# REQUEST FOR COUNCIL ACTION

Date: 11/05/2018 Item No.: 7.b

Department Approval

City Manager Approval

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Tam / Trugger

Item Description:

Consider Adopting the 2019 Utility Rate Adjustments

#### BACKGROUND

Over the past several months, City Staff has been reviewing the City's utility operations to determine whether customer rate adjustments are necessary for 2019. The analysis included a review of the City's water, sanitary sewer, storm drainage, and curbside recycling operations. 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.

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The information presented below includes an analysis of these operations, some historical water usage information, and a series of rate comparisons with peer communities. Each of these are presented in separate sections.

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#### **Operational Review**

13 14 Staff's analysis of the City's utility operations included a review of the following:

15 16 • *Fixed* costs including personnel, supplies and maintenance, and other costs that are generally independent of the amount of water purchased or wastewater treated.

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Variable costs including the purchase of water from the City of St. Paul, water treatment costs paid to the Metropolitan Council, and recycling contractor costs paid to Eureka Recycling.
 Capital replacement costs.

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• Customer counts and consumption patterns, rate structure, and rates.

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Based on this analysis, Staff is recommending a number of rate adjustments for 2019. The estimated quarterly impact on a typical single-family home is as follows:

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Utility Rate Impact: Single Family Home (Quarterly)						
<u>Service</u>	<u>2018</u>	<u>2019</u>	\$ Increase	% Increase		
Water - base fee	55.80	58.60	2.80			
Water - usage fee	29.25	29.25	-			
Sanitary Sewer - base fee	37.55	39.45	1.90			
Sanitary Sewer - usage fee	27.00	29.40	2.40			
Storm Sewer	13.35	13.70	0.35			
Recycling	7.00	7.15	0.15			
Total per Quarter	\$ 169.95	\$ 177.55	\$ 7.60	4.47%		

For 2019, a typical single-family home will pay an estimated \$177.55 per quarter or \$59.18 per month. This is an increase of \$2.53 per month or 4.5% from the current year. This is the same amount referenced in the 2019 Preliminary Budget adopted by the Council on September 24, 2018. More detailed information for each operating division can be found below.

#### Water Operations

 The City's water operation provides City customers with safe potable water, as well as on-demand water pressure sufficient to meet the City's fire protection needs. The following table provides a summary of the 2018 and 2019 (proposed) Budget excluding capital:

	2018 2019		2019	\$ Increase		% Increase
	Budget		Budget	<u>(I</u>	Decrease)	(Decrease)
Revenues						
Customer Charges	\$ 7,400,000	\$	7,334,580	\$	(65,420)	-0.9%
Interest Earnings	5,000		-		(5,000)	-100.0%
Total	\$ 7,405,000	\$	7,334,580	\$	(70,420)	-1.0%
Expenses						
Personnel Services	\$ 651,070	\$	670,180	\$	19,110	2.9%
Supplies & Materials	162,200		162,200		-	0.0%
Other Services & Charges	5,487,700		5,332,200		(155,500)	-2.8%
Total	\$ 6,300,970	\$	6,164,580	\$	(136,390)	-2.2%

For 2019, overall *budgeted* operational costs are expected to decline by 2.2%. Costs associated with assigned personnel are expected to increase at inflationary levels to accommodate wage & benefit-related increases. The decline in 'Other Services & Charges' reflects lower overall costs to purchase water from St. Paul due in part to lower consumption. The reduction in water consumption also leads to lower projected revenues.

The single largest operating cost for the water operation is the purchase of wholesale water from the St. Paul Regional Water System (SPRWS). SPRWS Officials have informed us that there will be a 3.0% increase in the cost of purchasing wholesale water in 2019. However, Roseville's current usage rates have a sufficient cushion to accommodate this increase. Interest earnings for 2019 are expected to be minimal due to low cash balances projected throughout most of the year.

The revised 20-Year Capital Improvement Plan (CIP) identifies added infrastructure replacement costs in the coming years which will require a 5.0% increase in the residential water *base* fee.

# Sanitary Sewer Operations

The City maintains a sanitary sewer collection system to ensure the general public's health and general welfare. The following table provides a summary of the 2018 and 2019 (proposed) Budget excluding capital:

	2018	2019	\$	Increase	% Increase
	<u>Budget</u>	<u>Budget</u>	<u>(T</u>	Decrease)	(Decrease)
Revenues					
Customer Charges	\$ 5,323,000	\$ 5,899,335	\$	576,335	10.8%
Interest Earnings	5,000	-		(5,000)	-100.0%
Total	\$ 5,328,000	\$ 5,899,335	\$	571,335	10.7%
Expenses					
Personnel Services	\$ 477,550	\$ 491,720	\$	14,170	3.0%
Supplies & Materials	46,150	46,150		-	0.0%
Other Services & Charges	3,530,150	3,716,465		186,315	5.3%
Total	\$ 4,053,850	\$ 4,254,335	\$	200,485	4.9%
Net Available for Capital	\$ 1,274,150	\$ 1,645,000			

For 2019, overall operational costs are expected to increase by 4.9%. Costs associated with assigned personnel are expected to increase at inflationary levels to accommodate wage & benefit-related increases. The increase in 'Other Services & Charges' is mostly attributable to higher wastewater treatment costs.

The single largest operating cost to the sanitary sewer operation is the wastewater treatment costs paid to the Metropolitan Council Environmental Services Division (MCES). The MCES has informed us that we can expect an 8.1% increase in wastewater treatment costs for 2019 reflecting both higher wastewater flows and treatment costs. This will require a commensurate increase in sewer *usage* fees for all sanitary sewer customers. Interest earnings for 2019 are expected to be minimal due to low cash balances projected throughout most of the year.

The revised 20-Year Capital Improvement Plan (CIP) identifies added infrastructure replacement costs in the coming years which will also require a 5.0% increase in the sanitary sewer *base* fee.

# 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 following table provides a summary of the 2018 and 2019 (proposed) Budget excluding capital:

	2018		2019		\$ Increase		% Increase
	Budget		Budget		(Decrease)		(Decrease)
Revenues							
Customer Charges	\$	1,830,720	\$	1,933,460	\$	102,740	5.6%
Interest Earnings		20,000		-		(20,000)	-100.0%
Total	\$	1,850,720	\$	1,933,460	\$	82,740	4.5%
Expenses							
Personnel Services	\$	408,620	\$	425,650	\$	17,030	4.2%
Supplies & Materials		84,400		84,400		-	0.0%
Other Services & Charges		267,700		308,300		40,600	15.2%
Total	\$	760,720	\$	818,350	\$	57,630	7.6%
Net Available for Capital	\$	1,090,000	\$	1,115,110			

For 2019, overall costs are expected to increase 7.6%. Costs associated with assigned personnel are expected to increase at near inflationary levels to accommodate wage & benefit-related increases. The increase in 'Other Services & Charges' is mostly attributable to the purchase of a new asset management software system, and the inclusion of leased space to accommodate city maintenance equipment storage needs.

Similar to the water and sewer operations, 2019 interest earnings for the storm drainage operation is are expected to be minimal due to low cash balances projected throughout most of the year.

The revised 20-Year Capital Improvement Plan (CIP) identifies added infrastructure replacement costs in the coming years which will require a 2.6% increase in the storm sewer rate.

