

Memo

To: Roseville Finance Commission
From: Patrick Trudgeon, City Manager
Date: October 8, 2019
Re: Item #8 Review the 2020 Proposed Utility Rates

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 2020. 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.

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.

Operational Review

Staff’s analysis of the City’s utility operations included a review of the following:

- *Fixed* costs including personnel, supplies and maintenance, and other costs that are generally independent of the amount of water purchased or wastewater treated.
- *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.
- Customer counts and consumption patterns, rate structure, and rates.

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:

Utility Rate Impact: Single Family Home <i>(Quarterly)</i>				
<u>Service</u>	<u>2019</u>	<u>2020</u>	<u>\$ Increase</u>	<u>% Increase</u>
Water - base fee	58.60	62.10	3.50	
Water - usage fee	27.00	27.60	0.60	
Sanitary Sewer - base fee	39.45	40.25	0.80	
Sanitary Sewer - usage fee	26.95	28.60	1.65	
Storm Sewer	13.70	14.25	0.55	
Recycling	7.15	9.00	1.85	
Total per Quarter	\$ 172.85	\$ 181.80	\$ 8.95	5.18%

For 2020, a typical single-family home will pay an estimated \$181.80 per quarter or \$60.60 per month. This is an increase of \$2.98 per month or 5.2% from the current year. This is the same amount referenced in the 2020 Preliminary Budget adopted by the Council on September 23, 2019. 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 2019 and 2020 (proposed) Budget excluding capital:

	2019	2020	\$ Increase	% Increase
	<u>Budget</u>	<u>Budget</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Revenues				
Customer Charges	\$ 7,334,580	\$ 7,308,000	\$ (26,580)	-0.4%
Interest Earnings	-	-	-	0.0%
Total	\$ 7,334,580	\$ 7,308,000	\$ (26,580)	-0.4%
Expenses				
Personnel Services	\$ 670,180	\$ 698,280	\$ 28,100	4.2%
Supplies & Materials	162,200	162,200	-	0.0%
Water Purchases (SPRWS)	4,700,000	4,700,000	-	0.0%
Other Services & Charges	632,200	676,000	43,800	6.9%
Total	\$ 6,164,580	\$ 6,236,480	\$ 71,900	1.2%
Net Available for Capital				
	\$ 1,170,000	\$ 1,071,520		

For 2020, overall *budgeted* operational costs are expected to increase by 1.2%. Costs associated with assigned personnel are expected to increase at inflationary levels to accommodate wage & benefit-related increases. The increase in ‘Other Services & Charges’ are primarily due to higher water meter software licensing costs and energy costs at the booster station.

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 3.7% increase in the cost of purchasing wholesale water in 2020. This will require an increase in the usage rates charges to water customers. This will be the first *usage* rate increase since 2014.

The revised 20-Year Capital Improvement Plan (CIP) identifies added infrastructure replacement costs in the coming years which will require a 6.0% increase in the 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 2019 and 2020 (proposed) Budget excluding capital:

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	2019	2020	\$ Increase	% Increase
	<u>Budget</u>	<u>Budget</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Revenues				
Customer Charges	\$ 5,899,335	\$ 5,656,000	\$ (243,335)	-4.1%
Interest Earnings	-	-	-	0.0%
Total	\$ 5,899,335	\$ 5,656,000	\$ (243,335)	-4.1%
Expenses				
Personnel Services	\$ 491,720	\$ 512,420	\$ 20,700	4.2%
Supplies & Materials	46,150	45,400	(750)	-1.6%
Wastewater Treatment (MCES)	3,150,200	3,152,150	1,950	0.1%
Other Services & Charges	566,265	575,000	8,735	1.5%
Total	\$ 4,254,335	\$ 4,284,970	\$ 30,635	0.7%
Net Available for Capital				
	\$ 1,645,000	\$ 1,371,030		

For 2020, overall operational costs are expected to increase by 0.7%. Costs associated with assigned personnel are expected to increase at inflationary levels to accommodate wage & benefit-related increases. The projected revenues have been adjusted to account for lower wastewater flows which have been in decline in recent years. This decrease however has been offset by rising treatment costs charged by the Metropolitan Council Environmental Services division (MCES).

