



BOARD OF WATER COMMISSIONERS

President: **Matt Anfang** ♦ Vice President: **Amy Brendmoen**

Commissioners: ♦ **Mara Humphrey** ♦ **David Meisinger** ♦ **Rebecca Noecker** ♦ **Will Rossbach** ♦ **Chris Tolbert**

July 12, 2016

Board of Water Commissioners

Dear Commissioners:

Re: 2017 Budget

OVERVIEW

The 2017 Saint Paul Regional Water Services (Regional Water) Budget as prepared includes all the anticipated spending and necessary financing for the year 2017. 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:

- \$66.8 Million in Total Financing as Follows:
 - 64% (\$42.9 million) from the Sale of Water
 - 16% (\$10.9 million) from the Water Service Base Fee
 - 4% (\$2.8 million) from the Water Main Surcharge
 - 3% (\$1.9 million) from the Right-of-Way Recovery Fee
 - 2% (\$1.0 million) from Capital Contributions
 - 1% (\$0.7 million) from Issuance of Debt
 - 7% (\$4.7 million) from Misc. Operating and Non-Operating Revenues
 - 3% (\$1.9 million) from Cash Reserves

- \$66.8 Million in Total Spending as Follows:
 - 67% (\$44.6 million) in Operating Expenses
 - 24% (\$15.9 million) in Revenue Funded Capital investments
 - 1% (\$0.7 million) in Debt Funded Capital Investments
 - 8% (\$5.6 million) in Debt Service and Other Spending

- Water Rate Adjustments to Meet Financing and Spending Requirements
 - Consumption Based Rate Average - \$2.69 per 100 Cubic Feet (CCF) or 748 Gallons
 - \$0.12 per CCF increase
 - Water Service Base Fee - \$6.00 per month residential – increases with larger meter sizes
 - \$1.00 increase per month for residential
 - Water Main Surcharge - \$0.20 per 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

1900 Rice St. Saint Paul MN 55113-6810 ♦ TTY: 651-266-6299 ♦ Phone: 651-266-6350

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 68 CCF (50,864 gallons), the impact on an average single family residential customer in the Regional Water service area is an increase of \$20.16 per year for a total cost of \$286.52 per year for the provision of drinking water and services. This represents an overall increase of 7.6% over 2016 water rates.

FINANCING**Sale of Water**

- There is a decrease in the projected volume of water to be sold in 2017. Our total consumption base is at 1.65 Billion Cubic Feet (BCF), down 0.14 BCF from the 2016 level of 1.79 BCF. This is approximately equal to the consumption in 2015 and what we are experiencing thus far in 2017. In the past we've used a five-year averaged consumption. Consumption levels have decreased almost a 0.50 BCF or 22.5% since the high of 2.13 BCF in 2005.
- There is a \$0.12 per CCF increase proposed in the consumption based rates. The rates per CCF are as follows:

| | <u>2016</u> | <u>2017</u> |
|--------------|-------------|-------------|
| Winter rate | \$2.52 | \$2.64 |
| Summer rate | \$2.62 | \$2.74 |
| Average rate | \$2.57 | \$2.69 |

The reduction in volume and pattern changes results in a revenue decrease of \$3.5 million; this is offset by the rate increase which will generate \$1.9 million and when added to automatic fire suppression revenues of \$250 thousand, this will bring consumption based water revenues for 2017 to total \$42.9 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 and the fee increases as the meter size increases to reflect the increased cost of providing peak volume capacity. Water service base fees for our wholesale customers are set by their respective contracts. The water service base fee was introduced in 2013 at a rate of \$3 per month; rates increased by \$1 per month between the years of 2015 to 2017 to the current proposed rate of \$6 per month. This is the last year of the planned increases for the water service base fee. Total revenues are projected at \$10.9 million for 2017 or an overall increase of \$1.7 million when compared to 2016.

FINANCING (continued)

| <u>Meter Size</u> | <u>Number of Meters</u> | <u>Water Service Base Fee (Monthly)</u> |
|-------------------|---------------------------------|---|
| 5/8 & 3/4 Inch | 80,367 | \$6.00 |
| 1.0 Inch | 8,756 | \$15.00 |
| 1.5 Inch | 2,414 | \$30.00 |
| 2.0 Inch | 1,345 | \$48.00 |
| 3.0 Inch | 344 | \$96.00 |
| 4.0 Inch | 227 | \$150.00 |
| 6.0 Inch | 65 | \$300.00 |
| 8.0 Inch | 22 | \$480.00 |
| 10.0 Inch | 4 | \$690.00 |
| | 93,544 | |

Water Main Surcharge

- There is no change in the water main surcharge rates proposed for the 2017 budget. The water main surcharge is designed to fund additional water main replacement in the Regional Water service area. The rate is \$0.20 per CCF and will generate approximately \$2.8 million in 2016. There is a decrease in revenue due to the reduction in consumption levels, which is offset by the inclusion of Mendota Heights as a full share partner. This surcharge applies to the Cities of Saint Paul, Falcon Heights, Lauderdale, Maplewood, Mendota Heights, and West Saint Paul.

