

ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: November 9, 2020
Item No.: 7.c

Department Approval



City Manager Approval



Item Description: Review the 2021 Utility Rate Adjustments

BACKGROUND

Unlike many city services that are supported by property taxes, our utility or *enterprise* operations are funded primarily by user fees and are operated as separate, stand-alone functions. Over the past several months, city staff has been reviewing the City's utility operations to determine what customer rate adjustments are necessary for 2021. The City engaged Ehlers to perform a comprehensive utility rate study of the Water and Storm Drainage Funds based on the cash situations in these two funds.

Operational Review

Water Fund Operations

At December 31, 2019, the Water Fund had to internally borrow \$1,234,554 from other funds to eliminate the cash deficit. This fund has had a steadily declining cash balance for the past four years. Staff identified that the rate setting formula was changed in 2014 which unfortunately has an error when converting the water purchased from St. Paul from cubic feet to the Roseville system which is billed in gallon units. In addition, the capital projects done for the water system have exceed the averages used in the formula. We engaged Ehlers to perform a utility study on this fund which was presented at the October 19th Council meeting.

Ehlers presented two separate options, both introduce new water usage tier rates for Residential, Commercial and Apartment properties. Both options realign who pays for water versus who uses water to provide more equity and the definition of fixed costs versus variable costs adheres to the industry standards. Option 2 provides for an average of capital costs to be included in the fixed costs, which is more in line with our current structure. Option 1 would put the average capital costs on the usage/variable side of the rates.

Storm Drainage Operations

The City provides for the management of storm water drainage to prevent flooding and pollution control, as well as the street sweeping program. The cash balance in this fund had been steadily declining so this fund was included in the utility rate study done by Ehlers. The study showed that the current rate structure is equitable and needs a steady increase of 4% for the next four years to build up some reserves to pay for the capital needs in this fund. After four years, the rate increases will level off to about 1% annually thereafter. Staff will continue to monitor this fund and the needed capital projects.

Sanitary Sewer Operations

The City maintains a sanitary sewer collection system to ensure the general public's health and general welfare. For 2021, the operational costs are expected to decrease by 2.84% mainly as a result of a decrease in the costs charged by the Metropolitan Council Environmental Services Division (MCES). While they have increased costs of treatment, the City's share of flow has decreased the overall cost to the City of Roseville. The capital outlay that is factored into the rates is based on a 5 year average and that number has increased from \$958,000 to \$1,349,000 based on a correction in that formula linkage.

The Base rates require a 3.5% increase to cover the fixed costs which are operational and capital only. The usage rates require a modest 1.92% increase to cover the MCES total costs. See Attachment B for the rate analysis.

Recycling Operations

The recycling operation provides for the contracted curbside recycling pickup throughout the City and related administrative costs. The primary operating cost is the amounts paid to a contractor to pick up recycling materials. 2020 had significant increases as a result of higher contractor costs. The market for recycled materials is a global one, and it had declined significantly during the prior year. For 2021, which is the last year of our current contract, the City has budgeted a 3.74% increase in the contract costs. A customer rate increase from \$9 per quarter to \$9.36 (4%) has been proposed to accommodate the higher costs. See Attachment B for the rate analysis.

Recommended Rates for 2021

The following table provides a detailed breakdown of the proposed rates including the rate structure which depicts how the operating cost burden is distributed to various customer types. The table also shows the Water rate options from the Ehlers Utility Rate Study.

<u>Water Base Rate Category</u>	2020	2021	<u>Comments</u>	<u>Ehlers Utility Rate Study</u>	
	<u>Rate</u>	<u>Rate</u>		<u>Option 1</u>	<u>Option 2</u>
Single-Family Residential	\$ 62.10	\$ 63.34	Standard SF rate	18.88	34.57
Single-Family Residential: Low-Income Discount	40.35	41.17	Standard SF rate x 0.65	18.88	34.57
Non-SF Residential (5/8" Meter)	62.10	63.34	Standard SF rate	18.88	34.57
Non-SF Residential (1.0" Meter)	77.65	79.20	Standard SF rate x 1.25	47.20	86.43
Non-SF Residential (1.5" Meter)	124.00	126.48	Standard SF rate x 2.00	94.40	172.85
Non-SF Residential (2.0" Meter)	233.00	237.66	Standard SF rate x 3.75	151.04	276.56
Non-SF Residential (3.0" Meter)	465.80	475.12	Standard SF rate x 7.50	302.08	553.12
Non-SF Residential (3.0" Compound Meter)				330.40	604.98
Non-SF Residential (4.0" Meter)	931.65	950.28	Standard SF rate x 15.00	472.00	864.25
Non-SF Residential (4.0" Compound Meter)				566.40	1,037.10
Non-SF Residential (6.0" Meter)	1,758.00	1,900.62	Standard SF rate x 30.00	1,510.40	2,765.60
** Low Income Discount on sewer only					

