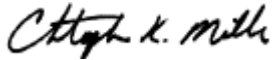


REQUEST FOR COUNCIL ACTION

Date: 11/21/11
Item No.: 12 . b

Department Approval



City Manager Approval



Item Description: Discuss the 2012 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 2012. The analysis included a review of the City's water, sanitary sewer, storm drainage, and solid waste recycling operations. In addition, Staff has also incorporated the recommendations provided by the Council-appointed Capital Improvement Plan (CIP) Task Force. This Task Force was asked to make recommendations on creating a financially sustainable funding model for the City's infrastructure and capital assets. Copies of the Task Force Reports are attached.

Staff's analysis included a review of the following:

- ❖ Fixed costs including personnel, supplies and maintenance, and depreciation
- ❖ 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
- ❖ Capital replacement costs
- ❖ Current customer base, rates, and rate structure

A summary of each operating division is included 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 2011 and 2012 (Proposed) Budget:

	2011	2012	\$ Incr. (Decr.)	% Incr. (Decr.)
Personnel	\$ 568,015	\$ 569,600		
Supplies & Materials	68,850	74,100		
Other Services & Charges	592,450	582,050		
Water Purchases	4,400,000	4,600,000		
Depreciation / Capital	1,441,500	1,165,000		
Total	\$ 7,070,815	\$ 6,990,750	\$ (80,065)	(1.1 %)

The single largest operating cost for the water operation is the purchase of wholesale water from the City of St. Paul. This cost is projected to increase by 4.5%. The City also expects to have moderate increases in personnel and supply-related costs. These budgetary increases will be offset by a decline in budgeted capital replacement costs, resulting in an overall decrease of 1.1%.

However, the impact on the water rates will be substantially different. Although capital replacement costs for budgeting purposes are expected to decline, the City's long-term capital financing program has been significantly underfunded for many years.

The Water Fund has been reliant on cash reserves as well as internal borrowings from the Sanitary Sewer Fund to provide for capital needs during the past several years. The 20-Year CIP calls for an average capital replacement need of \$1.1 million annually. In contrast, current water rates only provide \$300,000 annually.

To alleviate this shortfall, the CIP Task Force recommended a one-time base rate increase of 62% in 2012. This would generate an additional \$800,000 annually and allow the Water Fund to provide for capital improvements over the next 20 years. The base rate, which all customers pay independent of their water consumption, would still need to be increased for future inflationary impacts.

It is further recommended that the usage rate be increased by approximately 2.5% to offset the increased in water purchase and other operating costs.

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 2011 and 2012 (Proposed) Budget:

	2011	2012	\$ Incr. (Decr.)	% Incr. (Decr.)
Personnel	\$ 331,739	\$ 351,448		
Supplies & Materials	37,999	45,050		
Other Services & Charges	389,860	419,200		
Sewer Treatment Costs	2,750,000	2,850,000		
Depreciation / Capital	904,000	1,165,000		
Total	\$ 4,413,598	\$ 4,830,698	\$ 417,100	9.5%

The single largest operating cost to the sanitary sewer operation is the treatment costs paid to the Metropolitan Council Environmental Services Division (MCES). The MCES has notified us that our treatment costs are expected to increase by approximately 11% in 2012. This is due to the continued presence of significant storm water infiltration into the sanitary sewer system. 2012 treatment costs are based on measured wastewater flows from July 2010 through June 2011. Given the significant snowfall this past winter and rainfall this spring, a substantial increase in infiltration made its way into the sanitary sewer system and eventually to the wastewater treatment plan. The City also expects to have moderate increases in personnel and supply-related costs.

The 20-Year CIP calls for an average capital replacement need of \$1 million annually. In contrast, current sewer rates only provide \$240,000 annually.

To alleviate this shortfall, the CIP Task Force recommended a one-time base rate increase of 60% in 2012.

This would generate an additional \$700,000 annually and allow the Sewer Fund to provide for capital improvements over the next 20 years. The base rate would still need to be increased for future inflationary impacts. Like the Water Base Fee, the Sewer Base Fee is charged to all customers independent of how much wastewater they generate.

