



SAINT PAUL REGIONAL WATER SERVICES

WATER RATES STUDY

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HDR: Shawn Koorn
May 12, 2026



Background & Summary of Project

Background:

Board Resolution: 25 - 1386 (September 2025) authorized a PSA with HDR to conduct a comprehensive Water Utility Rate Study (Retail and Wholesale)

Project Purpose:

To ensure SPRWS's rates sustainably fund infrastructure, operations, and long - term investments while aligning financial planning and customer affordability

Note: Previous Study Water Utility Rate Study: 2022

Key Deliverables:

- Review of Rate/Financial Policies
- Revenue Requirement (Financial Plan)
 - Focus on next 5- year period
- Cost of Service
- Rate Design
- Financial Model Calibration
- Public Outreach (Rate Design Change)

PROJECT TIMELINE



Introductions



Shawn Koorn, Project Manager: Over 26 years of rate and fee setting experience. Co-instructor of the AWWA 3-day rate setting essentials seminar

Kabby Jones, Project Principal: With over 27 years of experience assisting water and wastewater utilities evaluating long-range infrastructure planning and design and utility management.

Josiah Close, Task Lead: with almost 15 years of rate and fee experience working with agencies across the U.S.

Jack Adams, Financial Analyst: nearly 3 years of experience in developing utility financial analysis to support the development of proposed rates and fees

Kevin Lorentzen, QA/QC: 20 years of experience in establishing utility rates and fees for agencies across the U.S.



Purpose of the Meeting

Provide a general overview of the rate setting process

Gain Board feedback and input:

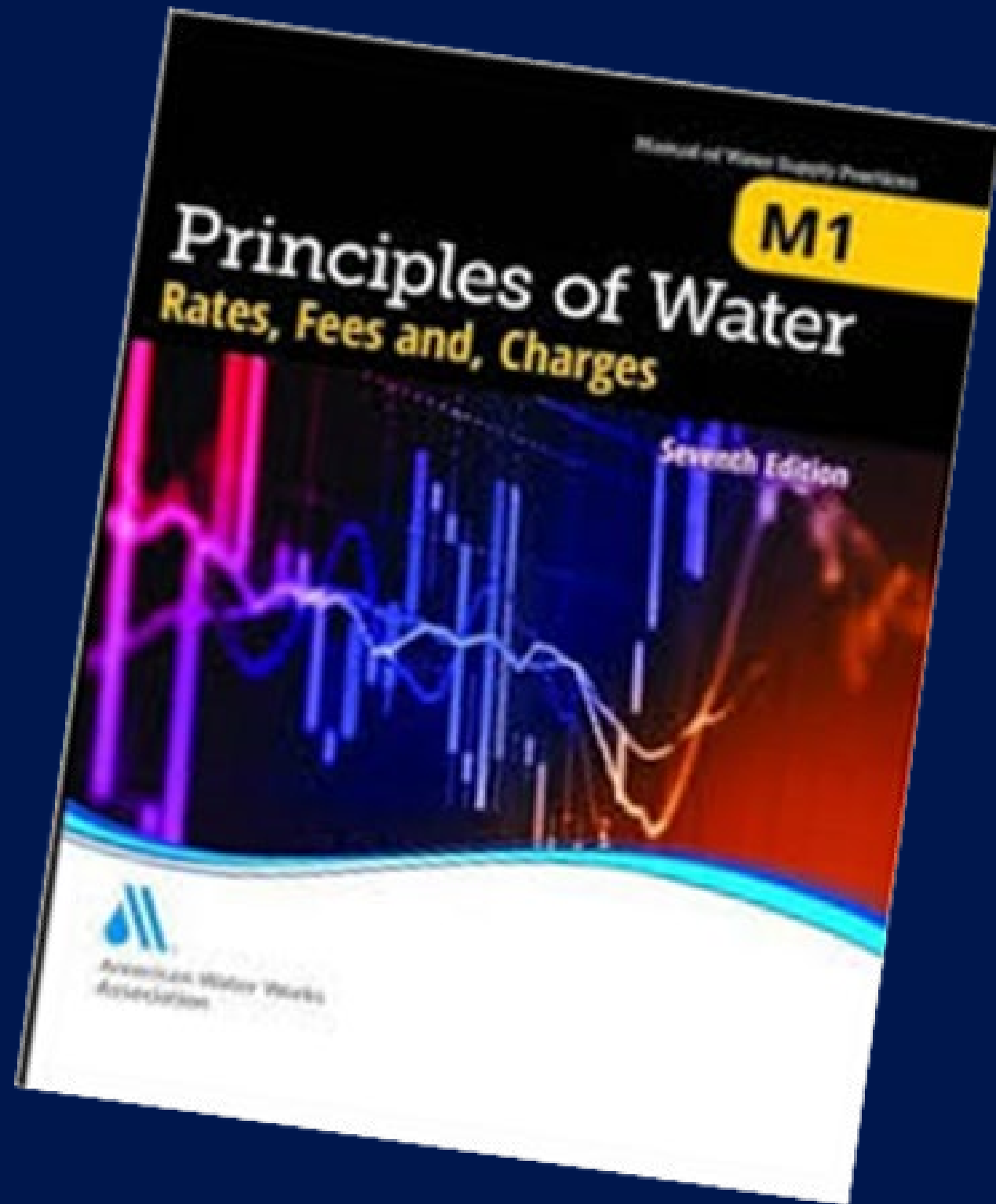
- Preliminary revenue requirement analysis
 - OVERALL RATE REVENUE ADJUSTMENTS
- Cost of service assumptions and customer classes of service
- Rate design and alternative rate structures for consideration