The single largest operating cost to the sanitary sewer operation is the wastewater treatment costs paid to the MCES. The MCES has informed us that we can expect a very modest 0.1% increase in wastewater treatment costs for 2020. However, an increase in the *usage* rates for all sanitary sewer customers is being recommended to accommodate prior year rates that were slightly below what was needed to fully recoup our costs. This will be the first *usage* rate increase since 2017.

The revised 20-Year Capital Improvement Plan (CIP) identifies added infrastructure replacement costs in the coming years which will also require a 6.1% 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 2019 and 2020 (proposed) Budget excluding capital:

	2019	2020	\$ Increase	% Increase
	<u>Budget</u>	<u>Budget</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Revenues				
Customer Charges	\$ 1,933,460	\$ 2,010,995	\$ 77,535	4.0%
Interest Earnings	-	-	-	0.0%
Total	\$ 1,933,460	\$ 2,010,995	\$ 77,535	4.0%
Expenses				
Personnel Services	\$ 425,650	\$ 451,780	\$ 26,130	6.1%
Supplies & Materials	84,400	88,340	3,940	4.7%
Other Services & Charges	308,300	324,300	16,000	5.2%
Total	\$ 818,350	\$ 864,420	\$ 46,070	5.6%
Net Available for Capital				
	\$ 1,115,110	\$ 1,146,575		

For 2020, overall costs are expected to increase 5.6%. Costs associated with assigned personnel are expected to increase at near inflationary levels to accommodate wage & benefit-related increases. The increase is mostly attributable to higher supplies, software, and maintenance costs.

The revised 20-Year Capital Improvement Plan (CIP) identifies added infrastructure replacement costs in the coming years which will require a 4.0% 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 2019 and 2020 (proposed) Budget:

	2019	2020	\$ Increase	% Increase
	<u>Budget</u>	<u>Budget</u>	<u>(Decrease)</u>	<u>(Decrease)</u>
Revenues				
Base Fee Revenue	\$ 449,560	\$ 565,800	\$ 116,240	25.9%
SCORE Grant	87,500	87,500	-	0.0%
Revenue Sharing	-	-	-	0.0%
Interest Earnings	1,000	-	(1,000)	-100.0%
Total	\$ 538,060	\$ 653,300	\$ 115,240	21.4%
Expenses				
Personnel Services	\$ 38,410	\$ 39,790	\$ 1,380	3.6%
Supplies & Materials	2,000	3,000	1,000	50.0%
Other Services & Charges	521,710	600,230	78,520	15.1%
Total	\$ 562,120	\$ 643,020	\$ 80,900	14.4%
Net From Operations				
	\$ (24,060)	\$ 10,280		

For 2020, overall costs are expected to rise 14.4% due primarily to higher contractor costs. Under the current contract for services, the City is required to financially make up for declines in the second-hand market for recycled materials. The market for recycled materials is a global one, and it has declined significantly in the past year. The increased contractor costs which are included in the ‘Other Services & Charges’ category. A customer rate increase from \$7.15 per quarter to \$9.00 (25.9%) has been proposed to accommodate the higher costs.

Recommended Rates for 2020

As noted above, a typical single-family home will pay \$181.80 per quarter, or \$60.60 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.