# **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.

The following table provides a summary of the 2018 and 2019 (proposed) Budget:

	2018	2019	\$	Increase	% Increase
	<u>Budget</u>	<u>Budget</u>	<u>(I</u>	Decrease)	(Decrease)
Revenues					
Base Fee Revenue	\$ 432,130	\$ 449,560	\$	17,430	4.0%
SCORE Grant	87,500	87,500		-	0.0%
Revenue Sharing	20,000	-		(20,000)	0.0%
Interest Earnings	1,000	1,000		-	0.0%
Total	\$ 540,630	\$ 538,060	\$	(2,570)	-0.5%
Expenses					
Personnel Services	\$ 36,640	\$ 38,410	\$	1,770	4.8%
Supplies & Materials	2,000	2,000		-	0.0%
Other Services & Charges	504,610	521,710		17,100	3.4%
Total	\$ 543,250	\$ 562,120	\$	18,870	3.5%
Net From Operations	\$ (2,620)	\$ (24,060)			

For 2019, overall costs are expected to rise 3.5% resulting primarily from a previously-agreed to contract for services. The increased contractor costs which are included in the 'Other Services & Charges' category also includes recycling pickups in public areas such as parks. A 2.1% increase in customer rates are proposed to accommodate the higher contract costs.

#### **Recommended Rates for 2018**

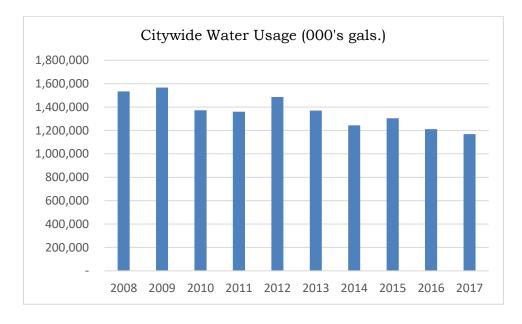
As noted above, a typical single-family home will pay \$177.55 per quarter, or \$59.18 per month under the recommended rates. The following tables provide a more detailed breakdown of the proposed rates including the rate structure which depicts how the operating cost burden is distributed to various customer types.

	2018	2019	
Water Base Rate Category	Rate	Rate	Comments
Single-Family Residential	\$ 55.80	\$ 58.60	Standard SF rate
Single-Family Residential: Low-Income Discoun	36.30	38.10	Standard SF rate x 0.65
Non-SF Residential (5/8" Meter)	55.80	58.60	Standard SF rate
Non-SF Residential (1.0" Meter)	69.75	73.25	Standard SF rate x 1.25
Non-SF Residential (1.5" Meter)	111.40	117.00	Standard SF rate x 2.00
Non-SF Residential (2.0" Meter)	209.30	219.80	Standard SF rate x 3.75
Non-SF Residential (3.0" Meter)	418.50	438.45	Standard SF rate x 7.50
Non-SF Residential (4.0" Meter)	837.05	878.90	Standard SF rate x 15.00
Non-SF Residential (6.0" Meter)	1,674.20	1,757.90	Standard SF rate x 30.00
	2018	2019	
Water Usage Rate Category	<b>Rate</b>	<u>Rate</u>	<u>Comments</u>
SF Residential: Up to 30,000 gals./qtr	\$ 2.25	\$ 2.25	Standard SF rate
SF Residential: Over 30,000 gals./qtr (winter rate	2.50	2.50	Standard SF rate +10%
SF Residential: Over 30,000 gals./qtr (summer ra	2.70	2.70	Standard SF rate +20%
Non-SF Residential (winter rate)	2.95	2.95	Standard SF rate +30%
Non-SF Residential (summer rate)	3.15	3.15	Standard SF rate +40%
Rates are per 1,000 gallons			
	2019	2010	
Sever Race Rate Category	2018 Rate	2019 Rate	Comments
Single-Family Residential	Rate	Rate	Comments Standard SE rate
Single-Family Residential	<b>Rate</b> \$ 37.55	<b>Rate</b> \$ 39.45	Standard SF rate
Single-Family Residential Single-Family Residential: Low-Income Discoun	<b>Rate</b> \$ 37.55 24.40	Rate \$ 39.45 25.65	Standard SF rate Standard SF rate x 0.65
Single-Family Residential Single-Family Residential: Low-Income Discoun Multi-Family Residential (townhomes)	Rate \$ 37.55 24.40 37.55	<b>Rate</b> \$ 39.45 25.65 39.45	Standard SF rate Standard SF rate x 0.65 Standard SF rate x 1.00
Single-Family Residential Single-Family Residential: Low-Income Discoun Multi-Family Residential (townhomes) Multi-Family Residential (apartments & condos)	Rate \$ 37.55 24.40 37.55 26.40	<b>Rate</b> \$ 39.45 25.65 39.45 27.70	Standard SF rate Standard SF rate x 0.65 Standard SF rate x 1.00 Standard SF rate x 0.70
Single-Family Residential Single-Family Residential: Low-Income Discoun Multi-Family Residential (townhomes) Multi-Family Residential (apartments & condos) Non-SF Residential (5/8" Meter)	Rate \$ 37.55 24.40 37.55 26.40 28.10	Rate \$ 39.45 25.65 39.45 27.70 29.50	Standard SF rate Standard SF rate x 0.65 Standard SF rate x 1.00 Standard SF rate x 0.70 Standard SF rate x 0.75
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Single-Family Residential Single-Family Residential: Low-Income Discoun Multi-Family Residential (townhomes) Multi-Family Residential (apartments & condos) Non-SF Residential (5/8" Meter) Non-SF Residential (1.0" Meter) Non-SF Residential (1.5" Meter) Non-SF Residential (2.0" Meter) Non-SF Residential (3.0" Meter) Non-SF Residential (4.0" Meter) Non-SF Residential (6.0" Meter) Multi-family rate is per housing unit  Sewer Usage Rate Category Residential	Rate         \$ 37.55         24.40         37.55         26.40         28.10         56.25         84.35         131.55         272.50         545.00         1,090.00            2018         Rate         \$ 2.25	Rate \$ 39.45 25.65 39.45 27.70 29.50 59.05 88.60 138.15 286.15 572.25 1,144.50 2019 Rate \$ 2.45	Standard SF rate Standard SF rate x 0.65 Standard SF rate x 1.00 Standard SF rate x 0.70 Standard SF rate x 0.75 Standard SF rate x 1.50 Standard SF rate x 2.25 Standard SF rate x 3.50 Standard SF rate x 7.25 Standard SF rate x 7.25 Standard SF rate x 14.50 Standard SF rate x 29.00  Comments Standard rate
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	2018	2019	
Stormwater Base Rate Category	<b>Rate</b>	<u>Rate</u>	<b>Comments</b>
Single-Family Residential & Duplex	\$ 13.35	\$ 13.70	Standard SF rate
Multi-Family & Churches	103.35	106.05	Standard SF rate x 7.75
Cemeteries & Golf Course	10.05	10.30	Standard SF rate x 0.75
Parks	31.10	31.90	Standard SF rate x 2.35
Schools & Community Centers	50.25	51.60	Standard SF rate x 3.75
Commercial & Industrial	206.55	212.00	Standard SF rate x 15.50
Rates for single-family are per housing unit; all	others are	per acre	
	2018	2019	
Recycling Rate Category	<b>Rate</b>	<b>Rate</b>	<b>Comments</b>
Single-Family	\$ 7.00	\$ 7.15	Standard rate
Multi-Family	7.00	7.15	Standard rate

### Water Usage History

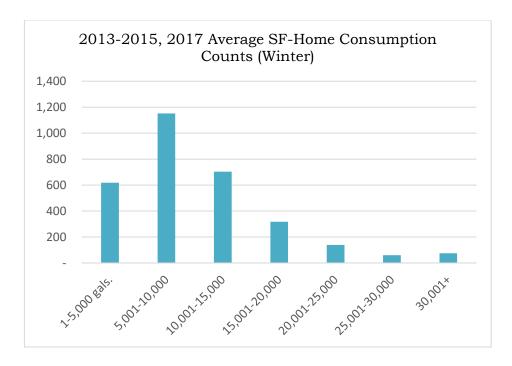
The series of graphs presented below depict water customer consumption patterns over the past 5-10 years beginning with a depiction of the *citywide* water consumption.