<u>Water Usage Rate Category</u>	<u>2020</u>	<u>2021</u>	<u>Comments</u>	<u>Ehlers Utility Rate Study</u>	
	<u>Rate</u>	<u>Rate</u>		<u>Option 1</u>	<u>Option 2</u>
SF Residential: Up to 15,000 gals./qtr				3.90	3.18
SF Residential: 15,001 to 30,000 gals./qtr	\$ 2.30	\$ 3.45	Standard SF rate	4.88	3.98
SF Residential: Over 30,000 gals./qtr (winter rate)	2.55	3.80	Standard SF rate +10%	6.10	4.98
SF Residential: Over 30,000 gals./qtr (summer rate)	2.75	4.15	Standard SF rate +20%	6.10	4.98
Apartments: Up to 8,000 gals/unit/qtr			per unit basis	3.90	3.18
Apartments: 8,001- 15,000 gals/unit/qtr			per unit basis	4.88	3.98
Apartments: Over 15,000 gals./unit/qtr			per unit basis	6.10	4.98
Commercial: Up to 60,000 gals./qtr				3.90	3.18
Commercial: 60,001 to 400,000 gals./qtr				4.88	3.98
Commercial: Over 400,000 gals./qtr				6.10	4.98
Non-SF Residential (winter rate)	3.00	4.50	Standard SF rate +30%		
Non-SF Residential (summer rate)	3.20	4.84	Standard SF rate +40%		
Irrigation Water Usage				4.97	4.50
Rates are per 1,000 gallons					
<u>Sewer Base Rate Category</u>	<u>2020</u>	<u>2021</u>	<u>Comments</u>		
	<u>Rate</u>	<u>Rate</u>			
Single-Family Residential	\$ 40.25	\$ 41.66	Standard SF rate		
Single-Family Residential: Low-Income Discount	26.15	27.08	Standard SF rate x 0.65		
Multi-Family Residential (townhomes)	40.25	41.66	Standard SF rate x 1.00		
Multi-Family Residential (apartments & condos)	28.25	29.24	Standard SF rate x 0.70		
Non-SF Residential (5/8" Meter)	30.10	31.15	Standard SF rate x 0.75		
Non-SF Residential (1.0" Meter)	60.25	62.36	Standard SF rate x 1.50		
Non-SF Residential (1.5" Meter)	90.40	93.56	Standard SF rate x 2.25		
Non-SF Residential (2.0" Meter)	140.90	145.83	Standard SF rate x 3.50		
Non-SF Residential (3.0" Meter)	291.85	302.06	Standard SF rate x 7.25		
Non-SF Residential (4.0" Meter)	583.70	604.13	Standard SF rate x 14.50		
Non-SF Residential (6.0" Meter)	1,167.40	1,208.26	Standard SF rate x 29.00		
Multi-family rate is per housing unit					
<u>Sewer Usage Rate Category</u>	<u>2020</u>	<u>2021</u>	<u>Comments</u>		
	<u>Rate</u>	<u>Rate</u>			
Residential	\$ 2.60	\$ 2.65	Standard rate		
Non-Residential	6.00	6.12	Standard rate x 2.30		
Rates are per 1,000 gallons					
<u>Stormwater Base Rate Category</u>	<u>2020</u>	<u>2021</u>	<u>Comments</u>		
	<u>Rate</u>	<u>Rate</u>			
Single-Family Residential & Duplex	\$ 14.25	\$ 14.54	Standard SF rate	2021 rates agree with Ehlers	
Multi-Family & Churches	110.30	112.51	Standard SF rate x 7.75		
Cemeteries & Golf Course	10.70	10.91	Standard SF rate x 0.75		
Parks	33.20	33.86	Standard SF rate x 2.35		
Schools & Community Centers	53.65	54.72	Standard SF rate x 3.75		
Commercial & Industrial	220.50	224.91	Standard SF rate x 15.50		
Rates for single-family are per housing unit; all others are per acre					
<u>Recycling Rate Category</u>	<u>2020</u>	<u>2021</u>	<u>Comments</u>		
	<u>Rate</u>	<u>Rate</u>			
Single-Family	\$ 9.00	\$ 9.30	Standard rate		
Multi-Family	9.00	9.30	Standard rate		