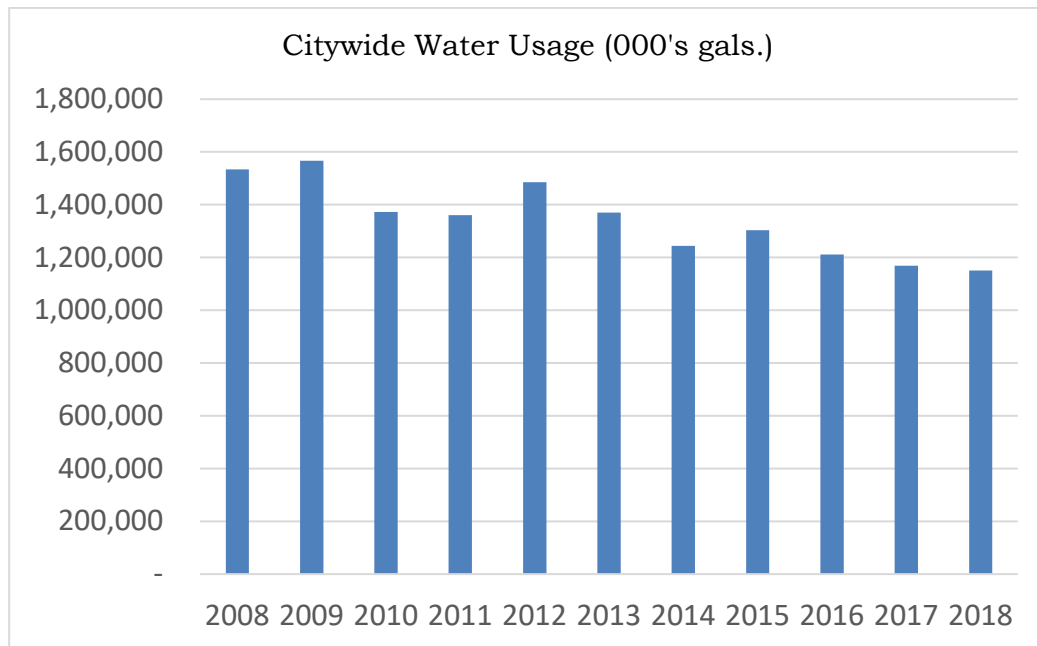
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<u>Water Base Rate Category</u>	<u>2019 Rate</u>	<u>2020 Rate</u>	<u>Comments</u>
Single-Family Residential	\$ 58.60	\$ 62.10	Standard SF rate
Single-Family Residential: Low-Income Discount	38.10	40.35	Standard SF rate x 0.65
Non-SF Residential (5/8" Meter)	58.60	62.10	Standard SF rate
Non-SF Residential (1.0" Meter)	73.25	77.65	Standard SF rate x 1.25
Non-SF Residential (1.5" Meter)	117.00	124.00	Standard SF rate x 2.00
Non-SF Residential (2.0" Meter)	219.80	233.00	Standard SF rate x 3.75
Non-SF Residential (3.0" Meter)	438.45	465.80	Standard SF rate x 7.50
Non-SF Residential (4.0" Meter)	878.90	931.65	Standard SF rate x 15.00
Non-SF Residential (6.0" Meter)	1,757.90	1,758.00	Standard SF rate x 30.00
<u>Water Usage Rate Category</u>	<u>2019 Rate</u>	<u>2020 Rate</u>	<u>Comments</u>
SF Residential: Up to 30,000 gals./qtr	\$ 2.25	\$ 2.30	Standard SF rate
SF Residential: Over 30,000 gals./qtr (winter rate)	2.50	2.55	Standard SF rate +10%
SF Residential: Over 30,000 gals./qtr (summer rate)	2.70	2.75	Standard SF rate +20%
Non-SF Residential (winter rate)	2.95	3.00	Standard SF rate +30%
Non-SF Residential (summer rate)	3.15	3.20	Standard SF rate +40%
Rates are per 1,000 gallons			
<u>Sewer Base Rate Category</u>	<u>2019 Rate</u>	<u>2020 Rate</u>	<u>Comments</u>
Single-Family Residential	\$ 39.45	\$ 40.25	Standard SF rate
Single-Family Residential: Low-Income Discount	25.65	26.15	Standard SF rate x 0.65
Multi-Family Residential (townhomes)	39.45	40.25	Standard SF rate x 1.00
Multi-Family Residential (apartments & condos)	27.70	28.25	Standard SF rate x 0.70
Non-SF Residential (5/8" Meter)	29.50	30.10	Standard SF rate x 0.75
Non-SF Residential (1.0" Meter)	59.05	60.25	Standard SF rate x 1.50
Non-SF Residential (1.5" Meter)	88.60	90.40	Standard SF rate x 2.25
Non-SF Residential (2.0" Meter)	138.15	140.90	Standard SF rate x 3.50
Non-SF Residential (3.0" Meter)	286.15	291.85	Standard SF rate x 7.25
Non-SF Residential (4.0" Meter)	572.25	583.70	Standard SF rate x 14.50
Non-SF Residential (6.0" Meter)	1,144.50	1,167.40	Standard SF rate x 29.00
Multi-family rate is per housing unit			
<u>Sewer Usage Rate Category</u>	<u>2019 Rate</u>	<u>2020 Rate</u>	<u>Comments</u>
Residential	\$ 2.45	\$ 2.60	Standard rate
Non-Residential	5.65	6.00	Standard rate x 2.30
Rates are per 1,000 gallons			