Right-of-Way Recovery Fee

- There is no change in the amount being billed for the Right-of-Way (ROW) 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>R-O-W Recovery Fee (Monthly)</u> |
|-------------------|---|
| 5/8 & 3/4 Inch | \$1.50 |
| 1.0 Inch | \$3.75 |
| 1.5 Inch | \$7.58 |
| 2.0 Inch | \$12.08 |
| 3.0 Inch | \$24.17 |
| 4.0 Inch | \$37.75 |
| 6.0 Inch | \$75.50 |
| 8.0 Inch | \$120.83 |

FINANCING (continued)**Miscellaneous Operating and Non-Operating Revenues**

- The proposed 2017 budget has a total of \$4.7 million in revenue for miscellaneous operating and non-operating income. This represents an increase of approximately \$100 thousand over the 2016 budget. The most notable change here is a decrease in antenna revenue for \$125 thousand; other fees for service increased to offset the decrease. Other items in this revenue group include fees for plumbing inspections, other billing fees and interest earned on investments.

Capital Contributions

- The proposed 2017 budget has a total of \$1.0 million in revenue for capital contributions. This represents an increase of approximately \$300 thousand over the 2016 budget. A majority of capital contributions made by customers for construction frequently arises in connection with the extension or improvement of the distribution facilities (water mains, hydrants, or water services) to provide water service to new customers.

Issuance of Debt

- We are proposing \$0.7 million in debt issuance through a State Revolving Fund in 2017. This year we will be focusing on replacing the high service pump at the McCarron's water treatment plant. This improvement is outlined in our capital improvement plan. This total of \$0.7 million of debt is a decrease of \$6.9 million from the 2016 budget.

Cash Reserves

- The final results of operations for 2015 resulted in an increase in cash reserves of \$1.9 million. There was a decrease in anticipated revenues, primarily because precipitation was 8.2 inches above normal for the year and a continued replacement of water saving devices. The revenue shortfall was offset with a reduction of expenses directly related to the production of water, such as chemicals, electricity, and lime residual hauling. We are proposing utilizing these reserves to finance \$1.1 million in one-time spending needs and \$0.8 million for rate control.

Summary of Financing

- The following is a summary of financing categories for the proposed 2017 budget and how they compare to the adopted 2016 budget:

| | <u>2016</u> | <u>2017</u> | <u>Change</u> |
|---------------------------|---------------------|----------------------|-----------------------|
| Water Sales | \$44.5 million | \$42.9 million | \$(1.6) million |
| Water Service Base Fee | \$9.2 million | \$10.9 million | \$ 1.7 million |
| Water Main Surcharge | \$2.8 million | \$2.8 million | \$ - million |
| Right-of-Way Recovery Fee | \$1.9 million | \$1.9 million | \$ - million |
| Miscellaneous Revenues | \$4.6 million | \$4.7 million | \$ 0.1 million |
| Capital Contributions | \$0.7 million | \$1.0 million | \$.3 million |
| Issuance of Debt | \$7.6 million | \$0.7 million | \$(6.9) million |
| Cash Reserves | <u>\$ - million</u> | <u>\$1.9 million</u> | <u>\$ 1.9 million</u> |
| Totals | \$71.3 million | \$66.8 million | \$(4.5) million |

Impact of Rate Adjustments on an Average Residential Customer in Saint Paul

- Water consumption has historically been measured at an average annual consumption of 88 CCF (65,824 gallons). In 2017 consumption is adjusted down 20 CCF to an average annual consumption of 68 CCF (50,864 gallons), the impact on the average single family is an increase of approximately \$20.16 per year for a total annual cost of \$286.52. This consists of the following:

| | <u>2016</u> | <u>2017</u> | <u>Change</u> | |
|---------------------------|------------------|-----------------|----------------|-------------|
| Water Service Base Fee | \$60.00 | \$72.00 | \$12.00 | |
| Consumption Based | \$174.76 | \$182.92 | \$8.16 | |
| Water Main Surcharge | \$13.60 | \$13.60 | \$0.00 | |
| Right-of-Way Recovery Fee | \$18.00 | \$18.00 | \$0.00 | |
| Total Annual Cost | <u>\$266.36*</u> | <u>\$286.52</u> | <u>\$20.16</u> | <u>7.6%</u> |

*Total annual cost on an average residential customer, as presented in 2016 adopted budget, at 88 CCF is \$321.76 or a difference of \$55.40 (\$321.76 - \$266.36).

