



## BOARD OF WATER COMMISSIONERS

*President: Matt Anfang ♦ Vice President: Nelsie Yang*

*Commissioners: ♦ Marylee Abrams ♦ Amy Brendmoen ♦ James Bykowski ♦ Mara Humphrey ♦ Chris Tolbert*

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July 14, 2020

Board of Water Commissioners

Dear Commissioners:

Re: 2021 Budget

### OVERVIEW

The 2021 Saint Paul Regional Water Services (Regional Water) Budget as prepared includes all the anticipated spending and necessary financing for the year 2021. 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:

- \$123.6 Million in Total Financing as Follows:
  - 66% (\$48.1 million) Sale of Water
  - 14% (\$10.6 million) Water Service Base Fee
  - 4% (\$2.7 million) Water Main Surcharge
  - 3% (\$1.9 million) Right-of-Way Recovery Fee
  - 1% (\$0.6 million) Capital Contributions
  - 8% (\$5.8 million) Misc. Operating and Non-Operating Revenues
  - 4% (\$2.9 million) Cash Reserves
  - (\$51.0 million) Debt Issuance
- \$123.6 Million in Total Spending as Follows:
  - 65% (\$46.8 million) Operating Expenses
  - 27% (\$19.7 million) Revenue Funded Capital Investments
  - 8% (\$6.1 million) Debt Service and Other Spending
  - (\$51.0 million) Debt Funded Capital Investments
- Water Rate Adjustments to Meet Financing and Spending Requirements
  - Consumption Based Rate Average - \$3.08 per 100 Cubic Feet (CCF) or 748 Gallons
    - \$0.11 per CCF increase
  - Water Service Base Fee - \$6.00 per month residential – increases with larger meter sizes
    - NO CHANGE
  - 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

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### 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 68 CCF (50,864 gallons), the impact on a typical residential customer in the Regional Water service area is an increase of \$7.48 per year for a total cost of \$313.04 per year for the provision of drinking water and services. This represents an overall increase of 2.45% over 2020 water rates of \$305.56.

FINANCING**Sale of Water**

- There is no change in the projected volume of water to be sold in 2021. Our total consumption base is at 1.65 Billion Cubic Feet (BCF). This is approximately equal to actual consumption in 2015 – 2018. There was a slight decrease of consumption in 2019 due to above average rainfall.
- There is a \$0.11 per CCF increase proposed in the consumption-based rates. The rates per CCF are as follows:

	<u>2021</u>	<u>2020</u>
Winter rate	\$3.03	\$2.92
Summer rate	\$3.13	\$3.02
Average rate	\$3.08	\$2.97

This rate increase will generate \$1.7 million and when added to automatic fire suppression revenues of \$260 thousand, this will bring consumption-based water revenues for 2021 to total \$48.1 million.

**Water Service Base Fee**

- There is no change in the water service base fee rates. This base component will enable the utility to recover a portion of those fixed charges that are incurred annually. 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 1 of 2015 to 2017 to the current rate of \$6 per month. Total revenues are projected to remain constant at \$10.6 million for 2021.

FINANCING (continued)

<u>Meter Size</u>	<u>Water Service Base Fee (Monthly)</u>
5/8 & 3/4 Inch	\$6.00
1.0 Inch (single family dwelling)*	\$6.00
1.0 Inch (other)	\$15.00
1.5 Inch	\$30.00
2.0 Inch	\$48.00
3.0 Inch	\$96.00
4.0 Inch	\$150.00
6.0 Inch	\$300.00
8.0 Inch	\$480.00
10.0 Inch	\$690.00

\*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 no change in the water main surcharge rates proposed for the 2021 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 \$2.7 million in 2021.

**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 2021 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 2021 budget has a total of \$5.8 million in revenue for miscellaneous operating and non-operating income. This represents an increase of approximately \$0.4 million over the 2020 budget. The majority of the increase is in lead replacement revenue and slight increases in plumbing inspections and permit fees and antenna revenue. Other items in this revenue group include interest earnings and other billing fees.

