

ROSEVILLE
REQUEST FOR COUNCIL ACTION

Date: 11/17/14
Item No.: 14.a

Department Approval

Christopher K. Mills

City Manager Approval

Samuel J. Truog

Item Description: Consider the 2015 Utility Rate Adjustments

BACKGROUND

Over the past several months, City Staff has been reviewing the City’s utilities operations to determine whether customer rate adjustments are necessary for 2015. The analysis included a review of the City’s water, sanitary sewer, storm drainage, and curbside recycling operations. It also incorporates the recommendations provided by the Council-appointed Capital Improvement Plan (CIP) Subcommittee, and the Public Works, Environment, and Transportation Commission (PWET).

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 paid to Eureka.
- ❖ Capital replacement costs.
- ❖ Customer counts and consumption patterns, rate structure, and rates.

A financial overview of each operating division is included beginning on the next page. The estimated overall impact on a typical single-family home based on Staff’s Recommended 2015 Rates is shown in the following table.

Single Family Homes				
Service	2014	2015	\$ Increase	% Increase
Water - base fee	54.45	51.60	(2.85)	
Water - usage fee	39.60	40.50	0.90	
Sanitary Sewer - base fee	37.35	35.40	(1.95)	
Sanitary Sewer - usage fee	24.00	24.72	0.72	
Storm Sewer	11.70	11.70	-	
Recycling	5.00	5.50	0.50	
Total per Quarter	\$ 172.10	\$ 169.42	\$ (2.68)	-1.56%
Avg. Water consumption (1,000 gals.)	18			
Avg. Sewer consumption (1,000 gals.)	15			

As shown in the chart, for 2015 a typical single-family home will pay \$169.42 per quarter, or \$56.47 per month. This is a decrease of \$0.89 per month from 2014.

24 The decrease is attributable to the change in the City's Utility (senior) Discount Program's eligibility
25 criteria. Previously, homeowners were eligible if they were simply receiving social security or
26 retirement income. Earlier this year, the Council changed the criteria to ensure that the Program was
27 financially need-based instead. Homeowners must now be at or below 165% of federal poverty
28 threshold guidelines.

29
30 In making this change, the number of homeowners receiving the discount is expected to decline from
31 2,300 homes (24%) to approximately 50 (0.5%). As a result, the subsidies provided by homeowners
32 that are not getting the discount to those that are; will drop by approximately \$250,000 annually. This
33 in turn allows us to lower the base fee for both water and sewer.

34
35 The impact on homes that no longer receive the utility (senior) discount is dramatically different
36 however. These homes effectively lose out on a \$10 monthly subsidy. In other words, their quarterly
37 bill will increase by approximately \$30.

38 39 **Water Operations**

40 The City's water operation provides City customers with safe potable water, as well as on-demand
41 water pressure sufficient to meet the City's fire protection needs. The following table provides a
42 summary of the 2014 and 2015 (Proposed) Budget:

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44

	2014	2015	\$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	\$ 583,000	\$ 603,000		
Supplies & Materials	78,350	79,900		
Other Services & Charges	586,850	589,750		
Water Purchases	5,100,000	5,250,000		
Depreciation / Capital	2,860,000	2,354,000		
Total	\$ 9,208,200	\$ 8,876,650	(\$331,550)	(3.6%)

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46
47 The single largest operating cost for the water operation is the purchase of wholesale water from the
48 City of St. Paul. For 2015, the budgeted amount has been increased to account for an expected 7.5%
49 increase in the rates charged by St. Paul. St. Paul Water Officials have informed us that their overall
50 customer consumption continues to decline which results in a drop in revenue at a time when operating
51 costs as well as capital costs are increasing. The rate increase is necessary to offset these impacts.

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53 The amount of capital replacements is also expected to decline by approximately \$500,000 compared to
54 the previous year. The City expects to have inflationary-type increases in supply costs, while personnel
55 costs are increasing by 3.4%.

