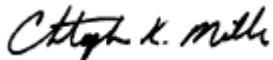


REQUEST FOR COUNCIL ACTION

Date: 11/22/10
Item No.: 12.d

Department Approval



City Manager Approval



Item Description: Adopting the 2011 Utility Rate Adjustments

BACKGROUND

Over the past several months, City Staff has been reviewing the City's utility operations to determine whether rate adjustments are necessary for 2011. The analysis included the City's water, sanitary sewer, storm water drainage, and solid waste recycling operations.

The analysis entailed a review of:

- ❖ 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

Water Operations Overview: 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 City purchases its water supply from the City of St. Paul, which remains the single largest operating cost to the water operation. It is estimated that our wholesale water purchase costs will increase by 5.4%. In addition, the City's internal operating costs are expected to increase significantly due to higher capital replacement costs, the addition of a new full-time Utilities Engineer, and a reallocation of a portion of staffing-related costs from the City's sanitary sewer function. The staffing reallocation is based on recent employee time-spent profiles that were conducted in conjunction with the City's new program-based budgeting approach.

The 2011-2020 Capital Investment Plan call for an investment of nearly \$1.1 million dollars per year in the City's water system. By comparison, the City is currently setting aside only \$400,000 per year. To ensure that the City's water system infrastructure is replaced at the end of its useful life, sustained increases in the water rates will be necessary. Sustained rate increases will also be needed to improve the Water Fund's overall financial condition which is currently in a relatively poor position.

Sanitary Sewer Operations Overview: The City maintains a sanitary sewer collection system to ensure the general public's health and general welfare. 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 3.2% in 2010. This increase will be offset by the reallocation of some staffing-related costs to the City's water

function.

The 2011-2020 Capital Investment Plan call for an investment of nearly \$1 million dollars per year in the City's sanitary sewer system. By comparison, the City is currently setting aside only \$500,000 per year. To ensure that the City's sanitary sewer system infrastructure is replaced at the end of its useful life, sustained increases in the sewer rates will be necessary.

The Sanitary Sewer Fund is in good financial condition which has allowed for lower-than-inflation rate increases over the last 5 years.

Storm Water Drainage Operations Overview: 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 storm sewer costs are expected to be higher than in previous years, due to an increase in the planned capital replacement of stormwater systems, as well as additional costs related to the addition of a Utilities Engineer.

The 2011-20209 Capital Investment Plan calls for an investment of nearly \$790,000 dollars per year in the City's sanitary sewer system. By comparison, the City is currently setting aside about \$600,000 per year. To ensure that the City's stormwater system infrastructure is replaced at the end of its useful life, an increase in the stormwater rates will be necessary.

Like the Sanitary Sewer Fund, the Storm Water Drainage Fund is in good financial condition which has allowed for lower-than-inflation rate increases over the last 5 years.

Recycling Operations Overview: 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 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. However, over the past year the City's revenue sharing portion has dropped dramatically from a high of \$135,000 in 2008, to only \$42,000 in 2009. Approximately \$90,000 in revenue sharing monies is projected for 2011. The increase in program revenue sharing will be sufficient to avoid an increase in recycling fees charged to residents.

Discussion on the Conservation-Based Rate Structure

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.

The new conservation-based rates were designed primarily to target **excessive** water usage. It is not unusual to see a 4 or 5 person household use 20-30,000 gallons per quarter for general use such as personal hygiene, cooking, and cleaning (as evidenced by the household's wintertime usage). In recognition of this, the new rate structure was designed to encourage conservation without unduly penalizing households for basic water use.

The new State Law did not mandate how each service provider should structure their rates, but it did offer examples that are commonly in use, such as using increasing block rates (tiered rate structure) and seasonal rates. The City's current rate structure employs both of these measures as shown in the following table.

