 13.02	$ 13.70
1 inch	$ 15.16	$ 14.77	$ 23.16	$ 29.10	$ 29.43	$ 30.94	$ 32.54	$ 34.25
1.5 inch	$ 34.10	$ 31.19	$ 47.28	$ 58.20	$ 58.87	$ 61.88	$ 65.09	$ 68.51
2 inch	$ 60.62	$ 52.53	$ 77.19	$ 93.12	$ 94.19	$ 99.00	$ 104.14	$ 109.61
3 inch	$ 136.40	$ 108.33	$ 150.51	$ 174.59	$ 176.60	$ 185.63	$ 195.26	$ 205.52
4 inch	$ 242.49	$ 187.12	$ 254.71	$ 290.99	$ 294.34	$ 309.38	$ 325.43	$ 342.53
6 inch	$ 545.60	$ 400.51	$ 524.86	$ 581.97	$ 588.68	$ 618.76	$ 650.86	$ 685.05
8 inch	$ 969.95	$ 682.84	$ 864.47	$ 931.15	$ 941.88	$ 990.01	$ 1,041.37	$ 1,096.08
Commodity Charge:	$ 5.48	$ 7.79	$ 9.56	$ 9.89	$ 10.22	$ 10.21	$ 10.33	$ 10.57

Water rates will need to increase more noticeably in the next few years, due to the higher anticipated capital investments required for the water utility.

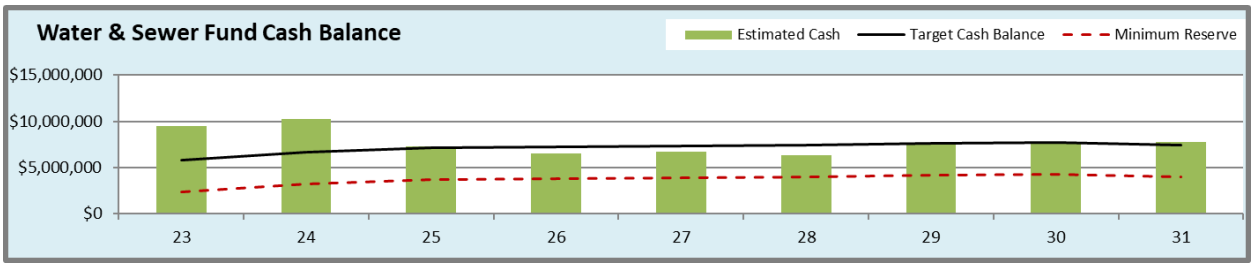
The proposed rates are expected to produce about 23% of revenues from the base charge (RTS) by 2031. Currently, the water RTS charge generates a little less than 30% of water revenues. In recognition

of the increased burden of higher RTS charges on some customers, water fixed charges have been maintained at a lower rate for the next six years. Over time, the RTS charge should be increased to generate at least 40% of total water revenues.



3.6. Impact on Cash Reserves

The revenue and expenditure charts shown in Section 3.3, above, illustrate the expected shortfalls and excesses in each utility over the forecast period. The current strong cash position in the Water and Sewer Fund will allow the City to smooth rates over time and keep rate increases to a minimum. In years when expenditures exceed revenues, cash reserves will be used to fund operations, capital and debt. As rates increase each year, the City can expect some years in which revenues exceed expenditures. In these years, cash reserves will be replenished. The following chart illustrates forecasted cash balances in the Water and Sewer Fund:

