REQUEST FOR COUNCIL ACTION

Date: 12/03/12
Item No.: 12.d

Department Approval

City Manager Approval

Item Description: Consider the 2013 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 2013. The analysis included a review of the City's water, sanitary sewer, storm drainage, and solid waste recycling operations. It also incorporates the recommendations provided by the Council-appointed Capital Improvement Plan (CIP) Task Force, 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.
- Capital replacement costs.
- Customer counts and consumption patterns, rate structure, and rates.

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 2012 and 2013 (Proposed) Budget:

	2012	2013	$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	$ 581,600	$ 595,845		
Supplies & Materials	74,100	76,325		
Other Services & Charges	582,050	584,270		
Water Purchases	4,600,000	5,000,000		
Depreciation / Capital	1,165,000	1,585,000		
Total	$ 7,002,750	$ 7,841,440	$ 838,690	12.0 %

The single largest operating cost for the water operation is the purchase of wholesale water from the City of St. Paul. For 2013, the budgeted amount has been increased given the rate increase imposed by St. Paul as well as the uncertainty of future wholesale water rates. The City of St. Paul is currently undertaking a Cost of Service study to determine what changes might be needed in their rate structure. The City expects to enter into discussions with the City of St. Paul early next year to review the cost sharing formula outlined in the current contract.

The City also expects to have moderate increases in personnel and supply-related costs, leading to an overall budget increase of 12.0%. The impact on the water rates will also be affected by these and other factors.

As noted previously on several occasions, the City's long-term capital financing program has been significantly underfunded for many years. The Water Fund has been reliant on 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 $700,000 annually.

Based on a recommendation of the CIP Task Force, the City Council agreed in 2011 to adopt a base rate increase of approximately 60% to alleviate the funding gap. The increase was to be phased in over two years beginning in 2012. For 2013, the increase is expected to generate an additional $400,000 annually. The base rate would need to be indexed for future inflationary impacts.

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

Discussion on Water Conservation Rates

In January, 2009 the City instituted a new water conservation-based rate structure designed to encourage water conservation in conjunction with the goals and strategies outlined in the City's Imagine Roseville 2025 initiative, as well as a new State Law that required water service providers to encourage water conservation. This law has since been amended and the City is no longer required to have conservation rates as long as they can demonstrate that aggregate water use has declined due to other measures.

The City created a 2-tiered rate structure that was designed to target ***excessive*** water usage as opposed to the water used for everyday household needs. It is not unusual to see a 4 or 5 person household use 30,000 gallons or more per quarter for general use such as personal hygiene, washing clothes and dishes, cooking, etc. This is evidenced by evaluating a household's wintertime usage. In recognition of this, the rate structure was designed to encourage conservation without unduly penalizing larger households for 'normal' water use.

The current water rate structure is as follows:

Category	2012 Usage Rate
SF Residential; Up to 30,000 gals./qtr	$ 2.15
SF Residential; Over 30,000 gals./qtr – winter rate *	2.40
SF Residential; Over 30,000 gals./qtr – summer rate **	2.65
Non-SF Residential – winter rate	2.80
Non-SF Residential – summer rate **	$ 3.10

In an effort to gain a broad perspective on citywide household use, the following chart depicts the percentage of single-family homes that fall into the current water rate categories based on usage over the last 12 months and the 2-tiered rate structure.

CURRENT Water Rate Tier	% of SF Homes: Winter	% of SF Homes: Summer
0 – 30,000 gallons per quarter	90 %	85 %
Over 30,000 per quarter	10 %	15 %
Total	100 %	100 %

As this table indicates, under the current water rate structure, 10-15% of single-family homes are impacted by the higher rates.

The Public Works, Environment, and Transportation Commission recently discussed the City's water rate structure and conservation rates. The Commission is recommending that the City move to a 3-tier system to incorporate the following breakpoints:

Tier	Description
1	0 – 16,000 gallons per quarter
2	16,000 – 24,000 gallons per quarter
3	Over 24,000 gallons per quarter

The threshold of 16,000 gallons between tiers 1 and 2 is based on the current average usage in a single-family home. The Commission further recommends that the rate structure be revenue neutral so that usage rates at tiers 2 and 3 are sufficient to partially offset usage rates at the first tier. City Staff is comfortable in moving to a 3-tiered system, however the aggregate data continues to suggest that single-family homeowners are already successfully employing a variety of water conservation approaches.

