



# BOARD OF WATER COMMISSIONERS

President: Mara Humphrey ♦ Vice President: Nelsie Yang

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July 13, 2021

Board of Water Commissioners

Dear Commissioners:

Re: 2022 Budget

## OVERVIEW

The 2022 Saint Paul Regional Water Services (Regional Water) Budget as prepared includes the anticipated spending and necessary financing for the year 2022. We believe the budget, as proposed, will provide the resources necessary to continue our history of providing our customers with reliable, quality water and services at a reasonable cost. This budget includes:

- \$192.1 Million in Total Financing as Follows:
  - 27.3% (\$52.4 million) Sale of Water
  - 6% (\$10.6 million) Water Service Base Fee
  - 1% (\$2.7 million) Water Main Surcharge
  - 1% (\$1.9 million) Right-of-Way Recovery Fee
  - .3% (\$0.6 million) Capital Contributions
  - 3% (\$5.8 million) Misc. Operating and Non-Operating Revenues
  - 1% (\$2.1 million) Cash Reserves
  - 60.4% (\$116.0 million) Debt Issuance
- \$192.1 Million in Total Spending as Follows:
  - 25% (\$47.6 million) Operating Expenses
  - 11% (\$21.6 million) Revenue Funded Capital Investments
  - 3.6% (\$6.9 million) Debt Service and Other Spending
  - 60.4% (\$116.0 million) Debt Funded Capital Investments
- Water Rate Adjustments to Meet Financing and Spending Requirements
  - Consumption Based Rate Average - \$3.38 per 100 Cubic Feet (CCF) or 748 Gallons
    - \$0.30 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

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 68 CCF (50,864 gallons), the impact on a typical residential customer in the Regional Water service area is an increase of \$1.70 per month for a total annual cost of \$333.44 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 2022. 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 2020 and 2021 due to above average rainfall, and COVID-19 reduced consumption for some large customers such as University of St. Thomas and University of Minnesota.
- There is a \$0.30 per CCF increase proposed in the consumption-based rates. The rates per CCF are as follows:

	<u>2022</u>	<u>2021</u>
Winter rate	\$3.33	\$3.03
Summer rate	\$3.43	\$3.13
Average rate	\$3.38	\$3.08

This rate increase will generate \$4.3 million and when added to automatic fire suppression revenues of \$260 thousand, this brings consumption-based water revenues for 2022 to total \$52.4 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 1st of 2015 to 2017 to the current rate of \$6 per month. Total revenues are projected to remain constant at \$10.6 million for 2022.

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 2022 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 2022.

**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 2022 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 2022 budget has a total of \$5.8 million in revenue for miscellaneous operating and non-operating income. This represents no change from the 2021 budget. Items in this revenue group include interest earnings, antenna revenue, lead replacement revenue, plumbing inspections and other billing fees.

**Capital Contributions**

- The proposed 2022 budget has a total of \$0.6 million in revenue for capital contributions. There is no change from the 2021 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 \$116.0 million in debt issuance through either a bonding issue or the State Revolving Fund in 2022 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, the piloting and design for the process improvements at the McCarron's water treatment plant has begun. The 2022 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 greater operational flexibility, and higher quality water while positioning 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 design-build firm will deliver a guaranteed maximum price in the Spring of 2022. Based upon current commodity costs and similar ongoing utility projects, the current budget assumes an overall project cost of approximately \$187 million--The cost breakdown by year is estimated as follows:

2018-2020	Pre-Design	\$ 800,000*
2021	Piloting and Full Design	\$ 20,000,000
2022-2025	Construction	\$ 167,000,000

\*The \$800,000 Pre-Design was 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 over the next nine years to our debt service reserves bringing the total to approximately \$14.3 million by 2030. Debt service coverage ratio is projected to be > 2.0 all years during plant construction and beyond.

**Cash Reserves**

- As a result of 2020 operations we estimate we will use \$2 million from reserves. 2021 operating revenues were down .7M. Water sales were down due to above average rainfall and Covid 19 but were partially offset with an increase in interest earned on investments and other miscellaneous revenues. The majority of savings came from a reduction of expenses due to personnel vacancies, materials and supplies, unissued debt interest, and other expenses directly related to the production of water, such as chemicals, electricity, and lime residual hauling. In our 2021 Adopted Budget we utilized \$2.9 million for one-time spending and for rate control. For 2022, we are proposing to utilize \$2.1 million for one-time spending and for rate control.