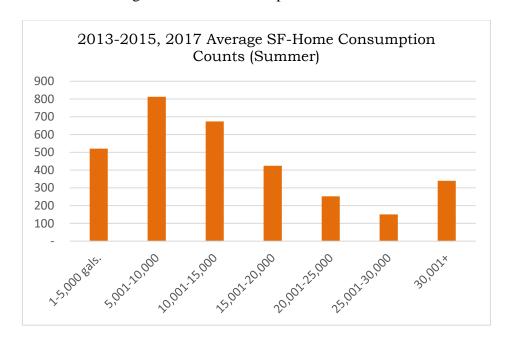
As indicated in the graph, citywide consumption has generally been falling over the past decade – a 24% reduction since 2008. This has allowed the City's usage rates to remain unchanged since 2015 despite increases in the cost of purchasing water from St. Paul.

Average consumption for single-family homes had been steadily dropping over the past several years, but remained steady during the past 12 months at approximately 4,170 gallons per month.

The next chart depicts the average *wintertime* consumption counts for single-family homes from 2013-2015, and 2017. 2016 data was excluded due to the meter change-out program which overstated actual consumption.



As shown in the chart, 81% of all single-family homes have an average consumption of less than 15,001 gallons per quarter. 58% of homes have an average consumption of less than 10,000 gallons. We can depict the same information using *summertime* consumption.



For summertime usage, 63% of homes have an average consumption of less than 15,001 per quarter while 42% are less than 10,000 gallons.

The City's current rate structure includes an added charge for consumption in excess of 30,000 gallons per quarter. If this threshold was lowered to 15,000, 37% of single-family customers would be impacted during the summer months; while 19% would be impacted during winter months.

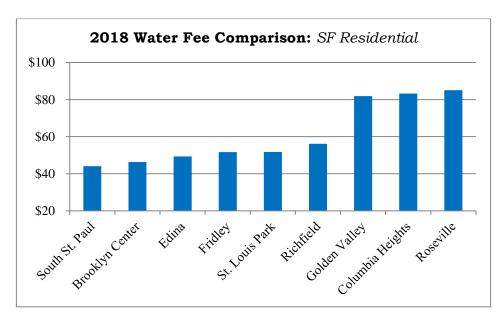
# **Utility Rate Peer Comparisons**

The graphs below depict a number of water and sewer rate comparisons with other peer communities for single-family homes. For this analysis, peer communities include first-ring suburbs that serve a population between 18,000 and 50,000, and which are not simply an extension of a larger entity's system. Maplewood for example, is excluded because they're part of St. Paul's system. This group was selected to try and approximate stand-alone cities with similar age of infrastructure which can have a significant influence on the cost of services.

It should be noted that broad comparisons only give a cursory look at how one community's rates compares to another. A more precise comparison would also incorporate each City's individual philosophy in funding programs and services.

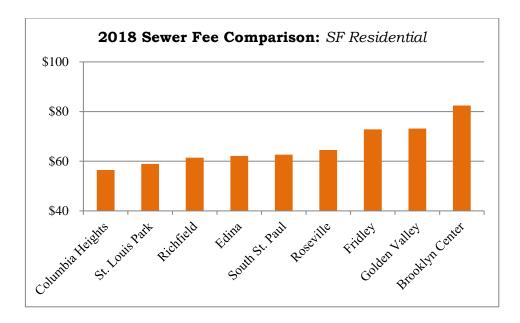
For example, Roseville does NOT utilize assessments to pay for water or sewer infrastructure replacements like many other cities do. Instead we fund infrastructure replacements 100% through the rates. As a result, Roseville's utility rates are inherently higher when compared to a City that uses assessments to pay for improvements. Other influences on the rates include whether or not a community softens its water before sending it on to customers, and the extent in which communities charge higher rates to non-single family residential customers.

The following chart depicts the peer group comparison for combined *water* base and usage fees for a typical single-family home on a quarterly basis.



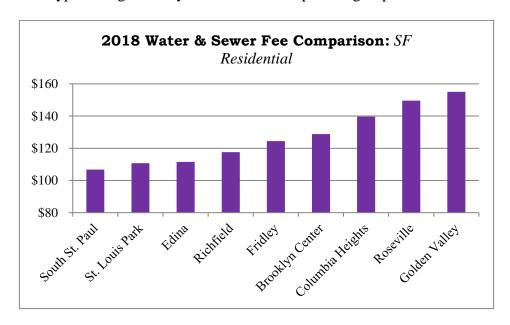
As is shown in the graph, Roseville's total water charge (base + usage) is the highest in the comparison group. One of the primary reasons why Roseville's water rates are higher is due to the significant increase in infrastructure replacements in recent years, which unlike many other cities, are funded solely by the rates.

The following chart depicts the peer group comparison for combined *sewer* base and usage fees for a typical single-family home on a quarterly basis.



 In this comparison, Roseville sewer charges comparable to the median and average for the group.

To get a broader perspective, the following chart has been prepared depicting the combined *water and* sewer charges for a typical single-family home for the comparison group.



When combined, Roseville is approximately 18% above the average for the peer group.

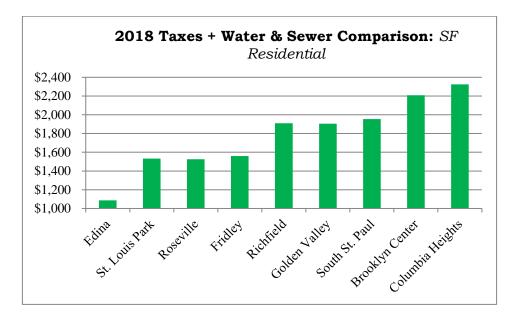
It should be noted that most of the cities shown in the chart that have lower water & sewer rates, happen to have much higher property tax rates. This is an important distinction because again, each City employs a different philosophy in how it funds the direct and indirect costs of providing water & sewer services.

As noted earlier, Roseville's philosophy is to ensure that all indirect costs are reflected in the utility rates which results in higher charges to customers. This also means that we don't have as many indirect costs being supported by the property tax or assessments.

We can somewhat adjust for these comparative differences by combining property taxes and water & sewer fees for a typical single-family home.

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As is shown in this graph, when looking at more comprehensive comparison that factors in a broader spectrum of needs and funding philosophies, Roseville has one of the lowest financial impacts on single-family homes in the comparison group – approximately 14% <u>below</u> the peer average.

