



**Bendzinski & Co.**  
MUNICIPAL FINANCE ADVISORS  
A MICHIGAN FIRM, WORKING FOR MICHIGAN.



# **CITY OF MONTROSE**

## **Sewer Rate Study Report**

**January 15, 2026**

**2026**

City of Montrose – Sewer Rate Study

January 15, 2026

City of Montrose  
139 S. Saginaw Street  
Montrose, MI 48457

**Subject: City of Montrose (Michigan) Sewer Fund – Rate Study**

Dear City of Montrose:

It has been a pleasure working with you on this analysis of your Sewer Fund. A rate study is not a historical document, but rather it should be used as living reference for current and future budgeting and decision-making. Bendzinski & Co. is available to discuss the study at any point in the future.

This study is performed on the “cash basis” of ratemaking, as described in the American Water Works Association (“AWWA”) M1 Manual of Rate Making Practices. It is also performed with Michigan standards and case laws (specifically Bolt v. Lansing) in mind. The rates and charges must reflect the customer base being served, and much be “regulatory in nature” and not “revenue generating”. As such, the rate study found in these pages is unique to your community. The goal of every rate study we perform is to develop a rate structure and revenues that meet the needs of operations, maintenance, and capital improvements of the system, while also being economical and equitable to the customers.

By acceptance of this study, the City Council understands and accepts the responsibility and liability for potential challenges to the rate structure and management of the funds. Rate studies, while often based on various methods, industry guidelines and case laws, do not follow a clear Michigan law. In addition, state law and case laws do not provide any comprehensive guidance regarding methodologies, required rate structures or management of fund balance requirements. Bendzinski & Co. is relying on City officials, and other sources, who have access to relevant data to provide accurate information. The City accepts that fund management and rate adjustment recommendations are inherently subject to estimations and projections and, as such, no assurance is provided regarding the actual performance of the funds over time. The City is advised to seek legal counsel regarding the implementation of any recommendations as to the required legal processes, resolutions and/or ordinances needed.

Thank you very much for the opportunity to help with this endeavor. Do not hesitate to reach out if you would like to further discuss the analysis or findings.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Andy Campbell', is written over a faint, light-colored circular watermark or seal.

Andy Campbell, CPA  
Registered Municipal Advisor

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## ***Executive Summary***

### **1.1 Community Background**

The City of Montrose (the “City”) is located in Genesee County, Michigan. It is 0.98 square miles and has a population of approximately 1,743 (2020 Census). The City’s Sewer is collected and sent to Genesee County’s Wastewater Treatment Plant for treatment.

Source: The City of Montrose

### **1.2 Discussion and Analysis**

#### Operating & Maintenance Expenses

The City is not insulated from the inflationary pressures happening. Supplier charges, wages, healthcare, contracted services, and supplies have risen significantly in the past few years.

#### User Growth

The City is not currently estimating future growth in the customer base on the system.

#### Current Debt Payments

The Sewer Fund currently has no outstanding bond issues.

#### Capital Improvements

Over the next 10 fiscal years, the City is anticipating cash-funding \$25,000 (plus inflation) annually for miscellaneous repairs and pipe lining.

#### User Rates

Since the Sewer Fund is currently cash flow positive, is able to pay future capital needs, has confirmation from their supplier (Genesee County) that there are currently no major capital improvements forecasted, and has a healthy cash reserve, we are only recommending annual inflationary increases of 4.0%, starting in fiscal year 2026/27. This will help the Sewer Fund continue to build up cash reserves over the forecasted period to help cash-fund future capital improvements.

## ***Information and Assumptions***

A significant effort has been made by the City to gather needed background information related to current revenues and expenses, as well as helping with our forecast of future revenues and expenses. Also, the community has put significant effort in developing a capital improvement plan to maintain and improve the system. The rate study is a four-step process: 1) historical comparison with audits and budgets, 2) test year, or normalized budget year, along with inflation assumptions for purposes of forecasting, 3) proof of rate to revenue for reliance on customer data, and 4) cash flow forecast including revenues, operating expenses, capital improvements (cash and debt funded), and cash reserves. The analysis is a “cash basis” approach as described in the AWWA M1 Manual of Rate Making Practices.