Next steps

A close-up photograph of a person's hand holding a black pen, poised to write on a document. The document contains various charts, including pie charts and bar graphs, as well as a table. The background is slightly blurred, showing other documents and a person's arm. An orange geometric shape is visible in the top right corner.

1.0

General Overview of the Rate Setting Process



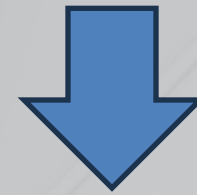
PURPOSE OF THE RATE STUDY

- Determine a projection of rate revenues to operate and maintain the water system
- Develop cost - based water rates
- Reflect prudent financial planning criteria
 - Prudent funding of annual O&M expenses
 - Meet target minimum reserve balances
 - Adequately fund identified capital improvement and replacement needs
- Develop the study using generally accepted methodologies tailored to the SPRWS system and customer characteristics

RATE STUDY OVERVIEW

REVENUE REQUIREMENT

Compares the revenue of the utility to the expenses to evaluate the level of overall rates



COST OF SERVICE

Proportionally distribute the revenue requirement to the customer classes of service and develop average unit costs



RATE DESIGN

Design rates to meet the revenue needs and cost of service while reflecting SPRWS's rate design goals and objectives



2.0

Revenue Requirement Analysis



REVENUE REQUIREMENT ANALYSIS OVERVIEW

COMPARES UTILITY REVENUES TO EXPENSES

- Determines the level of revenue (rate) adjustment necessary

USES PRUDENT FINANCIAL PLANNING CRITERIA

- Adequate funding of renewal and replacement
- Maintaining sufficient ending reserve balances

REVIEWS A SPECIFIC TIME PERIOD

- 10 - year planning period
- Typically 2 – 5 - year rate setting period

UTILITIES ANALYZED ON A “STAND - ALONE BASIS”

- No transfer of funds from other funds
- Rates need to support operations and capital

