

Memo

To: Roseville Finance Commission

From: Michelle Pietrick, Finance Director

Date: October 11, 2022

Re: Item #5: Review of Utility Rate Study on the 2023 Proposed Utility Rates and adopt a recommendation for the City Council

Background

Unlike many city services that are supported by property taxes, the City's 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 2022. The City engaged Ehlers to perform an updated utility rate study of the Water and Storm Drainage Funds from 2021 and to perform an analysis of the Sanitary Sewer Fund rates for 2022. Ehlers staff will be present at the Finance Commission meeting.

Operational Review

Water Fund Operations

The updated Utility Rate Study done by Ehlers on the Water Fund recommends an 8% increase in rates for 2023-2028 to cover fixed and variable costs, debt service and replenishment of fund reserves. The previous study recommended a 5% increase in rates for 2022-2026. St. Paul Regional Water increased their rate charged to Roseville by 9%, which is the main driver of our needed increases. To minimize the increases needed for capital projects, public works has prioritized projects for the next few years to reduce the amount of capital projects until this fund has a chance to increase reserves.

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. In 2021 the Utility Rate Study done by Ehlers recommended a 4% increases for 2022-2024 to cover fixed and variable costs of the Storm Drainage fund and a 1% increase thereafter. Public Works did an intensive analysis of the infrastructure in the Storm Drainage system and identified a significant increase in capital improvements over the next 20 years. The initial improvements have been curtailed, however, they are still significant. The current update of the utility rate study is recommending a 33% increase for 2023 and 2024 and then a 2.5% thereafter. While the percentage seems high, the actual dollar amount change is about \$5 per quarter for residential properties.

Sanitary Sewer Operations

The City maintains a sanitary sewer collection system to ensure the general public's health and general welfare. Ehlers included a review of the rates for Sanitary Sewer in this year's Utility Rate Study and is recommending a 2% increase. For 2022, the city increased the base rates by 3.5% and the usage rates by 1.92%. Public Works made some reductions in the proposed capital improvement projects so the 2% increase recommended by Ehlers is adequate for this fund.

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. In 2021 the City solicited bids on the recycling operations and on July 26, 2021, the City Council approved a contract for recycling services for 2022-2025. For 2023, the rates are again based on this contract with a small amount to build reserves for cart purchases in the future. A customer rate increase from \$13 per quarter to \$14.05, or 8% is proposed to cover the operating costs and to build a minimal amount towards the future cart purchase. See Attachment A for the rate analysis.

Recommended Rates for 2023

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

<u>Water Base Rate Category</u>	<u>2022 Rate</u>	<u>2023 Rate</u>
Single-Family Residential	\$ 36.30	\$ 39.20
Non-SF Residential (5/8" Meter)	36.30	39.20
Non-SF Residential (1.0" Meter)	90.75	98.01
Non-SF Residential (1.5" Meter)	181.49	196.01
Non-SF Residential (2.0" Meter)	290.39	313.62
Non-SF Residential (3.0" Meter)	580.78	627.24
Non-SF Residential (3.0" Compound Meter)	635.23	686.05
Non-SF Residential (4.0" Meter)	907.46	980.06
Non-SF Residential (4.0" Compound Meter)	1,088.96	1,176.08
Non-SF Residential (6.0" Meter)	2,903.88	3,136.19
** Low Income Discount on sewer only		
<u>Water Usage Rate Category</u>	<u>2022 Rate</u>	<u>2023 Rate</u>
SF Residential: Up to 15,000 gals./qtr	\$ 3.34	\$ 3.61
SF Residential: 15,001 to 30,000 gals./qtr	4.18	4.51
SF Residential: Over 30,000 gals./qtr	5.23	5.65
Apartments: Up to 8,000 gals/unit/qtr	3.34	3.61
Apartments: 8,001- 15,000 gals/unit/qtr	4.18	4.51
Apartments: Over 15,000 gals./unit/qtr	5.23	5.65
Commercial: Up to 60,0000 gals./qtr	3.34	3.61
Commercial: 60,001 to 400,0000 gals./qtr	4.18	4.51
Commercial: Over 400,000 gals./qtr	5.23	5.65
Irrigation Water Usage	4.73	5.11
Rates are per 1,000 gallons		

