

**ROSEVILLE**  
**REQUEST FOR COUNCIL ACTION**

Date: October 24, 2021  
Item No.: 7.a

Department Approval

*Michelle Dietrick*

City Manager Approval

*Sam Truog*

Item Description: Receive update on under billing of water customers

**BACKGROUND**

In 2020, a Utility Rate Study was conducted which recommended new tiered water rates. The City Council approved implementing the new tiered water rates for 2021 at the December 7, 2020 council meeting. Tiered water rates for 2022 were approved at the December 6, 2021 council meeting. The following chart shows the tiered rates that were approved for both of these years.

<u>Water Usage Rate Category</u>	<u>2021 Rate</u>	<u>2022 Rate</u>
SF Residential: Up to 15,000 gals./qtr	\$ 3.18	\$ 3.34
SF Residential: 15,001 to 30,000 gals./qtr	3.98	4.18
SF Residential: Over 30,000 gals./qtr (winter rate)	4.98	5.23
SF Residential: Over 30,000 gals./qtr (summer rate)	4.98	5.23
Apartments: Up to 8,000 gals/unit/qtr	3.18	3.34
Apartments: 8,001- 15,000 gals/unit/qtr	3.98	4.18
Apartments: Over 15,000 gals./unit/qtr	4.98	5.23
Commercial: Up to 60,000 gals./qtr	3.18	3.34
Commercial: 60,001 to 400,000 gals./qtr	3.98	4.18
Commercial: Over 400,000 gals./qtr	4.98	5.23
Irrigation Water Usage	4.50	4.73
Rates are per 1,000 gallons		

During the process of gathering data for an updated Utility Rate Study in 2022, staff discovered that the tiered water rates were not entered correctly in 2021 into the water billing software for residential and commercial accounts. Residential and commercial accounts were billed for their water consumption but it was calculated at the lowest tiered water rate (Up to 15,000 gallons used per quarter for residential). Thus, less revenue was collected than expected. The tiered rates were corrected for the utility bills that were issued at the end of September 2022.

Staff have been working on identifying the magnitude of the amounts that would have been collected had the tiered rates worked correctly. For residential accounts the total impact from January 2021 through August 2022 is \$279,985. The following chart shows the number of active accounts that were impacted and breaks the amounts under billed into various dollar ranges. The chart also shows how much is related to 2021 calendar year usage and 2022 calendar year usage, until the system was fixed.

Active Residential Utility Accounts		
Analysis of Under Billed amounts		
January 2021 - August 2022		
	# of Accts involved	Amount Underbilled
No impact	4071	\$ -
Up to \$100	4388	\$ 100,027
\$100-\$500	800	\$ 158,227
Over \$500	28	\$ 20,731
	9287	\$ 278,985
2021 only		\$ 184,576
2022 only		\$ 94,409

22  
23

24 This analysis only looks at the active accounts, so if a residential property was sold, the usage from the  
25 previous owner has not been calculated as the new owner does not have responsibility for the prior  
26 consumption. If the Council wants staff to pursue amounts under billed on closed accounts, we will  
27 have to do additional analysis and determine what amounts and how to contact former owners.

28

29 For Commercial accounts, Ehlers staff have assisted in the calculations of the under billed water  
30 consumption. For the top 10 commercial accounts, the amount that was under billed for 2021 was  
31 \$164,753 and for 2022 was \$107,481, for a total of \$272,234 for these 10 accounts.

32

33 This topic did come up at the Finance Commission meeting of October 11<sup>th</sup> and the commission  
34 recommended going back 12 months to collect the amount under billed for both residential and  
35 commercial accounts. The draft notes of that meeting will be provided to the Council.

36

37 Staff have discussed how to handle this situation and have identified various options that could be  
38 considered – here are some of the possibilities:

- 39 • Collect all active accounts under billed from January 2021 through August 2022 – offer the  
40 option of spreading the amount over 4 quarters
- 41 • Collect only commercial accounts
- 42 • Collect only for 2022 under billed for both residential and commercial accounts
- 43 • Go back 12 months from August of 2022 (the finance commission recommendation)
- 44 • Do nothing with regard to collecting the under billed amounts

45 **POLICY OBJECTIVE**

46 To provide a recommendation on how the city will handle the under billing of water for residential and  
47 commercial accounts for the period of January 2021 through August 2022.

48

49 **FINANCIAL IMPACTS**

50 As noted above.

51 **STAFF RECOMMENDATION**

52 Staff has laid out several options above and is looking for a recommendation from the City Council  
53 regarding the recovery of under billed water consumption for residential and commercial accounts for the  
54 period of January 2021 through August 2022.