UTILIZES THE “CASH BASIS” METHODOLOGY

- Generally accepted method for municipal utilities

REVENUE REQUIREMENT ASSUMPTIONS

REVENUES INDEPENDENTLY CALCULATED BASED ON SPECIFIC CUSTOMER CHARACTERISTICS AND CURRENT WATER RATES

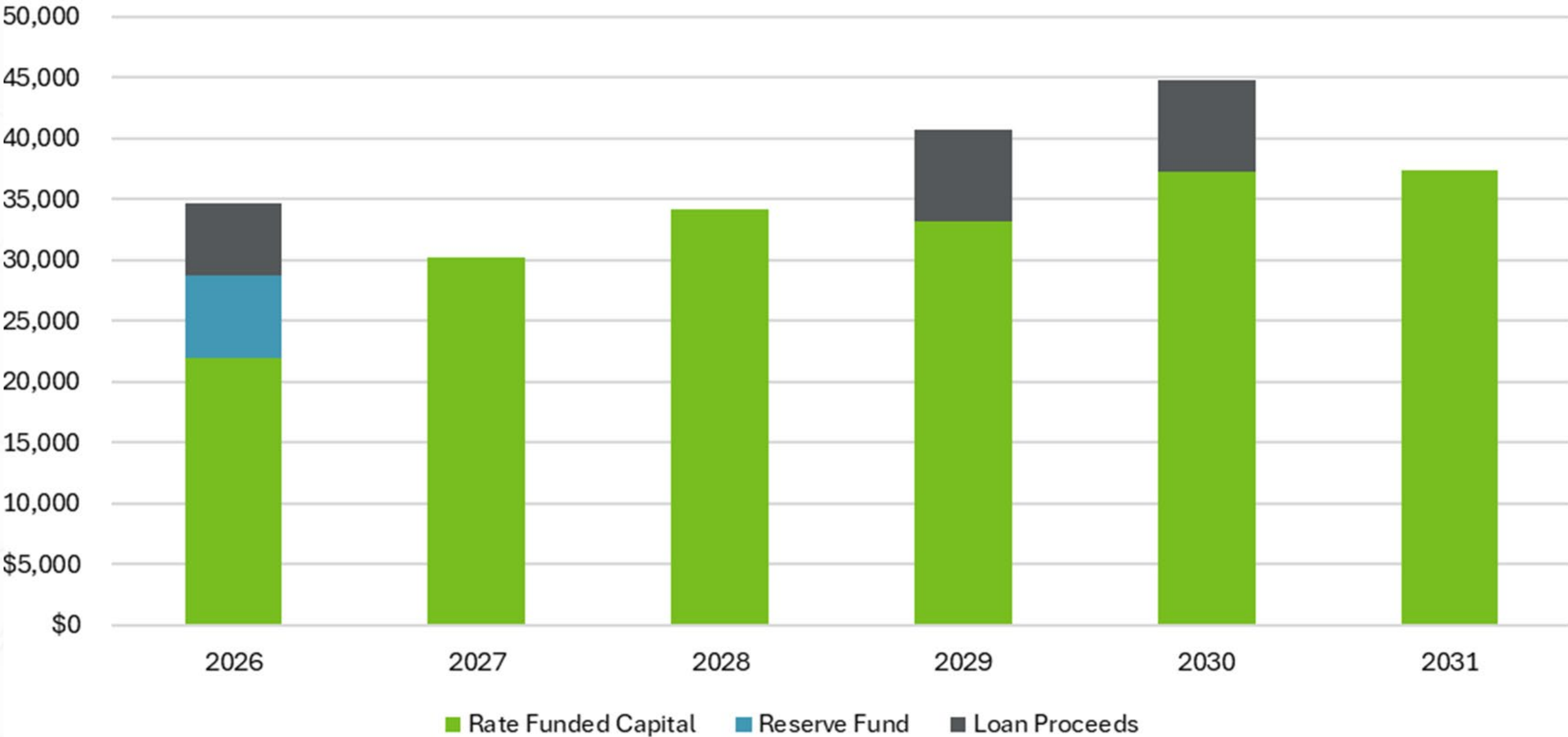
- **O&M EXPENSES BASED ON FY 2024 2025 AND FY 2025 - 2026 BUDGETS**
 - Projected through FY 2035 - 2036 based on annual inflationary factors (~3.9%)
- **CAPITAL FUNDING ANALYSIS BASED ON CAPITAL IMPROVEMENT PLAN**
 - Reflects renewal and replacement and system improvement needs
- **DAYS CASH ON HAND: 2030 GOAL FOR 365 DAYS.**