The following chart depicts the percentage of single-family homes that fall into each water rate category based on current usage and the proposed 3-tiered rate structure.

PROPOSED Water Rate Tier	% of SF Homes: Winter	% of SF Homes: Summer
0 – 16,000 gallons per quarter	70 %	60 %
16,000 – 24,000 gallons per quarter or more	15 %	20 %
Over 24,000 gallons per quarter	15 %	20 %
Total	100 %	100 %

Under the proposed 3-tiered rate structure, approximately 30-40% of single-family homes will be impacted by the higher tier rates, compared to 10-15% today. Under this scenario, approximately 2,100 homes will pay more for water services than they currently do as a direct result of the change in rate structure.

As noted above, the PWET Commission has advocated that the new 3-tiered rate structure be revenue neutral. Under the current 2-tiered structure the lowest tier is set at an amount that is commensurate with the cost to purchase water from the City of St. Paul. This ensures that in the event ALL homes fell into the lowest tier, the City would not be financially jeopardized. Therefore, any incremental revenue derived from the higher tier is set aside for contingency purposes and to promote long-term stability of the rates.

If on the other hand we move to a revenue neutral rate structure, the premium charged for usage at Tiers 2 and 3 will allow the lowest tier rate to decline. As a result, 60-70% of single-family homes would pay less than they currently do. In effect, homes with lower usage will be subsidized by those with higher usage. This is in sharp contrast to the current philosophy where all homes pay the same pass-through cost of water purchased from St. Paul.

It should be noted that many of these same low usage homes that would benefit from this new approach already receive a subsidy through the senior discount program.

Another consideration on whether to move to a 3-tiered rate structure is whether such an approach actually promotes water conservation. We have observed that water usage has declined in the past couple of years despite most households never reaching the threshold for the higher tier. One could argue that education and awareness has been the leading factor in discouraging homeowners from excessive water use, rather than the financial incentive (penalty) that accompanies higher tiers.

One can assume that each household has a threshold for which a financial incentive would cause them to modify their water use behavior. Arguably however, it would take more than just a few dollars per month which is the case under both the current and proposed water rate tier structure.

A final point for discussion involves the fairness that tiered water rates can have on larger families. For example, let's assume that the per-person water usage for someone that follows moderate water conservation measures is 5,000 gallons per quarter. A 3-person household would use 15,000 gallons per quarter and would not hit the higher tier. However, a 4-person household would use 20,000 gallons per quarter and hit the higher tier simply because there are more people living in the house. On an individual basis the 4-person household is just as conservative in their water use, but they pay a higher rate nonetheless.

Taking this example further, let's assume that the 4-person household is even more conservative and uses only 4,500 gallons per quarter, per person. This amounts to 18,000 gallons per quarter which once again triggers the higher tier rate. In this example, the 4-person household pays a higher rate despite having superior conservation behaviors compared to the smaller household.

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 2012 and 2013 (Proposed) Budget:

	2012	2013	$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	$ 358,448	$ 367,235		
Supplies & Materials	45,050	46,395		
Other Services & Charges	419,200	420,545		
Wastewater Treatment	2,850,000	3,000,000		
Depreciation / Capital	1,165,000	1,280,000		
Total	$ 4,837,698	$ 5,114,175	$ 276,477	5.7 %

The single largest operating cost to the sanitary sewer operation is the wastewater treatment costs paid to the Metropolitan Council Environmental Services Division (MCES). Based on projected flows and increased costs from the MCES, the budget for this category has been increased by 5%. The City also expects to have moderate increases in personnel and supply-related costs bringing the total increase to 5.7%. The impact on the sewer rates will also be affected by these and other factors.

