



2016 Utility Rate Financial Study

2016 UTILITY RATE FINANCIAL STUDY

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**2016
UTILITY RATE FINANCIAL STUDY**

SECTION I - UTILITY RATES

INTRODUCTION

The City Administration has reviewed the utility rate structure for the purpose of considering necessary adjustments to utility rates while addressing long-term needs of the city utility system. During the development of the 2016 Utility Rate Financial Study, a review of the previous study and the present rate structure was conducted.

The proposed 2016 – 2017 utility rates are based in large part on the recommendations of the comprehensive rate analysis performed by Utility Financial Solutions, LLC (UFS) in 2011. On November 16, 2010 City Council awarded a contract to UFS to review past and current financial reports of the water and wastewater utilities along with detailed accounting of the utilities finances. The purpose of the UFS analysis was to determine the actual cost to provide water and wastewater services to the utility customers. The cost of service analysis showed that the current rate structure was insufficient to ensure the receipt of revenues necessary to recover the fixed costs of the utility. To address this concern the 2011 – 2012 utility rates began the trend of shifting revenue collection to basic quarterly charges based on meter size while keeping the commodity rate increases in line with the normal inflationary costs to provide the water and wastewater service. This trend is continued in the 2016 Utility Rate Study.

As part of the ongoing effort to control costs and maintain the lowest possible utility rates for water and sewer customers, the City Administration has reviewed the overall utility operation in light of the privatization of the operation and maintenance functions of the utility initiated in March, 1997. Privatization has been extremely effective in cutting overall utility costs while still providing a high level of service to customers. The city's contractor performs all routine operation and maintenance activities for the water utility including operation of the pumping and overhead storage facilities; meter installation, repair and reading; water service repair and maintenance; water main repair; fire hydrant flushing and repair; MISS DIG staking and other miscellaneous activities. Routine operation and maintenance activities performed for the sewer utility include cleaning and television inspection of sanitary sewers; cleaning of storm sewer piping and manholes; daily inspection, maintenance and repair of sanitary sewage pumping facilities; repair and cleaning of sanitary sewer manholes; street sweeping and other miscellaneous activities. On December 9, 2011 the City Council awarded a 5 year contract extension to Suez Water Environmental Services, Incorporated thru March 2017.

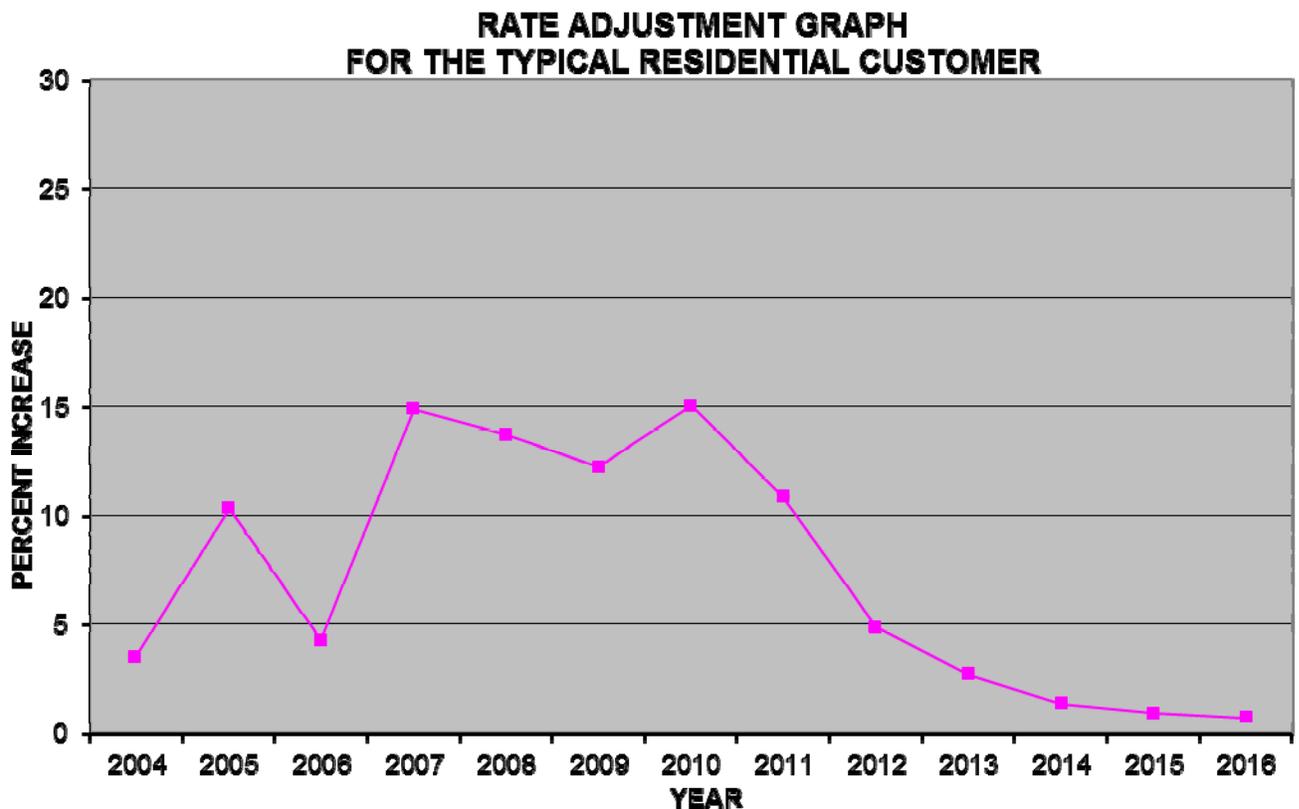
Background

The Governmental Accounting Standards Board (GASB) requires that Sewer and Water Funds be enterprise funds and be operated in a manner similar to private business, with costs recovered primarily through user charges.

