



City of Ferndale Water and Sewer Fund Report

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History and Overview

Comprehensive Analysis included four phases:

- Phase I: Meter Reading Process
- Phase II: Water and Sewer Fund Audit
- Phase III: Review of Policies and recommendations
- Phase IV: Review the City's Rates

Status of Phases

Phase I: Reading System Upgrade

- Mega-nit reading system completed its upgrade in April 2013

Phase II: Water and Sewer Audit

- Presented to City Council on March 25, 2013 (Report can be found here: <http://ferndalemi.gov/Services/Utilities>)

Status of Phases

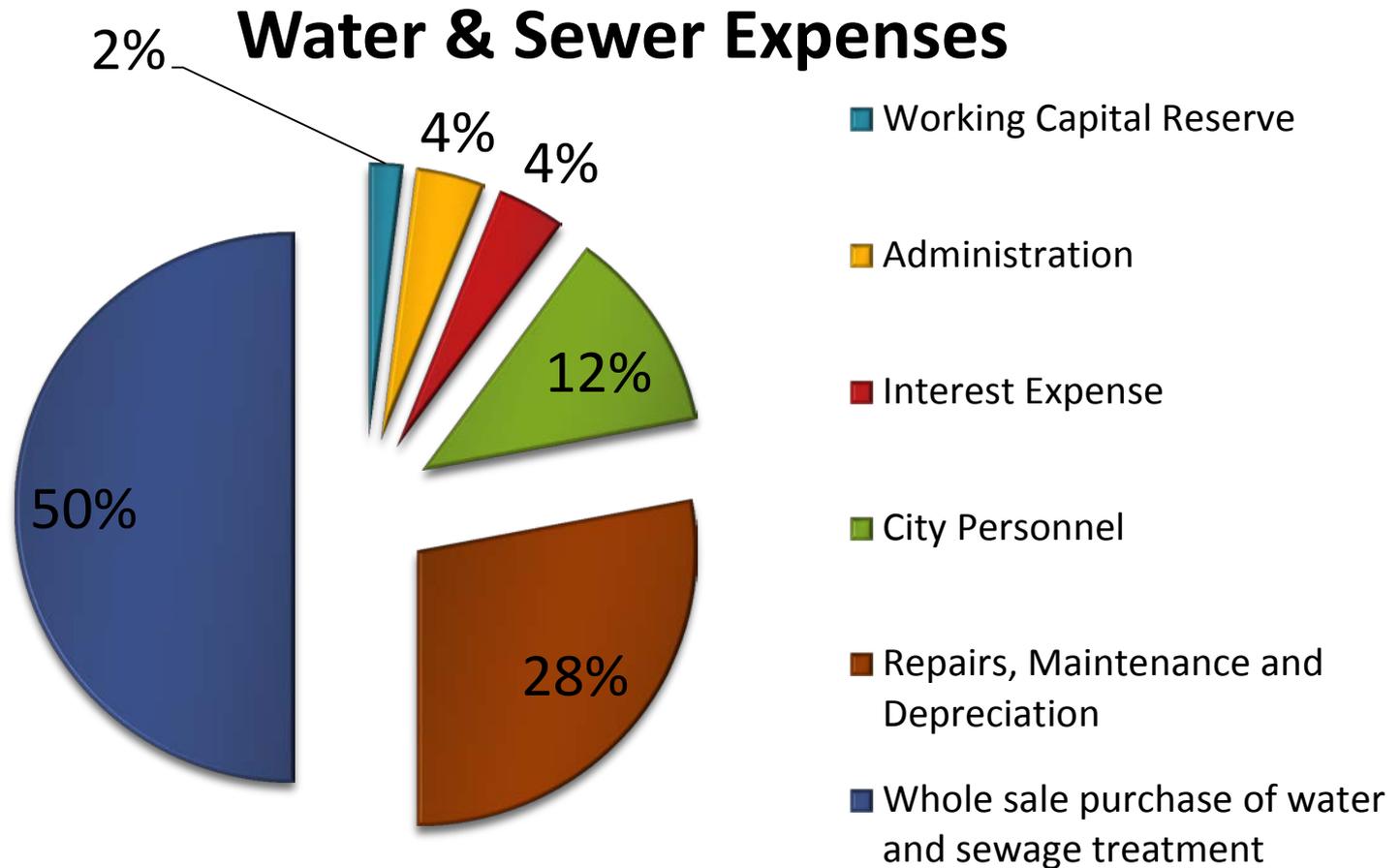
Phase III: Policy recommendations

- Online Payments introduced: May 1, 2013
- Eliminated \$50 late charge and retained a simple 10% late fee
- Established payment plans to provide short-term assistance for those in need:
