

**Public Works
Department**

Memo

To: Brian Kischnick, City Manager

From: Tom Darling, Director of Financial Services
Timothy Richnak, Public Works Director
Richard Shepler, Water and Sewer Superintendent

Date: 2/1/2013

Re: Detroit Free Press article / DWSD Water Rate Increase

Background:

On January 25, 2013 the Detroit Free Press published an article "How Your Water Rate Could Change". These rate changes reflect only the commodity rate for a Mcf (1000 cubic feet) of water from the Detroit Water and Sewerage Department. It does not include fixed, sewer and City of Troy operational costs.

History:

The City of Troy has had lower than average rate increases the last 5 years, in part due to the water restriction ordinance that we instituted back in 2008. We were able to reduce our Maximum Day and Peak Hour Usage and that kept our rates in check.

Another factor that affects the rate is Total Annual Volume. The less volume a community uses the higher the rate per unit. This in a large part is due to the fixed cost portion of DWSD rate structure.

It is unfortunate that the newspaper article did not include the actual rates each community is paying DWSD for water being purchased. Publishing only the percentage increase does not tell the whole story. Troy still pays less than most

communities that are similar in distance and elevation from the water plants (See Table Below).

You must be very careful when comparing rates with other communities as some have storage capabilities, a low number of underground sprinklers or direct connections to the DWSD system.

Troy was scheduled to renegotiate its water contract with DWSD this year. Adjustments were made to our peak hour from 38 Mcf to 39 Mcf and our total annual volume from 576,000 Mcf to 530,000 Mcf. Both of these factors had an effect on the rate increase. The peak hour usage and total annual volumes were readjusted based on recent usage and projected growth over the next 5 year period.

Troy is in the first group of communities as approximately 1/3 that renegotiated contracts this year. The other communities of approximately 2/3 did not change their exhibits and thus had a 4.4% increase this year based on DWSD increase in revenue requirements.

Troy was one of the first communities that instituted an ordinance to shift water usage to the exclusionary time period (11 P.M. to 5 A.M.). This continues to work very well for the City of Troy. Now many other communities have modified versions of Troy's ordinance and policies. This tends to equalize the total cost and bring those other communities more in line with Troy.

Comparison:

Below are current and proposed wholesale commodity rates of similar communities to Troy. The "Dollars Increased" column represents an average wholesale rate on a non irrigation quarterly billing of 3Mcf (3000 cubic feet) on the commodity rate only. It does not include fixed, sewer and City of Troy operational costs.

<u>Community</u>	<u>Current Rate</u>	<u>Proposed Rate</u>	<u>Percentage Increase</u>	<u>Dollars Increase</u>
W. Bloomfield Twp.	\$20.23	\$18.21	(10) %	(\$6.06)
Rochester Hills	\$17.31	\$18.07	4.4%	\$2.28
Farmington Hills	\$16.37	\$17.09	4.4%	\$2.16
Canton Twp.	\$15.26	\$16.63	9.0%	\$4.11
Shelby Twp.	\$15.90	\$16.60	4.4%	\$2.10
Auburn Hills	\$14.59	\$15.26	4.6%	\$2.01
Macomb Twp.	\$13.23	\$13.81	4.4%	\$1.74
Troy	\$10.80	\$11.93	10.5%	\$3.39