In 1986, the first Water and Sanitary Sewer Rate Committee reviewed the financial status of the Sanitary Sewer and Water Funds. The Water and Sanitary Sewer Rate Committee has met every year since to review the rates and make recommendations to the City Council. Prior to 1986 utility rates were reviewed and adjusted on an as needed basis, which lead to unpredictable rates and charges.

In 2008 the city received a letter from the State of Michigan requiring a financial plan to rectify a water fund deficit. The city has followed the plan submitted to the State of Michigan and the water fund deficit has been eliminated. Water and sanitary sewer rate increases required to eliminate the deficit and meet the conditions in the financial plan submitted to the State of Michigan have been substantial since 2008. Rate adjustments since 2004 are as follows:

<u>Fiscal Year</u>	<u>Combined Water & Sewer % Rate Change (Typical Residential Customer)</u>
2004	3.53
2005	10.34
2006	4.29
2007	14.89
2008	13.68
2009	12.22
2010	15.03
2011	10.85
2012	4.85
2013	2.73
2014	1.40
2015	0.94



Rate adjustments typically result from inflationary pressure, material changes in programs and operations, and other factors which cannot be controlled by the city, such as charges from the City of Kalamazoo for sewage treatment and energy charges from Consumers Energy for gas and electricity.

CURRENT STATUS

A fundamental principle of utility fund financing is that user rates should be sufficient to fund the entire cost of utility system operations. This principle is accepted by all authoritative sources (Government Finance Officers Association, American Water Works Association, etc.) and is based on the enterprise fund status. Enterprise funds are run as a private business and all businesses must generate sufficient revenues to cover costs in order to be viable.

Utility System Rate Structure

For provision of sanitary sewer and water service, a two-part rate structure is in effect. For sanitary sewer and water customers, the rate consists of a fixed portion, referred to as the "basic quarterly charge" and a unit rate, referred to as the "commodity" rate.

For water and sewer activities of the utility, the basic quarterly charge is designed to cover the fixed costs of providing service. These costs, which are generally stable throughout the year despite the amount of water produced or sewage transported, include: Personnel services including salaries and fringes, the Suez operation and maintenance contract, office supplies, mailing expenses, telephone charges, environmental testing, water quality testing, printing and publishing and equipment repair and maintenance. The fixed costs are applied to the meter size using a formula which recognizes the capacity of the meter size and the impact on the water and sanitary sewer systems.

Commodity rates are designed to cover costs which are more variable. These costs include sewage treatment costs, public utilities, sewer lead repair, equipment rental costs, equipment replacements, retention basin testing and administrative costs. Commodity rates are based on a dollar amount per thousand gallons of water metered for both water and sewer billings, with sewer billings capped for residences as described below. All classes of customers are billed quarterly with a quarterly portion of the annual basic rate applied in addition to the commodity charge.

Sanitary Sewer System

The sanitary sewer system consists of 232 miles of sewer main and 55 sewage lift stations. The sanitary sewer system has a capacity of 10.8 million gallons per day. The average daily flow is 4.1 million gallons per day. Future expansion projects are prioritized to address the areas with greatest potential for groundwater contamination. Citizen petitions are also given high priority. Priorities are reviewed annually by the City Administration to ensure consistency with Council goals and environmental concerns. Current and projected resources of the Sanitary Sewer Fund appear adequate to accommodate increased expansion of the sanitary sewer system. The recommended ten-year 2016-2026 Capital Improvement Program (CIP) includes \$5.645 million in sanitary sewer system improvements and expansions. The improvements are proposed to be funded through various

financing methods. The projects are considered important in order to pursue placement of sanitary sewer throughout the city and to continue with the mandatory sewer hookup program emphasis. In addition to extension of sanitary sewer mains, operational improvements over the next ten years include:

- Installation of sewer leads where not included in original construction.
- Installation of mains in existing developed plats.
- Renovation of sanitary sewer lift stations and force mains

The proposed sanitary sewer rate structure was developed taking into account the capital expenditures necessary to meet these needs through various financing means.

Sanitary Sewer Billing Cap

Sewer bills are calculated based upon water usage. The rationale is that water used within a residence is generally discharged to the sanitary sewer system as wastewater. A cap on sewer billing to residential customers limits the sewer bill to 125% of the customer's winter quarter water usage. The 125% cap was established based upon an analysis of residential accounts with separate water meters for irrigation. This analysis was undertaken to determine the quarterly water usage pattern of the "typical residential customer." Results of this analysis indicated that average summer water usage discharged to the sanitary sewer system, for a single-family residence, is approximately 125% of the winter water consumption when external irrigation is excluded. Winter usage is defined as that quarter in which January occurs. The sanitary sewer billing cap ensures that residential customers are billed for flow to the sanitary sewer and not for outdoor water use.

Water System

The city water system consists of 20 production wells, one 750,000 gallon elevated storage tank, one 1,500,000 gallon elevated storage tank and 247 miles of water main. Due to the 2006 lowering of the allowable arsenic levels in public drinking water to 10 micrograms per liter, 2 wells have been abandoned and one well decommissioned due to the high arsenic level. The water system currently has a capacity of 26.35 million gallons per day. The average day production is 4.6 million gallons. Fishbeck, Thompson, Carr & Huber, Inc. completed a comprehensive Water Reliability Study for the city in 2013 and updated the Wellhead Protection Program in 2015. These studies, together with current management information and system use data, is the basis for planned future system improvements.

The recommended 2016-2026 CIP includes \$21.725 million in water system improvements. Current and future anticipated demands placed on the system necessitate provision of numerous operational improvements over the next ten years, including:

- Installation of transmission mains in previously unserved areas and for conveyance of large volumes of water throughout the service area as needed.
- Installation of service lines in developed plats.
- Improvement of the stormwater collection and recharge system.

- Additional treatment facility with iron removal capabilities.
- Additional water storage.