### **Key Information Provided**

- Audited comprehensive annual financial statements for FYE 2022, FYE 2023, and FYE 2024.
- Actual Revenue and Expenditure Report for FYE 2024, and FYE 2025 provided by the City.
- Budgeted Revenue and Expenditure Report for FYE 2026, provided by the City.
- Sewer Fund cash balance as of June 30, 2025, provided by the City.
- Capital Improvement Plan (CIP), provided by the City.

### **Key Assumptions**

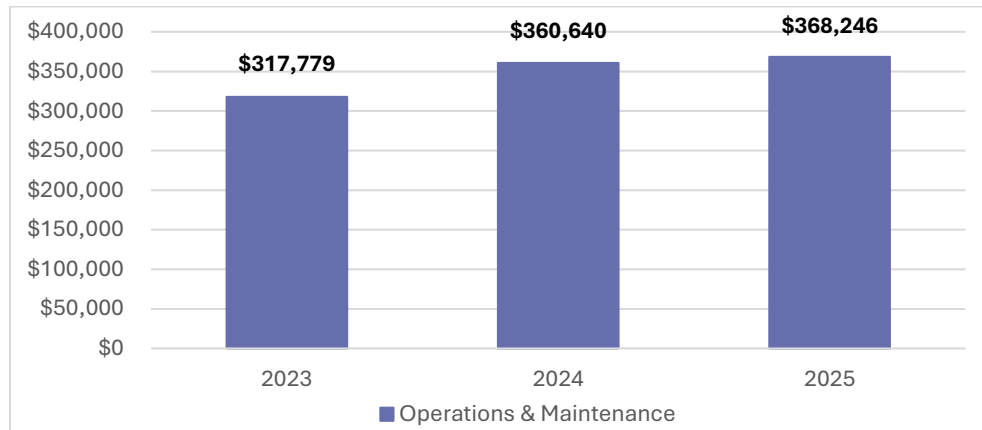
- User rates should not only cover operating expenses, but also support future system maintenance, capital improvements, and debt service payments.
- The City will follow AWWA guidelines.
- The budgeted amount for other revenue in FYE 2026 will be consistent in future years.
- The City will conduct all capital improvement projects forecasted by City.
- No new major customers will be connecting to the system.

## Operations & Maintenance Expenses

### 2.1 Historical Operations & Maintenance (“O&M”) Expenses

Historical O&M expenses are examined to identify trends and any outlier expenses. The City has experienced a slight increase over the last 3 years due to one-times costs with contracted services along with increased salaries and wages. For a detailed breakdown of O&M expenses, please refer to Appendix A.

TABLE 2-1: EXPENSE HISTORY & CURRENT BUDGET



### 2.2 Test Year

A test year is a normalized year used as a baseline for forecasting future operations and maintenance expenses. Historical actuals are reviewed to identify trends, outliers, or one-time expenses. Concerns about specific line-item expenses are discussed with City officials to establish what these costs would typically be in a normal year. Adjustments are then made to these line items to better reflect a normalized year, which is used as the basis for forecasting future years.

### 2.3 Inflation Assumptions

After establishing the test year, it is important to recognize that the test year is only a normalized year, and those normalized expense assumptions will change over time. The subsequent step involves adjusting the test year expenses to account for annual inflation. Given that expenses are unlikely to remain constant over the forecast period, this adjustment reflects anticipated cost increases over time. The table below outlines the inflationary assumptions applied in the report.