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58 **Sanitary Sewer Operations**

59 The City maintains a sanitary sewer collection system to ensure the general public’s health and general
 60 welfare. The following table provides a summary of the 2014 and 2015 (Proposed) Budget:

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	2014	2015	\$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	\$ 422,000	\$ 432,000		
Supplies & Materials	47,350	48,900		
Other Services & Charges	423,850	456,550		
Wastewater Treatment	3,060,000	2,800,000		
Depreciation / Capital	1,808,000	2,100,000		
Total	\$ 5,761,200	\$ 5,837,450	\$76,250	1.3%

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 64

65 The single largest operating cost to the sanitary sewer operation is the wastewater treatment costs paid
 66 to the Metropolitan Council Environmental Services Division (MCES). Based on projected sewer
 67 flows and treatment costs provided by the MCES, the budget for this category has been decreased by
 68 approximately \$300,000. The budgeted amount is now more closely aligned with actual flows during
 69 the past two fiscal years. The measured flow has also been reduced thanks to the City’s continued
 70 inflow and infiltration (I&I) reduction efforts.

71

72 The City expects to have inflationary-type increases in supply costs, while personnel costs are
 73 increasing by 2.4%.

74

75 Capital costs are also expected to increase significantly due to planned capital replacements in
 76 accordance with the City’s Capital Improvement Plan (CIP).

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78 **Storm Drainage Operations**

79 The City provides for the management of storm water drainage to prevent flooding and pollution
 80 control, as well as street sweeping and the leaf pickup program. The following table provides a
 81 summary of the 2014 and 2015 (Proposed) Budget:

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 83

	2014	2015	\$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	\$ 363,200	\$ 380,000		
Supplies & Materials	79,100	81,000		
Other Services & Charges	259,900	262,700		
Depreciation / Capital	1,296,000	1,720,000		
Total	\$ 1,998,200	\$ 2,443,700	\$ 445,500	22.3 %

84

85 The City expects to have inflationary-type increases in supply and other services. Capital costs are also
 86 expected to increase significantly due to planned capital replacements in accordance with the City’s
 87 Capital Improvement Plan (CIP).

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 89

90 **Recycling Operations**

91 The recycling operation provides for the contracted curbside recycling pickup throughout the City and
 92 related administrative costs. The primary operating cost is the amounts paid to a contractor to pickup
 93 recycling materials.

94
 95 The following table provides a summary of the 2014 and 2015 (Proposed) Budget:
 96
 97

	2014	2015	\$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	\$ 36,500	\$ 36,500		
Supplies & Materials	600	700		
Other Services & Charges	30,410	20,410		
Contract Pickup	414,000	428,000		
Total	\$ 481,410	\$ 485,610	\$ 4,200	0.9 %

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 99
 100 Under the existing contract, the City originally expected to receive an estimated \$140,000 annually in
 101 revenue sharing from Eureka Recycling. However, the volume of recycled materials while strong
 102 compared to other municipalities, has remained largely unchanged while the re-sale market for
 103 collected materials has proven to be less lucrative than previously estimated. Based on current revenue
 104 sharing monies being received, the City should expect only \$65,000 - \$70,000 in 2015.

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 106 This will require an increase in the fee charged to customers to offset the reduction in revenue sharing.
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108 **Rate Impacts for 2015**

109 As noted above, a typical single-family home will pay \$169.42 per quarter, or \$56.47 per month. This
 110 is a decrease of \$0.89 per month from 2014. The following tables provide a more detailed breakdown
 111 of the proposed rates.
 112

<u>Water Base Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Single-Family Residential	\$ 54.45	\$ 51.60	Standard SF rate
Single-Family Residential: Senior Discount **	35.40	33.50	Standard SF rate x 0.65
Non-SF Residential (5/8" Meter)	54.45	51.60	Standard SF rate
Non-SF Residential (1.0" Meter)	68.65	64.50	Standard SF rate x 1.25
Non-SF Residential (1.5" Meter)	107.80	103.00	Standard SF rate x 2.00
Non-SF Residential (2.0" Meter)	205.80	193.50	Standard SF rate x 3.75
Non-SF Residential (3.0" Meter)	411.60	387.00	Standard SF rate x 7.50
Non-SF Residential (4.0" Meter)	823.30	774.00	Standard SF rate x 15.00
Non-SF Residential (6.0" Meter)	1,646.60	1,548.00	Standard SF rate x 30.00