The proposed water rate structure was developed taking into account the capital expenditures necessary to meet these needs through various types of financing.

On February 11, 2014, Portage City Council approved reinstatement of a 10% discount on water use charges for eligible senior citizens. Redistribution of the 10% discount to senior citizen customers to the remaining water customers was also taken into account in the development of the water rate structure. The subsidy for the Senior Citizen Discount in 2015 was approximately \$55,250.

Utility Customer Growth

The customer base has grown to 15,411 sanitary sewer customers and 13,859 water customers as of January 1, 2016. An increase in the number of customers has the general impact of stabilizing system-wide operation costs as cost of service can be spread over a larger number of users. Although the total number of water and sewer customers continues to increase, the rate of increase in utility customers has slowed in recent years which is indicative of a mature utility system. In the future, new customer growth will be most directly related to new development occurring in the city.

FINANCIAL REVIEW

Using current information on the status of the utility systems as background, the 2016 Utility Rate Financial Study was undertaken to determine appropriate cost recovery rate levels. These rates provide for operation of the utility systems, funding of utility-related capital improvement needs, and repayment of Limited Tax General Obligation (LTGO) city share debt and Utility Revenue bond debt related to infrastructure extensions and replacements.

The Comprehensive Annual Financial Reports for prior fiscal years provide the primary source for review of the past financial condition of the Utility Funds. Additional sources are the Municipal Budget for 2015-16, the 2015-2025 CIP, the recommended 2016-2026 CIP and prior utility rate studies. The financial condition of the Utility Funds as of June 30, 2015 is consistent with previous expectations. Dramatic reductions in total sewage flow to the Kalamazoo Regional Sewage Treatment Plant which results in much higher sewage treatment costs and prior year “true-up” costs for the City of Portage. The provision of arsenic removal facilities to conform to federally mandated arsenic levels for public water supplies also necessitate increases in both water and sanitary sewer rates.

Typical Residential Customer

The typical residential customer purchases 19,000 gallons of water and is being billed for 15,000 gallons of sewage flow per quarter. The typical residential customer has been defined based upon an analysis of all residential accounts and represents the baseline used for comparison since single-family residences represent about 90% of utility accounts. Shown below is a profile which demonstrates the typical average residential customer quarterly usage of water and billing of sewage flow.

TYPICAL RESIDENTIAL CUSTOMER

	Metered Water <u>(x1000 gallons)</u>	Billed Sewer <u>(x1000 gallons)</u>
Winter usage	14	14
Spring usage	14	14
Summer usage	33	18
<u>Autumn usage</u>	<u>14</u>	<u>14</u>
Total	75	60

The differential between the metered water and the billed sewer is due to the 125% sewer cap. The cap impacts the summer sewage billing quarter by limiting it to 125% of the winter metered water.

RATE RECOMMENDATIONS

Tables 1, 2 & 3 summarize Sanitary Sewer Fund and Water Fund statements of estimated revenue and expenses for the fiscal years ending June 30, 2016 through 2021. Projected commodity rates, sales in millions of gallons, and an analysis of capital/debt needs and funding are also presented. Factors which impact these projections include: the cost of living increase, the number of utility customers, revised arsenic level standards promulgated by the USEPA, reduced flow from sewer customers and the sewage treatment costs by the City of Kalamazoo in the case of the Sewer Fund, which has seen a significant increase over the past several years. Table 4 analyzes the recommendations as applied to the "typical residential customer". The following recommendations are presented regarding 2016 Utility Rates.

Sanitary Sewer Fund

It is recommended that the sewer commodity rate remain at \$4.60 per thousand gallons. The rate will: (1) provide for treatment charges billed by the City of Kalamazoo, (2) continue funding operations, capital improvement needs, repayment of outstanding sewer-related Limited Tax General Obligation (LTGO) bonds and Utility Revenue bonds and 3) provide for future LTGO and revenue bond debt. Privatization of the utility operation has resulted in a significant savings in the sewer fund over the last eighteen years, in spite of a lower billable flow growth compared to previous years.

It is recommended that the sewer basic quarterly charges be increased as shown below:

SANITARY SEWER BASIC QUARTERLY CHARGE – CITY OF PORTAGE CUSTOMERS

<u>Meter Size</u>	<u>Current Quarterly Charge</u>	<u>Proposed Quarterly Charge</u>
5/8"	\$ 34.07	\$ 34.75
3/4"	\$ 51.11	\$ 52.12
1"	\$ 76.66	\$ 78.19
1-1/2"	\$ 136.28	\$ 139.00
2"	\$ 204.42	\$ 208.50
3"	\$ 340.70	\$ 347.50
4"	\$ 681.40	\$ 695.00
6"	\$ 1,192.45	\$ 1,216.25
8"	\$ 1,703.50	\$ 1,737.50

Active water conservation by our customers has reduced sewer fund revenues resulting in the necessity of a 0.66% increase in rates for the 2016-2017 fiscal year which is less than proposed in the 2015 Utility Rate Financial Study. The basic quarterly charges are designed to cover the fixed costs related to the operation of the sanitary sewer system. The increase in the Basic Quarterly Charge conforms to the recommendation in the 2011 Comprehensive Rate Analysis by Utility Finance Solutions, LLC. With the continuation of the sanitary sewer bill cap of 125%, increasing the basic quarterly charges and continuing the commodity rate at \$4.60 per thousand gallons will result in an added monthly expense of \$0.23 for the typical residential customer.

In previous utility rate studies, emphasis has been placed on stabilizing retained earnings in the Sanitary Sewer Fund at a level of \$1,500,000 as recommended by the city's financial advisor. An

adequate cash balance needs to be maintained for operation of the utility and to make debt service payments. Higher Basic Quarterly Charges are recommended to ensure sufficient resources are available within the Sanitary Sewer Fund to meet obligations to avoid the need for subsidy by non-utility related funds.