<u>Stormwater Base Rate Category</u>	<u>2019 Rate</u>	<u>2020 Rate</u>	<u>Comments</u>
Single-Family Residential & Duplex	\$ 13.70	\$ 14.25	Standard SF rate
Multi-Family & Churches	106.05	110.30	Standard SF rate x 7.75
Cemeteries & Golf Course	10.30	10.70	Standard SF rate x 0.75
Parks	31.90	33.20	Standard SF rate x 2.35
Schools & Community Centers	51.60	53.65	Standard SF rate x 3.75
Commercial & Industrial	212.00	220.50	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>2019 Rate</u>	<u>2020 Rate</u>	<u>Comments</u>
Single-Family	\$ 7.15	\$ 9.00	Standard rate
Multi-Family	7.15	9.00	Standard rate

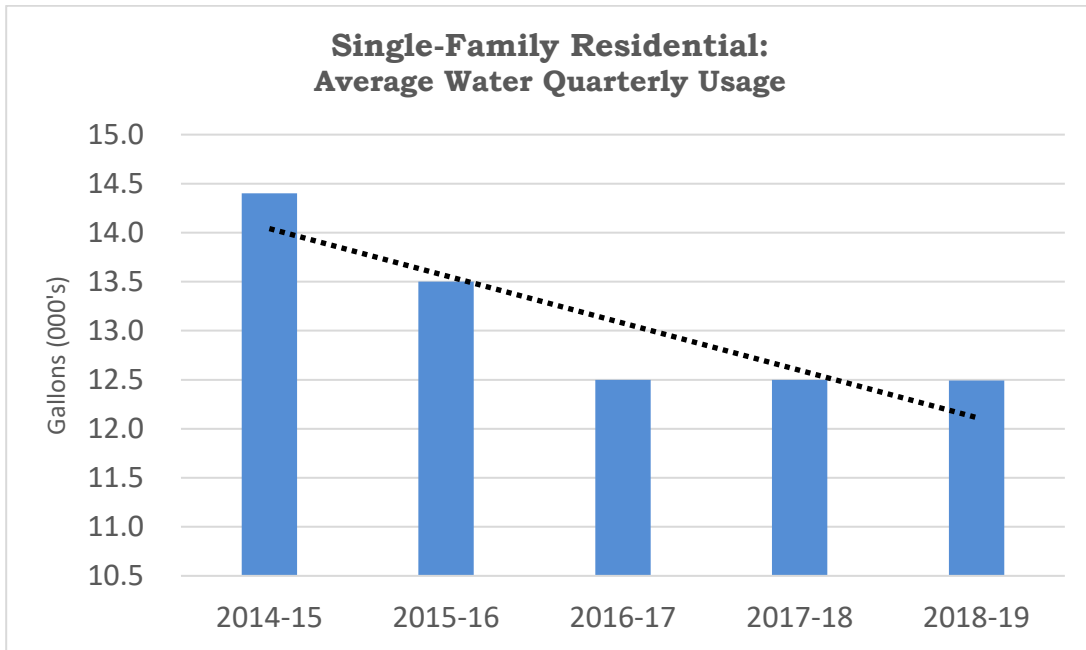
Water Usage History

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

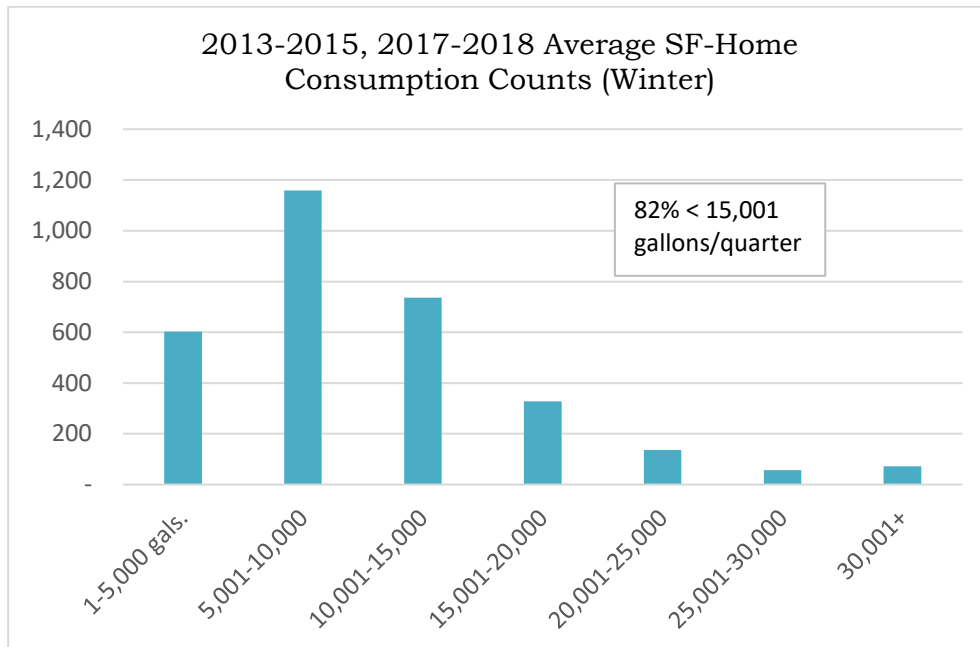