55 **REQUESTED COUNCIL ACTION**

56 Discuss the options for handling the under billed water consumption from January 2021 through August

57 2022 and provide a recommendation to staff.

58

Prepared by: Michelle Pietrick, Finance Director

Attachments: A. Excerpt of draft Finance Commission minutes from 10/11/2022

1                                   **Finance Commission – Excerpts of Meeting Minutes**  
2                                   **DRAFT – October 11, 2022 - DRAFT**

3  
4  
5                   **Utility Rate Study Presentation and Proposed Utility Rates**  
6

7           Finance Director Pietrick stated the City hired Ehlers to do an update on the water and  
8           stormwater funds to make sure the new tiered rate that was approved for the water fund was  
9           working correctly and also to look at the City’s sanitary sewer fund. As part of the update, it was  
10          discovered that there was a glitch in the financial software and the tiered rates were incorrect.  
11          For residential and commercial accounts the users were billed for the water used but were billed  
12          at the lowest tier rate. The glitch has been fixed and staff is analyzing the amounts that were not  
13          billed in 2021-2022 under the tiered rates. Only residents that used more than fifteen thousand  
14          gallons would have been under billed.

15  
16          Commissioner Bester noted Mayor Roe has an excellent conversation on NextDoor to put this  
17          into some perspective.

18  
19          Ms. Pietrick indicated the City put an insert into the bills that just went out trying to explain the  
20          tiered rates that were approved by the Council in case people noticed their bills were different  
21          than previous quarters.

22  
23          Chair Davies asked when staff found the error and started billing correctly.

24  
25          Ms. Pietrick explained it was in mid-September when the error was found.

26  
27          Chair Davies indicated the bills are in arrears so she asked if the bill that came out in September  
28          was correct.

29  
30          Ms. Pietrick indicated that was correct. She explained the City bills through September 30<sup>th</sup> and  
31          those bills started showing up in mailboxes on Saturday of this week. The bill would be for July-  
32          September water usage.

33  
34          Vice Chair Sagisser asked what percentage of people actually were affected.

35  
36          Ms. Pietrick explained that is what staff and Ehlers are trying to analyze. She noted the  
37          apartment buildings were not affected by this error.

38  
39          Chair Davies asked over what time period was this error.

40  
41          Ms. Pietrick indicated the new tier rates were in effect January 1, 2021, approximately one and  
42          half years.

43  
44          Ms. Jeanne Vogt and Ms. Stacie Kvilvang, Ehlers were at the meeting and reviewed the updated  
45          Utility Rate Study with the Commission.  
46

47 Chair Davies asked if the stormwater charge based on the footage on the road or the acreage of  
48 the property. She wondered what the charge is based on.  
49

50 An Ehlers representative indicated that residential properties all receive the same fee. Currently it  
51 is \$15.12 per quarter. For commercial and other properties it is based on acreage.  
52

53 Commissioner Murray asked if an allowance was made for commercial with a lot of parking area  
54 versus green space.  
55

56 An Ehlers representative explained pervious and impervious areas are taken into consideration  
57 for that calculation as well for commercial.  
58

59 Commissioner Murray asked how this is taken into consideration.  
60

61 An Ehlers representative explained there is a formula for that, for how commercial is calculated.  
62

63 Ehlers representatives continued with the presentation.  
64

65 Commissioner Bester thought the water fund was pretty straight forward with a nine percent  
66 increase from St. Paul that drives it for an eight percent increase for the City. He thought that  
67 made perfect sense. He noted he was also fine with the sanitary sewer fund. The storm drainage  
68 fund he did have some questions on. He indicated when the Commission first looked at the  
69 Capital Improvement Projects they went up and doubled overall from what the Commission  
70 looked at last year. He indicated they doubled over the twenty-year period from what was  
71 presented the previous year. He noted this was a big increase and he was not sure that he was left  
72 with a lot of comfort as to what was driving that need to increase the spending by one million  
73 dollars.  
74

75 Ms. Pietrick reviewed what has happened since the Commission discussed the Capital  
76 Improvement Plan. She noted Public Works Department and the Finance Department have been  
77 collaborating on identifying the prioritization of projects in all of these funds. The Public Works  
78 Department did back off significantly on the next two years' worth of storm water projects,  
79 however, at some point the City is going to have to start investing in that aging infrastructure in  
80 replacing or repairing it and while this curtails the next two years, 2023-2024, to those known  
81 projects that are being worked on. The outlying years are still at the two-million-dollar level  
82 because the age of that infrastructure is reaching near the end of its life and the City needs to  
83 start planning for it. Staff does look at the Capital Improvement Plan every year so Public Works  
84 may have to curtail some of those outlying years until the City builds its reserves up. If the City  
85 does not start building its reserves the City will never be able to afford those projects. Bonding is  
86 recommended but she did not know if the City will necessarily do that but at some point the City  
87 probably will have to.  
88

89 Commissioner Murray asked if there were any software recommendations to avoid problems in  
90 billing like the City previously had.  
91

92 Ms. Pietrick explained the Finance Department currently issued an RFP for new financial  
93 software, which includes the water billing. Staff also identified some additional procedures that  
94 have been put in place going forward to verify accuracy of utility rates.

