Memorandum

Date: June 20, 2011

To: Roseville Residents and Businesses, Fellow City Councilmembers, and City Staff

From: Mayor Dan Roe, City Councilmember Jeff Johnson, City Manager Bill Malinen, and Finance Director Chris Miller

Subject: Second Part of Capital Funding Plan and Preliminary Subcommittee Report

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The Purpose of the Subcommittee

As stated in the June 13 subcommittee preliminary report memo, this subcommittee was established by the City Council as the result of the Council/Staff work plan discussions held earlier this year. The subcommittee was made up of Mayor Roe, Councilmember Johnson, City Manager Malinen, and Finance Director Chris Miller. The purpose of the subcommittee was to determine a path to a sustainable capital funding plan for the City in light of the ongoing under-funding of capital replacement needs, and propose a plan for consideration by the community and the City Council.

The Problem – A Reminder

As a refresher of information contained in the June 13 memo, in total, the capital needs for the City for the next 20 years have been estimated to amount to around $218 million. Of that total, about $148 million (68% - over two thirds) is un-funded by current sources as projected over the next 20 years. A graphic example of the current situation follows:

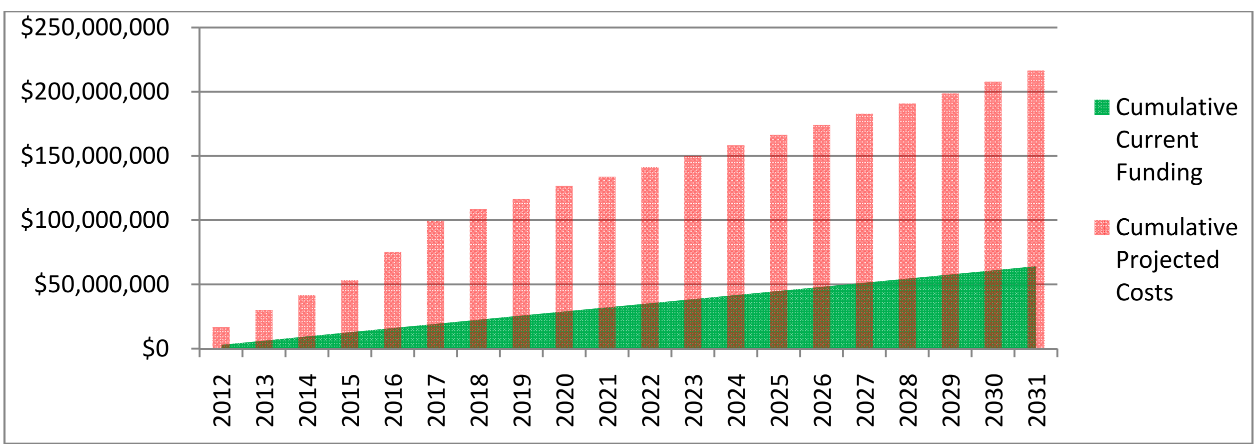

Figure 1. Current Situation - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. All figures are in 2011 dollars.

The Second Part of the Recommendation

Utility Needs.

<u>Background</u>. The fee-supported Utilities in the City with significant un-funded capital needs are the Water Utility, the Sanitary Sewer Utility, and the Stormwater Uitility. These utilities all consist largely of underground piping systems that were installed over a period from the 1940's to the 1970's as the City developed. In addition, the Water Uitilty includes the City's water tower, and the Stormwater Utility includes a number of City-maintained stormwater management ponds. This capital infrastructure is provided by the City to deliver safe drinking water to the homes and businesses in the City, to take away sanitary sewer wastewater to the Metropolitan Council's sewer system and treatment facility for safe treatment, and to safely collect stormwater run-off, treat it, and deliver it to the environment via the streams, lakes, and other waterways of the area.

Much of the piping in these systems is approaching 50-60 years of age, and was made of materials that have been found to not last much longer than that, if even that long. The cast iron of the water mains is brittle and subject to leaking and breaks as the result of ground shifting, tree roots, etc. The clay tile of the sanitary sewer lines is similarly subject to leaks and breaking. Since the City pays St. Paul for drinking water, each leak or break in a line costs the City's residents and businesses higher rates to account for that un-used water we purchase. Leaks of raw sewage into the ground pose a danger to the environment.

In an effort to keep current and future costs down, the City is using new materials and technologies to replace or repair existing water and sewer mains. Where City streets are being completely replaced, the water and sewer lines are being replaced (as needed) with more durable materials. Where streets are not programmed for replacement for many years, the City is using re-lining technology that puts a new plastic pipe inside the existing pipe, and does not require excavation of the street.