For fiscal year 2015-16 the estimated working capital (i.e., cash) at the end of the year is \$6,433,489. Based on the recommended basic quarterly charges and commodity rate for 2016-17 and subsequent minimal projected rate increases over the next several years, an acceptable level of working capital balance can be maintained through fiscal year 2020-21.

The recommended rate of increase for the 2016-2017 fiscal year is less than the rate forecast in the 2015 Utility Financial Rate Study. Subsequent year increases are projected at between 0.68% and 1.10%, as shown in Table 1 (Utility Fund Statements of Revenues and Expenses – Sanitary Sewer Fund)

Sanitary Sewer Rate - Schoolcraft Township

The service agreement with Schoolcraft Township establishes the rate charged to customers in Schoolcraft Township. The basic quarterly charge is the same as charged to the City of Portage customers. There is a 5% surcharge on the commodity rate plus a \$0.35 charge per thousand gallons for capital costs. It is recommended that the sanitary sewer commodity rate be continued at \$5.18 per thousand gallons.

Water Fund

Water Service Charges

It is recommended that the water commodity rate remain at \$3.19 per thousand gallons. The basic quarterly costs are designed to cover the fixed costs related to the operation of the water system. It is recommended that the water basic quarterly charges be increased as shown below:

WATER BASIC QUARTERLY CHARGE – CITY OF PORTAGE CUSTOMERS

<u>Meter Size</u>	<u>Current Quarterly Charge</u>	<u>Proposed Quarterly Charge</u>
5/8"	\$ 23.75	\$ 24.46
3/4"	\$ 35.63	\$ 36.69
1"	\$ 53.44	\$ 55.03
1-1/2"	\$ 95.00	\$ 97.84
2"	\$ 142.50	\$ 146.76
3"	\$ 237.50	\$ 244.60
4"	\$ 475.00	\$ 489.20
6"	\$ 831.25	\$ 856.10
8"	\$ 1,187.50	\$ 1,223.00

Active water conservation by our customers has reduced Water Fund revenues resulting in the necessity of a 0.85% increase in rates for the 2016 – 2017 fiscal year which is less than was proposed in the 2015 Utility Rate Financial Study. This increase conforms to the recommendation in the 2011

Comprehensive Utility Rate Study by Utility Financial Solutions, LLC. For the typical residential use the proposed increase will result in an added monthly expense of \$0.24 for municipal water customers.

Private Fire Protection Service Charges.

Dedicated fire protection service is defined as a separate water service line to a property that solely provides fire protection to the property. The Basic Quarterly Charge will ensure that the cost of providing a dedicated fire service that only benefits one property is borne by the benefiting customer and not the utility customers at large. In addition to the Basic Quarterly Charge there is a \$6.40 per 1,000 gallon charge for all water use recorded on the fire service bypass meter. It is recommended that the Basic Quarterly Charge for fire protection services remain as shown in the table below.

Private Fire Protection - Basic Quarterly Charge

<u>Fire Protection Service Size</u>	<u>Current Basic Quarterly Charge</u>	<u>Proposed Basic Quarterly Charge</u>
4 – inch	\$15.00	\$15.00
6 – inch	\$35.00	\$35.00
8 – inch	\$60.00	\$60.00
10 – inch	\$95.00	\$95.00
12 – inch	\$135.00	\$135.00
16 - inch	\$240.00	\$240.00

As shown on Table 2 (Utility Fund Statements of Revenues and Expenses - Water Fund), subsequent year increases are projected between 0.89% and 1.09 %. The water quarterly basic charges and commodity rate must be increased in future years to continue funding operations, meet major capital improvement needs, keep up with inflationary increases in water production costs (pumping, disinfection, etc.), repay outstanding water-related Limited Tax General Obligation (LTGO) bonds and Utility Revenue bonds and provide for future LTGO and revenue bond debt. In future years, costly major water projects such as additional water storage and iron removal facilities will be required as demands on the Portage water system increase. In addition, the Water Fund will finance needed storm drainage improvements throughout the city.

In previous utility rate studies, emphasis has been placed on stabilizing retained earnings in the Water Fund at a level of \$1,500,000 as recommended by the city’s financial advisor. However, efforts must continue to be directed to enhancing the cash position of the Water Fund. An adequate cash balance needs to be maintained for operation of the utility and to make debt service payments. Minimal rate increases over the coming years are recommended to ensure sufficient resources are available within the Water Fund to meet obligations to avoid the need for subsidy by non-utility related funds.

In the Water Fund, the rate study revealed that working capital (i.e., cash) has been seriously impacted through the significant amount of debt incurred with completion of several major water related projects over the past several years. Recent federally mandated arsenic standards for public water supplies have necessitated additional major expenditures, adding to the already significant debt burden in the Water Fund. The Arsenic/Iron removal plant at the Garden Lane well site makes it possible to meet the new arsenic standards and use the wells in the Garden Lane well field and increase system capacity by approximately 4.3 million gallons per day.

It is important that the city continue to plan for a replacement water tower (currently scheduled in fiscal year 2018-2019 in the recommended 2016-2026 CIP) and the installation of new iron removal facilities at the Shuman well site (currently scheduled in 2021 through 2023 in the recommended 2016-2026 CIP) to relieve pressure on the Kalamazoo/Portage groundwater aquifer and the Milham well field located north of Portage Northern High School. Exploration for new suitable (low iron) well sites in southern Portage, Schoolcraft Township and Pavilion Township was not successful in locating any new well sites with low iron content. It is also important to plan for the construction of a new water tower to replace the Haverhill water tower. The new water tower will provide for greater storage capacity in the center of the city's residential and commercial areas to improve system reliability during peak demand and also improve fire flow in the northern portion of the city.