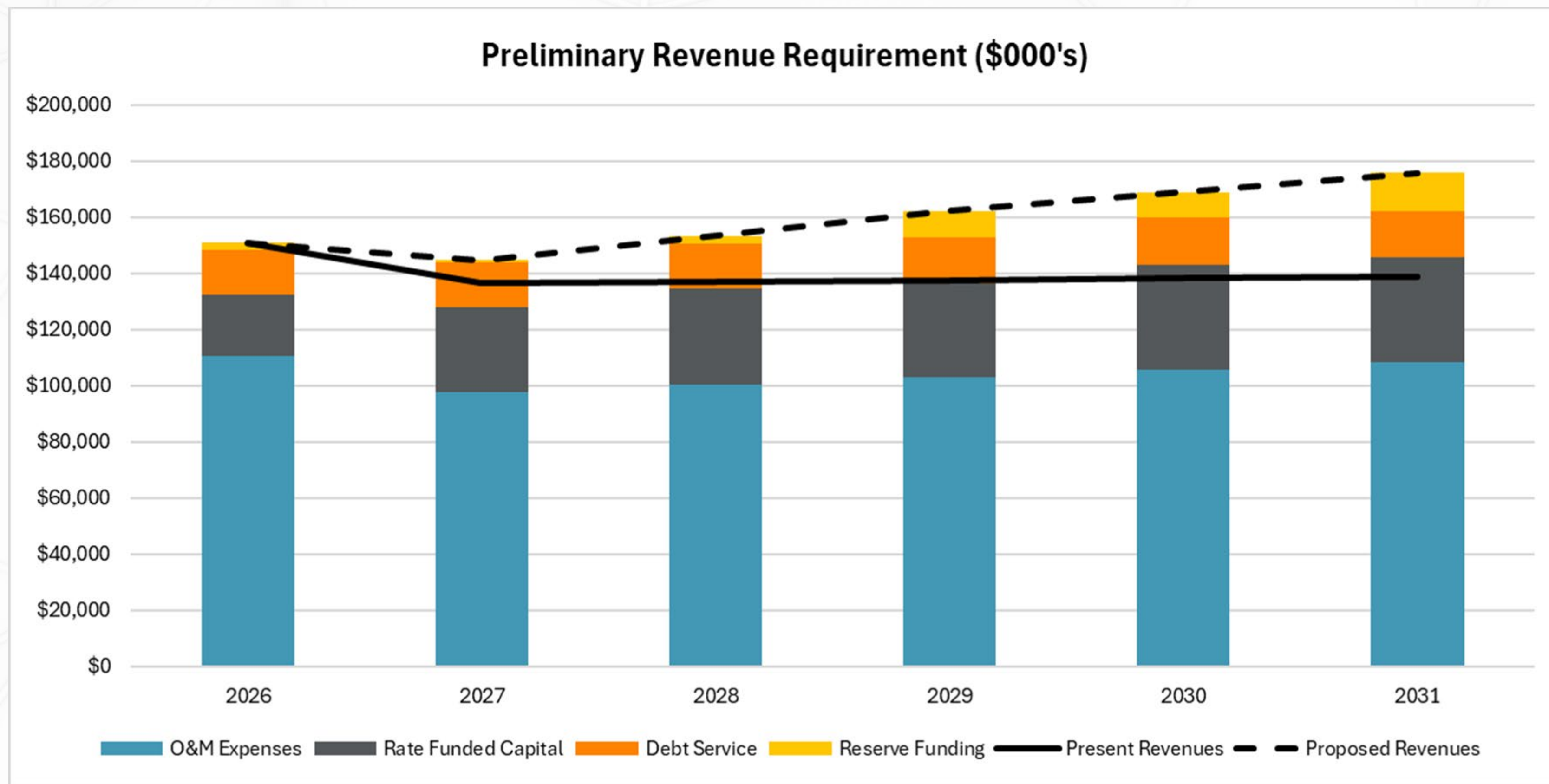
	75th Percentile	Median	25th Percentile	Sample Size
Water Utilities	505	357	184	38
Combined Utilities - Water Operations	786	461	218	32

AAA
RATING



Preliminary Capital Funding Plan (\$000's)





Note: 2026 reduction revenue and expenses is related to service line and grant funding expenditures.
 2026: 50 Million, 2027: 35 Million

SUMMARY OF THE REVENUE REQUIREMENT

Developed based on prudent financial planning criteria and industry standard approaches

Utilizes SPRWS customer characteristics, growth, and inflation assumptions

Determines adequate funding for the utility to operate on a financially stable basis

Provides rate revenue adjustments for Board consideration

	2027	2028	2029	2030	2031
Rate Adjustment	8.5%	7.5%	6.5%	5.0%	5.0%

Revenue Requirement – Policy Considerations

MEETING FINANCIAL POLICIES

- Target ending reserve balances
- Use of long-term debt
- Debt service coverage ratio

PRUDENT FUNDING OF ANNUAL RENEWAL AND REPLACEMENT

- Annual depreciation expense
- Future replacement needs
- Asset management plan

LONG-TERM FINANCIAL SUSTAINABILITY

LEVELS OF SERVICE

- Impacts of growth
- Projection of future O&M
- Additional programs/practices
- Capital infrastructure needs

CONSUMPTION LEVELS FOR REVENUE PROJECTIONS

- Revenue stability
- Customer growth

A close-up photograph of a calculator keypad, showing several buttons with mathematical symbols like 'x' and '+'. A semi-transparent grey rectangular box is centered over the image, containing the text '3.0' in a dark blue, bold, sans-serif font. The entire image is framed by a thin blue border.