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Based on Staff analysis and the Ehlers Utility Rate study, the estimated impact to a Single Family

Home for all four utility funds is as follows:

Utility Rate Impact: Single Family Home <i>(Quarterly)</i>					
		Old Model		Ehlers	Ehlers
<u>Service</u>	<u>2020</u>	<u>2021</u>	<u>\$ Increase</u>	<u>Option 1</u>	<u>Option 2</u>
Water - base fee	62.10	63.34	1.24	18.88	34.57
Water - usage fee	27.60	41.40	13.80	46.80	38.16
Sanitary Sewer - base fee	40.25	41.66	1.41	41.66	41.66
Sanitary Sewer - usage fee	28.60	29.15	0.55	29.15	29.15
Storm Sewer	14.25	14.54	0.29	14.54	14.54
Recycling	9.00	9.36	0.36	9.36	9.36
Total per Quarter	\$ 181.80	\$ 199.45	\$ 17.65	\$ 160.39	\$ 167.44
Percentage Change			9.71%	-11.78%	-7.90%

POLICY OBJECTIVE

An annual review of the City's utility rate structure is consistent with governmental best practices to ensure that each utility operation is financially sound.

FINANCIAL IMPACTS

See above.

STAFF RECOMMENDATION

Staff recommends the rate adjustments as shown in the report and recommends the Ehlers option 2 for the Water Utility rates. The Public Works, Environment & Transportation Commission reviewed and recommended the Ehlers option 2 for the water rates. The Finance Commission will review the utility rates on November 10th.

Staff recommends the City Council adopt one of the two proposed utility rate models for the Water Fund.

REQUESTED COUNCIL ACTION

The material in this report is provided for information only at this point. Final consideration of the utility rates will occur at the December 7 City Council meeting. However, the City Council should provide direction to staff on what water rate option (Ehlers Option 1 or Ehlers Option 2) staff should bring forward for final consideration at that meeting.

Prepared by: Michelle Pietrick, Finance Director

Attachments: A: 2021 Rate Calculation Worksheets for Utility Funds

Fixed Costs Analysis
2020 Budget

Water Fund Fixed Costs

Description		Amount	Totals
1	Personnel Expenses		
2	Salaries & Benefits	\$ 698,280	\$ 698,280
3	Other Operating Expenses		
4	Office Supplies	200	
5	Telephone	5,000	
6	Postage	8,000	
7	Printing	100	
8	Insurance	55,000	
9	Contract Maintenance	56,800	
10	Memberships & Subscriptions	2,300	127,400
11	Operating Transfers Out		
12	Admin Charge to General Fund	385,000	385,000
13	Less: Wholesale Portion per Cost of Service Analysis		
14	City of Arden Hills	(127,295)	(127,295)
15	TOTAL FIXED AND METER COSTS - WATER FUND		\$ 1,083,385
16	Capital Improvement Costs		
17	5-Year Average Costs	900,000	900,000
18	TOTAL FIXED COSTS INCLUDING CAPITAL - WATER FUND		\$ 1,983,385