TABLE 2-3: INFLATION ASSUMPTIONS

Category	Inflation Assumption
Wages	4.0%
Benefits	4.0%
Supplier Charges	4.0%
Utilities	4.0%
Contracted Services	4.0%

## ***Capital Improvement Plan***

### **3.1 Capital Improvement Plan (CIP)**

Capital improvements are larger, one-time expenses that are separate from ongoing operations and maintenance expenses. It is beneficial to plan for these potential costs in advance and develop a detailed capital improvement plan. Starting in fiscal year 2026/27, the City plans on cash-funding \$25,000 (plus inflation) annually on miscellaneous repairs and pipe linings. The City's complete capital improvement schedule is included in Appendix B of this report

TABLE 3-1: CAPITAL IMPROVEMENT PLAN SUMMARY

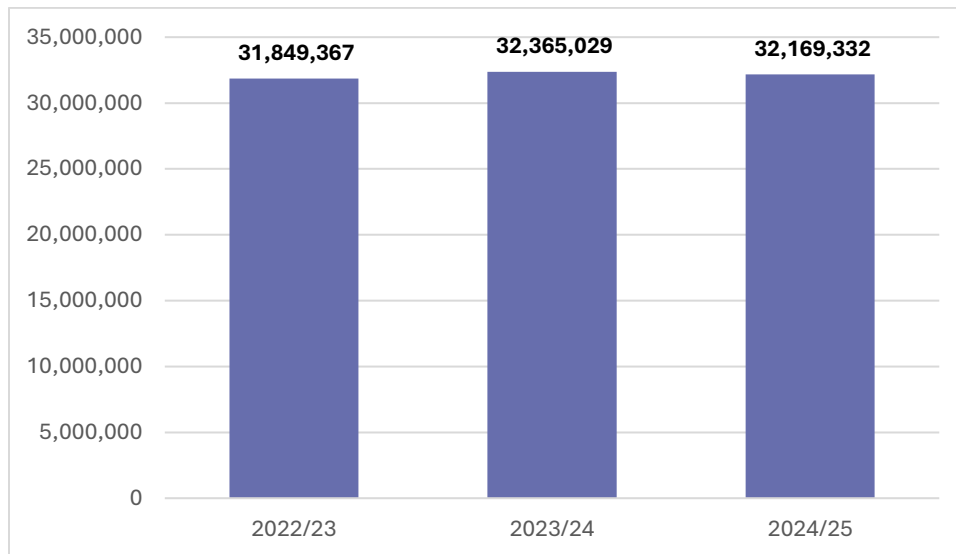
Year	Cash-Funded Capital Improvements
2025/26	-
2026/27	\$26,250
2027/28	27,563
2028/29	28,941
2029/30	30,388
2030/31	31,907
Total	\$145,048

## Revenues & Cash Flow

### 4.1 Usage & Customers

Over the last three years, the City has had steady Sewer usage levels. The City does not anticipate an increase or decrease in usage levels in future years. The graph below shows the total Sewer billed for the system.

TABLE 4-1A: SEWER GALLONS BILLED



The City serves 647 metered customer accounts. The table below shows the breakout of customers by meter size for the City.

TABLE 4-1B: METER COUNT BY METER SIZE

Meter Size	Meter Count
5/8"	616
1"	13
1 1/2"	7
2"	7
3"	4
<b>Total Meter Count</b>	<b>647</b>