3.0

COST OF SERVICE ANALYSIS

COST OF SERVICE ANALYSIS OVERVIEW

WHAT IS COST OF SERVICE?

- Analysis to proportionally distribute the revenue requirement to the customer classes of service

WHY COST OF SERVICE?

- Revenues reflect costs
- Provides an accurate price signal

OBJECTIVES OF COST OF SERVICE

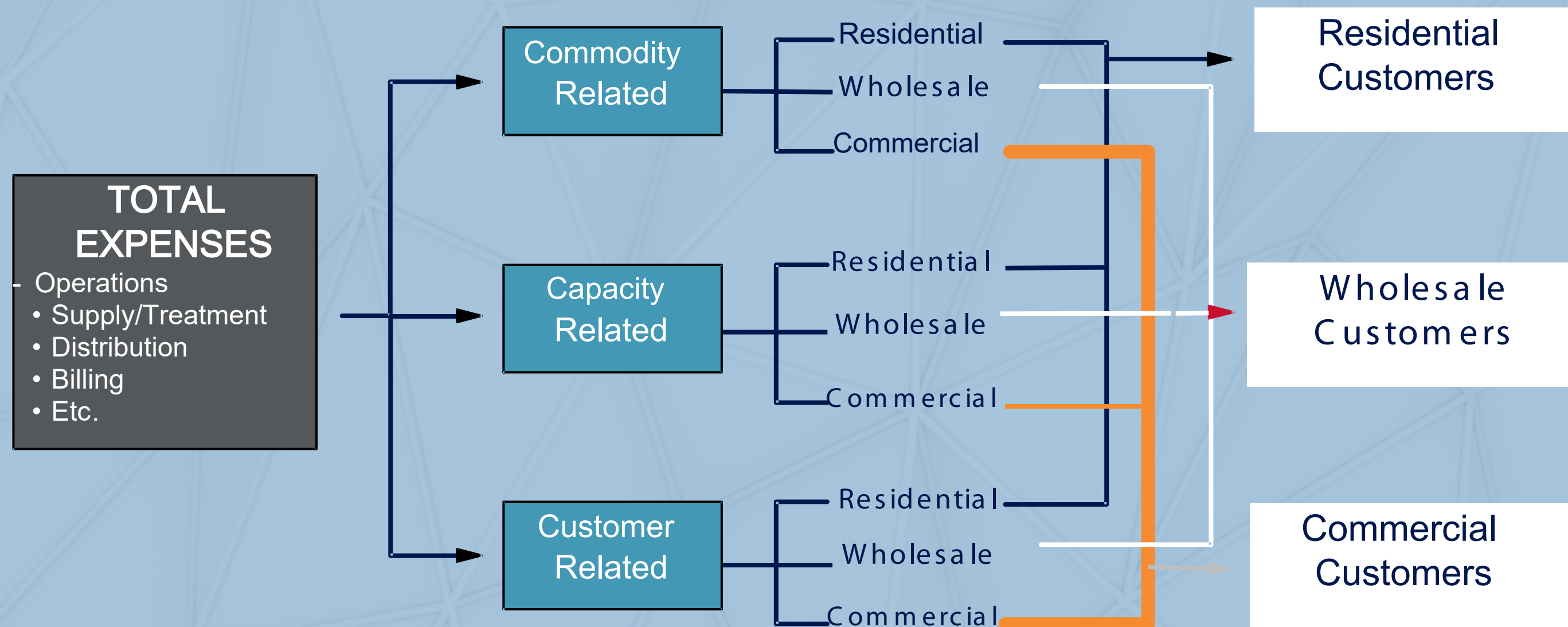
Develop average unit costs to support rate design

GENERIC WATER COST OF SERVICE ANALYSIS

FUNCTIONALIZATION

ALLOCATION

DISTRIBUTION



Cost of Service – Policy Considerations

REVIEW OF CUSTOMER CHARACTERISTICS

- Average day/peak day
- Capacity requirements

REVIEW OF CUSTOMER CLASSES OF SERVICE

- Review rate structure by class
- Based on customer characteristics

COST-BASED DISTRIBUTION OF COSTS

IDENTIFIES SUBSIDIES BETWEEN CUSTOMER CLASSES OF SERVICE

- Implementation or transition to cost of service results (if necessary)