The 20-Year CIP calls for an average capital replacement need of $1 million annually. In contrast, current sewer rates only provide $670,000 annually. Based on a recommendation of the CIP Task Force, the City Council agreed in 2011 to adopt a base rate increase of approximately 60% to alleviate the funding gap. The increase was to be phased in over two years beginning in 2012. For 2013, the increase is expected to generate an additional $330,000 annually. The base rate would still need to be indexed for future inflationary impacts.

It is further recommended that the usage rate be increased by approximately 3.5% to offset the increase in wastewater 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 2012 and 2013 (Proposed) Budget:

	2012	2013	$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	$ 316,837	$ 324,615		
Supplies & Materials	55,301	57,300		
Other Services & Charges	277,800	281,000		
Depreciation / Capital	1,260,000	1,369,000		
Total	$ 1,909,938	$ 2,301,915	$ 121,977	6.4 %

The City expects to have moderate increases in personnel, supply and capital-related costs, which will require an increase in the storm water rates.

Previously, the 20-Year CIP called for an average capital replacement need of $972,000 annually. The 2011 storm water rates only provided $310,000 annually.

To alleviate this shortfall, the CIP Task Force recommended a one-time base rate increase of approximately 65% in 2012. This was expected to 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. It was noted at the time that the base rate would still need to be indexed for future inflationary impacts, although no adjustment is needed for 2013.

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 pickup recycling materials.

The following table provides a summary of the 2012 and 2013 (Proposed) Budget:

	2012	2013	$ Incr. (Decrease)	% Incr. (Decrease)
Personnel	$ 31,581	$ 32,375		
Supplies & Materials	400	405		
Other Services & Charges	24,910	24,910		
Contract Pickup	468,000	747,005		
Total	$ 524,891	$ 531,695	$ 6,804	1.3 %

The City expects to have a 1.94% increase in contract pickup costs as set forth in the current contract. The contract also specifies that the City receives a portion of the monies generated from the re-sale of recycled materials. This is expected to generate approximately $90,000 per year, and along with an expected $65,000 SCORE grant from Ramsey County, will allow for a relatively small rate increase to Roseville residents of only 1.6%.

Rate Impacts for 2013

Based on the rate impacts described above, Staff is recommending a rate increase for ALL utility rate categories except for the storm water rates which were sufficiently increased in 2012. With these suggested rate changes, a typical single-family home will pay $165.55 per quarter, an increase of $18.22 or 12.4%. Additional detail is shown in the tables below, and in Schedule A of the attached Resolution.

Single Family Homes

	2012	2013	$ Incr. (Decrease)	% Incr. (Decrease)
Water – base fee	$ 40.09	$ 49.50		
Water – usage fee	38.70	39.60		
Sanitary Sewer – base fee	30.35	37.35		
Sanitary Sewer – usage fee	21.00	21.75		
Storm Sewer	11.15	11.15		
Recycling	6.10	6.20		
Total	$ 147.33	$ 165.55	$ 18.22	12.4 %

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

Single Family Homes – with Utility Discount

	2012	2013	$ Incr. (Decrease)	% Incr. (Decrease)
Water – base fee	$ 26.00	$ 32.15		
Water – usage fee	12.90	13.20		
Sanitary Sewer – base fee	18.95	23.30		
Sanitary Sewer – usage fee	7.00	7.25		
Storm Sewer	11.15	11.15		
Recycling	6.10	6.20		
Total	$ 82.10	$ 93.25	$ 11.15	13.6 %

** Based on an average consumption of 6,000 gallons per quarter.
Discount applies only to the water and sewer base fee and is approximately 35% less than the standard rate.

