



BOARD OF WATER COMMISSIONERS

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July 12, 2022

Board of Water Commissioners

Re: Proposed 2023 Budget

Dear Commissioners:

OVERVIEW

The 2023 Saint Paul Regional Water Services (SPRWS) Budget as prepared includes the anticipated spending and necessary financing for the year 2023. The proposed budget will provide the resources necessary to continue our history of providing our customers with reliable, quality water and services at a reasonable cost. The 2023 proposed budget includes:

- \$104.2 Million in Total Financing as Follows:
 - 55% (\$57.3 million) Sale of Water
 - 11.3% (\$11.8 million) Water Service Base Fee
 - 2.9% (\$3.0 million) Water Main Surcharge
 - 1.8% (\$1.9 million) Right-of-Way Recovery Fee
 - .5% (\$0.5 million) Capital Contributions
 - 15.2% (\$15.8 million) Misc. Operating and Non-Operating Revenues
 - 8.4% (\$6.4 million) Cash Reserves
 - 7.2% (\$7.5 million) Debt Issuance
- \$104.2 Million in Total Spending as Follows:
 - 60% (\$62.5 million) Operating Expenses
 - 17% (\$18.0 million) Revenue Funded Capital Investments
 - 16% (\$16.2 million) Debt Service and Other Spending
 - 7% (\$7.5 million) Debt Funded Capital Investments
- Water Rate Adjustments to Meet Financing and Spending Requirements
 - Consumption Based Rate Average - \$3.72 per 100 Cubic Feet (CCF) or 748 Gallons
 - \$0.34 per CCF increase
 - Water Service Base Fee - \$6.60 per month residential – increases based on meter size
 - \$0.60 per month increase
 - Water Main Surcharge - \$0.22 per CCF consumption
 - \$0.02 per CCF increase
 - Right-of-Way Recovery Fee – \$1.50 per month residential – increases based on meter size
 - NO CHANGE

SAINT PAUL REGIONAL WATER SERVICES

Patrick Shea, 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 72 CCF (53,860 gallons), the impact on a typical residential customer in the Regional Water service area is an increase of \$2.76 per month for a total annual cost of \$380.88 per year for the provision of drinking water and services.

FINANCING**Sale of Water**

- There is no change in the projected volume of water to be sold in 2023. Our total consumption base is at 1.65 billion cubic feet (BCF). This is approximately equal to actual consumption in 2015 – 2018.
- There is a \$0.34 per CCF increase proposed in the consumption-based rates. The rates per CCF are as follows:

	<u>2023</u>	<u>2022</u>
Winter rate	\$3.66	\$3.33
Summer rate	\$3.77	\$3.43
Average rate	\$3.72	\$3.38

The proposed rate adjustment will generate \$4.9 million and when added to automatic fire suppression revenues of \$270 thousand, this brings consumption-based water revenues for 2023 to total \$57.3 million.

Water Service Base Fee

- There is an increase in the water service base fee rates. This base component will enable the utility to recover a portion of those annual fixed charges. The fee is predominately 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 on January 1st of 2015. Then in 2017 the rate increased to \$6 per month. There is a proposed base fee rate increase to \$6.60 in 2023. Total revenues are projected to be at \$11.8 million for 2023.

FINANCING (continued)

<u>Meter Size</u>	<u>Water Service Base Fee (Monthly)</u>
5/8 & 3/4 Inch	\$6.60
1.0 Inch (single family dwelling)*	\$6.60
1.0 Inch (other)	\$16.43
1.5 Inch	\$32.85
2.0 Inch	\$52.56
3.0 Inch	\$105.12
4.0 Inch	\$164.25
6.0 Inch	\$328.50
8.0 Inch	\$525.60
10.0 Inch	\$755.55

*1.0 Inch single family dwelling is an account which the property structure is described in County Property Tax Records as either Single Family Dwelling or Townhome.