**Summary of Financing**

- The following is a summary of financing categories for the proposed 2022 budget and how they compare to the adopted 2021 budget:

In Millions	2022 Proposed Budget	2021 Adopted Budget	Change
Water Sales	\$52.4	\$48.1	\$4.3
Water Service Base Fee	\$10.6	\$10.6	\$0.0
Water Main Surcharge	\$2.7	\$2.7	\$0.0
Right-of-Way Recovery Fee	\$1.9	\$1.9	\$0.0
Miscellaneous Revenues	\$5.8	\$5.8	\$0.0
Capital Contributions	\$0.6	\$0.6	\$0.0
Issuance of Debt	\$116.0	\$51.0	\$65.0
Cash Reserves	<u>\$2.1</u>	<u>\$2.9</u>	<u>(\$0.8)</u>
Totals	\$ 192.1	\$ 123.6	\$68.5

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 \$1.70 per month for a total annual cost of \$333.44 (\$27.79 per month). This consists of the following:

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Water Service Base Fee	\$72.00	\$72.00	\$0.00
Consumption Based	\$229.84	\$209.44	\$ 20.40
Water Main Surcharge	\$13.60	\$13.60	\$0.00
Right-of-Way Recovery Fee	\$18.00	\$18.00	\$0.00
Total Annual Cost	<u>\$333.44</u>	<u>\$313.04</u>	<u>\$20.40</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>2022</u>	<u>2021</u>	<u>Change</u>
• Salaries	\$15.9 million	\$15.5 million	\$0.4 million
• Fringes	\$8.9 million	\$8.7 million	\$0.2 million
• Services	\$14.1 million	\$14.2 million	(\$0.1) million
• Materials, Supplies & Misc.	<u>\$9.2 million</u>	<u>\$8.9 million</u>	<u>\$0.3 million</u>
Total Operating Expenses	<u>\$48.1 million</u>	<u>\$47.3 million</u>	<u>\$0.8 million</u>

- Salaries and Fringes
  - The 2022 proposed budget includes net operating and maintenance salaries and fringe benefits of \$24.8 million or an increase of \$0.6 million or 2.5% from the 2021 budget.
  - The 2022 proposed budget includes a total of 261.7 FTE's, an increase of 2 FTE from the 2021 Adopted Budget.
  - There is a 1.5% cost of living increase (COLA) factored in the 2022 Proposed Budget. Several bargaining units have settled with this COLA. Step increases have been incorporated.
  - It is anticipated that health insurance costs will increase by 3.2% over the 2021 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 \$14.1 million in 2022. This is compared to \$14.2 million in 2021, a decrease of \$0.1 million or .7%.
- Materials, Supplies and Other Spending
  - 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 2022 are proposed to be \$9.2 million compared to \$8.9 million in 2021, an increase of \$0.3 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>2022 Budget</u>	<u>2021 Budget</u>	<u>Change</u>
• Chemicals	\$3.8 million	\$3.8 million	-
• Electricity	\$1.9 million	\$1.9 million	-
• 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 2022 proposed budget includes the projects that are scheduled in the 10-year capital plan.
- The revenue funded capital for 2022 totals \$21.6 million, which is a slight increase of \$1.9 million from 2021 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 2022 totals \$116.0 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, 2020, Regional Water had a total outstanding debt of \$28.9 million. The 2022 debt service budget is proposed to be \$6.2 million, a \$0.8 million increase over the 2021 budget. We added \$15.4 million in new debt in June 2021. \$51.0 million was budgeted in 2021 for the water treatment plant improvements but was not yet issued. It is anticipated that debt will be issued for approximately \$25 million in mid-2022.

**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 2022 we are proposing to utilize \$2.1 million for one-time spending and rate control. We are conserving cash for the plant project debt and rate control from 2023-2025. With this budget as proposed, the projected cash balance at the end of 2022 is estimated at \$5 million. 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 \$0.30 per CCF. There is no change in the other rates. The rates provided are necessary to fund operating and maintenance costs, the capital program, debt service and fund the ongoing McCarrons Water Treatment Plant Improvement Project.

I recommend Board approval of this budget 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 Board assets last as long as possible. Regional Water 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 not only our natural resources but our financial resources as well.

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