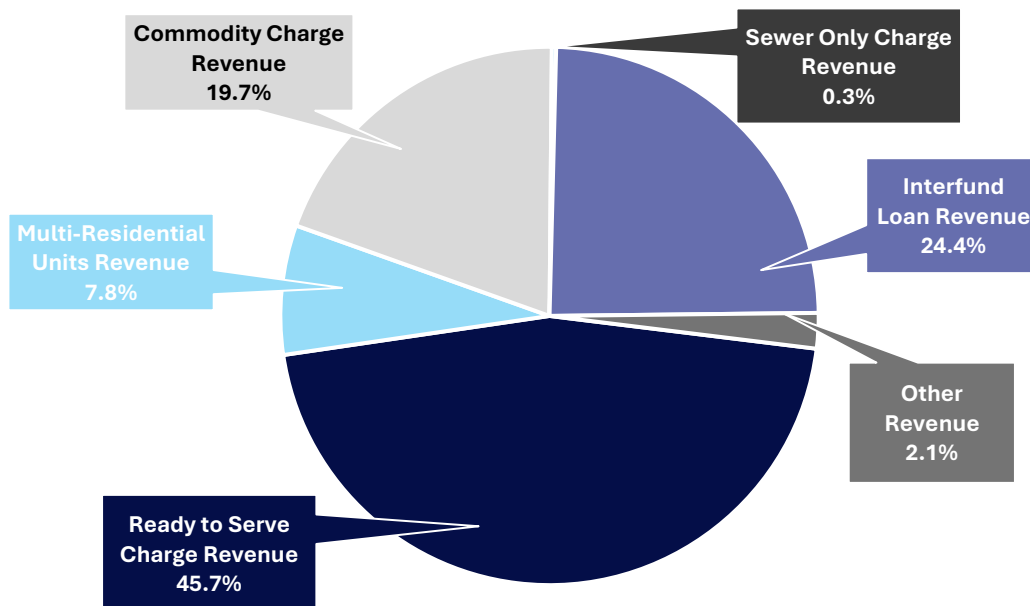


## 4.2 Revenue

The City charges user rates based on their meter size and their usage. Usage charges are based on usage and are typically seen as the most equitable way to allocate costs to customers. Since these charges are based on the number of gallons used by the customers, they can have more variation and risk to the system. Since there are still fixed costs the system needs to cover regardless of the number of gallons used, a meter charge is billed. The monthly fixed “ready to serve charge” is assessed to all customers ensuring revenue flow for ongoing costs and maintenance. The multi-residential units are all charged the base monthly fixed ready to serve charge. There is also a sewer only charge for those customers who are on sewer and not on water.

Along with revenue from user rates, the City is conservatively projecting about \$156,211 annually in other revenue. This revenue is not generated from user rates and primarily comes interfund loan payments, interest and penalties. The forecast assumes these additional revenue sources will remain stable in the future. The chart below demonstrates how much revenue is derived from each charge.

TABLE 4-2: REVENUE BY USER RATE CATEGORY



### 4.3 Current Rates (FY 2025/26)

The current rate structure adheres to common industry practices, consisting of a two-part rate structure that is comprised of a ready to serve charge based on meter size, and a consumption-based rate calculated according to the total Sewer usage during the billing period. Table 5-3A below displays the current monthly customer charge for City Sewer customers based on the customer's meter size. All multi-residential units are charged the monthly base 5/8" meter size. Table 5-3B shows the current commodity charge (per 1,000 gallons) along with the sewer only charge for all City customers.

TABLE 4-3A: CURRENT MONTHLY READY TO SERVE CHARGE

Meter Size	Meter Charge	Meter Ratio
5/8"	\$28.75	1.00
1"	28.75	1.00
1 1/2"	143.75	5.00
2"	230.00	8.00
3"	431.10	15.00

TABLE 4-3B: CURRENT MONTHLY COMMODITY AND SEWER ONLY CHARGE

Metered	Charge
Commodity Charge (per 1,000 gal.)	\$3.60
Sewer Only Charge (monthly)	41.57

### 4.4 Proposed Rates

The revenue needs to support operations and maintenance costs and future capital improvements while maintaining an adequate cash reserve. Therefore, we are recommending an annual inflationary increase of 4.0% to the ready to serve charge and commodity charge starting in fiscal year 2026/27. The sewer only charge is based on a typical homeowner bill, which takes the base meter and assumes 4,500 gallons of usage per month. Please see Appendix D for a full breakout of the meter ratios, ready to serve charge, commodity charge, and sewer only charge. Tables 4-4A demonstrate our recommended rates.