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Staff will be available at the Commission meeting to address any inquiries.

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#### **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

Based on the increasing costs noted above, Staff is recommending rate adjustments as shown in the report and attached resolution. These recommendations have been reviewed by both the Finance and Public Works, Environment, & Transportation Commissions and they generally concur; however the PWETC advocated for a larger rate increase to ensure the asset replacement programs continue at an optimal pace. Draft minutes from the Commission meetings are included in *Attachments C & D*. While a resolution is included with this RCA, it's recognized that the Council may want additional time to consider the proposed changes.

#### REQUESTED COUNCIL ACTION

Motion to approve the attached resolution establishing the 2019 Utility Rates.

Prepared by: Chris Miller, Finance Director

Attachments:

A: Resolution establishing the 2019 Utility Rates

B: 2019 Rate Calculation Worksheets

C: Draft minutes from the October 9, 2018 Finance Commission Meeting

D: Draft minutes from the October 23, 2018 Public Works, Environment, and Transportation Commission

231 Attachment A

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233	EXTRACT OF MINUTES OF MEETING OF THE
234	CITY COUNCIL OF THE CITY OF ROSEVILLE
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\* \* \* \* \* \* \* \* \* \* \* \* \*

Pursuant to due call and notice thereof, a regular meeting of the City Council of the City of Roseville, County of Ramsey, Minnesota was duly held on the 5th day of November, 2018 at 6:00 p.m.

The following members were present:

Rates are per 1,000 gallons

and the following were absent:

Member

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introduced the following resolution and moved its adoption:

RESOLUTION \_\_\_\_\_

#### **RESOLUTION ESTABLISHING THE 2019 UTILITY RATES**

NOW, THEREFORE, BE IT RESOLVED, by the City Council of the City of Roseville, Minnesota, the water, sanitary sewer, storm drainage, and recycling rates are established for 2019 as follows:

	2018	2019	
Water Base Rate Category	<u>Rate</u>	<b>Rate</b>	<b>Comments</b>
Single-Family Residential	\$ 55.80	\$ 58.60	Standard SF rate
Single-Family Residential: Low-Income Discount	36.30	38.10	Standard SF rate x 0.65
Non-SF Residential (5/8" Meter)	55.80	58.60	Standard SF rate
Non-SF Residential (1.0" Meter)	69.75	73.25	Standard SF rate x 1.25
Non-SF Residential (1.5" Meter)	111.40	117.00	Standard SF rate x 2.00
Non-SF Residential (2.0" Meter)	209.30	219.80	Standard SF rate x 3.75
Non-SF Residential (3.0" Meter)	418.50	438.45	Standard SF rate x 7.50
Non-SF Residential (4.0" Meter)	837.05	878.90	Standard SF rate x 15.00
Non-SF Residential (6.0" Meter)	1,674.20	1,757.90	Standard SF rate x 30.00
	2018	2019	
Water Usage Rate Category	<u>Rate</u>	<b>Rate</b>	<b>Comments</b>
SF Residential: Up to 30,000 gals./qtr	\$ 2.25	\$ 2.25	Standard SF rate
SF Residential: Over 30,000 gals./qtr (winter rate)	2.50	2.50	Standard SF rate +10%
SF Residential: Over 30,000 gals./qtr (summer rate)	2.70	2.70	Standard SF rate +20%
Non-SF Residential (winter rate)	2.95	2.95	Standard SF rate +30%
Non-SF Residential (summer rate)	3.15	3.15	Standard SF rate +40%

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	2018	2019	
Sewer Base Rate Category	Rate	<u>Rate</u>	<u>Comments</u>
Single-Family Residential	\$ 37.55	\$ 39.45	Standard SF rate
Single-Family Residential: Low-Income Discount	24.40	25.65	Standard SF rate x 0.65
Multi-Family Residential (townhomes)	37.55	39.45	Standard SF rate x 1.00
Multi-Family Residential (apartments & condos)	26.40	27.70	Standard SF rate x 0.70
Non-SF Residential (5/8" Meter)	28.10	29.50	Standard SF rate x 0.75
Non-SF Residential (1.0" Meter)	56.25	59.05	Standard SF rate x 1.50
Non-SF Residential (1.5" Meter)	84.35	88.60	Standard SF rate x 2.25
Non-SF Residential (2.0" Meter)	131.55	138.15	Standard SF rate x 3.50
Non-SF Residential (3.0" Meter)	272.50	286.15	Standard SF rate x 7.25
Non-SF Residential (4.0" Meter)	545.00	572.25	Standard SF rate x 14.50
Non-SF Residential (6.0" Meter)	1,090.00	1,144.50	Standard SF rate x 29.00
Multi-family rate is per housing unit			
	2018	2019	
Sewer Usage Rate Category	Rate	Rate	Comments
Residential	\$ 2.25	\$ 2.45	Standard rate
Non-Residential	5.20	5.65	Standard rate x 2.30
Non-Residential	3.20	3.03	Standard rate x 2.30
Rates are per 1,000 gallons			
	2018	2019	
Stormwater Base Rate Category	<u>Rate</u>	<u>Rate</u>	<u>Comments</u>
Single-Family Residential & Duplex	\$ 13.35	\$ 13.70	Standard SF rate
Multi-Family & Churches	103.35	106.05	Standard SF rate x 7.75
Cemeteries & Golf Course	10.05	10.30	Standard SF rate x 0.75
Parks	31.10	31.90	Standard SF rate x 2.35
Schools & Community Centers	50.25	51.60	Standard SF rate x 3.75
Commercial & Industrial	206.55	212.00	Standard SF rate x 15.50
Rates for single-family are per housing unit; all oth	ers are per	acre	
Times for single imm, are per nousing sinu, an em			
	2018	2019	
Recycling Rate Category	<u>Rate</u>	<u>Rate</u>	<u>Comments</u>
Single-Family	\$ 7.00	\$ 7.15	Standard rate
Multi-Family	7.00	7.15	Standard rate
	2018	2019	
Meter Security Deposit	Rate	Rate	<u>Comments</u>
5/8" Meter	\$ 190.00	\$ 190.00	Based on approx. meter co
3/4" Meter	215.00	215.00	Based on approx. meter co
1.0" Meter	240.00	240.00	Based on approx. meter co
1.5" Meter	440.00	440.00	Based on approx. meter co
2.0" Meter (Disc)	535.00	535.00	Based on approx. meter co
2.0" Meter (Compound)	1,340.00	1,340.00	Based on approx. meter co
3.0" Meter	1,910.00	1,910.00	
			Based on approx. meter co
6.0" Meter	5,430.00	5,430.00	Based on approx. meter cos

The motion for the adoption of the foregoing resolution was duly seconded by member and upon a vote being taken thereon, the following voted in favor thereof: and the following voted against the same: WHEREUPON, said resolution was declared duly passed and adopted. State of Minnesota) ) SS County of Ramsey) I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State of Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of minutes of a regular meeting of said City Council held on the 5th day of November, 2018 with the original thereof on file in my office. WITNESS MY HAND officially as such Manager this 5th day of November, 2018. Patrick Trudgeon City Manager Seal 

Water Rate Analysis 2019

otal Fixed Costs	2019
Personnel Services	\$ 670,180
Supplies & Maintenance	162,200
Other Charges (net of water purchase)	982,200
Less Depreciation	(350,000)