**Capital Contributions**

- The proposed 2021 budget has a total of \$0.6 million in revenue for capital contributions. There is no change from the 2020 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 \$51.0 million in debt issuance through either a bonding issue or the State Revolving Fund in 2021 for the next phase of the McCarron's Water Treatment Process Improvement Project. Improvements include the construction of new softening basins, recarbonation basins and ozone disinfection. These improvements are outlined in our capital improvement plan.
- This year, planning for the piloting and design for the process improvements at the McCarron's water treatment plant has begun. The 2021 budget anticipates the start of the construction phase.
- The original treatment facilities and basins at the McCarron's plant are nearly 100 years old, including some of the softening basins which are in need of minor repair. The plant has seen numerous changes and improvements over its life, including the addition of Granular Activated Carbon (GAC) filters in 2006. In addition, the existing clarifiers are not optimized for lime softening. Newer lime softening technologies are available to improve performance, efficiency and reliability.

New recarbonation basins and feed systems are needed which will eliminate the single point of failure, providing redundancy and improving performance and reliability.

An ozone disinfection system will provide safer, higher quality water while positioning our operations for new regulations. Ozone will aid in the aesthetic properties of the water, will provide an excellent pathogen barrier and can remove many contaminants that may be regulated in the future.

FINANCING (continued)

The overall project is estimated at approximately \$150 -\$160 million. The cost breakdown by year is estimated as follows:

2018-2019	Pre-Design	\$ 700,000*
2020	Piloting and Full Design	\$ 20,000,000
2021	Construction	\$ 51,000,000
2022	Construction	\$ 75,000,000
2023	Construction	\$ 14,000,000

\*The \$700,000 Pre-Design is funded from the 2018 Adopted Budget and will not be funded with debt.

Current debt covenants tied to the issuance of debt for the project will require a \$10.0 million increase to our debt service reserves bringing the total to approximately \$15.0 million. We are exploring opportunities to modifying these debt covenants.

**Cash Reserves**

- As a result of 2019 operations there is a balance of excess operating cash reserves of \$4.0 million. Overall, revenues were below budget by \$0.9 million. Water sales were down due to the above average rainfall. However, this was offset by an increase in interest earned on investments and other miscellaneous revenues. The majority of the savings came from a reduction of expenses due to personnel vacancies, materials and supplies, debt interest, and other expenses directly related to the production of water, such as chemicals, electricity, and lime residual hauling. In our 2020 Adopted Budget we utilized \$2.9 million for one-time spending and for rate control. For 2021, we are proposing to utilize \$2.9 million for one-time spending and for rate control.

**Summary of Financing**

- The following is a summary of financing categories for the proposed 2021 budget and how they compare to the adopted 2020 budget:

In Millions	2021 Proposed Budget	2020 Adopted Budget	Change
Water Sales	\$48.1	\$46.4	\$1.7
Water Service Base Fee	\$10.6	\$10.6	\$0.0
Water Main Surcharge	\$2.7	\$2.8	(\$0.1)
Right-of-Way Recovery Fee	\$1.9	\$1.9	\$0.0
Miscellaneous Revenues	\$5.8	\$5.4	\$0.4
Capital Contributions	\$0.6	\$0.6	\$0.0
Issuance of Debt	\$51.0	\$10.0	\$41.0
Cash Reserves	<u>\$2.9</u>	<u>\$2.9</u>	<u>\$0.0</u>
Totals	\$ 123.6	\$80.6	\$43.0

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

- Water consumption is measured at an average annual consumption of 68 CCF (50,864 gallons), the impact on a typical residential single family is an increase of approximately \$7.48 per year for a total annual cost of \$313.04 (\$25.46 per month). This consists of the following:

	<u>2021</u>	<u>2020</u>	<u>Change</u>	
Water Service Base Fee	\$72.00	\$72.00	\$0.00	
Consumption Based	\$209.44	\$201.96	\$7.48	
Water Main Surcharge	\$13.60	\$13.60	\$0.00	
Right-of-Way Recovery Fee	\$18.00	\$18.00	\$0.00	
Total Annual Cost	<u>\$313.04</u>	<u>\$305.56</u>	<u>\$7.48</u>	<u>2.45%</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>2021</u>	<u>2020</u>	<u>Change</u>
· Salaries	\$15.5 million	\$15.3 million	\$0.2 million
· Fringes	\$8.7 million	\$8.4 million	\$0.3 million
· Services	\$13.7 million	\$12.9 million	\$0.8 million
· Materials, Supplies & Misc.	<u>\$8.9 million</u>	<u>\$8.5 million</u>	<u>\$0.4 million</u>
Total Operating Expenses	<u>\$46.8 million</u>	<u>\$45.1 million</u>	<u>\$1.7 million</u>

- Salaries and Fringes
  - The 2021 proposed budget includes net operating and maintenance salaries and fringe benefits of \$24.2 million or an increase of \$0.5 million or 1.9% from the 2020 budget.
  - The 2021 proposed budget includes a total of 259.7 FTE's, the same level as the 2020 Adopted Budget.
  - There is no cost of living increases (COLA) factored in the 2021 Proposed Budget. Most bargaining unit agreements expire at the end of 2020 and contract negotiations have not started. The salary changes are for step increases in various areas.
  - It is anticipated that health insurance costs will increase by 12.2% over the 2020 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 \$13.7 million in 2021. This is compared to \$12.9 million in 2020, an increase of \$0.8 million or 6.0%.
  - A few 2020 service contracts have been put on hold due to the financial impact of Covid-19 and have been budgeted again in 2021. These include the demolition of the Centerville and Otter Lake intakes, assessments and analysis of distribution assets. Other highlights in this area include a master plan for our pumping stations, an assessment of our prestressed concrete cylinder pipe (PCCP), and an increase in technology assessments and services.
- Materials, Supplies and Other Spending
  - 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, supplies and other budgets for 2021 are proposed to be \$8.9 million compared to \$8.5 million in 2020, and increase of \$0.4 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>2021 Budget</u>	<u>2020 Budget</u>	<u>Change</u>
· Chemicals	\$3.8 million	\$3.7 million	\$ 0.1
· Electricity	\$1.9 million	\$2.0 million	(\$0.1)
· Fuel and Other Energy	\$0.7 million	\$0.7 million	-
	<u>\$6.4 million</u>	<u>\$6.4 million</u>	<u>-</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 2021 proposed budget includes the projects that were scheduled in the 10-year capital plan.
- The revenue funded capital for 2021 totals \$19.7 million, which is a slight increase of \$0.2 million from 2020 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 2021 totals \$51.0 Million for the McCarron's treatment process improvements. Piloting and design are expected to be complete and the construction phase will begin.

**Debt Service**

- On December 31, 2019, Regional Water had a total outstanding debt of \$32.4 million. We will be adding approximately \$20.0 million in new debt in late 2020 and \$51.0 million in 2021 for the water treatment plant improvements. The 2021 debt service budget is proposed to be \$5.4 million, a \$0.1 million decrease over the 2020 budget. It is anticipated that debt will be issued in the last quarter of the year which will move debt service payments to the next year.

**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 2019 totaled \$7.2 million. We will be using \$2.9 million for one-time spending and rate control for the 2020 budget plus the operating reserves. For 2021 we are proposing to utilize \$2.9 million for one-time spending and for rate control. With this budget as proposed, the projected excess at the end of 2020 will be \$533 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 \$0.11 per CCF. There is no change in the other rates. A typical single-family residential customer will see an increase of 2.45%. 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,



*For* Stephen P. Schneider  
General Manager