<u>Water Usage Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
SF Residential: Up to 30,000 gals./qtr	\$ 2.20	\$ 2.25	Standard SF rate
SF Residential: Over 30,000 gals./qtr (winter rate)	2.45	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)	2.90	2.95	Standard SF rate +30%
Non-SF Residential (summer rate)	3.20	3.15	Standard SF rate +40%
Rates are per 1,000 gallons			

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<u>Sewer Base Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Single-Family Residential	\$ 37.35	\$ 35.40	Standard SF rate
Single-Family Residential: Senior Discount **	23.30	23.00	Standard SF rate x 0.65
Multi-Family Residential (townhomes)	37.35	35.40	Standard SF rate x 1.00
Multi-Family Residential (apartments & condos)	25.75	24.90	Standard SF rate x 0.70
Non-SF Residential (5/8" Meter)	27.30	26.50	Standard SF rate x 0.75
Non-SF Residential (1.0" Meter)	54.65	53.00	Standard SF rate x 1.50
Non-SF Residential (1.5" Meter)	81.60	79.50	Standard SF rate x 2.25
Non-SF Residential (2.0" Meter)	136.10	124.00	Standard SF rate x 3.50
Non-SF Residential (3.0" Meter)	272.50	260.00	Standard SF rate x 7.25
Non-SF Residential (4.0" Meter)	545.20	515.00	Standard SF rate x 14.50
Non-SF Residential (6.0" Meter)	1,090.30	1,025.00	Standard SF rate x 29.00
Multi-family rate is per housing unit			

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<u>Sewer Usage Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Residential	\$ 1.60	\$ 1.65	Standard rate
Non-Residential	3.70	3.85	Standard rate x 2.30
Rates are per 1,000 gallons			

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<u>Stormwater Base Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Single-Family Residential & Duplex	\$ 11.70	\$ 11.70	Standard SF rate
Multi-Family & Churches	90.50	90.50	Standard SF rate x 7.75
Cemeteries & Golf Course	9.10	9.10	Standard SF rate x 0.75
Parks	27.20	27.20	Standard SF rate x 2.35
Schools & Community Centers	45.30	45.30	Standard SF rate x 3.75
Commercial & Industrial	181.10	181.10	Standard SF rate x 15.50
Rates for single-family are per housing unit; all others are per acre			

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<u>Recycling Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Single-Family	\$ 5.00	\$ 5.50	Standard rate
Multi-Family	5.00	5.50	Standard rate

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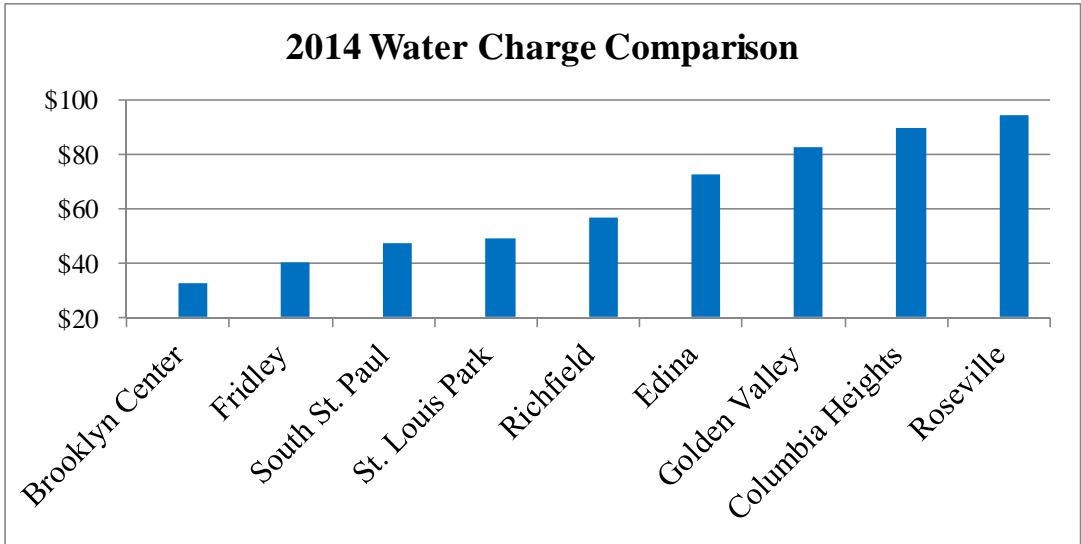
126 **Rate Comparisons**