TABLE 4-4A: PROPOSED RATE CHANGES

Adjustment	2026/27	2027/28	2028/29	2029/30	2030/31
Ready to Serve Charge (monthly) [1]	\$29.90	\$31.10	\$32.34	\$33.63	\$34.98
Commodity Charge (per 1,000 gal.)	3.74	3.89	4.05	4.21	4.38
Sewer Only Charge (monthly)	46.75	48.62	50.56	52.59	54.69

[1] This table only reflects the 5/8" and 1" meter ready to serve charge. See Appendix D for the full schedule of user rates.

## City of Montrose – Sewer Rate Study

The City customers are all billed monthly. With the above proposed rates, table 4-4B below outline estimates of a typical homeowner's monthly bill based on 4,500 gallons of usage.

TABLE 4-4C: TYPICAL HOMEOWNER'S TOTAL MONTHLY BILL

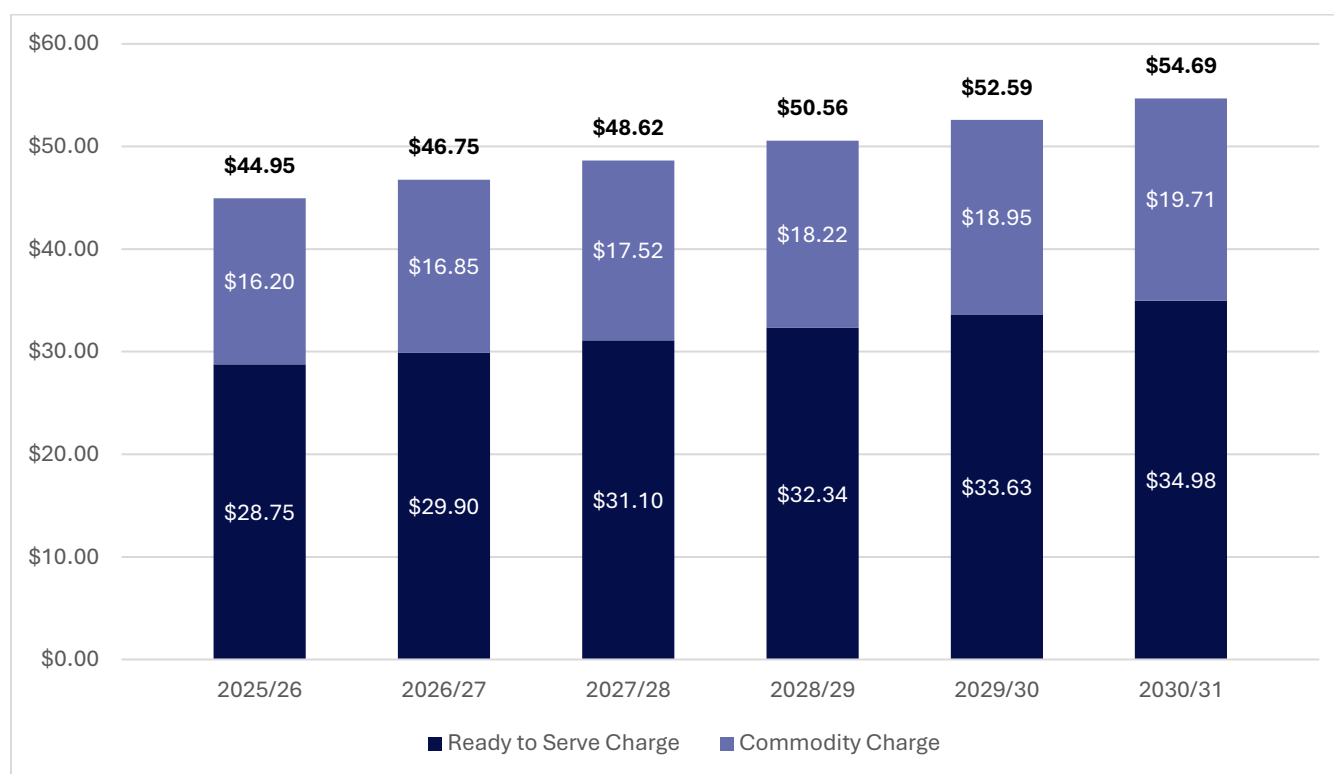
Homeowner Type	2026/27	2027/28	2028/29	2029/30	2030/31
Metered [1]	\$46.75	\$48.62	\$50.56	\$52.59	\$54.69