SPENDING

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>2016</u> | <u>2017</u> | <u>Change</u> |
|-------------------------------|-----------------------|-----------------------|----------------------|
| • Salaries | \$14.5 million | \$15.0 million | \$0.5 million |
| • Fringes | \$7.3 million | \$7.6 million | \$0.3 million |
| • Services | \$11.4 million | \$13.0 million | \$1.6 million |
| • Materials, Supplies & Misc. | <u>\$9.0 million</u> | <u>\$9.0 million</u> | <u>\$ - million</u> |
| Total Operating Expenses | <u>\$42.2 million</u> | <u>\$44.6 million</u> | <u>\$2.4 million</u> |

- Salaries
 - The 2017 proposed budget includes a total of 253.9 FTE's. This is an increase of 0.5 FTE's over the 2016 budget. The increase is for an intern in the engineering division.
 - The 2016 budget included an estimated 2.0% wage increase; labor contract negotiations resulted in an actual 2.5% increase. The 2017 negotiated wage increase is 2.5%; consequently, the 2017 proposed budget will show an increase of 3.0% over the 2016 budget. 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 total 2017 budget for operating and maintenance salaries and fringe benefits is \$22.6 million or an increase of \$0.8 million or 4.0% over the 2016 budget.

SPENDING (continued)

- Services
 - The O&M 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 lime softening residuals.
 - This portion of our budget totals \$13.0 million in 2017. This is compared to \$11.4 million in 2016 for an increase of \$1.6 million or 13.5%.
 - Highlights include an increase of \$1.1 million for one-time services, an increase in our overall fees paid to the City of Saint Paul of \$90 thousand, and an increase of approximately \$125 thousand for printing and mailing services performed by River Print, the in-house print facility for the City of Saint Paul. This is the first rate increase from River Print since 2007. One-time services include a water main condition assessment, a supply infrastructure condition assessment, and the demolition of the Highland reservoir; these items are referenced in our 10-year master plan. We are proposing the use of cash reserves to fund these one-time services. The remaining increase is directly related to water production and distribution maintenance.
- 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 2017 is proposed to be \$9.0 million. There is a nominal increase over 2016.
 - Three of the largest line items here are chemicals, electricity and fuel and these costs remain stable.

| | <u>2016 Budget</u> | <u>2017 Budget</u> | <u>Change</u> | <u>% Change</u> |
|-------------------------|----------------------|----------------------|---------------|-----------------|
| • Chemicals | \$3.8 million | \$3.8 million | \$ - | 0.0% |
| • Electricity | \$2.1 million | \$2.1 million | \$ - | 0.0% |
| • Fuel and Other Energy | \$0.8 million | \$0.8 million | \$ - | 0.0% |
| | <u>\$6.7 million</u> | <u>\$6.7 million</u> | <u>\$ -</u> | <u>0.0%</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. The 2017 proposed budget includes the projects that were scheduled in the 10-year capital plan.

SPENDING (continued)

- The revenue funded capital for 2017 totals \$15.9 million, which is a slight decrease of \$78 thousand from 2016 levels. Projects included in the revenue funded side are replacement and improvements for buried infrastructure, treatment processes, water towers, pump stations, technology and small capital and equipment for the utility.
- Debt funded capital for 2017 totals \$0.7 million. This year we will be focusing on replacing the high service pump at the McCarron's water treatment plant. This improvement is outlined in our 10-year master plan.

Debt Service and Other Spending

- On December 31, 2015, Regional Water had a total outstanding debt of approximately \$42.1 million. We will be adding approximately \$7.2 million in new debt in 2016 for the electrical switchgear at the McCarron's treatment plant. Our debt service payments in 2017 of \$5.2 million resulted in an increase of \$40 thousand over the 2016 budget. Other miscellaneous expenses which include financing customers lead service replacements remain unchanged at \$0.4 million.

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 2015 was \$1.9 million. The projected excess fund balance at the end of 2016 will be \$101 thousand. With this budget as proposed, the projected excess at the end of 2017 will be \$19 thousand. A detail of the cash changes during these years is included in the attached appendix.

CLOSING STATEMENT

With this budget, we are proposing increasing the consumption based rates by \$0.12 per CCF and are increasing the water service base fee by \$1 per month. An average single family residential customer will see an increase of 7.6%. 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.

CLOSING STATEMENT (continued)

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,

A handwritten signature in blue ink, appearing to read "Stephen P. Schneider". The signature is stylized with a large initial "S" and a cursive "P. Schneider".

Stephen P. Schneider
General Manager