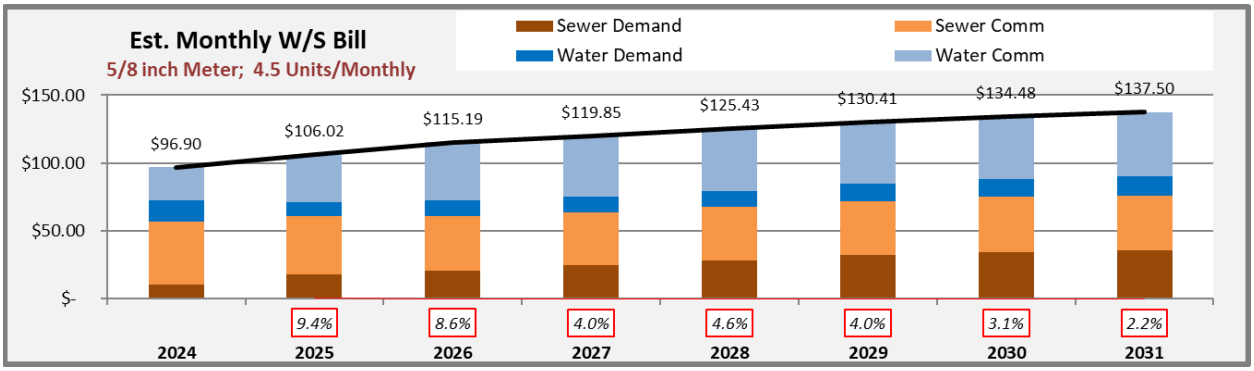


The dotted red line represents the minimum cash balance target for the fund, while the solid black line reflects the target cash reserve level. Maintaining cash balances (green bars) between these lines is the objective sought when determining rate requirements through FYE 2031.

Given the current climate of rapidly rising costs, the City is encouraged to consider maintaining cash reserves at a higher level to be able pay for likely higher capital costs in the future. Cash reserves can also be a tool to help the City obtain grant funding that requires a local match. When appropriate, cash reserves could also be used to pay down MIDD and OMID debt obligations.

3.5. Impact on Customers

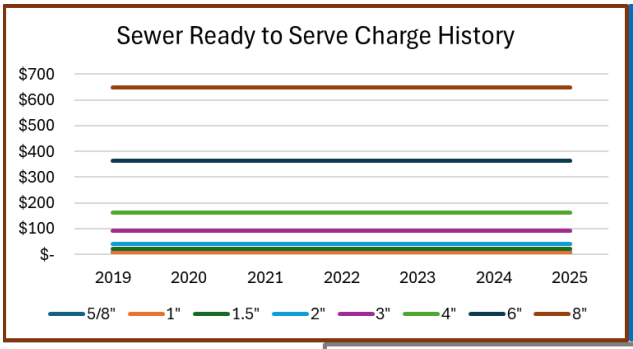
It is important to consider the impact of rate changes on customers, as well as on the utility's finances. By evaluating the sewer and water rates in the same model, the City is better able to understand the impact on customers' total bills. Every effort was made to minimize the impact on customers while also ensuring the integrity, safety and quality of both utilities. The chart below illustrates the expected increase in combined water and sewer rates for the average City residential customer through FY 2031. As illustrated, customers can expect increases ranging from 9.4% to 2.2% each year.

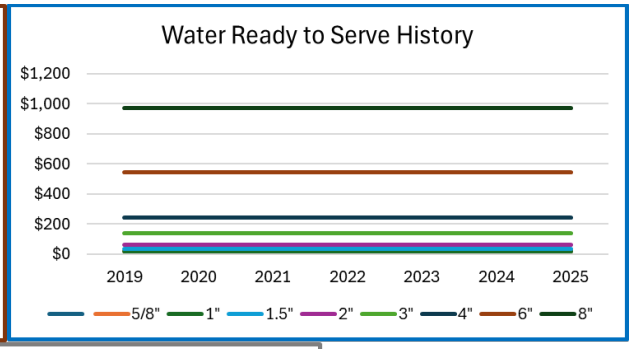


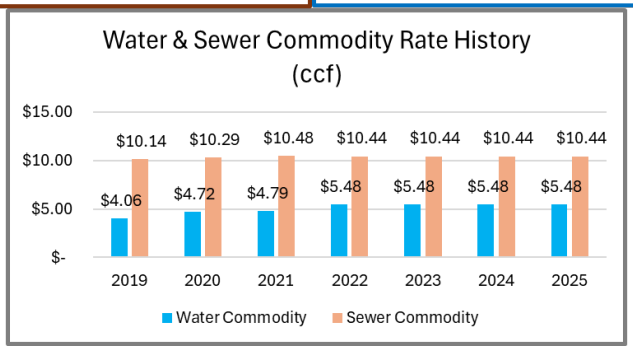
Customers with larger meters or higher usage, or those served by only one utility, will be impacted differently, depending on each customer's individual characteristics. This rate forecast illustrates only a typical residential customer.

The rate trajectory illustrated above is based on assumptions related to annual operating expenditures, cost of capital and debt financing options, as well as to customer base and usage. It is possible future rate requirements will be higher or lower than initially forecast.

While the initial rate increases may seem substantial, it is important to remember the City has raised its RTS charges since before 2019. Commodity rates have remained unchanged since 2022. The charts below illustrate historical rates back to the period before the global Covid pandemic.