[1] Assumes 5/8" and 1" meter size and 4,500 gallons/month.

#### 4.5 Rate Impact Summary

The proposed rate track results in an average annual inflationary increase of \$1.95 to a typical City homeowner's monthly bill starting in fiscal year 2026/27. The monthly bill assumes a 5/8" and 1" meter size for the ready to serve charge, and 4,500 gallons of usage per month.

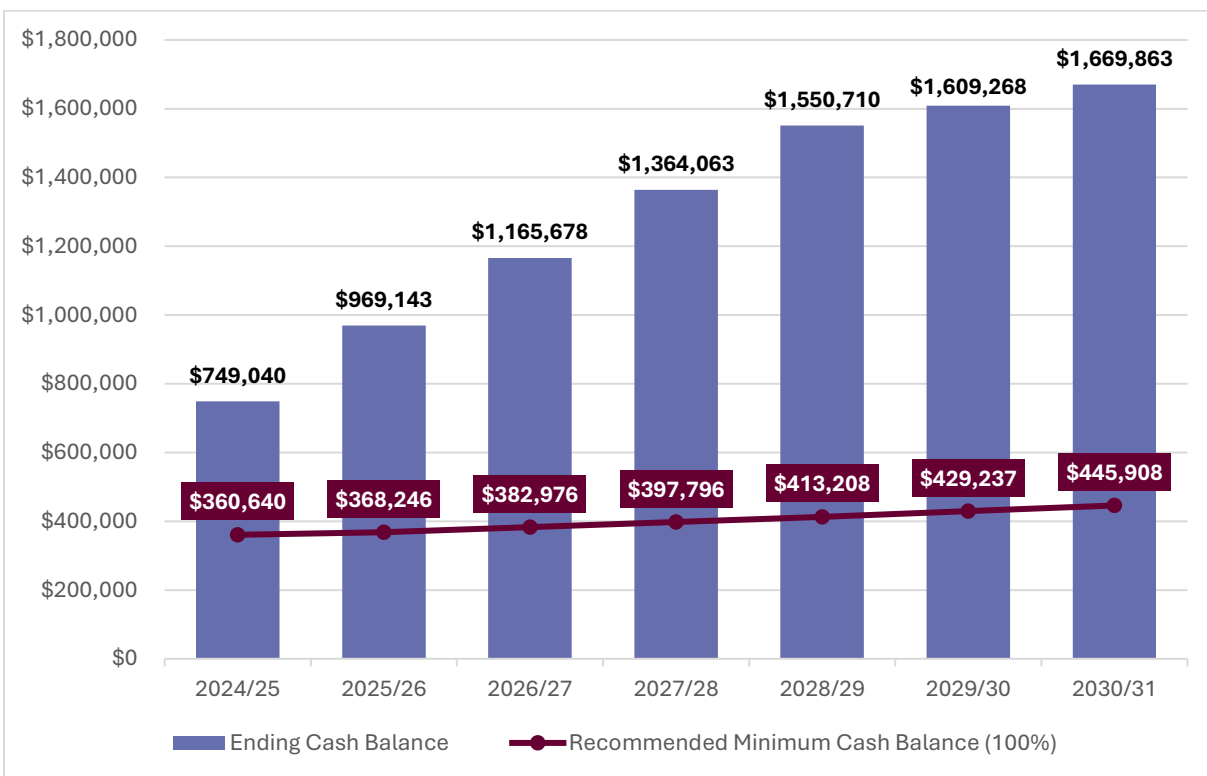
TABLE 4-5A: TYPICAL CITY HOMEOWNER'S MONTHLY BILL BREAKDOWN



#### 4.6 Cash Position Summary

The cash reserves for the City are currently around 25 months of cash operations and maintenance expenses (net of depreciation). This is below our recommended minimum balance of 12 months of cash operations and maintenance expenses for the fund. To maintain positive momentum related to capital improvement funding and planning, the below forecasted cash reserve balances are adequate and not excessive. There will be unplanned capital improvements that come up and the goal is to cash-fund those improvements to avoid future debt issuance. The minimum target is provided as a guardrail for the City to ensure proper cash reserves. Over the forecast period, table 4-6 shows a continuous increase in the ending cash balance. Appendix C provides a complete cash flow analysis breakdown.

TABLE 4-6: SCHEDULE OF ESTIMATED ENDING CASH RESERVES



# **Appendix A:**

## **Comparative Detail of Operating Expenses**

**CITY OF MONTROSE**  
**COUNTY OF GENESEE, STATE OF MICHIGAN**  
Operating & Maintenance Expenses - Sewer

	Fiscal Year Ended			Forecasted	
	6/30/2024	6/30/2025	6/30/2026	Test Year	Inflationary
	Actuals	Actuals	Budget		Increases
	(-----Per Client-----)				
Department 536: Operations and Maintenance					
702.000 Salaries and Wages	\$85,702	\$87,084	\$104,200	\$104,200	4.00%