81

Category	Usage Rate
Residential; Up to 30,000 gals./qtr	\$ 1.95
Residential; Over 30,000 gals./qtr – winter rate	2.15
Residential; Over 30,000 gals./qtr – summer rate	2.35

82

83 In analyzing customer usage behaviors prior to 2009, it was evident that Roseville residents were already
84 consuming less water than residents in many other communities. This is most likely due to the fact that
85 relatively few residential properties in Roseville have irrigation systems, which is in contrast to some 2nd
86 and 3rd ring suburbs. It may also stem from having a relatively smaller population per household.

87

88 Given that Roseville residents already had some forms of water conservation methods in place, it was
89 projected that a new conservation-based rate structure was not likely to have a significant impact on the
90 amount of residential water use.

91

92 Data Analysis

93 An aggregate analysis of residential water usage was made to compare household usage before and after the
94 new conservation-based rates was instituted. The focus was placed on summertime usage where household
95 usage was highest and therefore most sensitive to any rate changes.

96

97 Prior to the new rate structure, the average *summertime* household use was 23,000 gallons per quarter.
98 After the new rate structure was put in place, average summertime household over the past two years
99 dropped to 22,000 gallons per month – a 4% decrease.

100

101 Using this simple comparison one might conclude that the conservation rates had an impact and resulted in
102 lower usage. However, the amount of rainfall during these summertime periods increased from 2.3 inches
103 per month in 2008 to an average of 3.9 inches per month in 2009-2010. Arguably, the added rainfall during
104 the past two years played a significant role in the decline in household usage.

105

106 A secondary analysis was conducted on a subset of the 400 highest residential water users in the City to
107 determine whether those households that were most impacted by the new rate structure changed their
108 consumption behavior. The analysis demonstrated that this subgroup exhibited the same usage patterns as
109 those in the aggregate. Prior to the new rate structure, the average *summertime* household for this subgroup
110 was 79,000 gallons per month. After the new rate structure was put in place, average summertime
111 household over the past two years dropped to 75,000 gallons per month – a 6% decrease.

112

113 Like the aggregate group, it is suggested that this subgroup's decline in usage was also influenced by the
114 increased rainfall amounts and not due to the higher rates that accompanied the new rate structure. Clearly
115 this group was not averse to going well beyond the 30,000 gallon mark despite the higher rates.

116

117 Conclusion

118 While the data is somewhat inconclusive, it is evident that the presence of the *current* conservation-based
119 rate structure has not had a significant impact on residential water usage. It's conceivable that the water
120 rates could be increased to reach a price point that would change consumer behavior. However, this could
121 disproportionately affect those households that have already exhausted their means of reducing their
122 consumption.

123

124

It is suggested that there may be equally effective tools such as greater education and awareness or advocating for new societal norms that could achieve the same outcome as higher prices would.

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

Based on the 2011 Preliminary Budget and rate impacts described above, Staff is recommending a rate increase for water, sewer, and storm sewer; and a rate decrease for recycling. With these suggested rate changes, a typical homeowner will pay approximately \$127.85 per quarter, an increase of \$5.75 or 4.7%. Additional detail is shown in the tables below.

Single Family Homes

Service	2010	2011	\$ Change	% Change
Water – base fee	\$ 27.75	\$ 30.55	\$ 2.80	
Water – usage fee	35.10	37.80	2.70	
Sanitary Sewer – base fee	23.35	23.35	-	
Sanitary Sewer – usage fee	22.50	23.40	0.90	
Storm Sewer	6.15	6.75	0.60	
Recycling	7.25	6.00	(1.25)	
Total	\$ 122.10	\$ 127.85	\$ 5.75	4.7 %

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

Single Family Homes – with Utility Discount

Service	2010	2011	\$ Change	% Change
Water – base fee	\$ 18.00	\$ 19.85	\$ 1.85	
Water – usage fee	15.60	16.80	1.20	
Sanitary Sewer – base fee	14.55	14.55	-	
Sanitary Sewer – usage fee	10.00	10.40	0.40	
Storm Sewer	6.15	6.75	0.60	
Recycling	7.25	6.00	(1.25)	
Total	\$ 71.55	\$ 74.35	\$ 2.80	3.9 %

** Based on an average consumption of 10,000 gallons per quarter.
Discount is approximately 38% less than the standard rate.