Capital Outlay 1,069,400 (5-year CIP amortization)

Capital Outlay	_	1,069,400	(5-year CIP a	mortization)									
	Total	\$ 2,533,980	= Amount to	recover from	BASE rates								
				Current		Proposed		Cur	Current		Proposed		
		# of	Avg.		Base Fee		% Increase	Base Fee	Fee per	Usage Fee	Fee per	% Increase	Usage Fee
		Customers	Usage (a)	Base Fee	Revenue	Base Fee	(decrease)	Revenue	1,000 gals.	Revenue	1,000 gals.	(decrease)	Revenue
Single-Family Residential (b)		9,497	13	55.80	529,933	58.60	5.02%	556,524	2.25	277,787	2.25	0.00%	277,787
Multi-Family and Non-Residentia	ıl												
5/8" Meter or 3/4" Meter		70	33.12	55.80	3,906	58.60	5.02%	4,102	2.95	6,839	2.95	0.00%	6,839
1.0" Meter		276	141.04	69.75	19,251	73.25	5.02%	20,217	2.95	114,833	2.95	0.00%	114,833
1.5" Meter		100	282.47	111.40	11,140	117.00	5.03%	11,700	2.95	83,327	2.95	0.00%	83,327
2.0" Meter		144	169.10	209.30	30,139	219.80	5.02%	31,651	2.95	71,834	2.95	0.00%	71,834
3.0" Meter		42	324.44	418.50	17,577	439.45	5.01%	18,457	2.95	40,198	2.95	0.00%	40,198
4.0" Meter		1	17.75	837.05	837	878.90	5.00%	879	2.95	52	2.95	0.00%	52
6.0" Meter		2	268.50	1,674.20	3,348	1,757.90	5.00%	3,516	2.95	1,584	2.95	0.00%	1,584
Total # of Cust	tomers	10,132		_	616,131		-	647,046	•	596,455		_	596,455
			Total Ann	nual Revenue	2,464,525			2,588,184		2,385,820			2,385,820
(a) Usage is in thousands of gallor	ns, based	on average YE	AR-Round us	age		Total Co	sts to Recoup	2,533,980			Total Cos	sts to Recoup	2,190,974
(b) As of 11/14/16; 29 households	s were rec	eiving the disc	ount		Revenue over (under) Costs 54,204					F	Revenue over (	(under) Costs	194,846
	Total Annual Revenue 2.5						2,588,184						
					Amo	unt Needed fo	or Operations	(1,464,580)					
					Am	ount Availab	le for Capital	1,123,604	= Amount to Use	on CIP Fund	ing Projection	S	
Allowance													

						1 III o Wallet			
						For	Estimated		
<b>Total Variable Costs</b>	St. Paul	Roseville	Roseville	Consumption	Blended	Unaccounted	Gallons	Estimated	
2019 St. Paul Base Rate	Cu Ft Rate	Cu Ft Rate *	Gal. Rate	%	Rate	Water @ 5%	(1000's)	Cost	_
Base Rate					0.540	0.567		648,000	
Water Rate: Winter	2.810	1.686	1.261	45.0%	0.568	0.596	540,000	681,009	
Water Rate: Summer	2.910	1.746	1.306	55.0%	0.718	0.754	660,000	861,965	
* Per Amendment #2 to the Contract w	ith SPRWS,			_	1.826	1.917	1,200,000	2,190,974	= amount to recover from <u>USAGE</u> rates

Total Costs to Recoup 3,150,164

(209,637)

Revenue over (under) Costs

# City of Roseville

Sanitary Sewer Rate Analysis 2019

**Total Fixed Costs** 2019 Personnel Services 491,720 Supplies & Maintenance 46,150 966,265 Other Charges (net of sewer treatment) Less Depreciation (400,000)

Capital Outlay 1,426,800 (5-year CIP amortization)

> Total \$2,530,935 = Amount to recover from <u>BASE</u> rates

			Current		Proposed		Current		Proposed			
	# of	Avg.		Base Fee		% Increase	Base Fee	Fee per	Usage Fee	Fee per	% Increase	Usage Fee
	Customers	Usage (a)	Base Fee	Revenue	Base Fee	(decrease)	Revenue	1,000 gals.	Revenue	1,000 gals.	(decrease)	Revenue
Single-Family Residential	9,497	12	37.55	356,612	39.45	5.06%	374,657	2.25	256,419	2.45	8.89%	279,212
Residential - Multi Family (b)	60	7.90						2.25	1,067	2.45	8.89%	1,161
Residential - Apts & Condos (c)	189	265.63						2.25	112,958	2.45	8.89%	122,999
Residential - Multi Family (b)	239		37.55	8,974	39.45	5.06%	9,429					
Residential - Apts & Condos (c)	5,976		26.40	157,766	27.70	4.92%	165,535					
Non-residential												
5/8" Meter or 3/4" Meter	70	28.86	28.10	1,967	29.50	4.98%	2,065	5.20	10,505	5.65	8.65%	11,414
1.0" Meter	276	41.45	56.25	15,525	59.05	4.98%	16,298	5.20	59,496	5.65	8.65%	64,644
1.5" Meter	210	70.66	84.35	17,714	88.60	5.04%	18,606	5.20	77,163	5.65	8.65%	83,840
2.0" Meter	144	144.84	131.55	18,943	138.15	5.02%	19,894	5.20	108,458	5.65	8.65%	117,843
3.0" Meter	42	227.29	272.50	11,445	286.15	5.01%	12,018	5.20	49,639	5.65	8.65%	53,935
4.0" Meter	1	14.50	545.00	545	572.25	5.00%	572	5.20	75	5.65	8.65%	82
6.0" Meter	2	-	1,090.00	2,180	1,144.50	5.00%	2,289					
	16,706		_	591,672		_	621,362		675,780			735,132
		Total Ann	ual Revenue	2,366,688			2,485,449		2,703,121			2,940,527

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

Total Costs to Recoup	2,530,935
Revenue over (under) Costs	(45,486)
Total Annual Revenue	2,485,449

Amount Needed for Operations (1,104,135) Amount Available for Capital 1,381,314

#### **Total Variable Costs**

Total Wastewater Treatment Cost

<sup>(</sup>b) Total UB Accounts = 60, total units for base revenue calculation = 239

<sup>(</sup>c) Total UB Accounts = 189, total units for base revenue calculation = 5,976

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

<sup>3,150,164 \*\*</sup> based on Met Council email dated 5/8/2018 - SEE HISTORY BELOW

# City of Roseville

Storm Sewer Rate Analysis 2019

Total Costs2019Personnel Services\$ 425,650Supplies & Maintenance84,400Other Charges768,300Less Depreciation(460,000)

Capital Outlay 1,151,000 (5-year CIP amortization)

Total \$1,969,350 = Amount to recover from rates

		_	Curren	t Rates	Proposed Rates			
	# of	# of Lots /		Base Fee		% Increase	Base Fee	
	Customers	<u>Acreage</u>	Base Fee	Revenue	Base Fee	(decrease)	Revenue	
Single Family & Duplex	9,497	9,497	13.35	\$ 126,785	13.70	2.62%	\$ 130,109	
Multi-Family & Churches	n/a	350	103.35	36,173	106.05	2.61%	37,118	
Cemeteries & Golf Course (a)	n/a	79	10.05	794	10.30	2.49%	814	
Parks (b)	n/a	1	31.10	31	31.90	2.57%	32	
Schools & Comm. Centers (c)	n/a	153	50.25	7,688	51.60	2.69%	7,895	
Commercial & Industrial	n/a	1,450	206.55	299,498	212.00	2.64%	307,400	
		11,530		470,968			\$ 483,367	