Water Rate - Pavilion Township And Schoolcraft Township

It is recommended that the basic quarterly charges for Pavilion Township and Schoolcraft Township residents be the same as charged to City of Portage customers. It is also recommended that the water commodity rate for Pavilion Township and Schoolcraft Township residents remain at \$3.83 per thousand gallons.

SUMMARY OF RECOMMENDATIONS

The effect of the combined recommendations on the typical city residential customer is projected through fiscal year 2020-2021 in Table 3. Combined sewer and water rates for the next five fiscal years are projected to increase between 0.75% and 1.10% annually. The combined rate increase of 0.75% for the typical residential customer is less than the rate increase projected for the 2016 – 2017 fiscal year in the 2015 Utility Rate Financial Study. For the typical residential customer having both municipal water and sewer service the proposed rate increase will result in an added monthly expense of \$0.47. With operations, capital improvements and debt service continuing to be funded, the utility systems have been on a self-supporting basis since July 1989. Self-supporting status is essential for these important enterprise funds so that the funds do not become a financial drain on either the General Fund or the Capital Improvement Fund.

In 2012 the effective date of the annual rate adjustment was moved to October 1. This minimizes the impact of rate increases on customers during the summer billing cycle. It is recommended that the effective date for rate adjustments be October 1, 2016.

SECTION II – UTILITY

FEES AND CHARGES

INTRODUCTION

Although the establishment of appropriate commodity rates and basic quarterly charges for water and sewer service is the primary focus of the annual Utility Rate Financial Study, it is also prudent to give attention to matters which may be less significant in dollar amounts but are still important to the financial health of the utility system, i.e., utility fees and charges.

Background

The establishment of adequate fees and charges for services performed in addition to the delivery of water and sewer service is necessary to fairly and equitably recover costs for services provided. When fees and charges are inadequate, the utility rate payer must bear the cost for services provided to others. Examples include costs for service connections, meters, turn-on fees, etc. In each case, if the charges for these services are inadequate to recover costs, the rate payers subsidize the service provided to some extent.

CURRENT STATUS AND RECOMMENDATIONS

Meter Charges

The current charges for installing meters are based on the cost of the meter and the labor and equipment costs to install the meter. The current charges have been reviewed and it was found that no adjustments are needed to recover the cost of the meter and installation. It is recommended that the water meter charges remain unchanged.

<u>Meter Size</u>	<u>Current Charges</u>	<u>Actual Cost/Recommended Charges</u>
5/8"	\$225	\$225
3/4"	\$280	\$280
1"	\$345	\$345
1-1/2"	\$815	\$815
2" SR (Irrigation)	\$1,010	\$1,010
2" Compound	\$2,225	\$2,225
3" Compound	\$2,925	\$2,925
4" Compound	\$4,530	\$4,530
6" Compound	\$7,840	\$7,840

Meter Box Charge

Meter box charge is based on the cost of materials to install the meter box. Meter boxes are used when a suitable location for meter installation is not available in the building or property being served. The charge has been reviewed and it was found that the cost has not increased. It is recommended that the meter box charge remain unchanged at \$1050.

Hydrant Meter Charges

The use of meters on fire hydrants is a service provided as a convenience to contractors or individuals who need to obtain large quantities of water in a short period of time. It is recommended that the minimum charge for use of a hydrant meter remain at \$150. The minimum charge for supplying and installing a meter on a fire hydrant includes the use of 15,000 gallons of water. It is also recommended that the commodity charge for use over 15,000 gallons of water remain at \$6.40 per 1,000 gallons. Furthermore, that the deposit required to ensure the return of all hydrant meter hoses and other items remain at \$250. This deposit eliminates the potential problem of collecting for the service provided.

Fire Hydrant Flow Test Charge

Fire hydrant flow tests are performed to determine the quantity of water available for fire fighting use. Flow test are requested by insurance companies and developers to determine the quantity of water available for fire protection at a property. The established charge for providing a flow test ensures that the cost is borne by the benefiting customer and not the utility customers at large. It is recommended that the charge for a hydrant flow test remain at \$135.00.

Reinstatement Processing Fee

A fee is currently charged for reinstating a water service. This fee applies to services that are requested to be turned off by the customer as well as services turned off for delinquency. In the case of delinquency, three notices are sent to the customer with a shut-off date established on the third notice. Once a work order has been issued for water shut-off, the processing fee is automatically added to the customer's bill and payment of the delinquent bill plus the processing fee is required prior to reactivation of service. The current fee is \$50 and is recommended to be continued in the 2016-17 fiscal year. For water service turn-on after normal working hours, the current processing fee of \$100 is recommended to be continued for the 2016-17 fiscal year. The \$100 processing charge reflects the added hourly cost for the service technician associated with the provision of water service turn-on after normal working hours.

Other Charges and Policies

1. Flat Rate

Non-metered sewer customers are billed based on a water usage of 15,000 gallons per quarter (flat rate). It is recommended that this policy be continued.

2. Irrigation Allowance

Single family residences, residential condominiums and all other individually metered residential units may be given a discount for irrigation as follows:

1) Charges for such customers are based on actual water consumption, except that there is no sewage charge for water consumption exceeding 125 percent of the water consumption for the most recent quarter billing in which the month of January is included; 2) Residential customers who do not have a quarter billing in which the month of January is included or who have a zero (0) water usage for the quarter which includes the month of January, have the sewer charge for the other three quarters established at the maximum rate volume of 15,000 gallons or actual usage, if less, per quarter until such time as quarter billing information, in which the month of January is included, is available. It is recommended that the irrigation allowance be continued.

3. Senior Citizen Water Allowance

City of Portage water customers 65 years of age and older who submit an application and provide proof of age are eligible for a 10% discount on water use charges for their primary residence account.

4. Non Sufficient Funds (NSF) Check Fee

It is recommended to maintain the current fee of \$30 per occurrence to reflect current administrative cost for any returned/unpaid check or other failed financial instrument which results in uncollected funds.

