



BOARD OF WATER COMMISSIONERS

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July 14, 2015

Board of Water Commissioners

Dear Commissioners:

Re: 2016 Budget

OVERVIEW

The 2016 Saint Paul Regional Water Services (Regional Water) Budget as prepared includes all the anticipated expenses and necessary revenues for the year 2016. We believe the budget, as prepared, will provide the resources necessary for us to continue our history of providing our customers with reliable, quality water and services at a reasonable cost. This budget includes:

- \$71.3 Million in total revenue broken down as follows:
 - 62% (\$44.5 Million) from the Sale of Water
 - 13% (\$9.2 Million) from the Water Service Base Fee
 - 11% (\$7.6 Million) from Issuance of Debt
 - 4% (\$2.8 Million) from the Water Main Surcharge
 - 3% (\$1.9 Million) from the Right-of-Way Recovery Fee
 - 7% (\$5.3 Million) from Misc. Operating and Non-operating Revenues

- \$71.3 Million in total spending broken down as follows:
 - 59% (\$42.2 Million) in Operating Expenses
 - 22% (\$16.0 Million) in Revenue Funded Capital investments
 - 11% (\$7.6 Million) in Debt Funded Capital Investments
 - 8% (\$5.5 Million) in Debt Service and Miscellaneous Expenses

- Water Rate Adjustments to Meet Revenue and Spending Requirements
 - Consumption Based Rate Average - \$2.57 per 100 CCF (748 Gallons)
 - NO CHANGE
 - Water Service Base Fee - \$5.00 per month residential – increases with larger meter sizes
 - \$1.00 increase per month for residential
 - Water Main Surcharge - \$0.20 per 100 CCF consumption
 - NO CHANGE
 - Right-of-Way Recovery Fee – \$1.50 per month residential – increases with larger meter sizes
 - NO CHANGE

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

OVERVIEW (Continued)

With an average annual consumption of 88 units (65,824 gallons), the impact on an average family in the Regional Water service area is an increase of \$12.00 per year for a total cost of \$321.76 per year for the provision of drinking water and services. This represents an overall increase of 3.87% over 2015 water rates.

REVENUE

Sale of Water

- There is no change in the projected volume of water to be sold in 2016. Our total consumption base remains at 1.790 billion cubic feet. This is approximately equal to the average consumption over the past five years.
- There is no change proposed in the consumption based rates. The rates per 100 cubic feet are as follows:

	<u>2015</u>	<u>2016</u>	
Winter rate	\$2.52	\$2.52	
Summer rate	\$2.62	\$2.62	Ave. \$2.57

Revenues based on the consumption based rate and the projected consumption for 2016 total \$44.5 Million.

Water Service Base Fee

- There is a \$1 per month increase proposed in the 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>
5/8 & 3/4 Inch	80,367	\$5.00
1.0 Inch	8,756	\$12.50
1.5 Inch	2,414	\$25.00
2.0 Inch	1,345	\$40.00
3.0 Inch	344	\$80.00
4.0 Inch	227	\$125.00
6.0 Inch	65	\$250.00
8.0 Inch	22	\$400.00
10.0 Inch	4	\$575.00
	93,544	

REVENUE (Continued)

Water service base fees for our wholesale customers are set by their respective contracts. Total revenues are projected at \$9.2 Million for 2016 or an overall increase of \$1.7 Million when compared to 2015.

Issuance of Debt

- We are proposing \$7.6 Million in debt issuance through either a bonding issue or from a State Revolving Fund in 2016.
- This year we will be focusing on replacing the electrical switchgear at the McCarron's water treatment plant and replacing the east terminal gate, as well as improvements to our pumping stations including repairing the Fridley pump station foundation. These improvements are outlined in our capital improvement plan.
- This total of \$7.6 Million of debt is an increase of \$5.4 Million over the 2015 budget.

Water Main Surcharge

- There is no change in the water main surcharge proposed for the 2016 budget. The water main surcharge is designed to fund additional water main replacement in the Regional Water service area. The rate is \$0.20/100 cu. ft. and will generate approximately \$2.8 Million. This surcharge only applies to the Cities of Saint Paul, Falcon Heights, Lauderdale, Maplewood, and West Saint Paul.

Right-of-Way Recovery Fee

- There is no change in the amount being billed for the right-of-way recovery fee proposed for the 2016 budget. The fee results in \$1.9 Million in revenue. This fee is only charged to Saint Paul residents and is for a payment to the City of Saint Paul for the extra costs they incur due to Regional Water's facilities being located in the public rights-of-way. This fee is structured in a similar manner to the water service base fee in that it varies by water meter size.