Commercial Property

	2012	2013	$ Incr. (Decrease)	% Incr. (Decrease)
Water – base fee	$ 79.25	$ 98.00		
Water – usage fee	560.00	580.00		
Sanitary Sewer – base fee	66.30	81.60		
Sanitary Sewer – usage fee	650.00	670.00		
Storm Sewer	517.35	517.35		
Total	$ 1,872.90	$ 1,946.95	$ 74.05	3.95 %

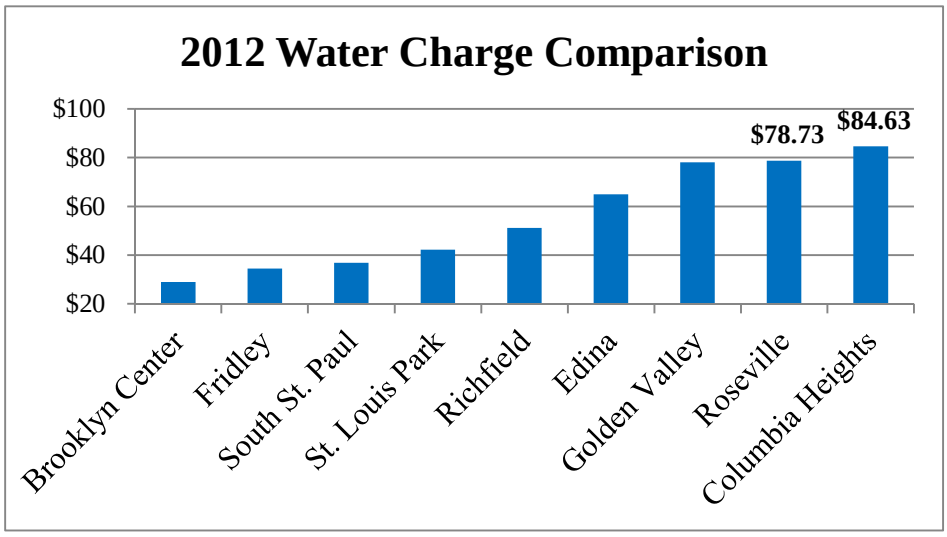
** Based on an average consumption of 200,000 gallons per quarter, with a 1 ½" meter, and occupying 3 acres.

Rate Comparisons

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

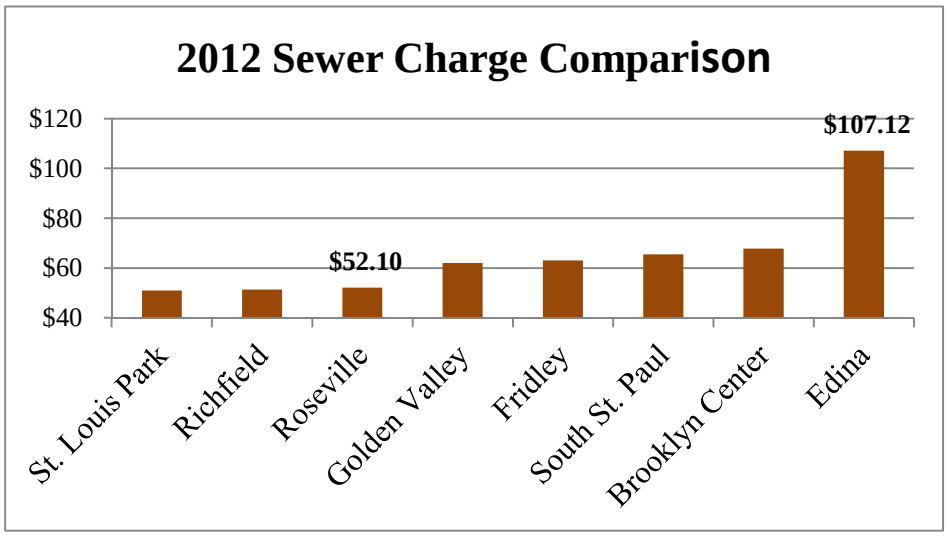
It should be noted that broad comparisons give only a cursory look at how one community compares to another. One must also incorporate each City's individual philosophy in funding programs and services. For example, Roseville does NOT utilize assessments to pay for water or sewer infrastructure replacements like many other cities do. Instead we fund infrastructure replacements 100% through the rates. As a result, Roseville's water and sewer 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-residential customers.

The following chart depicts the peer group comparison for combined water base rate and usage rate for a single-family home that uses 18,000 gallons per quarter.