Total Annual Revenue \$1,883,873 \$ 1,933,467

Total Costs to Recoup 1,969,350 12/31/17 Cash Balance
Revenue over (under) Costs (35,883) = \$573,000

Total Annual Revenue 1,933,467

Amount Needed for Operations (818,350)

Amount Available for Capital 1,115,117

# City of Roseville

Solid Waste Recycling Rate Analysis 2019

Total Costs		2019			
Personnel Services		\$ 38,410			
Supplies & Maintenance		2,000			
Other Charges: Miscellaneous		24,710			
Contractor Costs: Curbside		464,479			
Contractor Costs: Parks		8,266			
Contractor Costs: Park Pathways		9,555			
Contractor Costs: Clean-Up Day		10,000			
Contractor Costs: Shredding Day		5,000			
	Total	\$ 562,420	= Amount to	recover from	rates
		_	Curren	t Rates	
		# of Customers	i	Base Fee	
		(Unite)	Bace Fee	Pevenue	Race

	_	Current	Rates		Proposed Rate	s
	# of Customers		Base Fee		% Increase	Base Fee
	(Units)	Base Fee	Revenue	Base Fee	(decrease)	Revenue
Single Family	9,392	7.00	65,744	7.15	2.14%	67,153
Multi family	6,305	7.00	44,135	7.15	2.14%	45,081
Opt-Ins	13	7.00	91	7.15	2.14%	93
Applewood Service	1	-	-	60.00	0.00%	60
Revenue Sharing from Contractor (quarterly)	15,697		5,000			_
Ramsey Co. SCORE Grant (quarterly)		_	21,250		_	21,875
	Total Quarte	rly Revenue	136,220		_	134,262
	Total Ann	ual Revenue	544,880			537,046

Total Costs to Recoup 562,420

Revenue over (under) Costs (25,374) 12/31/17 Cas

Revenue over (under) Costs (25,374) 12/31/17 Cash Balance = \$126,000

<u>Location</u>	Units	\$/Unit	Monthly	Months	Annual	
Multo-Unit Dwellings	6,305	\$ 2.46	15,510.30	12	\$ 186,124	
Single-Unit Dwellings	9,392	2.46	23,104.32	12	277,252	
Opt-In	13	2.46	31.98	12	384	
Applewood Service *	1	60.00	60.00	12	720	
			38,706.60		\$ 464,479	
Parks	Units	\$/Tip	Weekly	Weeks	Annual	
Walkups	75	\$ 2.46	\$ 184.50	35	\$ 6,458	
Parking Lot	21	2.46	51.66	35	1,808	
Pathways	21	13.00	273.00	35	9,555	18 carts provides service to Central Park Lexington
			\$ 509.16		\$ 17,821	and matches 2018 service level + 3 at Victoria Ballfields
Full Park Service (Alt. Pricing)	Units	\$/Tip	Weekly	Weeks	Annual	Notes
Walkups	75	\$ 2.46	184.50	35	\$ 6,458	
Parking Lot	21	2.46	51.66	35	1,808	
Pathways	71	13.00	923.00	35	32,305	Full service of all recycling carts on pathways
			1,159.16		\$ 40,571	

**Finance Commission** 1 **Meeting Minutes** 2 DRAFT - October 9, 2018 - DRAFT 3 4 5 **Review Proposed 2019 Utility Rates** 6 Finance Director Miller stated over the past several months, City Staff has been reviewing the 7 City's utility operations to determine whether customers' rate adjustments are necessary for 8 2019. The analysis included a review of the City's water, sanitary sewer, storm drainage, and 9 curbside recycling operations. Unlike many city services that are supported by property taxes, 10 our utility or enterprise operations are funded primarily by user fees and are operated as separate, 11 stand-alone functions. 12 13 14 Mr. Miller reviewed the 2018 Water & Sewer Comparison chart with the Commission. 15 Commissioner Bachhuber asked if there was a way of staff to factor assessments in when 16 thinking about what citizens pay over time. 17 18 Mr. Miller stated he has thought about that, but the challenge is does staff annualize the impact 19 of an assessment over ten years, fifteen or twenty years and that becomes challenge because 20 some people will never get hit with an assessment and other people might get hit multiple times 21 22 if the resident lives in the same City but move around. 23 24 Commissioner Bachhuber thought it was fair to say that the Roseville bar on the chart did not include assessments and some of the citizens might be bearing more cost than what is illustrated. 25 26 27 Mr. Miller stated that was correct. The chart is not designed to perfectly compare cities to one another, it is just trying to give a bigger picture and staff knows because of their methodology 28 29 that the City's water and sewer rates are higher than most and that has been the case for a very long time. 30 31 32 Commissioner Hodder thought what might be helpful with some of that comparison is what would an assessment be for a water replacement or a sewer. He thought an example could be 33 provided for each of those categories to give an idea of what people would have to pay if 34 35 assessed at the time of repair, so people can understand why the City does what it does. 36 37 Mr. Miller thought that would be easy enough for the City Engineers to calculate because staff knows what is being replaced and there is a cost to that. 38 39 Chair Schroeder asked the Commission what their thought was about the rates for the water and 40 41 sewer. 42 Commissioner McRoberts stated he worried that the City can say people voted for this or voted 43 for that, but everything is going to be higher than the wage increase that the average resident is 44

going to get. He stated it is frustrating that the City is always spending more than the residents

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are getting.

Finance Commission Minutes October 9, 2018 – *Draft Minutes* Page 2 of 2

Commissioner Hodder thought a lot of the issue is the variable cost, the increase at least in the example in the utility rate structure.

 Commissioner Bachhuber stated he would look at it not so much of the increase but the last chart to him is the most impactful. He thought the City has been under investing in infrastructure for decades and unfortunately the City needs to make up for it. But at the same time when comparing to comparable cities, and he was also looking at median home values of St. Louis Park, Richfield, and Golden Valley, those cities on the chart are all significantly higher home values than Roseville. So, if that is put into the equation, Roseville actually has the lowest overall taxes and water and sewer combination of any of the comparable cities. He thought the City was in excellent shape but it was painful when taxes need to increase.

Chair Schroeder stated when looking at the community comment cards there is a lot of citizens saying taxes are going up higher and higher. The unfortunate part of that whole thing is now a lot of those people are retired or on social security. The City might not have been investing and now needs to make up for it but the residents still do not have the means to pay for it. That is the hard side of that equation. She stated she was not disagreeing that there needs to be investment, but she does understand that people are feeling the pain.

Commissioner Hodder thought the school investment is significant and that it showed up on the tax bill. He stated people can theoretically say they want to do something but at the end of the day when the bill comes and residents see that significant increase from years past and will be for a number of years, the resident will not be as agreeable but it was an investment that the residents agreed upon. He stated the County also did their part and Mr. Miller did say the City is in the middle of an investment cycle but the City is at least moving forward, and investments are being done that need to be done.