<u>Meter Size</u>	<u>ROW Recovery Charge</u>
5/8 & 3/4 Inch	\$1.50 Per Month
1.0 Inch	\$3.75 Per Month
1.5 Inch	\$7.58 Per Month
2.0 Inch	\$12.08 Per Month
3.0 Inch	\$24.17 Per Month
4.0 Inch	\$37.75 Per Month
6.0 Inch	\$75.50 Per Month
8.0 Inch	\$120.83 Per Month

REVENUE (Continued)**Miscellaneous Operating and Non-Operating Revenues**

- The proposed 2016 budget has a total of \$5.3 Million in revenue for miscellaneous operating and non-operating income. This represents an increase of \$144,000 over the 2015 budget. The most notable changes here are an increase in antenna revenues for \$50,000. Other items in this revenue group include fees for plumbing inspections, other billing fees and interest earned on investments.

Summary of Revenues

- The following is a summary of revenues for the proposed 2016 budget and how they compare to the adopted 2015 budget:

	<u>2015</u>	<u>2016</u>
Water Sales	\$44.5 Million	\$44.5 Million
Water Service Base Fee	\$7.5 Million	\$9.2 Million
Issuance of Debt	\$2.2 Million	\$7.6 Million
Water Main Surcharge	\$2.8 Million	\$2.8 Million
Right-of-Way Recovery Fee	\$1.9 Million	\$1.9 Million
Miscellaneous Revenues	<u>\$5.2 Million</u>	<u>\$5.3 Million</u>
Totals	\$64.1 Million	\$71.3 Million

Impact of Rate Adjustments on an Average Residential Customer in 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 \$12.00 per year for a total annual cost of \$321.76. This consists of the following:

	<u>2015</u>	<u>2016</u>	<u>Change</u>	
Water Service Base Fee	\$48.00	\$60.00	\$ 12.00	
Consumption Based	\$226.16	\$226.16	\$ 0.00	
Water Main Surcharge	\$17.60	\$17.60	\$ 0.00	
Right-of-Way Recovery Fee	\$18.00	\$18.00	\$ 0.00	
Total	<u>\$309.76</u>	<u>\$321.76</u>	<u>\$ 12.00</u>	<u>3.87%</u>

EXPENSES**Operations and Maintenance**

- Operations and Maintenance (O&M) includes all expenses we incur to operate and maintain the water system. This includes labor, fringe benefits, materials, supplies and other services we purchase to perform the myriad of tasks involved in our daily business. The following is a summary of the main categories of our O&M budget:

	<u>2015</u>	<u>2016</u>	<u>Change</u>
· Salaries	\$13,609,000	\$14,385,000	\$776,000
· Fringes	\$7,093,000	\$7,377,000	\$284,000
· Services	\$11,958,000	\$11,455,000	(\$503,000)
· Supplies and Misc.	<u>\$8,499,000</u>	<u>\$8,968,000</u>	<u>\$469,000</u>
Total Operating Expenses	<u>\$41,159,000</u>	<u>\$42,185,000</u>	<u>\$1,026,000</u>

- Salaries
 - The 2016 proposed budget includes a total of 253.4 FTE's. This is an increase of 2.5 FTE's over the 2015 budget. Two are in the area of security and emergency management and the remaining one half is for additional engineering inspection for our increased capital investment program.
 - We are planning on a 2.0% increase in wages from labor contract negotiations. The remaining salary changes are for step increases in various areas. Fringe benefits are expected to increase as a result of various insurance and benefit increases.
 - The overall increase to operating and maintenance salaries and fringe benefits is \$1.1 Million or 5.1%.
- Services
 - The operating and maintenance budget includes all of the services we procure to allow us to provide water and services to our customers. These include everything from legal, finance and purchasing services from the City of Saint Paul to hauling services to dispose of our waste byproducts.
 - This portion of our budget totals \$11.9 Million in 2016. This is compared to \$12.1 Million in 2015 for a decrease of \$0.5 Million or 4.1%.
 - Highlights include a decrease in our overall fees paid to the City of Saint Paul of \$160,000, a decrease of \$419,000 in professional services, and an increase of \$50,000 in our lime hauling fees.

EXPENSES (Continued)

- Materials and Supplies
 - The O&M budget also includes all the materials and supplies we need to provide our customers with great service. These can include water treatment chemicals, electricity, fuel, plumbing supplies, tires, office supplies and miscellaneous tools and small equipment.
 - The materials and supplies budget for 2016 is proposed to be \$8.9 Million. This is compared to \$8.5 Million in 2015 for a \$0.5 Million increase or 5.5%.
 - Three of the largest line items here are Chemicals, Electricity and Fuel.