 - Temporary hardship
 - 6-month repayment plan
- Customize water and sewer bills to be more user friendly (In progress)

Phase IV: Review City Water and Sewer Rates

	Water Purchased & Sewage treatment	Repairs & Depreciation	Administration	Interest expense	Reserve for working capital	Totals
Ferndale	\$8,594,377	\$4,814,086	\$2,770,917	\$749,963	\$400,572	\$17,329,917
City 1	\$11,586,421	\$875,991	\$4,962,046	\$770,678	\$3,219,315	\$21,414,451
City 2	\$3,800,249	\$702,622	\$4,687,179	\$130,438	\$481,845	\$9,802,333

Phase IV: Review City Water and Sewer Rates



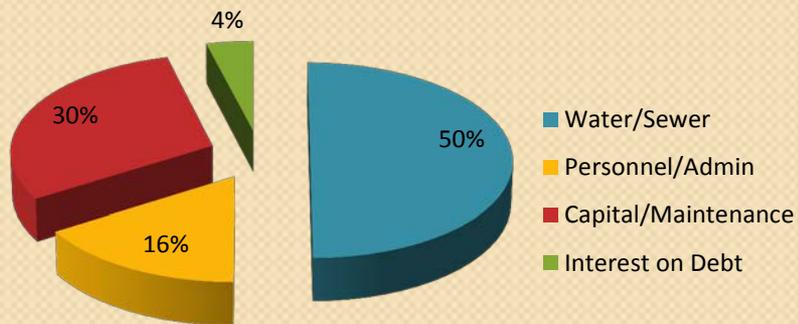


Health of Ferndale Water and Sewer Fund

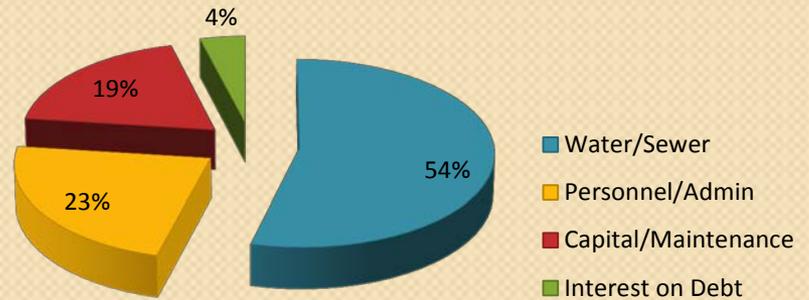
Cost Comparison

	Ferndale	City 1	City 2
Water/Sewer Purchases	50%	54%	39%
Personnel/Admin	16%	23%	48%
Capital/Maintenance	30%	19%	12%
Interest on Debt	4%	4%	4%
Number of Users	9,790	11,700	7,760