It is also recommended that the sewer usage rate be increased by approximately 7.1% to offset the increase in sewer treatment and other operating costs.

Storm Drainage Operations

The City provides for the management of storm water drainage to prevent flooding and pollution control, as well as street sweeping and the leaf pickup program. The following table provides a summary of the 2011 and 2012 (Proposed) Budget:

	2011	2012	\$ Incr. (Decr.)	% Incr. (Decr.)
Personnel	\$ 318,653	\$ 310,837		
Supplies & Materials	52,201	55,301		
Other Services & Charges	306,490	277,800		
Depreciation / Capital	1,105,000	1,260,000		
Total	\$ 1,782,344	\$ 1,903,938	\$ 121,594	6.8%

The City expects to have moderate increases in supply and capital-related costs. These will be somewhat offset by lower personnel and other costs.

The 20-Year CIP calls for an average capital replacement need of \$972,000 annually. In contrast, current storm water rates only provide \$310,000 annually.

To alleviate this shortfall, the CIP Task Force recommended a one-time base rate increase of 65% in 2012. This would generate an additional \$660,000 annually and allow the Storm Water Fund to provide for capital improvements over the next 20 years as well as increased operating costs. The base rate would still need to be increased for future inflationary impacts.

Recycling Operations

The recycling operation provides for the contracted curbside recycling pickup throughout the City. The primary operating cost is the amounts paid to a contractor to pickup recycling materials. The following table provides a summary of the 2011 and 2012 (Proposed) Budget:

	2011	2012	\$ Incr. (Decr.)	% Incr. (Decr.)
Personnel	\$ 32,769	\$ 31,581		
Supplies & Materials	401	400		
Other Services & Charges	23,410	24,910		
Contract Pickup	435,000	468,000		
Total	\$ 491,580	\$ 524,891	\$ 33,311	6.8%

The City expects to have moderate increases in contract pickup costs as set forth in the current contract. The contractual agreement with the recycling contractor specifies that the City is to receive a portion of the monies generated from the re-sale of recycled materials. This is expected to generate approximately

\$90,000 per year and will allow for a relatively small rate increase of only 1.7%.

Rate Impacts for 2012

Based on the rate impacts described above, Staff is recommending a rate increase for ALL utility rate categories. With these suggested rate changes, a typical homeowner will pay approximately \$163.80 per quarter, an increase of \$39.95 or 32.1%. Additional detail is shown in the tables below.

Single Family Homes

	2011	2012	\$ Incr. (Decr.)	% Incr. (Decr.)
Water – base fee	\$ 30.55	\$ 49.50		
Water – usage fee	37.80	38.70		
Sanitary Sewer – base fee	23.35	37.35		
Sanitary Sewer – usage fee	19.50	21.00		
Storm Sewer	6.75	11.15		
Recycling	6.00	6.10		
Total	\$ 123.95	\$ 163.80	\$ 39.85	32.1 %

** Based on an average consumption of 18,000 gallons per quarter.

Single Family Homes – with Utility Discount

	2011	2012	\$ Incr. (Decr.)	% Incr. (Decr.)
Water – base fee	\$ 19.85	\$ 32.15		
Water – usage fee	12.60	12.90		
Sanitary Sewer – base fee	14.55	23.30		
Sanitary Sewer – usage fee	6.50	7.00		
Storm Sewer	6.75	11.15		
Recycling	6.00	6.10		
Total	\$ 66.25	\$ 92.60	\$ 26.35	39.8 %

** Based on an average consumption of 6,000 gallons per quarter.

Discount is approximately 35% less than the standard rate.