DEVELOPMENT OF COST BASIS FOR RATE DESIGN

- Based on average day and peak day

COST OF SERVICE ASSUMPTIONS

CURRENTLY A SINGLE RATE STRUCTURE FOR ALL CUSTOMERS

FOR COST OF SERVICE AND RATE DESIGN PURPOSES:

- Customers are grouped into homogeneous customer classes of service
- Proportionally distribute costs between customer classes of service

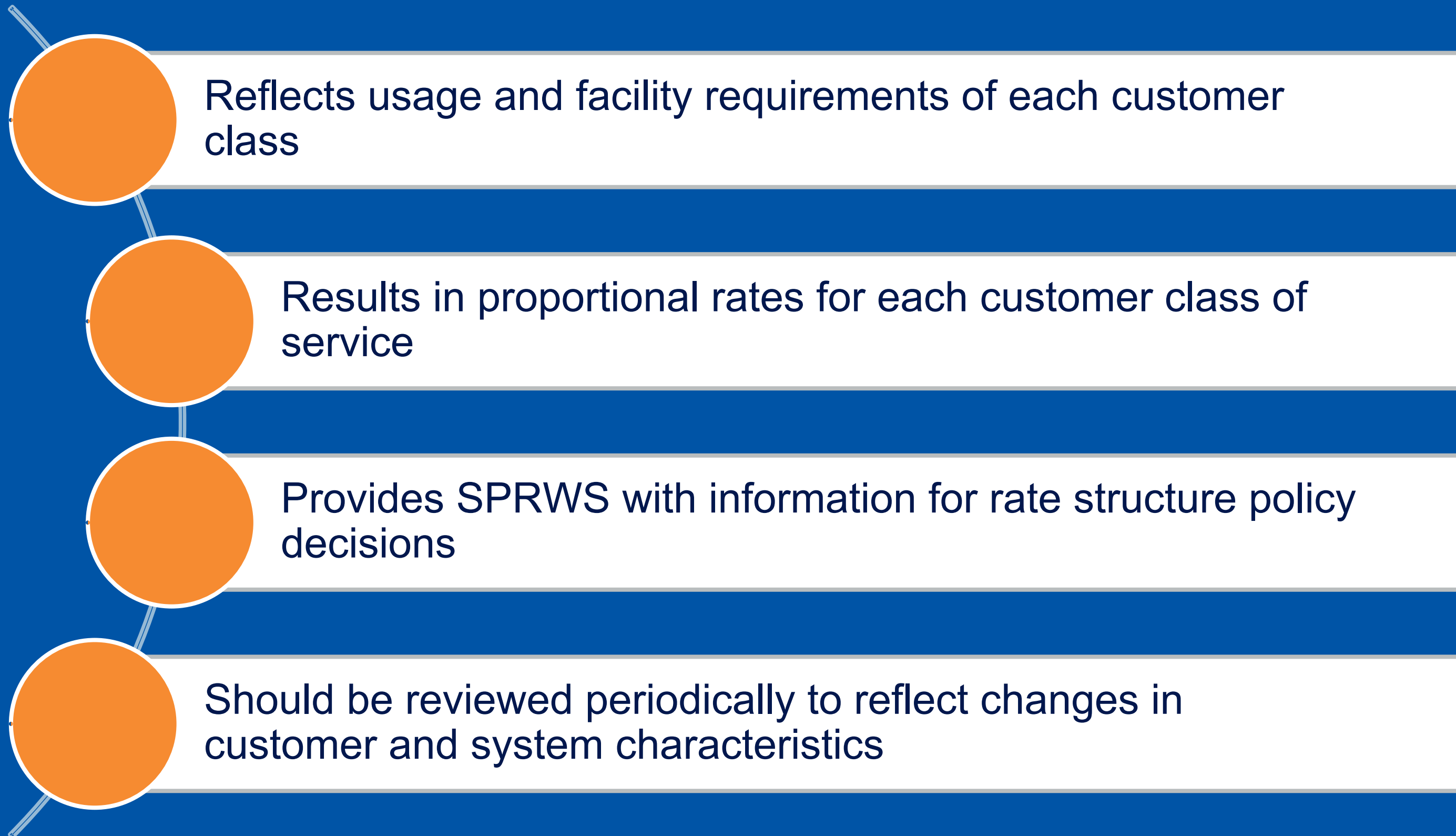
DETERMINES THE REVENUE RESPONSIBILITY OF EACH CUSTOMER CLASS FOR RATE DESIGN PURPOSES