Water Main Surcharge

- There is an increase in the water main surcharge rates proposed for the 2023 budget. The water main surcharge is designed to fund additional water main replacement in the SPRWS service area. The rate is \$0.22 per CCF and will generate approximately \$3 million in 2023.

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 2023 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 (single family dwelling)*	\$1.50
1.0 Inch (other)	\$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

* 1.0 inch single family dwelling is an account which the property structure is described in County Property Records as either a Single Family Dwelling or Townhome.

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

- The proposed 2023 budget has a total of \$15.8 million in revenue for miscellaneous operating and non-operating income. This represents a change from the 2022 budget. Items in this revenue group include interest earnings, grant revenue, antenna revenue, lead replacement revenue, plumbing inspections and other billing fees.

Capital Contributions

- The proposed 2023 budget has a total of \$0.5 million in revenue for capital contributions. There is slight decrease from 2022. 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 \$7.5 million in debt issuance through the State's Public Facilities Authority in 2023 for the next phase of the Lead Free SPRWS Project. The portion of the project funded with this debt includes replacing lead service lines in the ROW. These improvements are outlined in our capital improvement plan.

Cash Reserves

- As a result of 2021 and 2022 operations we estimate we will use \$6.4 million from reserves. The majority of this is due to new debt issuance related to the McCarron's Water Treatment Process Improvement Project. In 2021, there was \$15.4M in debt issuance related to the project. In 2022, we budgeted an additional \$174M in debt issuance related to the project as well. We anticipate issuing \$90M in water revenue bonds.

Summary of Financing

- The following is a summary of financing categories for the proposed 2023 budget and how they compare to the adopted 2022 budget:

In Millions	2023 Proposed Budget	2022 Adopted Budget	Change
Water Sales	\$57.3	\$52.4	\$4.9
Water Service Base Fee	\$11.8	\$10.6	\$1.2
Water Main Surcharge	\$3.0	\$2.7	\$0.3
Right-of-Way Recovery Fee	\$1.9	\$1.9	\$0.0
Miscellaneous Revenues	\$15.8	\$5.8	\$10.0
Capital Contributions	\$0.5	\$0.6	(\$0.1)
Issuance of Debt	\$7.5	\$116.0	(\$108.5)
Cash Reserves	<u>\$6.4</u>	<u>\$2.1</u>	<u>\$4.3</u>
Totals	\$ 104.2	\$ 192.1	(\$87.9)

FINANCING (continued)**Impact of Rate Adjustments on a Typical Residential Customer in Saint Paul**

- Water consumption is measured at an average annual consumption of 72 CCF (53,860 gallons), the impact on a typical residential single family is an increase of approximately \$2.76 per month for a total annual cost of \$380.88 (\$31.74 per month). This consists of the following:

	<u>2023</u>	<u>2022</u>	<u>Change</u>
Water Service Base Fee	\$79.20	\$72.00	\$7.20
Consumption Based	\$267.84	\$229.84	\$ 38.00
Water Main Surcharge	\$15.84	\$13.60	\$2.24
Right-of-Way Recovery Fee	\$18.00	\$18.00	\$0.00
Total Annual Cost	<u>\$380.88</u>	<u>\$333.44</u>	<u>\$47.44</u>

SPENDING**Operations and Maintenance**

- Operations and Maintenance (O&M) includes all expenses we incur to operate and maintain the water system. This includes salaries, fringe benefits, services, materials and supplies 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>2023</u>	<u>2022</u>	<u>Change</u>
· Salaries	\$18.2 million	\$15.9 million	\$2.3 million
· Fringes	\$10.2 million	\$8.9 million	\$1.3 million
· Services	\$24.4 million	\$14.1 million	\$10.3 million
· Materials, Supplies & Misc.	<u>\$10.1 million</u>	<u>\$9.2 million</u>	<u>\$0.9 million</u>
Total Operating Expenses	<u>\$62.9 million</u>	<u>\$48.1 million</u>	<u>\$14.8 million</u>