709.000 SS and Medicare	6,909	6,632	7,971	7,971	4.00%
717.000 MERS	(10,863)	1,183	1,500	1,500	4.00%
718.000 Health Insurance	1,709	8,407	10,000	10,000	4.00%
719.000 Workers Compensation	1,314	-	500	500	4.00%
720.000 Life and Short Term Disability	332	847	836	836	4.00%
721.000 Clothing Allowance	776	425	425	425	4.00%
752.000 Supplies - Operating and Office	425	3,621	5,000	5,000	4.00%
801.000 Contracted Services	6,114	42,441	12,000	12,000	4.00%
804.000 Legal Services	9,311	-	-	-	0.00%
811.000 IT Services	2,287	4,481	500	500	4.00%
826.000 OPEB Study	325	1,050	1,103	1,103	4.00%
840.000 Insurance	5,672	-	6,000	6,000	4.00%
850.000 Telephone	363	-	500	500	4.00%
851.000 Postage	2,000	1,000	2,000	2,000	4.00%
852.000 Internet	1,427	1,497	1,400	1,400	4.00%
861.000 Mileage and Parking	-	-	-	-	0.00%
868.000 Dues and Subscriptions	1,357	1,082	2,000	2,000	4.00%
900.000 Printing and Publishing	-	455	500	500	4.00%
910.000 Education, Meetings and Training	-	-	-	-	0.00%
920.000 Utilities	4,273	4,453	5,000	5,000	4.00%
934.000 Repairs and Maintenance	-	38	500	500	4.00%
940.000 Equipment Rentals and Leases	332	275	1,000	1,000	4.00%
968.000 Depreciation Expense	-	-	- [1]	-	0.00%
975.000 Capital Outlay	3,230	3,140	-	-	0.00%
Total Operation and Maintenance	122,992	168,113	162,935	162,935	
Department 558: Charges for Services - County					
806.000 Treatment Charge	177,191	175,327	185,609	185,609	4.00%
807.000 Maintenance Charge	17,595	17,200	19,702	19,702	4.00%
Total Charges for Services - County	194,787	192,527	205,311	205,311	
Department 931: Operating Transfer In					
931.000 Transfer from Major Street Fund	-	-	-	-	0.00%
Total Sewer O&M Expenses	\$317,779	\$360,640	\$368,246	\$368,246	

[1] Depreciation Expense is removed from this report as it is performed on the cash basis.