<u>Sewer Base Rate Category</u>	<u>2022 Rate</u>	<u>2023 Rate</u>
Single-Family Residential	\$ 43.12	\$ 43.98
Single-Family Residential: Low-Income Discount	28.03	28.59
Multi-Family Residential (townhomes)	43.12	\$ 43.98
Multi-Family Residential (apartments & condos)	30.26	30.87
Non-SF Residential (5/8" Meter)	32.24	32.88
Non-SF Residential (1.0" Meter)	64.54	65.83
Non-SF Residential (1.5" Meter)	96.83	98.77
Non-SF Residential (2.0" Meter)	150.93	153.98
Non-SF Residential (3.0" Meter)	312.63	318.88
Non-SF Residential (4.0" Meter)	625.27	637.78
Non-SF Residential (6.0" Meter)	1,250.55	1,275.56
Sewer Only accounts	69.52	70.91
Maplewood sewer accounts	19.25	19.64
Multi-family rate is per housing unit		
<u>Sewer Usage Rate Category</u>	<u>2022 Rate</u>	<u>2023 Rate</u>
Residential	\$ 2.70	\$ 2.75
Commercial	6.24	6.42
Maplewood	4.51	4.58
Rates are per 1,000 gallons		
<u>Stormwater Base Rate Category</u>	<u>2022 Rate</u>	<u>2023 Rate</u>
Single-Family Residential & Duplex	\$ 15.12	\$ 20.11
Multi-Family & Churches	117.01	155.62
Cemeteries & Golf Course	11.35	15.10
Parks	35.21	46.83
Schools & Community Centers	56.91	75.69
Commercial & Industrial	233.91	311.10
Rates for single-family are per housing unit; all others are per acre		
<u>Recycling Rate Category</u>	<u>2022 Rate</u>	<u>2023 Rate</u>
Single-Family	\$ 13.00	\$ 14.05
Multi-Family	13.00	14.05

Based on Staff analysis and the updated 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 (Quarterly)			
<u>Service</u>	<u>2022</u>	<u>2023</u>	<u>\$ Increase</u>
Water - base fee	36.30	39.20	2.90
Water - usage fee	40.07	43.32	3.25
Sanitary Sewer - base fee	43.12	43.98	0.86
Sanitary Sewer - usage fee	29.70	30.25	0.55
Storm Sewer	15.12	20.11	4.99
Recycling	13.00	14.05	1.05
Total per Quarter	\$ 177.30	\$ 190.91	\$ 13.61
Percentage Change			7.67%
per month	59.10	63.64	4.54
Avg. Water consumption (1,000 gals.)	12		
Avg. Sewer consumption (1,000 gals.)	11		

Staff Recommendation

The enclosed information is being recommended by Staff for Council review on October 17, 2022 and November 7, 2022, with final Council approval on December 6, 2022.

Requested Commission Action

For information purposes only. No formal Commission action is required, however, the Commission may want to submit a recommendation to the City Council on the proposed 2023 utility rates.

Prepared by: Michelle Pietrick, Finance Director
 Attachments: A: 2023 Rate Calculation Worksheet for Recycling Fund
 B: Ehlers Utility Study Executive Summary

City of Roseville
Solid Waste Recycling Rate Analysis
2023

Based on Data from Public Works

Attachment A

Total Costs		<u>2023</u>	
Personnel Services	\$	84,237	
Supplies & Maintenance		2,250	
Other Charges: Miscellaneous		29,410	
Contractor Costs: Curbside		795,736	
Contractor Costs: Parks		13,792	
Contractor Costs: Zero-Waste Events		7,000	
Contractor Costs: Clean-Up Day		10,000	
Contractor Costs: Shredding Day		5,000	\$ 831,528 = Total Contractor Costs
Planned Surplus		-	
Total	\$	947,425	= Amount to recover from rates

	# of Customers (Units)	Current Rates		Proposed Rates		
		Base Fee	Revenue	Base Fee	% Increase (decrease)	Base Fee Revenue
Single Family	9,440	13.00	122,720	14.05	8.08%	132,632
Multi family	6,634	13.00	86,242	14.05	8.08%	93,208
Opt-Ins	21	13.00	273	14.05	8.08%	295
Applewood Service	1	62.00	62	62.00	0.00%	62
Revenue Sharing from Contractor (quarterly)			-			-
Ramsey Co. SCORE Grant (quarterly)			21,875			21,875
Total Quarterly Revenue			231,172			248,072
Total Annual Revenue			924,688			992,287

Total Costs to Recoup	947,425
Planned surplus for cart purchase	44,862



MEMORANDUM

TO: Michelle Pietrick, Finance Director
FROM: Stacie Kvilvang and Jeanne Vogt, Ehlers
DATE: October 5, 2022
SUBJECT: Utility Rate Study Update

The City of Roseville contracted with Ehlers to complete a utility rate study update (“the Study”) of the water utility, sewer utility, and storm drainage utility funds. The scope of work for the Study included:

- Building and maintaining adequate cash balances
- Funding future capital projects
- Managing revenue volatility (review of fixed fees and user rates for the sewer fund)
- Lookback of the water fund rates
- Competitiveness

Overall Impact on Utility Customers

Attached is the Impact Analysis for “Residential” and “Other Users” of the system. We looked at quartiles, which is defined as the number of accounts in the bottom quarter (25% quartile), mid-point (50% quartile) and top quarter (75% quartile) of total users. Also included in “Other Accounts” is the City’s largest commercial account at the 100% quartile.

Bottom Line: We are not recommending any changes to existing rate structures for any funds as part of this update. Users can expect to see moderate increases across the board in their quarterly utility bills due to increasing capital projects and the City’s continued efforts to build appropriate cash balances.

