



BOARD OF WATER COMMISSIONERS

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July 08, 2014

Board of Water Commissioners

Dear Commissioners:

Re: 2015 Budget

OVERVIEW:

This budget has an increase in total revenue projected at \$6,388,000. The following is a summary of the highlights:

- The increase in revenue comes, first, from a \$0.18/100 cu. ft. rate increase, which will generate about \$3,067,000 in new revenue. However, because of consumption reductions and consumption pattern changes, the proposed rate increase will actually generate a net total of about \$1,933,000 in additional revenue.
- Second, there is a \$1 increase in the water service base fee; the proposed increase will generate \$1,679,000 in revenue.
- Third, the introduction of a water main surcharge for \$0.20/100 cu. ft. to our full partner retail customers; the proposed rate will generate approximately \$2,821,000 and will fund main replacement in the Saint Paul Regional Water Services (SPRWS) service area.
- Other miscellaneous revenues are projected to decrease \$47,000.
- Last, the use of retained earnings will increase \$2,000 to present a balanced budget.

This budget reflects an increase in spending of \$6,388,000. This includes an increase in operating expenses of \$2,874,000, an increase in revenue funded capital improvements of \$3,497,000, and an increase in debt service of \$17,000.

This budget also includes offsetting spending and financing for the debt funded capital for \$2,225,000.

SAINT PAUL REGIONAL WATER SERVICES

Stephen P. Schneider, General Manager

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Saint Paul Regional Water Services provides quality water services to the following cities:

Arden Hills • Falcon Heights • Lauderdale • Little Canada • Maplewood • Mendota • Mendota Heights • Roseville • Saint Paul • West St. Paul

AA-ADA-EEO Employer

REVENUE:

Sale of Water:

There is a 2.66% decrease in the projected volume of water to be sold in 2015. This change is warranted due to our experience, which is also a regional and national trend. Consequently, we are using a hybrid of a trend analysis and five year average consumption level. Our total consumption base is now at 1.790 billion cubic feet, 49 million cubic feet down from the 1.839 billion cubic feet that was budgeted for 2014. This new consumption base is down 340 million cubic feet or 15.96% from the 2.130 billion cubic feet that was budgeted in 2005.

Rates:

This budget has a rate increase of \$0.18/100 cu. ft. as follows: ¹

	<u>100 cubic feet</u>		<u>Percent Increase</u>
	<u>2014</u>	<u>2015</u>	
Winter rate	\$2.34	\$2.52	(7.69%)
Summer rate	\$2.44	\$2.62	(7.38%)
			Avg.= (7.53%)

¹for Cities of Saint Paul, Falcon Heights, Lauderdale, Maplewood, and West Saint Paul

There will be a \$1 increase in the base water service base fee. This base component will enable the utility to recover a portion of those fixed charges that are incurred annually. The fee is based on the size of the meter. The fee increases as the meter size increases to reflect the increased cost of providing peak volume capacity.

<u>Meter Size</u>	<u>Number of Meters</u>	<u>Water Service Base Fee (Monthly)</u>	<u>Projected Revenues</u>
5/8 & 3/4 Inch	80,367	\$4.00	\$3,858,000
1.0 Inch	8,756	\$10.00	\$1,051,000
1.5 Inch	2,414	\$20.00	\$579,000
2.0 Inch	1,345	\$32.00	\$516,000
3.0 Inch	344	\$64.00	\$264,000
4.0 Inch	227	\$100.00	\$272,000
6.0 Inch	65	\$200.00	\$156,000
8.0 Inch	22	\$320.00	\$85,000
10.0 Inch	4	\$460.00	\$22,000
	<u>93,544</u>		<u>\$6,803,000</u>

The fee for a typical resident user is \$4.00 per month or \$12.00 per quarter in 2015.

The proposed \$0.18/100 cu. ft. water rate increase will generate \$3,067,000 and when added with the increase in the water service base fee of \$1,679,000 will result in a total of \$51,671,000 from the sale of water. The net effect of the increase from water rates is offset by a decrease in revenue due to changes in consumption levels and consumption patterns. The total effect of all the changes is an increase in revenue of \$3,612,000 from the sale of water. There is no change to the Right-of-Way Recovery fee.