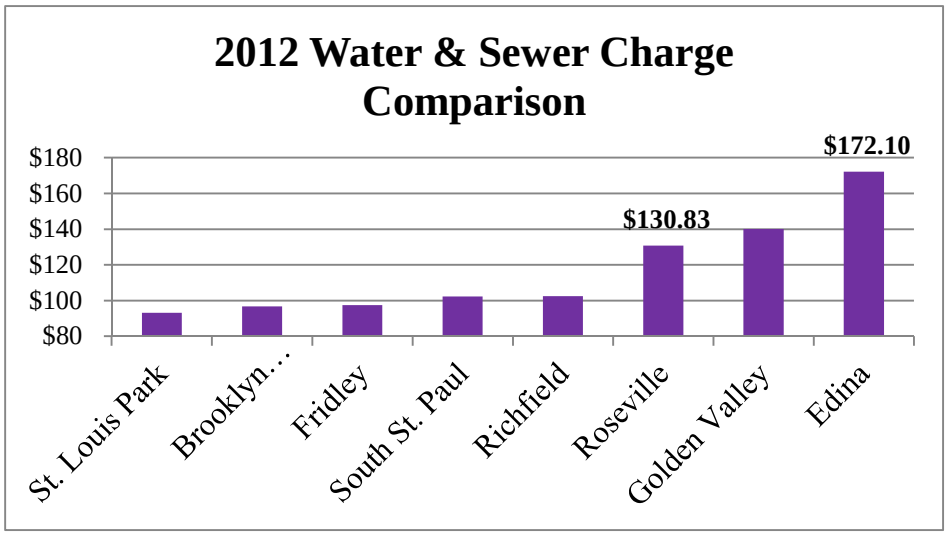


As is shown in the chart, Roseville's total water charge is one of the highest in the comparison group. Again, there are numerous circumstances and policy preferences that can lead to varying rates among cities.

The following chart depicts the peer group comparison for combined sewer base rate and usage rate for a single-family home that uses 15,000 gallons per quarter.



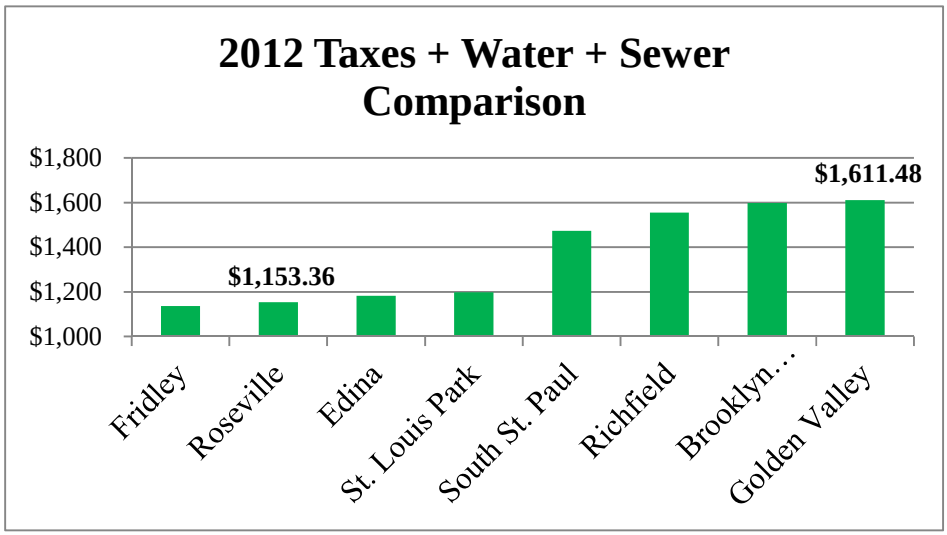
In this instance, Roseville sewer charges were lower than most. To get a broader perspective, the following chart depicts the combined water and sewer impact for a typical single-family home for the comparison group.



When combined, Roseville is approximately 9% above the average for the peer group. 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.

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



As is shown in this chart, when looking at more comprehensive comparison that factors in a more broad-based spectrum of needs and funding philosophies, Roseville has one of the lowest financial impacts of the comparison group - a full 15% below the peer average. Once again, we must also look at other factors and local preferences to determine whether there are other influences affecting property taxes and rates.