	<u>2015</u> <u>Budget</u>	<u>2016</u> <u>Budget</u>	<u>Difference</u>	<u>%</u> <u>Change</u>
· Chemicals	\$3,646,000	\$3,816,000	\$170,000	4.7%
· Electricity	\$1,978,000	\$2,105,000	\$127,000	6.4%
· Fuel and Other Energy	\$853,000	\$861,000	\$8,000	0.9%
	<u>\$6,477,000</u>	<u>\$6,782,000</u>	<u>\$305,000</u>	<u>4.7%</u>

Revenue and Debt Funded Capital Investments

- Saint Paul Regional Water Services has a capital investment program that includes both revenue and debt funded projects. Earlier in 2015, the Board gave staff the approval to include a 10-year capital plan in our upcoming strategic plan update. The 2016 proposed budget includes the projects that were scheduled in the 10-year plan.
- The revenue funded capital for 2016 totals \$16.0 Million, which is an increase over 2015 of \$1.1 Million. Projects included in the revenue funded side are buried infrastructure replacement, water tower improvements, pump station improvements, and small capital and equipment for the utility.
- Debt funded capital for 2016 totals \$7.6 Million, which is in line with our 10-year capital plan and an increase of \$5.4 Million over 2015. The main projects included in the debt side are the replacement of the electrical switchgear at the McCarron's Treatment Plant and improvements to the McCarron's and Mississippi River Pumping Stations.

Debt Service and Miscellaneous Expenses

- On December 31, 2014, Regional Water had a total outstanding debt of approximately \$45.7 Million. Our debt service payments in 2016 of \$5.1 Million will decrease by a total of \$259,000 due to the structuring of our debt. Other miscellaneous expenses which include financing customers lead service replacements remain unchanged at \$400,000.

EXPENSES (Continued)**Water Utility Fund Balance**

- The Board maintains a fund balance that includes all the cash amounts we are legally required to maintain due to bond covenants, a reserve to cover tort and claim liabilities, to cover the expense of capital projects budgeted and approved in previous years and to provide rate stabilization during times of extreme variation in consumption.
 - Excess fund balance at the end of 2014 was \$1,512,000. The projected excess fund balance at the end of 2015 is \$343,000. With this budget as proposed, the projected excess at the end of 2016 will be \$65,000. A detail of the cash changes during these years is included in the attached appendix.

CLOSING STATEMENT

With this budget, we are holding the consumption based rates constant and are increasing the water service base fee by \$1 per month. Total water revenues including the water main surcharge and right-of-way recover fee are set to increase approximately 3.10%. An average residential customer will see an increase of 3.87%. The rates provided are necessary to fund operating and maintenance costs, the capital program and our debt service.

I recommend the Board recommend this budget for approval as presented. The utility 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

APPENDIX

EXCESS OPERATING CASH:

The analysis of excess operating cash for the years 2014 through 2016 is as follows:

Beginning Balance 12/31/2013		\$4,315,000
Operating Revenue Below Budget	(\$2,982,000)	
Non-Operating Revenue Below Budget	(\$26,000)	
Investment Interest Revenue Below Budget	(\$219,000)	
Operating Expenses Under Budget	\$671,000	
Net Change in Accts Rec/Accts Pay, etc.	\$144,000	
Homeowner Lead Replacement Program	\$203,000	
Change in Minimum Cash Required	\$219,000	
Capital Project Changes	\$1,939,000	
Land Purchase	(\$2,650,000)	
Change in Bond Reserve	(\$102,000)	
Net Change		<u>(\$2,803,000)</u>
Ending Balance 12/31/2014		<u>\$1,512,000</u>

The 2015 expected excess operating cash changes are as follows:

Beginning Balance 12/31/2014		\$1,512,000
Change in Minimum Cash Required	(\$1,160,000)	
Excess Expenditures over Financing	(\$9,000)	
Net Change		<u>(\$1,169,000)</u>
Ending Balance 12/31/2015		<u>\$343,000</u>

The 2016 expected excess operating cash changes are as follows:

Beginning Balance 12/31/2015		\$343,000
Change in Minimum Cash Required	(\$232,000)	
Excess Expenditures over Financing	(\$46,000)	
Net Change		<u>(\$278,000)</u>
Ending Balance 12/31/2016		<u>\$65,000</u>