Despite the long history of stable rates, the City has increased its cash balance in the Water and Sewer Fund over the past six years. This is due to a lack of adequate investment in the sewer and water infrastructure over those years. On average, the City invested about $1 million per year on water and sewer capital that was funded with cash. Based on engineering analysis of the City's utility assets, annual

capital investments should be close to $3.5 million to maintain the sewer and water systems in good working order.

The City has an opportunity to increase its investment in capital assets without requiring excessive hardships on its water and sewer customers. This is possible due to the strong cash position in the fund at this time. By proactively maintaining assets, the City can reduce the likelihood of costly emergency repairs which could require unplanned increases in rates or the issuance of debt.

SECTION 4. CONCLUSION AND FUTURE ACTIONS

At the conclusion of the rate study, the City was provided with the findings and recommendations of the analysis as described in this report.

4.1. Rate Adoption

In response to the financial analysis and rate recommendations of this study, the City is encouraged to approve a motion to adopt the recommended rate schedule for FYE 2025, with implementation of the new rates set for January 2025. The model assumes future rate adjustments will take effect at the beginning of the City's fiscal year, beginning with July 2025 for the 2026 rates.. If the City wishes not implement two rate increases within six months of each other, it could consider postponing the 2026 increase to October 2025 or January 2026. Over several years rate adjustments could be brought in line with the start of the fiscal year, but that is not required. What is required will be annual rate adjustments to keep up with inflation and wholesale charges from GLWA, as well as to fund capital needs for the foreseeable future.

4.2. Future Action Required

The City is encouraged to annually update and review the rate model to ensure revenue requirements will be achieved for at least the next five-year period. As necessary, rates should be modified to meet the cash needs of the operating budget and the cash reserve targets of the water and sewer fund.

APPENDIX A: WATER AND SEWER FUND FORECASTED BUDGET DETAIL

REVENUES

GL Acct	FYE 6/30:	Budget 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031
	REVENUES							
Dept 590 - SEWER								
592-000-445.000	TAXES - PENALTIES AND INTEREST ON TAXES	40,000	42,357	42,357	42,941	41,914	42,392	42,401
592-000-569.000	STATE GRANTS - OTHER	-	-	-	-	-	-	-
592-000-607.000	FEES	-	-	-	-	-	-	-
592-000-642.300	SALES - SEWER COMMODITY	4,239,845	3,735,483	3,701,126	3,704,415	3,740,574	3,800,183	3,802,486
592-000-642.400	SALES - SEWER RTS	1,145,545	2,073,931	2,736,986	3,180,318	3,630,315	3,884,008	4,022,606
592-000-642.700	SALES - SEWER TAP FEES	-	-	-	-	-	-	-
592-000-657.000	ORDINANCE FINES AND COSTS	10,000	36,866	36,866	28,677	28,102	32,628	31,568
592-000-665.000	INTEREST INCOME	350,000	350,000	350,000	350,000	350,000	350,000	350,000
592-000-675.000	OTHER REVENUE	20,000	109,226	109,226	136,533	93,746	112,183	112,922
Total Dept 590 - SEWER		**5,805,390**	**6,347,863**	**6,976,561**	**7,442,884**	**7,884,651**	**8,221,394**	**8,361,983**
		4,600,000						
Dept 591 - WATER		770,000						
592-000-642.100	SALES - WATER COMMODITY	3,243,615	4,674,495	4,834,242	4,992,911	4,992,075	5,051,451	5,168,537
592-000-642.200	SALES - WATER RTS	1,007,438	1,180,436	1,341,700	1,357,162	1,426,510	1,500,511	1,579,343
592-000-642.500	SALES - METER REPLACEMENT FEE	60,000	60,443	60,443	59,367	60,064	60,079	59,988
592-000-642.600	SALES - WATER TAP FEES	-	-	-	-	-	-	-
592-000-642.900	SALES - WATER METER FEES	-	-	-	-	-	-	-
Total Dept 591 - WATER		**4,311,052**	**5,915,375**	**6,236,386**	**6,409,440**	**6,478,648**	**6,612,041**	**6,807,869**
	TOTAL REVENUES	**10,116,442**	**12,263,237**	**13,212,947**	**13,852,324**	**14,363,300**	**14,833,435**	**15,169,852**