The Commission felt the water and sewer increase was in line and were comfortable with the new rates for 2019.

# Roseville Public Works, Environment and Transportation Commission Meeting Minutes (DRAFT)

Tuesday, October 23, 2018, at 6:30 p.m. City Council Chambers, 2660 Civic Center Drive Roseville, Minnesota 55113

#### 1. 2019 Utility Rate Proposal

City Engineer/Assistant Public Works Director Jesse Freihammer provided a brief review and update on projects and maintenance activities listed in the staff report dated October 23, 2018. He stated Finance Director Chris Miller has completed preliminary analysis for the proposed utility rates for 2019.

Mr. Freihammer reviewed the City Water Operations with the Commission.

Member Wozniak asked if the three percent increase in water usage covered by the increase in the base fee.

Mr. Freihammer stated it was not. There is generally a little bit of cushion on that side which is why the Finance Department felt comfortable not raising the usage fee at this time.

Member Wozniak asked if there was a reason why in the expense chart that the other services and charges are not split out. He noted that was ninety percent of the total in terms of what it is.

Mr. Freihammer stated it is probably because there is not much else in the other charges besides personnel and supplies. He stated staff will see if this can be broken out for future years.

Chair Cihacek asked why there are not any interest earnings for 2019 but there are for 2018.

Mr. Freihammer stated the fund reserve is getting low with the expenses for the water booster and what the City has been spending so the City will not be getting those revenues in 2019. Once the City gets through the booster the reserve balance will go back up.

Chair Cihacek asked one residents start using less water will there be any cost savings down the line.

Mr. Freihammer stated the City infrastructure is getting older and most does not depend on water flowing through the pipes. He noted the pipes are sixty to seventy years old and will need to be replaced. He stated Roseville is in the replacement phase.

Mr. Freihammer stated the City has had a lot of discussion on establishing a different rate structure for the water and that is not included in the report. That is something the City Council will consider but as a separate action next year. The Commission's recommendation has not been considered yet by Council.

Mr. Freihammer reviewed the City Sanitary Sewer Operations with the Commission.

Chair Cihacek asked if the sanitary sewer charge based on volume or based on the type of thing being treated.

Mr. Freihammer stated it was based on volume.

Member Wozniak stated he would like staff to look at other services and charges in this report as well and break it out for future reporting. He wondered if the costs are increasing by eight percent because the City is using a higher percentage of water than other communities did a year ago.

Mr. Freihammer indicated that was correct. He stated the City seen a decrease in the peak flows. It is a year after the fact but staff was surprised at the number and expected the City to be at average or less because staff thought the City did better improvements than other cities but there are still things in the City that need to be improved.

Mr. Sandstrom indicated this report is based on 2016 flow data.

Member Wozniak suggested incorporating that information into the discussion because it suggests that water conservation efforts might slow cost increases for waste water treatment in the future because the sewer charges are based on water usage.

Mr. Freihammer stated that was correct. A lot of it too is related to I&I because when it peaks, any clear water that goes into the system, the Met Council has meters that record when the water comes into Roseville and when it leaves, and the City pays the difference between those meters.

Member Joyce asked if this breaks it out between commercial and residential for usage.

Mr. Freihammer stated this is the overall, what the proposed budget would be, but the City does track that.

Chair Cihacek asked based upon the data, is the City doing a cost analysis to see how much it would cost to start resolving some of the I&I increases or is the City just taking a double-digit increase. He stated if the City is going to get hit with an eight to ten percent increase each year and a solution that reduces that flow dramatically is cheaper than an increase, which may or may not be, is there a reason why the City would not start making those changes now to help hedge the cost.

Mr. Freihammer stated the City wants to do that. He thought in previous years the increases have been a lot different. He thought last year the City may have gone done and this may just be an anomaly that other cities went down, or Roseville had more rain compared to other cities that year. He noted the City has been doing significant work on this.

Mr. Sandstrom stated there is not just an increase in flow there is also the increase in rate charges from the Met Council.

Mr. Freihammer stated if the Met Council's increase went up then that increase gets passed onto everyone. If the City increases more than the average in flow the increase is higher than other cities which is why the City is at a higher charge.

Member Joyce wondered if the City applied for the grant that was discussed.

Mr. Freihammer stated staff did apply for the grant and it does not look like the City will be getting it.

Member Wozniak asked if that meant that the work staff thought about doing on the grant will not occur.

Mr. Sandstrom indicated at this point doing private sewer lining on privately owned services is not on the plan.

Member Wozniak asked in terms of trying to further determine the nature and extent of inflow and infiltration that was part of that grant will the City still be working on that.

Mr. Freihammer stated the City still has a flow monitor lined up and will still be doing flow monitoring with the ten meters the City owns and based on that data staff will target the sewer lining program for those areas.

Mr. Freihammer reviewed the City Storm Drainage Operations with the Commission.

Member Trainor asked why the first table reviewed in the staff report did not show the net available capital.

Mr. Freihammer thought that was an omission and should be added to the report.

Member Trainor asked if that figure only defines what the City has to work with for maintenance projects and is not the fund that is affecting the loss of the interest earnings.

Mr. Freihammer indicated that was correct.

Mr. Freihammer reviewed the City Recycling Operations with the Commission.

Member Wozniak asked if Mr. Freihammer recalled what the City was paying for recycling in parks.

Mr. Freihammer stated he could check on that because he did not recall.

Mr. Freihammer recapped the report with the Commission. He noted water usage history shows the usage decreasing. He also reviewed water fee comparisons of Roseville with other cities comparable in size.

Member Wozniak stated he would like to know how the cities compare in terms of what type of action and how much money the cities are spending on maintaining infrastructure.

Mr. Freihammer stated that may be a little harder to get but he thought staff could reach out to a few of these cities to see how much money the cities are putting back into their systems.

Member Wozniak stated he would like to see where Roseville sits in that spectrum. He wondered if the City was more aggressive in that regard in terms of addressing I&I and sewer lining to replace infrastructure.

Mr. Freihammer indicated staff will try to see if data like that could be collected. He thought in regard to the sanitary sewer Roseville is a little more aggressive than most cities that are comparable.

Mr. Sandstrom stated he did know that Golden Valley has a very low base rate but most of the fees is the consumption rate that has to increase quite a bit lately with the subgrades going down. Their rate is mostly consumption and Golden Valley has to find more creative ways to also fund the water utility because most of their income is consumption based which his trending down.

Mr. Freihammer continued recapping the city comparison charts with the Commission.

Chair Cihacek asked how Minneapolis compares to St. Paul for water service.

Mr. Freihammer stated he did not know. He thought another way the reports could show comparisons is with other cities on the same system buying wholesale from St. Paul. He noted staff will work on that for 2019.

Member Trainor stated he was surprised to see in the recycling the City is forecast to lose \$24,000. He was surprised the rate was not raised more especially with the uncertainty in the recycling market.

Mr. Freihammer thought that reflected where the fund balance is and part of it is the City has a contract that does help to know future costs.

Member Trainor thought it was interesting to see the City was negative \$30,000 plus in interest that the City normally receives and accounted for. He thought it speaks to the amount of risk that the City is assuming with the lower backup funds. He thought it was a lot of money to lose.

Member Wozniak thought it was explained for one of the fund balances that it was because of the lift station work and staff expects the reserves to increase.