Fixed Charge Options					
Existing Charges		2020 Quarterly Rate	Number of Units/Meters	Annual Revenue	Grand Total
1	Fixed Rate				
2	5/8 inch & 3/4 inch	62.10	9,608	2,386,627	
3	1 Inch	77.65	248	77,029	
4	1.5 Inch	124.00	198	98,208	
5	2.0 Inch	233.00	143	133,276	
6	3.0 Inch	465.80	56	104,339	
7	4.0 Inch	931.65	1	3,727	
8	6.0 Inch	1,758.00	4	28,128	\$ 2,831,334
Note: Accounts with multiple meters may only be charged for 1 meter					
Option #1: 100% of Fixed Costs in Fixed Charges					
RATE STRUCTURE OPTIONS		Number of Meters	Max Flow (gpm)	Equivalent Ratio	Quarterly Charge
1	Fixed Rate				
2	5/8 inch & 3/4 inch	9,624	20	1.0	\$ 18.88
3	1.0 Inch	301	50	2.5	47.20
4	1.5 Inch	273	100	5.0	94.40
5	2.0 Inch	120	160	8.0	151.04
6	2.0 Inch - Compound	43	160	8.0	151.04
7	3.0 Inch	20	320	16.0	302.08
8	3.0 Inch - Compound	36	350	17.5	330.40
9	4.0 Inch	-	500	25.0	472.00
10	4.0 Inch - Compound	1	600	30.0	566.40
11	6.0 Inch	4	1,600	80.0	1,510.40
12	TOTALS	10,422			\$ 1,083,372
13	100% TOTAL FIXED AND METER COSTS - WATER FUND				\$ 1,083,385
Option #2: Fixed Rates Include Capital Costs					
RATE STRUCTURE OPTIONS		Number of Meters	Max Flow (gpm)	Equivalent Ratio	Quarterly Charge
1	Fixed Rate				
2	5/8 inch & 3/4 inch	9,624	20	1.0	\$ 34.57
3	1.0 Inch	301	50	2.5	86.43
4	1.5 Inch	273	100	5.0	172.85
5	2.0 Inch	120	160	8.0	276.56
6	2.0 Inch - Compound	43	160	8.0	276.56
7	3.0 Inch	20	320	16.0	553.12
8	3.0 Inch - Compound	36	350	17.5	604.98
9	4.0 Inch	-	500	25.0	864.25
10	4.0 Inch - Compound	1	600	30.0	1,037.10
11	6.0 Inch	4	1,600	80.0	2,765.60
12	TOTALS	10,422			\$ 1,983,702
13	TOTAL FIXED COSTS INCLUDING CAPITAL - WATER FUND				\$ 1,983,385

City of Roseville**Storm Sewer Rate Analysis**

2021

Total Costs		<u>2021</u>
Personnel Services	\$	463,065
Supplies & Maintenance		88,340
Other Charges		822,800
Less Depreciation		(480,000)
Capital Outlay		1,168,700
Total		\$ 2,062,905

** Switched to 5-Year CIP amortization in 2019 to better approximate actual cash flow needs
= Amount to recover from rates

	# of Customers	# of Lots / Acreage	Current Rates		Proposed Rates		
			Base Fee Revenue	Base Fee Revenue	% Increase (decrease)	Base Fee Revenue	
Single Family & Duplex	9,741	9,741	14.25	\$ 138,809	14.54	2.04%	\$ 141,634
Multi-Family & Churches	n/a	429	110.30	47,319	112.51	2.00%	48,267
Cemeteries & Golf Course (a)	n/a	9	10.70	96	10.91	1.96%	98
Parks (b)	n/a	1	33.20	33	33.86	1.99%	34
Schools & Comm. Centers (c)	n/a	176	53.65	9,442	54.72	1.99%	9,631
Commercial & Industrial	n/a	1,418	220.50	312,669	224.91	2.00%	318,922
		11,774		508,369			\$ 518,586
Total Annual Revenue			\$2,033,475				\$ 2,074,344

Total Costs to Recoup 2,062,905 12/31/19 Cash Balance = \$0
Revenue over (under) Costs 11,439 (loaned %

Total Annual Revenue 2,074,344
Amount Needed for Operations (894,205)
Amount Available for Capital \$ 1,180,139