127 The charts below depict a number of water and sewer rate comparisons with other peer communities.
128 For this analysis, peer communities include 1st ring suburbs that serve a population between 18,000 and
129 50,000, and which are not simply an extension of a larger entity’s system. This group was selected to
130 try and approximate cities with stand-alone systems with similar age of infrastructure which can have a
131 significant influence on the cost of water and sewer services.

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133 It should be noted that broad comparisons only give a cursory look at how one community compares to
134 another. One must also incorporate each City’s individual philosophy in funding programs and
135 services.

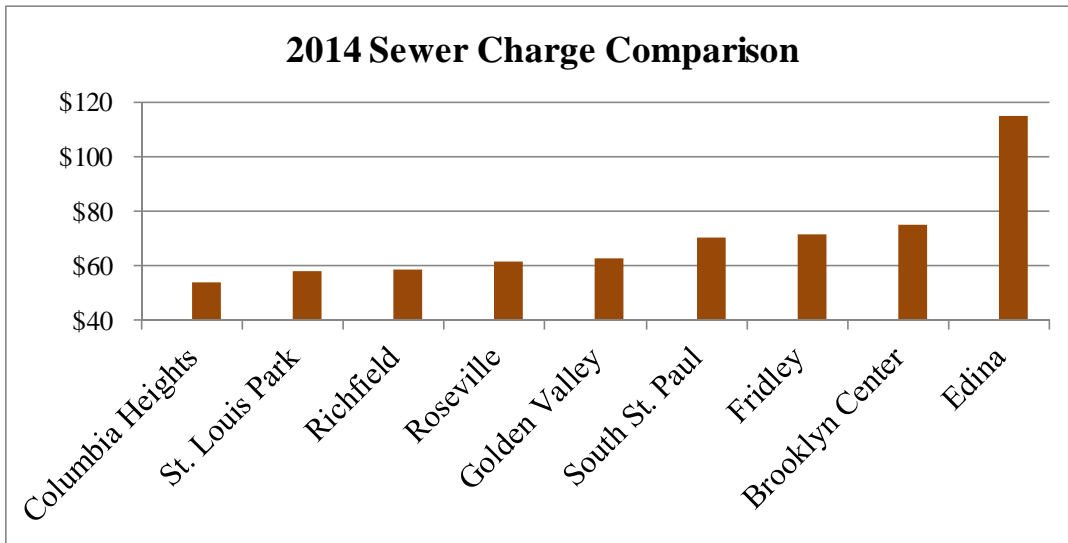
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137 For example, Roseville does NOT utilize assessments to pay for water or sewer infrastructure
138 replacements like many other cities do. Instead we fund infrastructure replacements 100% through the
139 rates. As a result, Roseville’s water and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