Mr. Freihammer stated on the water and sewer the fund balance is getting low, but it is because of some large capital expenditures. He noted the City is investing a large amount of money into the City booster station which is why the City backed off on the water meter replacement. The fund balances will come back up rather quickly within the next five years.

Member Misra asked if the City had similar perspectives on how the City Commercial rates and usage works with other cities.

Mr. Freihammer stated commercial is a little more challenging to compare. He stated if looking at the City structure, that is probably very similar where the cities charge based on the meter size, based on what the single-family rate is. He thought Roseville base rates are leaning higher than most cities.

Member Misra stated she would be interested in the future to take a look at that to see how Roseville compares to similar cities.

Mr. Freihammer indicated staff could look at this and try to do an analysis for future presentation.

Member Misra thought if the residential use is on the high end overall then is the commercial use also on the high end.

Mr. Freihammer stated staff will look into that. He thought some cities might charge the commercial users more than residential users.

Chair Cihacek stated that given two of the categories are given to the City by other parties that the City has no control over he would encourage making considerations to accelerate some of the revenues, so the City can get in front of any infrastructure costs. He thought the process was meeting City needs today but if the City looks at accelerating what would the City save long term or if something were to happen is there enough in the Capital Reserves to work on a larger area. He would recommend staff looking back to see if there is any consideration to increasing revenues to allow for faster infrastructure replacement.

Mr. Freihammer stated staff is looking out twenty years in the Capital Improvement Plan and are trying to account for all costs that are out for twenty years. He stated everything cannot be accounted for such as a citywide major disaster, but Roseville has been around long enough, and staff has a pretty good idea how long things last and when replacement is needed.

Chair Cihacek stated theoretically, the City knows I&I is a problem so is there enough revenue to actually tackle that problem.

Mr. Freihammer thought the City was tackling it fairly aggressively. It could be expanded and done quicker but staff thinks in the next fifteen to sixteen years most of the pipes in the City will be lined. Most of the City's lift stations will be designed to a very modern design.

Chair Cihacek encouraged staff to look at raising some of the rates to give the City a little more of a greener edge so the City can be more proactive or more aggressive if the situation requires it.

Mr. Freihammer stated the Met Council actually charges the City after the fact, so the City cannot increase rates to meet the increase. The Met Council charges the City based on what was done in the previous year which is why the City typically matches what the Met Council charges the City.

Mr. Sandstrom thought right now, especially the sanitary sewer is a perfect storm where a lot of lift stations were upgraded in a period of five years and Met Council raised their rates four to five percent for a couple of years. Going forward the City will have less lift stations to be upgraded and the City should see the increases go down and as the lift stations get improved the City can repurpose some of the money currently being used for upgrades. He thought the City does have a game plan.

Chair Cihacek stated another recommendation he would have is there should be a note that the Commission is asking for a rate change whether it is addressed as a vote or not. At least the City Council will get some notice that the Commission will be asking staff to reconsider these rates at some point in the future. He

recommended putting them into two separate items at the same meeting in order to really address it at that time.

Mr. Freihammer stated this item will be going to the Council on November 5<sup>th</sup>. He thought to do a major change staff and the Commission would need to have more discussion on this.

Chair Cihacek stated that would be ok but did not want to push the discussion out to far in the future.

Mr. Freihammer stated staff will work with the Council on getting that scheduled.

Commissioner Wozniak stated the City needs to reconsider how the rates are presented because there is absolutely no discussion of policy in the report about how rates can encourage water conservation and how infrastructure replacement can be accelerated to mitigate future cost increases for items the City has no control over. He stated this is just dollars and cents and trying to match revenues and expenses and provide for contingencies.

Mr. Freihammer thought that was part of the reason why the City has the base rates set up. The base rates do hit the capital side extremely well and the usage is tied to what St. Paul Regional Water charges the City which is passed onto the residents and then the same thing on the usage with the sewer. It is really reflective on what is being charged to Met council. He thought the way that structure is set up does make sense.

Member Wozniak did not think it was shown well in the tables because it is shown as other expenses. He would like it all broken out.

Member Misra asked if the Finance Commission reviewing this as well.

Mr. Freihammer stated this was presented to the Finance Commission as well as the budget was based on this information.

Member Misra asked when the Finance Commission reviewed this did the Commission have more information about the reserves in these areas. She did not remember getting that information.

Mr. Freihammer guessed the Finance Commission looked deeper in the spreadsheets.

Member Misra stated when she read through the information that is what she assumed but she thought it speaks to what Commissioner Wozniak is stating that the perspective is more of a Finance Commission perspective and maybe it would be of some interest to this Commission to set up a policy that addresses this or a statement.

Chair Cihacek thought what was missing was the narrative. What the information shows is that everything will be even next year but what this did not show him was assumed risk or the actual projections of what will make this work in the future. He would like to know what some of the foundational assumptions are. This would give the Commission an idea that this will work in the sense of a long-term plan. He did not think there was anything wrong with the rates. He did not know if it was relevant in what the Commission recommends at this point because it is already because it is already being addressed by other policy mechanisms, but he did think there should be some conversation about this.

Mr. Freihammer thought there could be another discussion about how the capital side works because to him the way the capital, which is tied to the base rate on all of them, all replacement items are in the CIP and it is all detailed out along with vehicle replacements. The capital cost is fairly well figured out and staff is looking out twenty years and taking a long look at this. The City cannot control everything that the Met Council or St. Paul Regional Water does, that is tied to the usage.

Member Wozniak indicated he would like to see more of a Public Works voice in this document.

Mr. Freihammer stated the Public Works side comes in on the capital side and the CIP is continually being updated to make sure everything is covered and updating the costs of items.

Member Trainor thought from his perspective this is one of those situations where he was not sure if the Commission can give a recommendation. The Commission has limited perspective as Commission Members in this kind of material and what the Commission is presented with are charts without any explanation.

Mr. Freihammer stated as a resident what did the Commissioner think of the six percent increase.

Chair Cihacek thought it was a workable increase, but his concern is that over time the increase may be significant because the City did not have an adequate program for future costs. If the City is only increasing based on anticipated cost in a given year it seems too conservative and he thought costs may escalate more than revenues. He stated he prefers to have more assets than liabilities.

Member Misra agreed and thought the Commission was working from the assumption that the variable that the City cannot control is what the City charges. It seems to her that from this Commission's perspective the Commission could be talking about things like what is the duration of the I&I sediment improvements and what is the City doing about impervious surfaces which the Commission has talked about affecting water quality as well as the more impervious surfaces are

created the more the sewer system will be taxed. She asked if those were factors the Commission could start to look at and address.

Mr. Freihammer stated staff does try to project some of that and do show an increase in the capital side. He thought staff should show more information with the Commission on how staff comes up with capital costs. Staff does show costs of repairs and storm water clean up costs and do show increases going into the future and that is being projected.

Chair Cihacek thought the concern comes in knowing that the money was not being invested early in the life of the infrastructure so now the City is playing catch up in some of these cases. That means the City needs more capital faster which is why the numbers look relatively small over the years. He thought there were a lot of things the City would like to do which would cost millions of dollars and those numbers are not being represented either. He thought the numbers looked conservative in relation to what needs to be done.

Mr. Freihammer thought the Commission would like to see a slightly higher rate increase to provide for a higher future balance.

Chair Cihacek thought the Commission would make that recommendation.