As indicated in the graph, *citywide* consumption has generally been falling over the past decade – a 25% reduction since 2008.

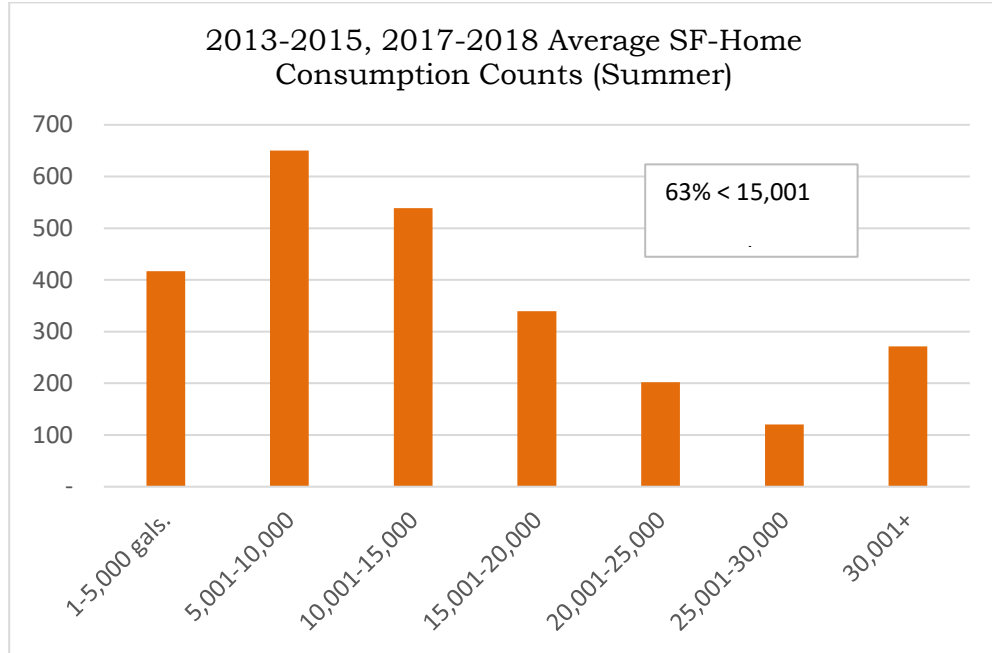
For *single-family homes*, average consumption had generally been dropping but has plateaued in the past few years, and now stands at approximately 4,170 gallons per month. This is depicted in the chart below.



The next chart depicts the average *wintertime* consumption counts for single-family homes from 2013-2015, and 2017-2018. 2016 data was excluded due to the meter change-out program which overstated actual consumption.



As shown in the chart, 82% of all single-family homes have an average consumption of less than 15,001 gallons per quarter. 57% 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.