5. Outstanding Charges Limit

The amount of past due/outstanding charges necessitating water shut-off is recommended to be maintained at \$60.

6. Utility Late Fee Waivers

It is recommended that the utility billing late fee be waived if the customer

- a. has paid all of the last 12 or more utility bills on time and the customer requests that the late fee be waived/removed or;
- b. signs up for automatic payment where the amount due is taken from their bank account on the due date.

SUMMARY OF RECOMMENDATIONS

Summarizing recommendations for 2016-17 utility fees and charges, it is advised that:

1. Charges for meters (all sizes) remain the same.
3. Charges for installation of meter box remain the same.
4. The current charge of a \$250 deposit for the installation of a hydrant meter remain the same and that the current minimum charge including the use of up to 15,000 gallons of water remain at \$150. Further, that the current commodity charge of \$6.40 per thousand gallons for all water used over 15,000 gallons remain the same.
5. The \$50 processing fee associated with turn-on or shut-off of a water service be continued, the exception being, however, that the initial turn-on for first time customers will be at no charge. When the city dispatches a person to turn on water during non-business hours, the processing fee of \$100 will be continued.
6. The flat rate based on a consumption of 15,000 gallons per quarter for non-metered sewer customers continues in effect.
7. The sewer billing cap for residential customers having a zero water meter reading in the quarter that contains January remains at 15,000 gallons.
8. The current charge of \$30 per occurrence will be charged for any returned/unpaid check or other failed financial instrument which results in uncollected funds.
9. The utility billing late fee will be waived:
 - a. if the customer has paid all of the last 12 or more utility bills on time and the customer requests that the late fee be waived/removed or;
 - b. if the customer signs up for automatic payment.
10. A credit of \$1.00 for each normal quarterly bill will be given to each customer on the utility billing automatic payment plan.
11. An amount past due of more than \$60 remain as the shut-off level amount.

Utility Fund Statement of Revenues and Expenses

SEWER FUND							Table 1
2016/2017 RATES							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Audited	Estimated	Budgeted	Projected	Projected	Projected	Projected
SALES (million gallons)	1,205	1,205	1,205	1,215	1,215	1,215	1,215
RATE (per 1000 gallons)	\$4.60	\$4.60	\$4.60	\$4.63	\$4.65	\$4.65	\$4.65
OPERATING REVENUE:							
User charges	8,567,817	8,773,000	8,838,000	8,986,000	9,078,000	9,146,000	9,216,000
Tap in fees and other revenue	438,655	245,127	245,000	245,000	245,000	245,000	245,000
Gain on sale of fixed assets							
TOTAL OPERATING REVENUE	9,006,472	9,018,127	9,083,000	9,232,000	9,323,000	9,391,000	9,461,000
OPERATING EXPENSES:							
Operations and maintenance	2,341,129	2,291,808	2,488,417	2,538,000	2,589,000	2,641,000	2,694,000
Kalamazoo sewer treatment charges	2,748,283	2,845,210	3,450,000	3,553,500	3,660,105	3,769,908	3,883,005
General and administrative	1,157,571	1,468,314	1,391,935	1,420,000	1,448,000	1,477,000	1,507,000
Total operating expenses							
before depreciation	6,246,983	6,605,332	7,330,352	7,511,500	7,697,105	7,887,908	8,084,005
Operating income (loss)							
before depreciation	2,759,489	2,412,795	1,752,648	1,720,500	1,625,895	1,503,092	1,376,995
Depreciation	738,289	739,109	756,209	778,559	786,759	789,709	805,759
OPERATING GAIN (LOSS)	2,021,200	1,673,686	996,439	941,941	839,136	713,383	571,236
NON-OPERATING REVENUE (EXPENSE):							
Interest income	41,831	33,453	34,100	34,800	35,500	36,200	36,900
Interest and fiscal charges	(202,941)	(186,965)	(141,730)	(135,050)	(119,515)	(104,800)	(103,800)
NET NON-OPERATING REVENUE (EXPENSE)	(161,110)	(153,512)	(107,630)	(100,250)	(84,015)	(68,600)	(66,900)
NET GAIN (LOSS) BEFORE TRANSFERS	1,860,090	1,520,174	888,809	841,691	755,121	644,783	504,336
TRANSFERS IN (OUT)	41,000	(80,000)	(80,000)	(80,000)	(80,000)	(80,000)	(80,000)
CHANGE IN NET POSITION	1,901,090	1,440,174	808,809	761,691	675,121	564,783	424,336
WORKING CAPITAL ANALYSIS							
Beginning Cash Balance		6,057,367	6,433,489	5,691,891	6,018,067	6,542,089	7,267,924
Cash from Current Operations		2,259,283	1,645,018	1,620,250	1,541,880	1,434,492	1,310,095
Bond issue Proceeds							
CASH AVAILABLE		8,316,650	8,078,507	7,312,141	7,559,947	7,976,581	8,578,018
Capital Improvement Needs (Cash)		1,420,000	1,940,000	755,000	525,000	230,000	1,835,000
Capital Debt Principal/New Debt Principal		463,161	446,616	539,074	492,858	478,657	456,510
WORKING CAPITAL OUTFLOW		1,883,161	2,386,616	1,294,074	1,017,858	708,657	2,291,510
ENDING WORKING CAPITAL BALANCE		6,433,489	5,691,891	6,018,067	6,542,089	7,267,924	6,286,508
Typical residential % change	1.55%	0.99%	0.66%	1.10%	0.96%	0.68%	0.69%