The capital infrastructure funding gap over the next 20 years in these Utility funds is about $47 million out of total projected costs of $65 million. In other words, 72% of the projected costs are currently un-funded.

<u>Recommendation</u>. The subcommittee recommends a long-term solution for funding the significant capital replacement needs of these Utilities that is a combination of adding revenues and transferring existing funds.

The first part of the recommendation is to increase the annual utility base fees by a total of $2.2 million in 2012, and to maintain that increase permanently going forward. Approximately $850,000 of that amount would be dedicated to Water Utility capital funding, approximately $830,000 to Sanitary Sewer Utility capital funding, and the remaining approximately $500,000 would be dedicated to Stormwater Utility capital funding.

The second part of the recommendation is to transfer $600,000 from the Storm water Fund to the Water Fund (which currently has a $0 balance) in 2012, creating a sustainable fund balance in that fund.

The subcommittee recognizes that this recommendation represents a very significant year-one increase in the utility base fees, but for cash flow reasons prefers that to incremental increases, which delay projects and increase out-year costs, including maintenance costs for older infrastructure.

For reference, with implementation of these recommendations, the typical residential household would see their total utility base fee payment per quarter go up by $44.28 in 2012. (Utility usage fees would not be impacted.)

The subcommittee believes that it is appropriate to refer these proposed rate changes to the Public Works, Environment, and Transportation Commission for their review and comment.

Total Impact of Recommendations.

The proposed subcommittee recommendations contained in the June 13 and June 20 memos are graphically represented, superimposed on the earlier graph of the problem (Figure 1 above), as follows:

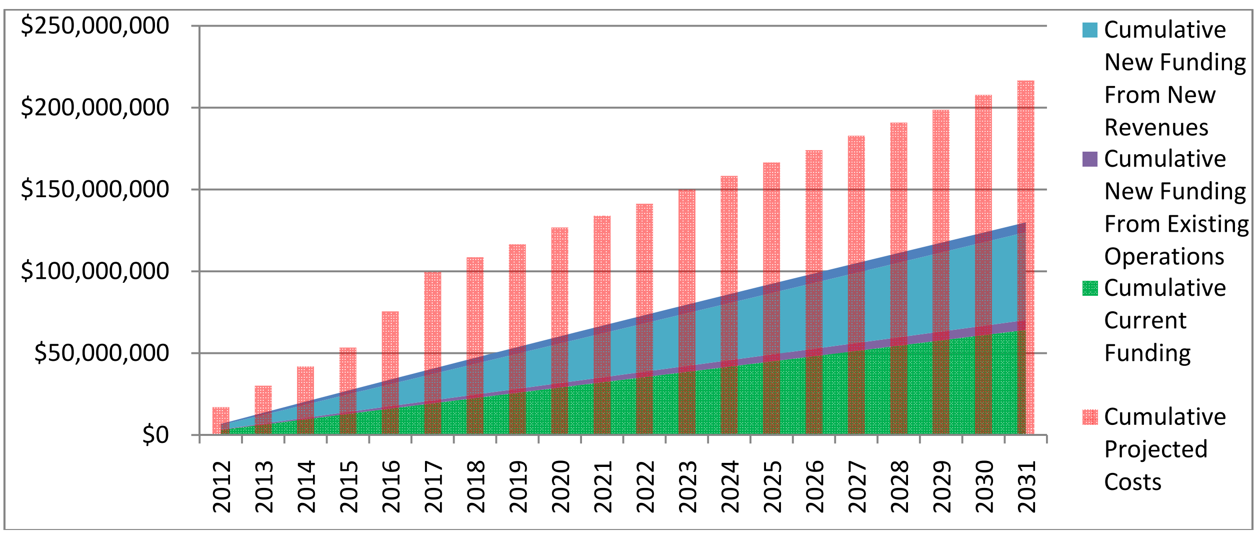

Figure 2. With Recommended Solutions - All Funds. The red bars represent cumulative annual capital costs, while the green area represents cumulative projected current annual budgeted capital funding. The light blue area represents cumulative projected new funding from new revenues. The narrow purple area between the green and light blue areas represents cumulative new funding from operational budget cuts. All figures are in 2011 dollars.

As can be seen, even with the subcommittee recommendations of both the June 13 and June 20 memos, significant work remains – primarily in the Parks and Streets capital funding areas, which are not addressed by these recommendations.