City of Roseville
Sanitary Sewer Rate Analysis
2021

Total Fixed Costs		<u>2021</u>
Personnel Services	\$	508,830
Supplies & Maintenance		44,700
Other Charges (net of sewer treatment)		1,052,210
Less Depreciation		(456,000)
Capital Outlay		1,349,000
** Switched to 5-Year CIP amortization in 2019 to better approximate <u>actual</u> cash flow needs-in 2019 Cmillier had this linked to the Non-MSA CIP sheet		
Total	\$	2,498,740 = Amount to recover from <u>BASE</u> rates

	# of Customers	Avg. Usage (a)	Current		Proposed		Base Fee Revenue	Current		Proposed		Usage Fee Revenue
			Base Fee	Revenue	Base Fee	% Increase (decrease)		Fee per 1,000 gals.	Usage Fee Revenue	Fee per 1,000 gals.	% Increase (decrease)	
Single-Family Residential	9,469	11	40.25	381,127	41.66	3.50%	394,479	2.60	270,813	2.65	1.92%	276,021
Residential - Apts & Condos: Accts. (b)	212	232.32						2.60	128,057	2.65	1.92%	130,519
Residential - Apts & Condos: Units (b)	6,616		28.25	186,902	29.24	3.50%	193,452					
Non-residential												
5/8" Meter or 3/4" Meter	116	17.12	30.10	3,492	31.15	3.49%	3,613	6.00	11,916	6.12	2.00%	12,154
1.0" Meter	177	67.28	60.25	10,664	62.36	3.50%	11,038	6.00	71,453	6.12	2.00%	72,882
1.5" Meter	112	131.96	90.40	10,125	93.56	3.50%	10,479	6.00	88,674	6.12	2.00%	90,447
2.0" Meter	96	220.11	140.90	13,526	145.83	3.50%	14,000	6.00	126,783	6.12	2.00%	129,319
3.0" Meter	34	299.26	291.85	9,923	302.06	3.50%	10,270	6.00	61,049	6.12	2.00%	62,269
4.0" Meter	1	496.75	583.70	584	604.13	3.50%	604	6.00	2,981	6.12	2.00%	3,040
6.0" Meter	-	-	1,167.40	-	1,208.26	3.50%	-					
	16,833			616,343			637,934		761,724			776,652
Total Annual Revenue			2,465,372				2,551,736		3,046,898			3,106,608

(a) Usage is in 1,000's of gals. SF Res. usage is based on average WINTER usage

(b) Total UB Accounts = 189, total units for base revenue calculation = 5,976

** Multi-Family & Condo are charged a single property base fee plus a separate fee for each housing unit.

Total Costs to Recoup 2,498,740

Revenue over (under) Costs 52,996

Total Annual Revenue 2,551,736

Amount Needed for Operations (1,149,740)

Amount Available for Capital 1,401,996

Total Costs to Recoup 2,982,790

Revenue over (under) Costs 123,818

12/31/19 c

Total Variable Costs

Total Wastewater Treatment Cost 2,982,790 ** based on Met Council email dated 8/4/2020

City of Roseville

Attachment A

Solid Waste Recycling Rate Analysis

2021

Total Costs2021

Personnel Services	\$ 41,785	
Supplies & Maintenance	-	
Other Charges: Miscellaneous	24,760	
Contractor Costs: Curbside	571,313	
Contractor Costs: Parks	5,233	
Contractor Costs: Park Pathways	7,371	
Contractor Costs: Clean-Up Day	10,000	\$ 598,917 = Total Contractor Costs
Contractor Costs: Shredding Day	5,000	

Total \$ 665,462 = Amount to recover from rates

	# of Customers (Units)	Current Rates		Proposed Rates		Base Fee Revenue
		Base Fee	Revenue	Base Fee	% Increase (decrease)	
Single Family	9,420	9.00	84,780	9.36	4.00%	88,171
Multi family	6,331	9.00	56,979	9.36	4.00%	59,258
Opt-Ins	20	9.00	180	9.36	4.00%	187
Applewood Service	1	60.00	60	60.00	0.00%	60
Revenue Sharing from Contractor (quarterly)			-			-
Ramsey Co. SCORE Grant (quarterly)			21,875			21,875
Total Quarterly Revenue			163,874			169,552
Total Annual Revenue			655,496			678,206

Total Costs to Recoup 665,462
Revenue over (under) Costs 12,744