# **Appendix B:**

## **Schedule of Capital Improvements**

**CITY OF MONTROSE**  
**COUNTY OF GENESEE, STATE OF MICHIGAN**  
*Schedule of Estimated Capital Improvements - Sewer*

[illegible]



# **Appendix C:**

## **Cash Flow Analysis**

**CITY OF MONTROSE**  
**COUNTY OF GENESEE, STATE OF MICHIGAN**  
Cash Flow - Sewer

	<u>2025/26</u>	<u>Inflationary Increases</u>	<u>2026/27</u>	<u>2027/28</u>	<u>2028/29</u>	<u>2029/30</u>	<u>2030/31</u>
Rates:							
Meter Equivalents	780		780	780	780	780	780
Multi-Residential Units Billed	133		133	133	133	133	133
Ready to Serve Charge (monthly)	\$28.75	4.00%	\$29.90	\$31.10	\$32.34	\$33.63	\$34.98
Billable Flow	32,169		32,169	32,169	32,169	32,169	32,169
Commodity Charge (per 1,000 gal.)	\$3.60	4.00%	\$3.74	\$3.89	\$4.05	\$4.21	\$4.38
Residential Equivalent Units	3		3	3	3	3	3
Sewer Only Charge (monthly)	\$41.57		\$46.75	\$48.62	\$50.56	\$52.59	\$54.69
<i>Typical homeowner's monthly bill (assumes 4,500 gallons/month)</i>	\$44.95		\$46.75	\$48.62	\$50.56	\$52.59	\$54.69
Revenues:							
Ready to Serve Charge Revenue	\$269,093		\$279,857	\$291,051	\$302,693	\$314,801	\$327,393
Multi-Residential Units Revenue	45,739		47,568	49,471	51,450	53,508	55,648
Commodity Charge Revenue	115,810		120,442	125,260	130,270	135,481	140,900
Sewer Only Charge Revenue	1,497		1,683	1,750	1,820	1,893	1,969
Water Fund Interfund Loan Payment	13,648		13,648	13,648	-	-	-
Major Street Fund Interfund Loan Payment	130,063		130,063	130,063	130,063	-	-
Other Revenue	12,500		12,500	12,500	12,500	12,500	12,500
Total Revenues	588,349		605,761	623,743	628,796	518,182	538,410
Less: Total Operating Expenditures	(368,246)		(382,976)	(397,796)	(413,208)	(429,237)	(445,908)
Net Operating Revenue	220,103		222,785	225,947	215,588	88,945	92,502
Less: Estimated Cash-Funded Capital Improvements	-		(26,250)	(27,563)	(28,941)	(30,388)	(31,907)
Net Cash Flow	<u>\$220,103</u>		<u>\$196,535</u>	<u>\$198,385</u>	<u>\$186,647</u>	<u>\$58,557</u>	<u>\$60,595</u>
Cash & Investments	\$749,040	\$969,143	\$1,165,678	\$1,364,063	\$1,550,710	\$1,609,268	\$1,669,863

## **Appendix D:**

# **Schedule of User Rates**

**CITY OF MONTROSE**  
**COUNTY OF GENESEE, STATE OF MICHIGAN**

*User Rates - Sewer*

Meter Size	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
5/8"	\$28.75	\$29.90	\$31.10	\$32.34	\$33.63	\$34.98
1"	28.75	29.90	31.10	32.34	33.63	34.98
1 1/2"	143.75	149.50	155.48	161.70	168.17	174.89
2"	230.00	239.20	248.77	258.72	269.07	279.83
3"	431.25	448.50	466.44	485.10	504.50	524.68

Metered	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
Commodity Charge (per 1,000 gal.)	\$3.60	\$3.74	\$3.89	\$4.05	\$4.21	\$4.38
Sewer Only Charge (monthly)	41.57	46.75	48.62	50.56	52.59	54.69