Commercial Property

	2011	2012	\$ Incr. (Decr.)	% Incr. (Decr.)
Water – base fee	\$ 60.50	\$ 98.00		
Water – usage fee	540.00	560.00		
Sanitary Sewer – base fee	51.00	81.60		
Sanitary Sewer – usage fee	600.00	650.00		
Storm Sewer	313.50	517.35		
Recycling				
Total	\$ 1,565.00	\$ 1,906.95	\$ 341.95	21.9 %

** Based on an average consumption of 200,000 gallons per quarter, with a 1 ½” meter, and occupying 3 acres.

2012 Proposed Rates

Water Base Rate

Category	2011 Base Rate	2012 Base Rate
Residential	\$ 30.55	\$ 49.50
Residential – Sr. Rate	19.85	32.15
Non-residential		
5/8" Meter	30.53	49.45
1.0" Meter	38.50	62.40
1.5" Meter	60.50	98.00
2.0" Meter	115.50	187.10
3.0" Meter	231.00	374.20
4.0" Meter	462.00	748.45
6.0" Meter	\$ 924.00	\$ 1,496.90

Water Usage Rate

Category	2011 Usage Rate	2012 Usage Rate
Residential; Up to 30,000 gals./qtr	\$ 2.10	\$ 2.15
Residential; Over 30,000 gals./qtr – winter rate *	2.35	2.40
Residential; Over 30,000 gals./qtr – summer rate **	2.360	2.65
Non-Residential – winter rate	2.70	2.80
Non-Residential – summer rate **	\$ 3.00	\$ 3.10

* Residential high water usage rate is approximately 10% higher than basic rate

** Summer rate is approximately 10% higher than highest winter rate for each property category

Sanitary Sewer Base Rate

Category	2011 Base Rate	2012 Base Rate
Residential	\$ 23.35	\$ 37.35
Residential – Sr. Rate	14.55	23.30
Apartments & Condos	16.10	25.75
Non-residential		
5/8" Meter	17.05	27.30
1.0" Meter	34.15	54.65
1.5" Meter	51.00	81.60
2.0" Meter	85.05	136.10
3.0" Meter	170.30	272.50
4.0" Meter	340.75	545.20
6.0" Meter	\$ 681.45	\$ 1,090.30

Sanitary Sewer Usage Rate

Category	2011 Usage Rate	2012 Usage Rate
Residential	\$ 1.30	\$ 1.40
Non-residential	\$ 3.00	\$ 3.25

Stormwater Rates

Category	2011 Flat Rate	2012 Flat Rate
Single Family & Duplex	\$ 6.75	\$ 11.15
Multi-family & Churches	52.25	86.20
Cemeteries & Golf Course	5.25	8.65
Parks	15.70	25.90
Schools & Comm. Centers	26.15	43.15
Commercial & Industrial	\$ 104.50	\$ 172.45

Note: Stormwater rates are based on a per lot basis for single-family and duplex properties, and on a per acre basis for all other properties.

Recycling Rates

Category	2011 Flat Rate	2012 Flat Rate
Single Family	\$ 6.00	\$ 6.10
Multi Family (per unit)	\$ 6.00	\$ 6.10

Meter Security Deposit

Category	2011 Flat Rate	2012 Flat Rate
5/8" Meter	\$ 75.00	\$ 75.00
1.0" Meter	120.00	120.00
1.5" Meter	300.00	300.00
2.0" Meter	\$ 400.00	\$ 400.00

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. In addition, a conservation-based rate structure is consistent with the goals and strategies identified in the Imagine Roseville 2025 initiative.

FINANCIAL IMPACTS

See above.

162 **STAFF RECOMMENDATION**

163 Based on the increasing costs noted above, Staff is recommending rate adjustments as shown in the
164 attached resolution.

165 **REQUESTED COUNCIL ACTION**

166 For discussion purposes only. The Council will be asked to adopt the attached resolution establishing
167 the 2012 Utility Rates at a subsequent Council meeting.

168

Prepared by: Chris Miller, Finance Director
Attachments: A: Resolution establishing the 2012 Utility Rates

169

EXTRACT OF MINUTES OF MEETING OF THE
CITY COUNCIL OF THE CITY OF ROSEVILLE

* * * * *

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 12th day of December, 2011 at 6:00 p.m.

The following members were present:
and the following were absent:

Member introduced the following resolution and moved its adoption:

RESOLUTION _____

RESOLUTION ESTABLISHING THE 2012 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 be established for 2012 in accordance with Schedule A attached to this Resolution.

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 12th day of December, 2011 with the original thereof on file in my office.

WITNESS MY HAND officially as such Manager this 12th day of December, 2011.

William J. Malinen
City Manager

Seal

Schedule A

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