APPENDIX A: WATER AND SEWER FUND FORECASTED BUDGET DETAIL: EXPENDITURES

GL Acct	FYE 6/30:	Budget 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031
Dept 590 - SEWER								
592-537-703.000	SALARIES	25,986	26,636	27,302	27,984	28,684	29,401	30,136
592-537-704.000	WAGES - FULL TIME EMPLOYEES	86,861	89,033	91,258	93,540	95,878	98,275	100,732
592-537-710.000	VACATION	-	-	-	-	-	-	-
592-537-711.000	HOLIDAY	-	-	-	-	-	-	-
592-537-712.000	OVERTIME	2,000	2,050	2,101	2,154	2,208	2,263	2,319
592-537-713.000	FICA	6,997	7,172	7,351	7,535	7,723	7,916	8,114
592-537-714.000	MEDICARE	1,636	1,677	1,719	1,762	1,806	1,851	1,897
592-537-716.000	WORKERS COMPENSATION INSURANCE EXPE	508	521	534	547	561	575	589
592-537-721.000	CLOTHING ALLOWANCE	1,200	1,236	1,267	1,299	1,331	1,364	1,398
592-537-724.100	HEALTH INSURANCE PREMIUMS (EMPLOYEES	-	-	-	-	-	-	-
592-537-724.200	RETIREE HEALTH SAVINGS PLAN (ICMA)	-	-	-	-	-	-	-
592-537-725.200	DEFINED BENEFIT PENSION PLAN (MERS)	-	-	-	-	-	-	-
592-537-742.000	OPERATING SUPPLIES	8,000	8,240	8,446	8,657	8,874	9,095	9,323
592-537-801.000	PROFESSIONAL/CONTRACTUAL SERVICES	200,000	203,628	203,628	206,049	203,326	204,158	204,290
592-537-801.200	PROFESSIONAL SERVICES - ENGINEERING	-	29,842	29,842	14,921	18,651	23,314	21,682
592-537-850.000	COMMUNICATIONS (PHONE AND CELL)	-	-	-	-	-	-	-
592-537-851.000	MAIL OR POSTAGE	17,000	17,510	17,948	18,396	18,856	19,328	19,811
592-537-920.000	ELECTRIC	8,000	8,560	9,159	9,800	10,486	11,220	11,781
592-537-923.000	SEWAGE (FIXED)	3,800,000	4,047,000	4,310,055	4,590,209	4,888,572	5,206,329	5,544,741
592-537-930.000	REPAIRS AND MAINTENANCE	10,000	84,763	84,763	105,562	71,272	86,590	87,047
592-537-957.000	PROFESSIONAL DEVELOPMENT	-	-	-	-	-	-	-
592-537-968.000	DEPRECIATION AND DEPLETION	-	-	-	-	-	-	-
592-537-969.000	BAD DEBT EXPENSE	-	-	-	-	-	-	-
592-537-972.000	CAPITAL OUTLAY (cash funded)	814,000	500,000	500,000	500,000	500,000	550,000	577,500
592-537-991.000	PRINCIPAL	1,250,000	1,165,508	1,170,633	1,213,141	1,253,949	1,291,044	855,499
592-537-993.000	INTEREST EXPENSE	500,000	500,000	500,000	500,000	500,000	500,000	500,000
592-537-994.000	PAYING AGENT FEES	200	200	200	200	200	200	200
592-537-995.100	INTERFUND TRANSFER OUT - ADMIN CHARGE	117,801	121,335	124,975	128,724	132,586	136,564	140,661
592-537-995.200	INTERFUND TRANSFER OUT - MOTOR POOL	73,260	75,458	77,344	79,278	81,260	83,291	85,374
592-537-995.300	INTERFUND TRANSFER OUT - SELF INSURANC	9,000	9,270	9,502	9,739	9,983	10,232	10,488
Total Dept 590 - SEWER		**6,932,449**	**6,899,638**	**7,178,026**	**7,519,498**	**7,836,206**	**8,273,011**	**8,213,583**