Ferndale Water Expense Distribution # of Users: 9,789

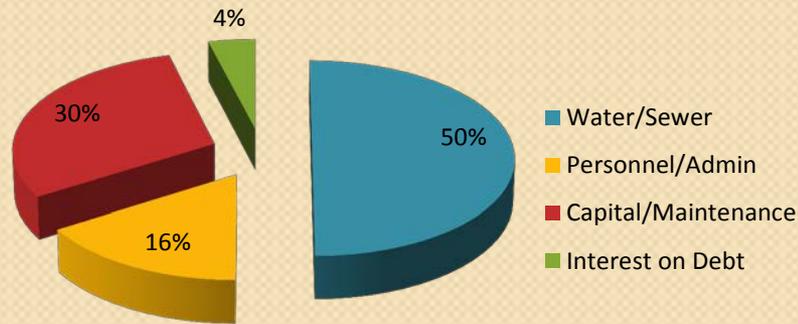


City 1 Water Expense Distribution # of Users: 11,700

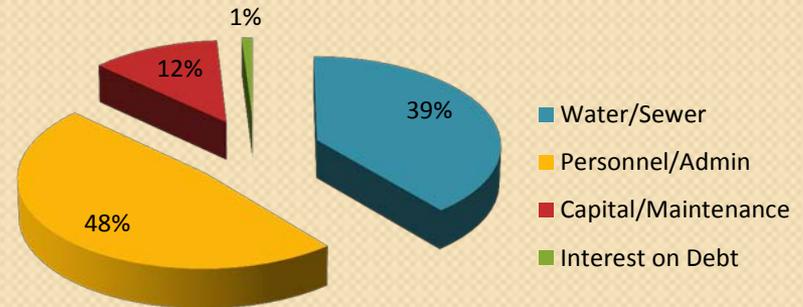


City Approaches to Water Vary

Ferndale Water Expense Distribution # of Users: 9,789



City 2 Water Expense Distribution # of Users: 7,760



Significant Differences in Personnel and Capital Investment

Depreciation

- Allocates a more exact approximation of true costs for service to customer
- Creates short term larger cash surplus, however: some or all new construction can be paid by surplus accumulation rather than requiring bonds
- Helps smooth annual rate increases due to the longer time-frame over which to pay for the infrastructure
- Meets City of Ferndale's Financial Policies