Below are brief summaries of how the goals included in the scope of work were met:

Building and Maintaining Adequate Cash Balances

The Water, Sewer and Storm Drainage Funds currently have cash balances that are below recommended reserve amounts. The Study looks at how the City can continue to build adequate reserves and provide a long-term road map to meet those goals, all while paying for future operating, capital and any recommended future debt service.

Funding Future Capital Projects

The Study looked at the timing and cost of capital projects over the next ten years. Staff has looked at using a phased-in approach for capital projects to allow the funds to build adequate cash while limiting borrowing. This phased-in approach is different than what was previously approved by the Council. We recommend using cash-on-hand wherever possible over the next ten years. This, along with annual rate increases, allows fund balances to build over time while minimizing impact on rate payers. It should be noted we recommend a combination of rate increases and borrowing for the storm drainage fund in 2022 as a “shot in the arm” to rebuild cash after paying for significant capital projects in 2021. This will allow the fund to have sufficient cash on hand to pay for capital projects

without the need for borrowing again until 2031. The water fund will need to bond for projects in 2026 while we don't recommend any borrowing for the sewer fund at this time.

Managing Revenue Volatility

The Study looked at the fixed vs. variable costs of the Sewer Fund, which was new to the Study this year. Fixed costs are defined as those the City will incur regardless of sewer flows. This definition is consistent with how we approached the Water and Storm Drainage funds back in 2020. These fixed costs should be paid for with the Fixed Rate. Current charges cover approximately **106.6%** of budgeted 2022 fixed costs. Therefore, we do not recommend any changes to the existing fixed charges at this time.

Lookback of Water Fund Rates

Whenever there are significant changes to water rate structures, a follow-up review is recommended to determine if the rates are generating appropriate revenues and, specifically, if conservation rates are having the desired effect. New water rates were adopted effective January 1, 2021. Ehlers looked at the 2021 revenues and determined the new rate structure was not correctly entered into the City's utility billing software for residential and commercial accounts. Apartments and irrigation accounts were billed correctly. Staff has already made the necessary changes to the system to bill correctly going forward. An analysis of the underbilled accounts is still in process. The study assumes that a portion of the under billings will be recouped in 2022 and that rates are correct for 2023 and beyond.

As a result, we were unable to determine if the new rate structure for the water fund is having the desired effect. We recommend the Study be updated again in 2024 to review this issue.

Competitiveness

We compared Roseville's existing 2022 and proposed 2023 rates for residential accounts to comparable communities. The proposed 2023 rates remain competitive for fully developed communities.

City of Roseville, MN
Utility Rate Study
2022 Update

	RESIDENTIAL ACCOUNTS			OTHER ACCOUNTS					
	Low	Median	High	High Apartment (Per Unit)	Low Commercial	Median Commercial	High Commercial	Very High Commercial	High Irrigation
	25% Quartile	50% Quartile	75% Quartile	75% Quartile	25% Quartile	50% Quartile	75% Quartile	100% Quartile	75% Quartile
Quartile									
Sample 2019 Usage	6,000	10,000	15,000	11,000	13,000	45,000	138,000	13,843,000	128,000
Winter Average	3,000	7,000	12,000	11,000	13,000	45,000	138,000	13,843,000	-
Meter Size	5/8"	5/8"	5/8"	1.5"	5/8"	1.0"	2.0"	1.0" & 6.0" each	1.5"
	Existing 2022 Rates and Structure			Existing 2022 Rates and Structure					
Total Water	\$ 56.34	\$ 69.70	\$ 86.40	\$ 44.93	\$ 79.72	\$ 241.05	\$ 816.83	\$ 73,512.75	\$ 786.93
Total Sewer	51.22	62.02	75.52	59.96	113.36	345.34	1,012.05	87,630.87	-
Total Storm Water	15.12	15.12	15.12	18.14	205.84	409.18	1,417.49	5,387.91	-
Total Bill	\$ 122.68	\$ 146.84	\$ 177.04	\$ 123.03	\$ 398.92	\$ 995.57	\$ 3,246.37	\$ 166,531.53	\$ 786.93
	Proposed 2023 Rates with Existing Structure			Proposed 2023 Rates with Existing Structure					
Total Water	\$ 60.86	\$ 75.30	\$ 93.35	\$ 48.54	\$ 86.13	\$ 248.31	\$ 882.00	\$ 79,414.05	\$ 850.09
Total Sewer	52.23	63.23	76.98	60.57	116.34	354.73	1,039.91	90,147.62	-
Total Storm Water	20.11	20.11	20.11	24.12	273.77	544.21	1,885.27	7,165.91	-
Total Bill	\$ 133.20	\$ 158.64	\$ 190.44	\$ 133.23	\$ 476.24	\$ 1,147.25	\$ 3,807.18	\$ 176,727.58	\$ 850.09
\$ Increase/(Decrease)	\$ 10.52	\$ 11.80	\$ 13.40	\$ 10.19	\$ 77.32	\$ 151.68	\$ 560.80	\$ 10,196.05	\$ 63.16