Utility Fund Statement of Revenues and Expenses

WATER FUND							Table 2
2016/2017 RATES							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Audited	Estimated	Budgeted	Projected	Projected	Projected	Projected
SALES (million gallons)	1,510	1,510	1,500	1,490	1490	1490	1,490
RATE (per 1000 gallons)	\$3.19	\$3.19	\$3.19	\$3.20	\$3.20	\$3.20	\$3.20
OPERATING REVENUE:							
User charges	6,462,469	6,916,000	6,946,000	6,994,000	7,061,000	7,129,000	7,200,000
Tap in fees and other revenue	173,074	151,300	95,000	95,000	95,000	95,000	95,000
State Grant							
TOTAL OPERATING REVENUE	6,635,543	7,067,300	7,041,000	7,089,000	7,156,000	7,224,000	7,295,000
OPERATING EXPENSES:							
Operations and maintenance	1,217,435	1,259,031	1,414,727	1,443,000	1,472,000	1,501,000	1,531,000
General and administrative	1,218,473	1,394,745	1,267,517	1,293,000	1,319,000	1,345,000	1,372,000
Total operating expenses							
before depreciation	2,435,908	2,653,775	2,682,244	2,736,000	2,791,000	2,846,000	2,903,000
Operating income (loss)							
before depreciation	4,199,635	4,413,525	4,358,756	4,353,000	4,365,000	4,378,000	4,392,000
Depreciation	741,689	758,219	784,719	807,399	881,449	898,199	918,799
OPERATING GAIN (LOSS)	3,457,946	3,655,306	3,574,037	3,545,601	3,483,551	3,479,801	3,473,201
NON-OPERATING REVENUE (EXPENSE):							
Interest income	90,628	43,896	44,800	45,700	46,600	47,500	48,500
Interest and fiscal charges	(951,329)	(872,065)	(640,960)	(578,345)	(509,950)	(554,850)	(484,094)
NET NON-OPERATING REVENUE (EXPENSE)	(860,701)	(828,169)	(596,160)	(532,645)	(463,350)	(507,350)	(435,594)
NET GAIN (LOSS) BEFORE TRANSFERS	2,597,245	2,827,137	2,977,877	3,012,956	3,020,201	2,972,451	3,037,607
TRANSFERS IN (OUT)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)	(50,000)
CHANGE IN NET POSITION	2,547,245	2,777,137	2,927,877	2,962,956	2,970,201	2,922,451	2,987,607
WORKING CAPITAL ANALYSIS							
Beginning Cash Balance		3,664,760	4,931,449	4,810,265	5,699,795	2,929,005	2,575,162
Cash from Current Operations		3,585,356	3,762,596	3,820,355	3,901,650	3,870,650	3,956,406
Bond Issue Proceeds					3,000,000		
CASH AVAILABLE		7,250,116	8,694,045	8,630,620	12,601,445	6,799,655	6,531,568
Capital Improvement Needs (Cash)		700,000	2,170,000	600,000	7,545,000	1,815,000	2,200,000
Capital Debt Principal/New Debt Principal		1,618,667	1,713,780	2,330,825	2,127,440	2,409,493	2,280,848
WORKING CAPITAL OUTFLOW		2,318,667	3,883,780	2,930,825	9,672,440	4,224,493	4,480,848
ENDING WORKING CAPITAL BALANCE		4,931,449	4,810,265	5,699,795	2,929,005	2,575,162	2,050,720
Typical residential % change	1.22%	0.91%	0.85%	1.09%	0.89%	0.91%	0.92%

Utility Fund Statement of Revenues and Expenses

SEWER AND WATER FUNDS							Table 3
2016/2017 RATES							
	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
	Audited	Estimated	Budgeted	Projected	Projected	Projected	Projected
OPERATING REVENUE:							
User charges	15,030,286	15,689,000	15,784,000	15,980,000	16,139,000	16,275,000	16,416,000
Tap fees	611,729	396,427	340,000	340,000	340,000	340,000	340,000
State Grant	0	0	0	0	0	0	0
TOTAL OPERATING REVENUE	15,642,015	16,085,427	16,124,000	16,320,000	16,479,000	16,615,000	16,756,000
OPERATING EXPENSES:							
Operations and maintenance	3,558,564	3,550,839	3,903,144	3,981,000	4,061,000	4,142,000	4,225,000
Kalamazoo sewer treatment charges	2,748,283	2,845,210	3,450,000	3,553,500	3,660,105	3,769,908	3,883,005
General and administrative	2,376,044	2,863,059	2,659,452	2,713,000	2,767,000	2,822,000	2,879,000
Total operating expenses							
before depreciation	8,682,891	9,259,107	10,012,596	10,247,500	10,488,105	10,733,908	10,987,005
Operating income (loss)							
before depreciation	6,959,124	6,826,320	6,111,404	6,072,500	5,990,895	5,881,092	5,768,995
Depreciation	1,479,978	1,497,328	1,540,928	1,585,958	1,668,208	1,687,908	1,724,558
OPERATING GAIN (LOSS)	5,479,146	5,328,992	4,570,476	4,486,542	4,322,687	4,193,184	4,044,437
NON-OPERATING REVENUE (EXPENSE):							
Interest income	132,459	77,349	78,900	80,500	82,100	83,700	85,400
Interest and fiscal charges	(1,154,270)	(1,059,030)	(782,690)	(713,395)	(629,465)	(659,650)	(587,894)
NET NON-OPERATING REVENUE (EXPENSE)	(1,021,811)	(981,681)	(703,790)	(632,895)	(547,365)	(575,950)	(502,494)
NET GAIN (LOSS) BEFORE TRANSFERS	4,457,335	4,347,311	3,866,686	3,854,647	3,775,322	3,617,234	3,541,943
TRANSFERS IN (OUT)	(9,000)	(130,000)	(130,000)	(130,000)	(130,000)	(130,000)	(130,000)
CHANGE IN RETAINED EARNINGS	4,448,335	4,217,311	3,736,686	3,724,647	3,645,322	3,487,234	3,411,943
WORKING CAPITAL ANALYSIS							
Beginning Cash Balance		9,722,127	11,364,938	10,502,156	11,717,862	9,471,094	9,843,085
Cash from Current Operations		5,844,639	5,407,614	5,440,605	5,443,530	5,305,142	5,266,501
Bond issue Proceeds		0	0	0	3,000,000	0	0
CASH AVAILABLE		15,566,766	16,772,552	15,942,761	20,161,392	14,776,235	15,109,586
Capital Improvement Needs (Cash)		2,120,000	4,110,000	1,355,000	8,070,000	2,045,000	4,035,000
Capital Debt Principal/New Debt Principal		2,081,828	2,160,396	2,869,899	2,620,298	2,888,150	2,737,358
WORKING CAPITAL OUTFLOW		4,201,828	6,270,396	4,224,899	10,690,298	4,933,150	6,772,358
ENDING WORKING CAPITAL BALANCE		11,364,938	10,502,156	11,717,862	9,471,094	9,843,085	8,337,228
Typical residential % change	1.40%	0.95%	0.75%	1.10%	0.93%	0.78%	0.80%