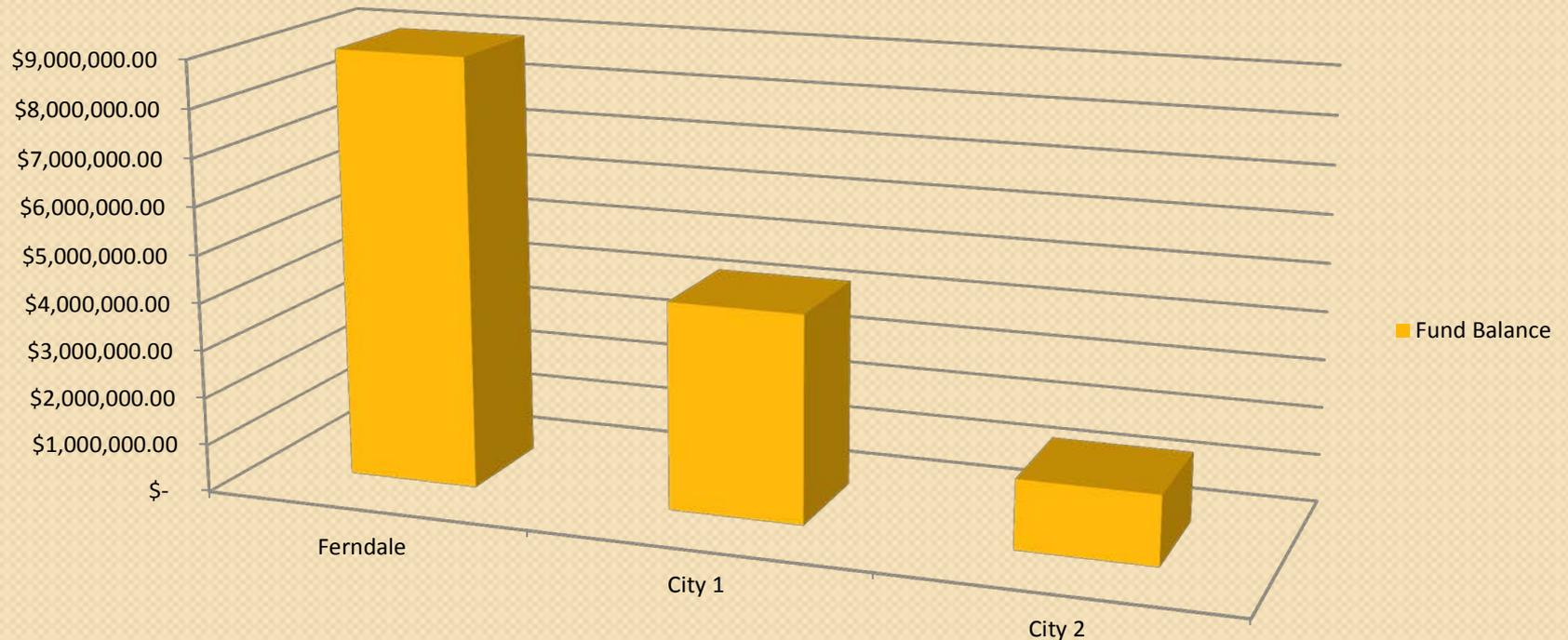
Bonding

- Bonded debt repaid over 20-30 years causing a higher allocation of cost on the current customer
- **Rate Spiking:** Issuing debt for every new project result in periods of spiking rates as new debt service payments force increases to rates.
- Requires payment of interest expense, thereby increasing the cost of the system

2 Approaches to System Management

WATER & SEWER FUND BALANCE

Level of Fund Balance is directly correlated to the approach to capital investment and capacity for emergency cash flow.



WATER & SEWER FUND BALANCE

Role of Net Position (Fund Balance): To address cash flow, projects and emergency finances.

- What's in a Fund Balance?
 - Delay for billings, emergency replacements, 90 days of operating expenditures and a years worth of debt service
- Finding a healthy balance to ensure the viability of the fund and future projects is the goal of the City of Ferndale

Health of Ferndale Water and Sewer Fund

- Anticipated Unrestricted Net Position (aka Fund Balance) FYE 2014: \$9 Million
- 15 year capital projects cost projection is apx. \$7 million (not including inflation or unanticipated issues)
 - Unrestricted Funds still required for cash flow and unanticipated issues-no less than \$4 Million.
- The City will need to prepare renewal of infrastructure bonds that expire in 2016.
 - No water projects will need to be included therefore more than likely the millage needed will be less than it is currently

Health of Ferndale Water and Sewer Fund

- The W&S Fund is in a position of stability
- Future rate increases will be primarily driven by increases in costs from DWSD
- Planned maintenance and repair of our infrastructure helps to avoid service disruptions:
 - Water main breaks, collapsing lines & other repairs that negatively impact residents and businesses

Risks and Unknowns of Lowering Rates

- 50% of our budget is determined by the rates authorized by Detroit Water and Sewer
- For every 5% increase, that increases our expenses by almost \$500,000
 - (Any increase will need to be absorbed by this fund)
- Health care and other fringe benefits typically increase at a rate higher than inflation
- A steep rate cut now will accelerate the necessary rate increases in future years.

Final Recommendations

- A 10% rate reduction for FY 2015, while also absorbing the 5% cost increase from DWSD
- Authorize a 5-year budget forecast modeling program, which will help the City forecast future working capital needs and smooth the necessary rate increase over a five year period
- Review roads and infrastructure bonds to ensure there is no need to support water projects and what effect that has on the future funds needed



Understanding New Rates

FYE 2014	FERNDALE	CITY 1	CITY 2 - Combined
WATER RATE	\$55	\$46.72	\$42.00
SEWER RATE	\$55	\$46.72	\$42.00
SERVICE CHARGE	\$33	NA	NA
TOTAL	\$143	\$93	\$84
% DIFFERENCE		35%	41%
FYE 2015 (-10%)	FERNDALE	CITY 1	CITY 2
WATER RATE	\$49.50	\$46.72	\$42.00
SEWER RATE	\$49.50	\$46.72	\$42.00
SERVICE CHARGE	\$29.70	NA	NA
TOTAL	\$128.70	\$93	\$84
% DIFFERENCE		27%	34%

Understanding New Rates

- Ferndale has not raised rates since July 1, 2012, and is now proposing a 10% rate decrease
- Other local communities are raising rates and approaching Ferndale's current rate



FERDALE

Questions/Follow Up?