147
148
149

Commercial Property

Service	2010	2011	\$ Change	% Change
Water – base fee	\$ 55.00	\$ 60.50	\$ 5.50	
Water – usage fee	500.00	540.00	40.00	
Sanitary Sewer – base fee	51.00	51.00	-	
Sanitary Sewer – usage fee	570.00	600.00	30.00	
Storm Sewer	285.00	313.00	28.50	
Recycling	-	-		
Total	\$1,461.00	\$1,565.00	\$ 104.00	7.0 %

150 ** Based on an average consumption of 200,000 gallons per quarter, with a 1 ½” meter, and occupying 3 acres.
151

152 **STAFF RECOMMENDATION**

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

155 **REQUESTED COUNCIL ACTION**

156 Adopt the attached resolution establishing the 2011 Utility Rates.
157

Prepared by: Chris Miller, Finance Director

158 Attachments: A: Resolution establishing the 2011 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 22nd day of November, 2010 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 2011 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 2011 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 22nd day of November, 2010 with the original thereof on file in my office.

WITNESS MY HAND officially as such Manager this 22nd day of November, 2010.

William J. Malinen
City Manager

Seal

Schedule A

Water Base Rate

Category	2010 Base Rate	2011 Base Rate
Residential	\$ 27.75	\$ 30.55
Residential – Sr. Rate	18.00	19.85
Non-residential		
1.0" Meter	35.00	38.50
1.5" Meter	55.00	60.50
2.0" Meter	105.00	115.50
3.0" Meter	210.00	231.00
4.0" Meter	420.00	462.00
6.0" Meter	\$ 840.00	\$ 924.00

Water Usage Rate

Category	2010 Usage Rate	2011 Usage Rate
Residential; Up to 30,000 gals./qtr	\$ 1.95	\$ 2.10
Residential; Over 30,000 gals./qtr – winter rate *	2.15	2.35
Residential; Over 30,000 gals./qtr – summer rate **	2.35	2.60
Non-Residential – winter rate	2.50	2.70
Non-Residential – summer rate **	\$ 2.75	\$ 3.00

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

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

Sanitary Sewer Base Rate

Category	2010 Base Rate	2011 Base Rate
Residential	\$ 23.35	\$ 23.35
Residential – Sr. Rate	14.55	14.55
Residential – Multi family	16.10	16.10
Non-residential		
5/8" Meter	17.05	17.05
1.0" Meter	34.15	34.15
1.5" Meter	51.00	51.00
2.0" Meter	85.05	85.05
3.0" Meter	170.30	170.30
4.0" Meter	340.75	340.75
6.0" Meter	\$ 681.45	\$ 681.45

Sanitary Sewer Usage Rate

Category	2010 Usage Rate	2011 Usage Rate
Residential	\$ 1.25	\$ 1.30
Non-residential	\$ 2.85	\$ 3.00

Stormwater Rates

Category	2010 Flat Rate	2011 Flat Rate
Single Family & Duplex	\$ 6.15	\$ 6.75
Multi-family & Churches	47.50	52.25
Cemeteries & Golf Courses	4.75	5.25
Parks	14.25	15.70
Schools & Comm. Centers	23.75	26.15
Commercial & Industrial	\$ 95.00	\$ 104.50

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	2010 Flat Rate	2011 Flat Rate
Single Family	\$ 7.25	\$ 6.00
Multi Family (per unit)	\$ 4.90	\$ 6.00

Meter Security Deposit

Category	2010 Flat Rate	2011 Flat Rate
5/8" Meter	\$ 75.00	\$ 75.00
1.0" Meter	120.00	120.00
1.5" Meter	300.00	300.00
2" Meter	\$ 400.00	\$ 400.00

Larger meters and hydrant meters are evaluated on the basis of meter cost and consumption. A deposit is computed accordingly.