Table 4

	Fiscal 2015-2016 Current Rates			Fiscal 2016-2017 Proposed rates		
	Sewer Cap = 125%			Sewer Cap = 125%		
	Sewer (000 Gal.)	Water (000 Gal.)	Total	Sewer (000 Gal.)	Water (000 Gal.)	Total
Winter	14	14		14	14	
Spring	14	14		14	14	
Summer	18	33		18	33	
Fall	14	14		14	14	
Total	60	75		60	75	
Rate per 1000 gallons	\$4.60	\$3.19		\$4.60	\$3.19	
Usage charge	\$276.00	\$239.25	\$515.25	\$276.00	\$239.25	\$515.25
Annual basic rate	136.28	95.00	231.28	139.00	97.84	236.84
Total	\$412.28	\$334.25	\$746.53	\$415.00	\$337.09	\$752.09
% change				0.66%	0.85%	0.74%

Increased cost for the Typical Portage Residential Customer

	<u>for sewer</u>	<u>for water</u>	<u>for both</u>
per year	\$2.72	\$2.84	\$5.56
per quarter	\$0.68	\$0.71	\$1.39
per month	\$0.23	\$0.24	\$0.47
per week	\$0.05	\$0.05	\$0.10
per day	\$0.01	\$0.01	\$0.02

CAPITAL IMPROVEMENT PROJECT SUMMARY

SANITARY SEWER

Project Expenditures (\$000)

Project Number/Title	Fiscal Year										Total
	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26	
1 Angling Road Sanitary Sewer, Squire Heath Lane to Romence Road	1,320										1,320
2 Cliffwood Avenue/Archwood Drive Sanitary Sewer	270										270
3 Norfolk Circle Sanitary Sewer Replacement	120										120
4 Weaver Drive Sanitary Sewer, Charles Street to north end		315									315
5 Wetherbee Avenue Sanitary Sewer, Portage Road to Woodlawn Drive		210									210
6 Romence Road Sanitary Sewer, Angling Road to west end			295								295
7 Ramona Park Plat Sanitary Sewer					950						950
8 Lift Station Renovations					420						420
9 Trunk Sewer Condition Assessment					175						175
10 South Westnedge Avenue Sanitary Sewer Lead Installation					60						60
11 SCADA System Upgrade						450					450
12 Pump Station Mechanical Upgrades							400				400
13 Zylman Avenue Sanitary Sewer, South Sprinkle Road to Deep Point Drive								660			660
TOTALS	1,710	525	295		1,605	450	400	660			5,645
Special Assessments	195	80	30		75						380
Capital Improvement Bonds	1,320	365	235		1,455	450	400	660			4,885
Municipal Street Fund	195	80	30		75						380
City Share Cash											

CAPITAL IMPROVEMENT PROJECT SUMMARY

WATER

Project Expenditures (\$000)

Project Number/Title	Fiscal Year										Total	
	16-17	17-18	18-19	19-20	20-21	21-22	22-23	23-24	24-25	25-26		
1 Shaver Road Water Main Replacement	1,350			250	1,000							2,600
2 Storm Drainage Improvements Program	100	100	50	50								300
3 Chopin Avenue Water Main Extension	320											320
4 Mozart Street Water Main Extension	140											140
5 Cliffwood Avenue/Archwood Drive Water Main	150											150
6 Winter Forest Drainage Improvements		300										300
7 Oakland Drive/Rosewood Avenue Water Main Replacement		60										60
8 Northwest Water Storage Facility			6,000									6,000
9 Idaho Avenue Water Main Replacement			500									500
10 Romence Road Water Main Replacement			450									450
11 Lake Connection Elimination Program			275									275
12 South Westnedge Avenue Relief Storm Sewer			75	675								750
13 Water System Reliability Study Update			55					55				110
14 Portage Road Water Main Extension, Helen Avenue to Byrd Drive				350								350
15 Pine View Water Storage Facility Renovation				350								350
16 Consolidated Drain Rehabilitation					400							400
17 Ramona Park Plat Water Main					350							350
18 East Milham Avenue Water Main Replacement					250							250
19 SCADA System Upgrade					60							60
20 Shuman Well Field Iron Removal Facility						650	5,000					5,650
21 Lovers Lane Water Main Abandonment						50						50
22 Schuring Road Water Main Replacement							525					525
23 East Shore Drive Water Main Replacement							310					310
24 Northeast Quadrant Well Field Development								1,200				1,200
25 Woodland Elementary School Water Main								115				115
26 East Milham Avenue Water Main Abandonment										160		160
TOTALS	2,060	460	7,405	1,675	2,060	700	5,835	1,370		160		21,725
Special Assessments	125											125
Capital Improvement Bonds	1,710	300	2,325	1,625	1,750	650	5,000	1,200	0	0		14,560
Other Financing (LDFA bonds for water tower)			1,000									1,000
City Share Cash	225	160	4,080	50	310	50	835	170	0	160		6,040