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144 The following chart depicts the peer group comparison for combined water base rate and usage rate for
145 a single-family home that uses 18,000 gallons per quarter.
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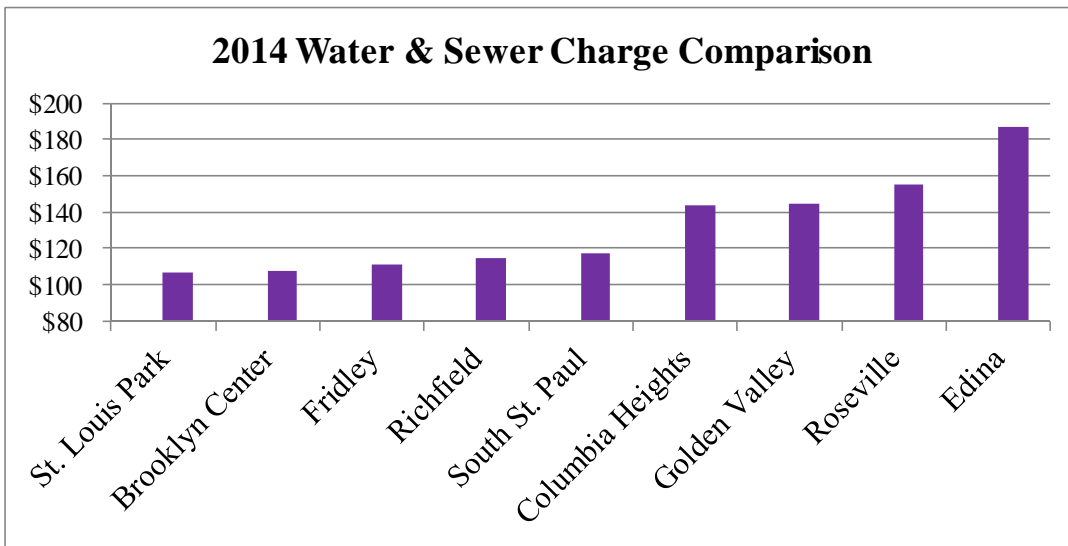
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148 As is shown in the chart, Roseville’s total water charge is the highest in the comparison group. Again,
149 there are numerous circumstances and policy preferences that can lead to varying rates among cities.
150 One of the primary reasons why Roseville’s water rates are higher is due to the significant increase in
151 infrastructure replacements, which unlike many other cities are funded solely by the rates.
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154 The following chart depicts the peer group comparison for combined sewer base rate and usage rate for
155 a single-family home that uses 15,000 gallons per quarter.
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In this instance, Roseville sewer charges were less than the median. To get a broader perspective, the following chart depicts the combined water and sewer impact for a typical single-family home for the comparison group.

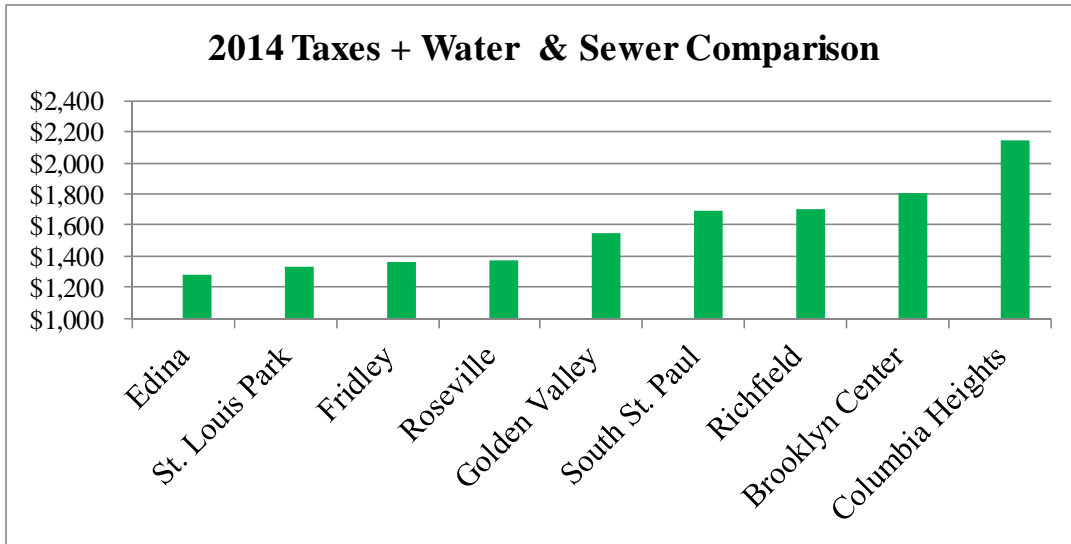


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When combined, Roseville is approximately 18% above the average for the peer group (although we expect that to drop to approximately 10% in 2015). However, it should be noted that most of the cities shown in the chart that have lower utility rates, 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 services.