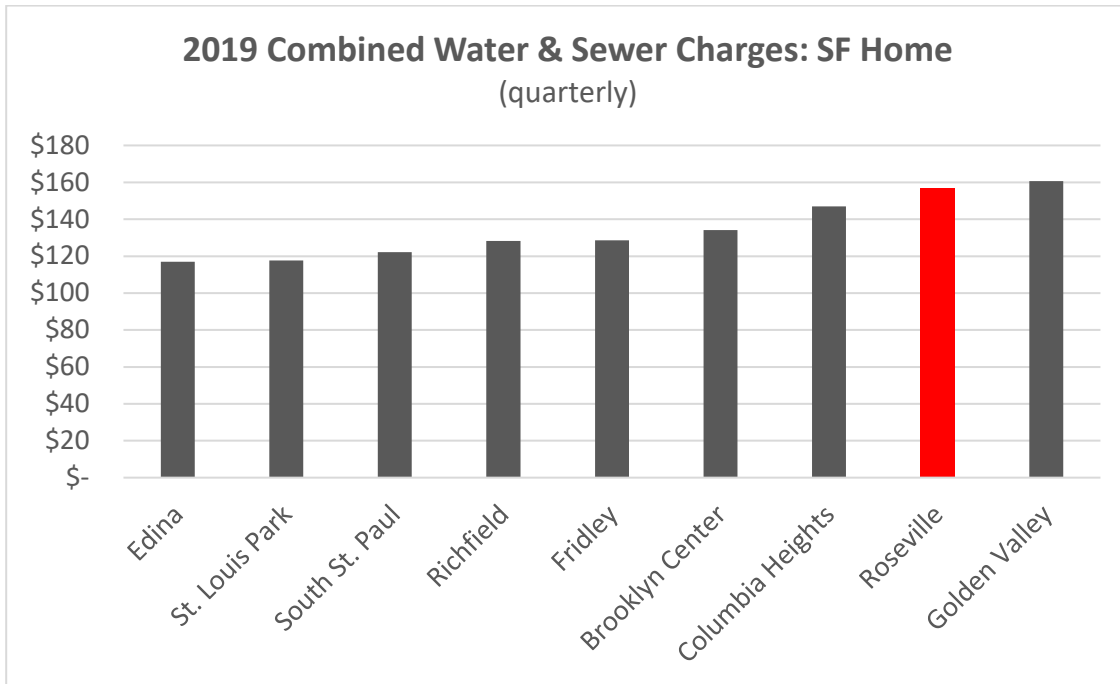
Utility Rate Peer Comparisons

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.

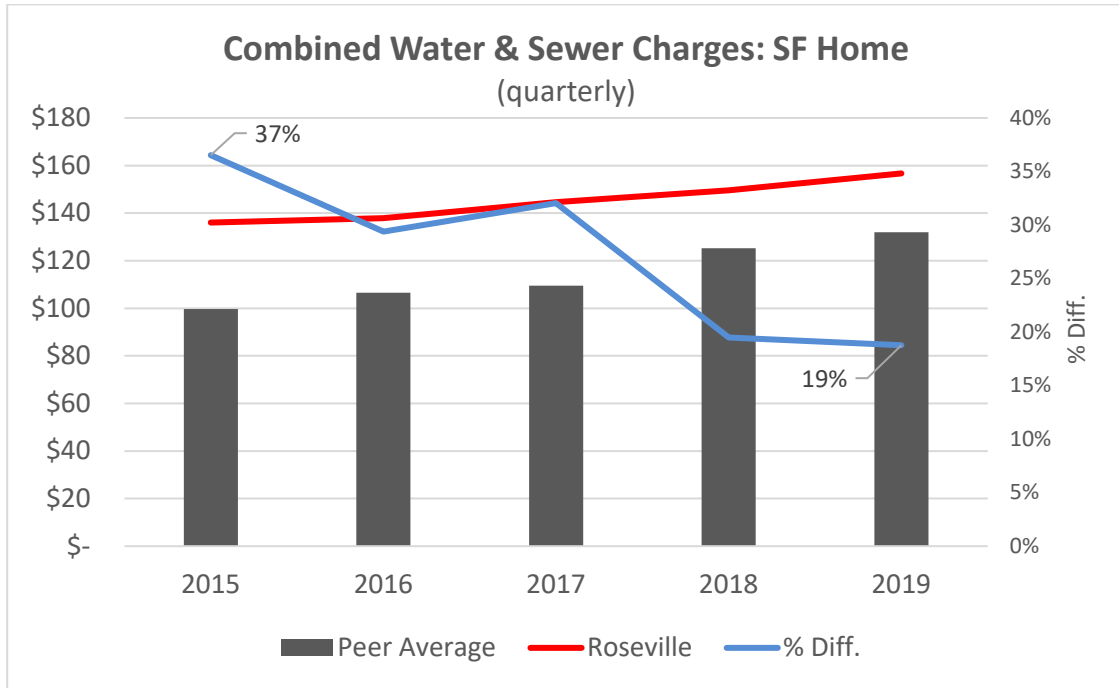
It should be noted that broad comparisons only give a cursory look at how one community’s rates compares to another. A more precise comparison would also incorporate each City’s individual philosophy in funding programs and services. For example, Roseville does NOT utilize assessments to pay for water 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* and *sanitary sewer* fees for a typical single-family home on a quarterly basis.