APPENDIX A: WATER AND SEWER FUND FORECASTED BUDGET DETAIL: EXPENDITURES

GL Acct	FYE 6/30:	Budget 2025	Estimate 2026	Estimate 2027	Estimate 2028	Estimate 2029	Estimate 2030	Estimate 2031
Dept 591 - WATER								
592-536-703.000	SALARIES	34,647	35,513	36,401	37,311	38,244	39,200	40,180
592-536-704.000	WAGES - FULL TIME EMPLOYEES	173,723	178,066	182,518	187,081	191,758	196,552	201,465
592-536-705.000	WAGES - PART TIME EMPLOYEES	-	-	-	-	-	-	-
592-536-706.000	WAGES - TEMPORARY/SEASONAL EMPLOYEE	-	-	-	-	-	-	-
592-536-710.000	VACATION	-	-	-	-	-	-	-
592-536-711.000	HOLIDAY	-	-	-	-	-	-	-
592-536-712.000	OVERTIME	30,000	30,750	31,519	32,307	33,114	33,942	34,791
592-536-713.000	FICA	12,919	13,242	13,573	13,912	14,260	14,617	14,982
592-536-714.000	MEDICARE	3,021	3,097	3,174	3,253	3,335	3,418	3,503
592-536-716.000	WORKERS COMPENSATION INSURANCE EXPE	938	961	985	1,010	1,035	1,061	1,088
592-536-718.000	LONGEVITY PAY	-	-	-	-	-	-	-
592-536-721.000	CLOTHING ALLOWANCE	-	-	-	-	-	-	-
592-536-724.100	HEALTH INSURANCE PREMIUMS (EMPLOYEES	-	-	-	-	-	-	-
592-536-724.200	RETIREE HEALTH SAVINGS PLAN (ICMA)	-	-	-	-	-	-	-
592-536-725.200	DEFINED BENEFIT PENSION PLAN (MERS)	-	-	-	-	-	-	-
592-536-742.000	OPERATING SUPPLIES	140,000	144,200	147,805	151,500	155,288	159,170	163,149
592-536-801.000	PROFESSIONAL/CONTRACTUAL SERVICES	225,000	364,445	364,445	347,126	325,254	350,318	346,786
592-536-801.200	PROFESSIONAL SERVICES - ENGINEERING	-	10,783	10,783	5,467	6,758	8,448	7,864
592-536-802.000	EASEMENTS	-	2,219	2,219	1,110	1,387	1,734	1,612
592-536-850.000	COMMUNICATIONS (PHONE AND CELL)	3,000	3,090	3,167	3,246	3,328	3,411	3,496
592-536-851.000	MAIL OR POSTAGE	17,000	17,510	17,948	18,396	18,856	19,328	19,811
592-536-922.000	WATER	200	214	229	245	262	281	295
592-536-922.500	WATER (GREAT LAKES WATER AUTHORITY)	1,475,000	1,570,875	1,672,982	1,781,726	1,897,538	2,020,878	2,152,235
592-536-930.000	REPAIRS AND MAINTENANCE	50,000	129,010	129,010	117,202	106,305	120,382	118,225
592-536-956.000	MEMBERSHIPS	1,000	1,030	1,056	1,082	1,109	1,137	1,165
592-536-957.000	PROFESSIONAL DEVELOPMENT	8,500	8,755	8,974	9,198	9,428	9,664	9,905
592-536-968.000	DEPRECIATION AND DEPLETION	-	-	-	-	-	-	-
592-536-969.000	BAD DEBT EXPENSE	-	-	-	-	-	-	-
592-536-972.000	CAPITAL OUTLAY (cash funded)	3,551,800	3,097,300	2,711,800	3,534,900	2,028,100	3,000,000	3,150,000
592-536-991.000	PRINCIPAL	195,000	200,000	200,000	205,000	210,000	215,000	220,000
592-536-993.000	INTEREST EXPENSE	55,000	52,183	48,183	44,133	39,983	35,733	31,383
592-536-995.100	INTERFUND TRANSFER OUT - ADMIN CHARGE	146,670	151,070	155,602	160,270	165,078	170,031	175,132
592-536-995.200	INTERFUND TRANSFER OUT - MOTOR POOL	73,260	75,458	77,344	79,278	81,260	83,291	85,374
592-536-995.300	INTERFUND TRANSFER OUT - SELF INSURANC	9,000	9,270	9,502	9,739	9,983	10,232	10,488
Total Dept 591 - WATER		**6,205,678**	**6,099,042**	**5,829,219**	**6,744,493**	**5,341,664**	**6,497,826**	**6,792,929**
	TOTAL EXPENDITURES	**13,138,127**	**12,998,679**	**13,007,246**	**14,263,991**	**13,177,870**	**14,770,837**	**15,006,512**