- Salaries and Fringes
 - The 2023 proposed budget includes net operating and maintenance salaries and fringe benefits of \$28.4 million or an increase of \$3.6 million or 14.5% from the 2022 budget.
 - The 2023 proposed budget includes a total of 281.7 FTE's, an increase of 20 FTE from the 2022 Adopted Budget. This is largely due to staffing related to the Lead Free SPRWS Project.
 - There is a 3% cost of living increase (COLA) factored in the 2023 Proposed Budget. Several bargaining units are due for renewal in 2023. Step increases have been incorporated.
 - It is anticipated that health insurance costs will increase by 3.0% over the 2022 rates. The Public Employees Retirement Association's (PERA) employer contributions will remain at 7.5%.

SPENDING (continued)

- Services
 - The O&M budget includes 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 the budget totals \$24.4 million in 2023. This is compared to \$14.1 million in 2022, an increase of \$10.3 million. This includes an increase of \$11M in federal grants.
- Materials, Supplies and Other Spending
 - O&M budget also includes the materials and supplies we need to provide our customers with a very high level of service. These can include water treatment chemicals, electricity, fuel, plumbing supplies, office supplies and miscellaneous tools and small equipment,
 - The materials, supplies and other budgets for 2023 are proposed to be \$10.1 million compared to \$9.2 million in 2022, an increase of \$0.9 million. Increases are included to meet technology needs and other small equipment.
 - Three of the largest line items budgeted here are chemicals, electricity and fuel, which are expected to remain stable.

	<u>2023 Budget</u>	<u>2022 Budget</u>	<u>Change</u>
· Chemicals	\$5.0 million	\$3.8 million	\$1.2 million
· Electricity	\$1.9 million	\$1.9 million	-
· Fuel and Other Energy	\$0.7 million	\$0.7 million	-
	<u>\$7.6 million</u>	<u>\$6.4 million</u>	<u>\$1.2 million</u>

SPENDING (continued)**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 2023 proposed budget includes the projects that are scheduled in the 10-year capital plan.
- The revenue funded capital for 2023 totals \$18 million, which is a decrease of \$3.6 million from 2022 levels. Projects included in the revenue funded side are replacement and improvements for buried infrastructure, raw water conduits, treatment processes, water towers, pump stations, safety improvements, water meters, technology, and small capital and equipment for the utility.
- Debt funded capital for 2023 totals \$7.5 Million for the Lead Free SPRWS project.

Debt Service

- On December 31, 2021, Regional Water had a total outstanding debt of \$40.9 million. The 2023 debt service budget is proposed to be \$16 million, a \$10 million increase over the 2022 budget.

Water Utility Fund Balance

- The Board maintains a fund balance that includes 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.
 - For 2023 we are proposing to utilize \$6.4 million for one-time spending and rate control. We are using cash for the plant project debt. With this budget as proposed, the projected cash balance at the end of 2023 is estimated at \$17 million.

CLOSING STATEMENT

With this budget, we are proposing increasing the consumption-based rates by \$0.34 per CCF, water service base fee by \$0.60 per month, and the water main surcharge by \$0.02 per CCF. The rate increases are necessary to fund operating and maintenance costs, the capital program, debt service, fund the Lead Free SPRWS Project, and fund the ongoing McCarrons Water Treatment Plant Improvement Project.

SPRWS continues to provide great water and services to our customers. 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 Board assets last as long as possible. SPRWS has shown that we are effective at efficiently utilizing available resources to provide these services yet are flexible enough to adjust spending and programs when the estimated resources do not materialize. At all times, we act as responsible stewards of our natural resources and financial resources.

I would like to extend my appreciation for the continued leadership and support shown by the Board of Water Commissioners. We strive to be an innovative organization that continues to improve the way we do business and will always be looking for ways to move our organization forward. St. Paul Regional Water's employees continue to show their dedication and commitment to our customers. We are recognized as leaders in our industry and could not do so without the support of the Board and our customers. Thank you.

Sincerely,

Patrick Shea
General Manager