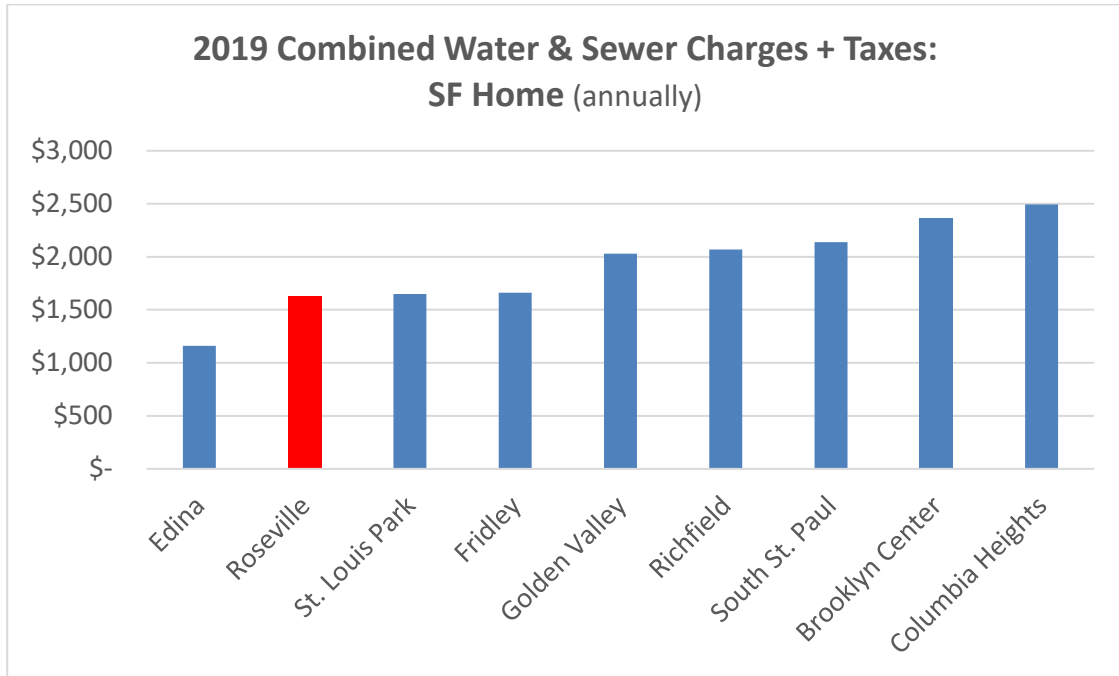


As shown in the chart, Roseville’s water and sewer rates are among the highest in the peer comparison group. However, the gap has been narrowing in recent years as other communities respond to their own operational and capital replacement needs. The following chart depicts a comparison of utility rate impacts for Roseville and the peer group average over the past five years.



As shown here, Roseville’s water & sewer rates were 37% higher than the peer average five years ago. Today, it’s 19%.

It should be noted that most of the cities shown in the charts above 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. We can somewhat adjust for these differences by combining property taxes and water & sewer fees for a typical single-family home as shown in the next chart.



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 15% below the peer average.

Staff Recommendation

The enclosed information is being recommended by Staff for Council approval on November 4, 2019.

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 changes.

Prepared by: Chris Miller, Finance Director
Attachments: A: Not applicable