Water Revenue	\$3,067,000
Pattern Changes	(\$8,000)
Consumption Reduction	(\$1,126,000)
Water Service Base Fee	\$1,679,000
Total	<u>\$3,612,000</u>

This budget also introduces a water main surcharge. This surcharge is designed to fund main replacement in our SPRWS service area. The rate is \$0.20/100 cu. ft. and will generate approximately \$2,821,000 and will be applied to the Cities of Saint Paul, Falcon Heights, Lauderdale, Maplewood, and West Saint Paul.

If we assume an average annual consumption of 88 units (65,824 gallons), the impact on the average family is an increase of approximately \$45.44 per year for a total annual cost of \$309.76. This consists of the following:

	<u>2014</u>	<u>Change</u>	<u>2015</u>
Water Service Base Fee	\$36.00	\$12.00	\$48.00
Consumption Based	\$210.32	\$15.84	\$226.16
Water Main Surcharge	\$ -	\$17.60	\$17.60
Right-of-Way Recovery Fee	\$18.00	\$ -	\$18.00
Total	<u>\$264.32</u>	<u>\$45.44</u>	<u>\$309.76</u>

Other Revenue:

This budget does show a decrease in other miscellaneous operating and non-operating income for \$47,000. The most notable changes here are an increase in antenna revenues for \$80,000 and billing fees for \$100,000, offset by a decrease in investment revenues of \$185,000.

EXCESS OPERATING CASH:

The actual excess operating cash at the end of 2013 was \$4,199,000. The projected excess operating cash at the end of 2014 currently is \$985,000. With this budget, the projected excess operating cash at the end of 2015 will be \$158,000. A detailed of the cash changes is outlined in the attached appendix.

EXPENSES:

Operations:

Total operating costs have increased \$2,874,000 over 2014 levels. The table below summarizes the total changes.

· Salaries	\$434,000
· Fringes	\$216,000
· Services	\$1,758,000
· Supplies and Misc.	<u>\$466,000</u>
Total Operating Expenses	<u>\$2,874,000</u>

This budget has no change in the total FTE's. We are planning for 2.0 percent increase in wages from contract negotiations. The remaining salary changes are for step increases in various areas. Fringe benefits are expected to increase approximately \$216,000. The net change in salaries and fringes is an increase of \$650,000.

We anticipate the cost of services to increase \$1,758,000. Central service fees will increase \$444,000 over 2014 levels bringing the total City fixed fees to \$4,824,000. There are some increases for professional services for approximately \$700,000 and lime hauling fees are expected to increase \$375,000. The remaining increase is directly related to water production and distribution maintenance.

Supplies and other miscellaneous expenses are expected to increase \$466,000 over 2014 levels. Chemicals, electricity, and fuel and energy costs have increased \$354,000. Other miscellaneous supplies and expenses have increased \$112,000.

	<u>2014 Budget</u>	<u>2015 Budget</u>	<u>Difference</u>	<u>% Change</u>
· Chemicals	\$3,545,000	\$3,646,000	\$101,000	2.85%
· Electricity	\$1,678,000	\$1,978,000	\$300,000	17.88%
· Fuel and Other Energy	\$ 900,000	\$853,000	(\$47,000)	-5.22%
	<u>\$6,123,000</u>	<u>\$6,477,000</u>	<u>\$354,000</u>	

DEBT:

Debt service payments increased \$17,000. We are proposing a new debt issuance with this budget, it will increase our debt service payments by \$170,000; this will be offset by a decrease in debt payments of \$161,000 related to the final payment of one of the refinanced debt from 2011.