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.

STAFF RECOMMENDATION

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

REQUESTED COUNCIL ACTION

For discussion purposes only. The Council will be asked to adopt the attached resolution establishing the 2013 Utility Rates at a subsequent Council meeting.

Prepared by: Chris Miller, Finance Director
Attachments: A: Resolution establishing the 2013 Utility Rates

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 3rd day of December, 2012 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 2013 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 2013 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 3rd day of December, 2012 with the original thereof on file in my office.

WITNESS MY HAND officially as such Manager this 3rd day of December, 2012.

_____
William J. Malinen
City Manager

Seal

Schedule A

Water Base Rate

Category	2012 Base Rate	2013 Base Rate
SF Residential	$ 40.03	$ 49.50
SF Residential – Sr. Rate	26.00	32.15
Non-SF residential		
5/8" Meter	39.99	49.45
1.0" Meter	50.45	62.40
1.5" Meter	79.25	98.00
2.0" Meter	151.30	187.10
3.0" Meter	302.60	374.20
4.0" Meter	605.23	748.45
6.0" Meter	$ 1,210.45	$ 1,496.90

Water Usage Rate ** *Must Selected Rate Structure with/without revenue neutral rates* **

Category	Tier *	2012 Usage Rate	2013 Usage Rate	Revenue Neutral 2013 Usage Rate
Single Family Residential; winter rate (Tier 1)	0 - 16,000 gals./qtr.	n/a	$ 2.20	$ 2.10
Single Family Residential; winter rate (Tier 2)	16,000-24,000 gals./qtr.	n/a	2.45	2.45
Single Family Residential; winter rate (Tier 3)	24,000+ gals./qtr.	n/a	2.70	2.70
Single Family Residential; summer rate (Tier 2) **	16,000-24,000 gals./qtr.	n/a	2.70	2.70
Single Family Residential; summer rate (Tier 3) **	24,000+ gals./qtr.	n/a	3.00	3.00
Non-SF Residential – winter rate		2.80	2.90	2.90
Non-SF Residential – summer rate **		$ 3.10	$ 3.20	$ 3.20

* Each successive Tier is approximately 10% higher than the previous rate

** Summer rates are approximately 10% higher than the corresponding winter rate

For comparison purposes, the 2012 Water Usage Rates were as follows:

Category	2012 Usage Rate
SF Residential; Up to 30,000 gals./qtr	$ 2.15
SF Residential; Over 30,000 gals./qtr – winter rate *	2.40
SF Residential; Over 30,000 gals./qtr – summer rate **	2.65
Non-SF Residential – winter rate	2.80
Non-SF Residential – summer rate **	$ 3.10

Sanitary Sewer Base Rate

Category	2012 Base Rate	2013 Base Rate
Residential	$ 30.35	$ 37.35
Residential – Sr. Rate	18.95	23.30
Apartments & Condos	20.95	25.75
Non-residential		
5/8” Meter	22.20	27.30
1.0” Meter	44.40	54.65
1.5” Meter	66.30	81.60
2.0” Meter	110.60	136.10
3.0” Meter	221.40	272.50
4.0” Meter	443.000	545.20
6.0” Meter	$ 885.90	$ 1,090.30

Sanitary Sewer Usage Rate

Category	2012 Usage Rate	2012 Usage Rate
Residential	$ 1.40	$ 1.45
Non-residential	$ 3.25	$ 3.35

Stormwater Rates

Category	2012 Flat Rate	2013 Flat Rate
Single Family & Duplex	$ 11.15	$ 11.15
Multi-family & Churches (per acre)	86.20	86.20
Cemeteries & Golf Course (per acre	8.65	8.65
Parks (per acre)	25.90	25.90
Schools & Comm. Centers (per acre)	43.15	43.15
Commercial & Industrial (per acre)	$ 172.45	$ 172.45

Recycling Rates

Category	2012 Flat Rate	2013 Flat Rate
Single Family	$ 6.10	$ 6.20
Multi Family (per unit)	$ 6.10	$ 6.20

Meter Security Deposit

Category	2012 Flat Rate	2013 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