95  
96 Commissioner Barclay asked if the water rates in Roseville were still lower than surrounding  
97 cities.

98  
99 An Ehlers representative reviewed the comparable community chart and indicated Roseville is  
100 solidly in the middle to upper compared to surrounding communities. She noted the chart is  
101 based on 2022 rates, and the 2023 rates are not available yet for the comparable cities.

102  
103 Chair Davies indicated some residents think that the City should let St. Paul take care of all of  
104 this because it would be much cheaper and that gets into the complicated factors of assessments.

105  
106 Ms. Pietrick indicated that would involve additional staffing as well as it would get into the issue  
107 of capacity of St. Paul Regional Water and St. Paul currently does not have the capacity to take  
108 on the capacity of Roseville. Also, local control would be lost so if there is a watermain break  
109 she did not know what the response rate would be because now the City can get their staff out to  
110 a break right away to fix it. The City has looked at this several times previously and the decision  
111 was to remain separate.

112  
113 Ms. Pietrick reviewed with the Commission estimated impact on a single-family home that  
114 utilizes twelve thousand gallons of water and eleven thousand gallons of sewer consumption. She  
115 indicated for 2023, utilizing the recommended rates versus the 2022, there would be an increase  
116 of \$13.61 per quarter for the water, sewer, stormwater and the recycle fund. The recycling fund  
117 calculation was included in the packet and based on the City's contract and in 2022 the City  
118 Council did approve doing marginal increases to pay for carts at the end of the contract. She  
119 noted the marginal increase is approximately \$44,000. She noted the Commission could make a  
120 recommendation to the City Council if it chooses to.

121  
122 Commissioner Murray explained he would prefer to defer any decision until the Commission  
123 knows what the numbers are on the under billing.

124  
125 Chair Davies thought the City Council would be making a decision before the Commission has  
126 another meeting so if the Commission wants any input, this is the time to do it. She indicated the  
127 Commission could make a recommendation. She explained to defer it until there is complete  
128 knowledge of the total amount means that the Commission does not make a recommendation.

129  
130 Commissioner Bester made a motion to recommend recovering the under billings for the year  
131 2022.

132  
133 Commissioner Dahir recommended in the motion to leave out the residential and only  
134 recommend the recovery of billings for commercial properties and see what the numbers show  
135 for the residential properties.

136

137 Commissioner Bester withdrew his motion in order for discussion to continue.

138

139 The Commission discussed the Ehlers recommendation that was previously made in 2021 for  
140 both residential and commercial properties and it was noted that the Council did not make the  
141 recommendation to increase the commercial water rates. There was also discussion on  
142 recovering the billings and possible forgiveness of a portion of the underbilling.

143

144 Chair Davies thought it made sense to recoup the money from everyone and she suggested the  
145 City go back twelve months to recoup most of it. It was noted money cannot be recouped from  
146 previous owners of properties.

147

148 Chair Davies made a motion, seconded by Commissioner Bester to recommend the City Council  
149 recoup the underbilling from all affected properties for the previous twelve months and spread it  
150 out over the next four quarters. The motion passed unanimously.

151

152 Ms. Pietrick asked if the Commission had a recommendation to the Council for the actual utility  
153 rates.

154

155 Chair Davies explained personally she supported the utility rates as proposed. She thought the  
156 City needed to be responsible and build up the reserves.

157

158 Commissioner Bester indicated he probably had the most significant reservations but assuming  
159 the City gets something to help them understand what is behind this and what drives this.

160

161 Chair Davies thought Public Works did provide the Commission information on their detailed  
162 study that fed into this significant increase and it certainly seemed like the department really got  
163 into the information and looked at the details and were not ballparking the information.

164

165 Ms. Pietrick agreed.

166

167 Commissioner Bester asked regarding recycling, the way the City is billed, it is based on per  
168 customer or is it monthly fixed.

169

170 Ms. Pietrick indicated it is billed monthly per customer.

171

172 Commissioner Bester made a motion, seconded by Commissioner Murray, accepting the Utility  
173 Rates as proposed subject to receiving additional information about the background on the storm  
174 sewer. The motion passed unanimously.

175