Roseville’s philosophy is to ensure that all indirect costs are reflected in the water and sewer rates. This results in higher water and sewer rates. This also means that we don’t have as much indirect costs being supported by the property tax or assessments.

This can be somewhat reflected in the chart below which combines property taxes and water and sewer charges for a typical single-family home.



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180 As is shown in this chart, when looking at more comprehensive comparison that factors in a broader
 181 spectrum of needs and funding philosophies, Roseville has one of the lowest financial impacts on
 182 residents of the comparison group – nearly 16% below the peer average. Once again, we must also
 183 look at other factors and local preferences to determine whether there are other influences affecting
 184 property taxes and rates.

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

187

188 **POLICY OBJECTIVE**

189 An annual review of the City’s utility rate structure is consistent with governmental best practices to
 190 ensure that each utility operation is financially sound. In addition, a conservation-based rate structure is
 191 consistent with the goals and strategies identified in the Imagine Roseville 2025 initiative.

192 **FINANCIAL IMPACTS**

193 See above.

194 **STAFF RECOMMENDATION**

195 Based on the increasing costs noted herein, and recommendations from the Public Works, Environment,
 196 and Transportation Commission; Staff is recommending rate adjustments as shown in the attached
 197 resolution.

198 **REQUESTED COUNCIL ACTION**

199 The Council is asked to consider adopting the attached resolution establishing the 2015 Utility Rates.

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Prepared by: Chris Miller, Finance Director
 Attachments: A: Resolution establishing the 2015 Utility Rates

201

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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 17th day of November, 2014 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 2015 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 2014 as follows:

<u>Water Base Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Single-Family Residential	\$ 54.45	\$ 51.60	Standard SF rate
Single-Family Residential: Senior Discount **	35.40	33.50	Standard SF rate x 0.65
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<u>Water Usage Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
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Rates are per 1,000 gallons			

<u>Sewer Base Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
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Multi-family rate is per housing unit			

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<u>Sewer Usage Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Residential	\$ 1.60	\$ 1.65	Standard rate
Non-Residential	3.70	3.85	Standard rate x 2.30
Rates are per 1,000 gallons			

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<u>Stormwater Base Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Single-Family Residential & Duplex	\$ 11.70	\$ 11.70	Standard SF rate
Multi-Family & Churches	90.50	90.50	Standard SF rate x 7.75
Cemeteries & Golf Course	9.10	9.10	Standard SF rate x 0.75
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Rates for single-family are per housing unit; all others are per acre			

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<u>Recycling Rate Category</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
Single-Family	\$ 5.00	\$ 5.50	Standard rate
Multi-Family	5.00	5.50	Standard rate

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<u>Meter Security Deposit</u>	<u>2014 Rate</u>	<u>2015 Rate</u>	<u>Comments</u>
5/8" Meter	\$ 190.00	\$ 190.00	Based on approx. meter cost
3/4" Meter	215.00	215.00	Based on approx. meter cost
1.0" Meter	240.00	240.00	Based on approx. meter cost
1.5" Meter	440.00	440.00	Based on approx. meter cost
2.0" Meter (Disc)	535.00	535.00	Based on approx. meter cost
2.0" Meter (Compound)	1,340.00	1,340.00	Based on approx. meter cost
3.0" Meter	1,910.00	1,910.00	Based on approx. meter cost
6.0" Meter	5,430.00	5,430.00	Based on approx. meter cost

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240 The motion for the adoption of the foregoing resolution was duly seconded by member
241
242 and upon a vote being taken thereon, the following voted in favor thereof:

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244 and the following voted against the same:

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246 WHEREUPON, said resolution was declared duly passed and adopted.

247
248 State of Minnesota)

249) SS

250 County of Ramsey)

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252 I, undersigned, being the duly qualified City Manager of the City of Roseville, County of Ramsey, State
253 of Minnesota, do hereby certify that I have carefully compared the attached and foregoing extract of
254 minutes of a regular meeting of said City Council held on the 17th day of November, 2014 with the
255 original thereof on file in my office.

256
257 WITNESS MY HAND officially as such Manager this 17th day of November, 2014.

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261 _____
Patrick Trudgeon

262 City Manager

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264 Seal

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