CAPITAL:

Our capital program for 2015 includes:

· Business	\$ 255,000
· Distribution	\$ 8,325,000
· Distribution-Main Surcharge	\$ 2,800,000
· Production	\$ 2,200,000
· Equipment and Small Capital	\$ 1,285,000
· Debt Funded Capital	\$ 2,225,000
Total	<u>\$ 17,090,000</u>

Revenue Funded Capital Improvements:

This budget shows a total increase in revenue funded capital improvements of \$3,497,000. There is an increase of \$696,700 for distribution mains and hydrants, and in the business and production area. Our program includes replacing approximately 9.0 miles of water main, 700 water connections, and 150 hydrants. This includes replacing all cast iron mains in the project areas. We are making necessary improvements to our water towers, pumping stations, and small capital and equipment in all areas of the utility. This budget presents the introduction of a water main surcharge. The surcharge will generate \$2,800,000 and will fund the replacement of between 2.5 and 3.0 miles of water mains in the Cities of Saint Paul, Falcon Heights, Lauderdale, Maplewood, and West Saint Paul.

Debt Funded Capital Improvements:

We are proposing \$2,225,000 in improvements in our production division; we anticipate funding these projects with either a bonding issue or from a State Revolving Fund in 2015.

MISCELLANEOUS:

There are a few major professional service agreements in addition to those presented for the capital program. We will be performing some assessments of our raw water conduit and McCarron's treatment facility as well as continuing our existing agreements for the University of Minnesota for water quality research models, Supervisory Control and Data Acquisition (SCADA) and Programmable Logical Controllers (PLC) updates, Geospatial Information System (GIS) enhancements, other technology related services, including enhancements to our Computerized Maintenance Management System (CMMS), our Customer Information System (CIS) and the Time Attendance and Scheduling System (TASS). We have contracted out security and will be monitoring and evaluating coverage levels.

CLOSING STATEMENT:

With this budget, we are increasing the water service base fee and the water rates; the total effect is a 7.52% increase in water fees. In addition, this budget introduces a water main surcharge fee. Total revenues including the surcharge fee are set to increase 11.44%. The rates provided are necessary to fund operating and maintenance costs, debt service, the capital program.

I recommend the Board recommend this budget for approval as presented. Saint Paul Regional Water Services (Regional Water) continues to provide great water and services to our customers and continues to do so at a reasonable cost. We have been able to do so while continuing to increase our investment in our future through infrastructure replacement and making routine preventive maintenance a priority to ensure these assets last as long as possible. Regional Water has shown that we are effective at efficiently utilizing our available resources to provide these services yet are flexible enough to adjust our spending and programs when the estimated resources do not materialize. At all times, we act as responsible stewards of not only our natural resources but our financial resources as well.

I would like to extend my appreciation for the continued support shown by the Board for the operation of Saint Paul Regional Water Services. We continue to update and improve the way we do business and will always be looking for ways to move our organization forward. Regional Water's employees continue to show their dedication and attention to detail each day. We are recognized as leaders in our industry and could not do so without your support. Thank you.

Sincerely,

Stephen P. Schneider
General Manager

SPS/reo

APPENDIX

EXCESS OPERATING CASH:

The analysis of excess operating cash for the years 2013 through 2015 is as follows:

Beginning Balance 12/31/2012		\$3,999,000
Operating Revenue Below Budget	(\$1,576,000)	
Non-operating Revenue Above Budget	\$70,000	
Investment Interest Revenue Below Budget	(\$63,000)	
Operating Expenses Under Budget	\$1,020,000	
Net Change in Accts Rec/Accts Pay, etc.	\$553,000	
Homeowner Lead Replacement Program	\$159,000	
Change in Minimum Cash Required	(\$160,000)	
Excess Expenditures Over Financing	(\$25,000)	
Change in Bond Reserve	\$222,000	
Net Change		<u>\$200,000</u>
Ending Balance 12/31/2013		<u>\$4,199,000</u>

The 2014 expected excess operating cash changes are as follows:

Beginning Balance 12/31/2013		\$4,199,000
Change in Minimum Cash Required	(\$212,000)	
Excess Expenditures Over Financing	(\$3,002,000)	
Net Change		<u>(\$3,214,000)</u>
Ending Balance 12/31/2014		<u>\$985,000</u>

The 2015 expected excess operating cash changes are as follows:

Beginning Balance 12/31/2014		\$985,000
Change in Minimum Cash Required	(\$823,000)	
Excess Expenditures Over Financing	(\$4,000)	
Net Change		<u>(\$827,000)</u>
Ending Balance 12/31/2015		<u>\$158,000</u>