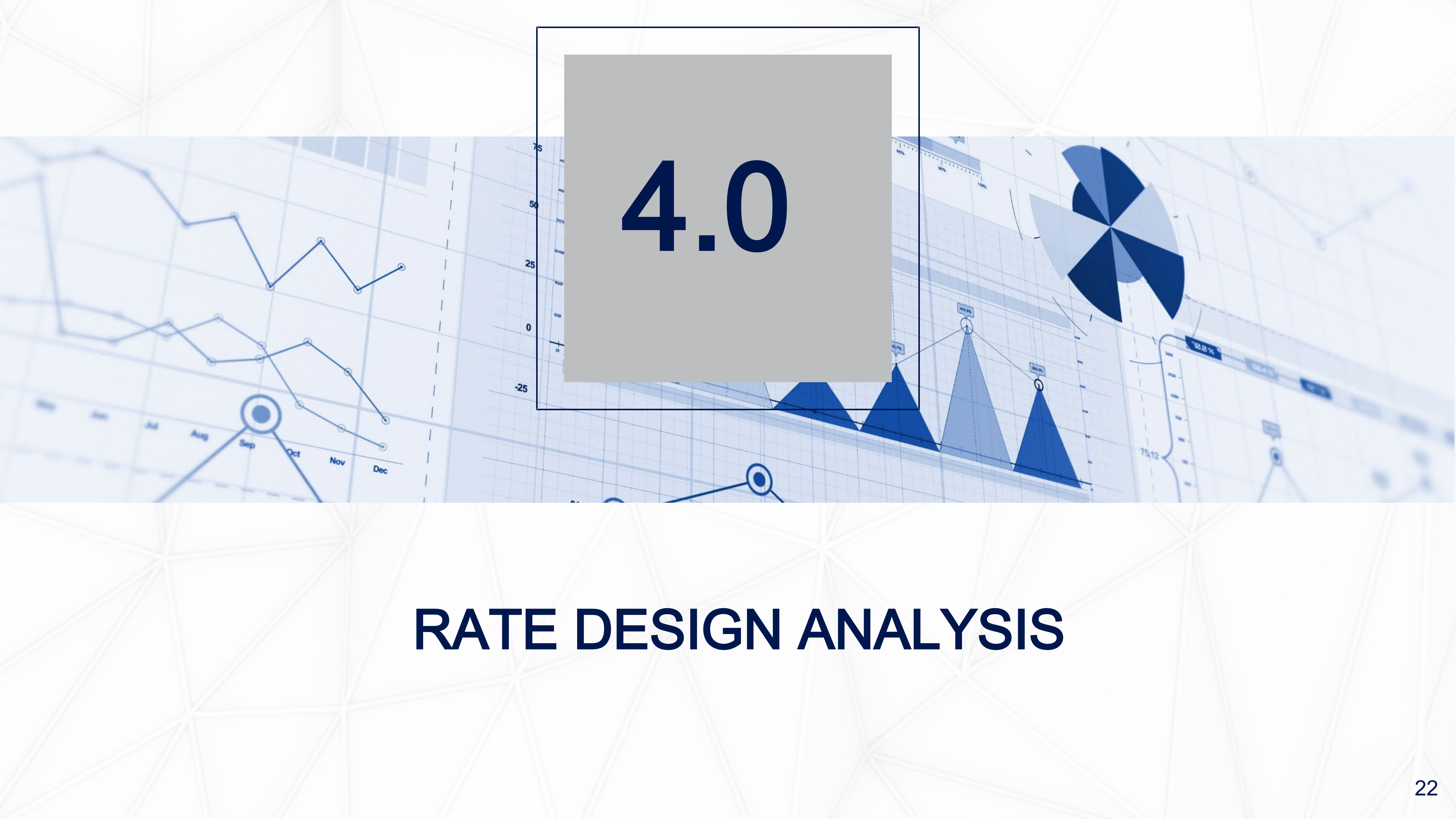
DOES NOT MEAN RATES “HAVE” TO BE DEVELOPED FOR EACH CLASS OF SERVICE

- Simply identifying the proportional distribution of costs to make informed rate design decisions

Customer Classes	
Residential	Irrigation
Commercial	Wholesale
Multifamily	Industrial

SUMMARY OF THE COST OF SERVICE ANALYSIS

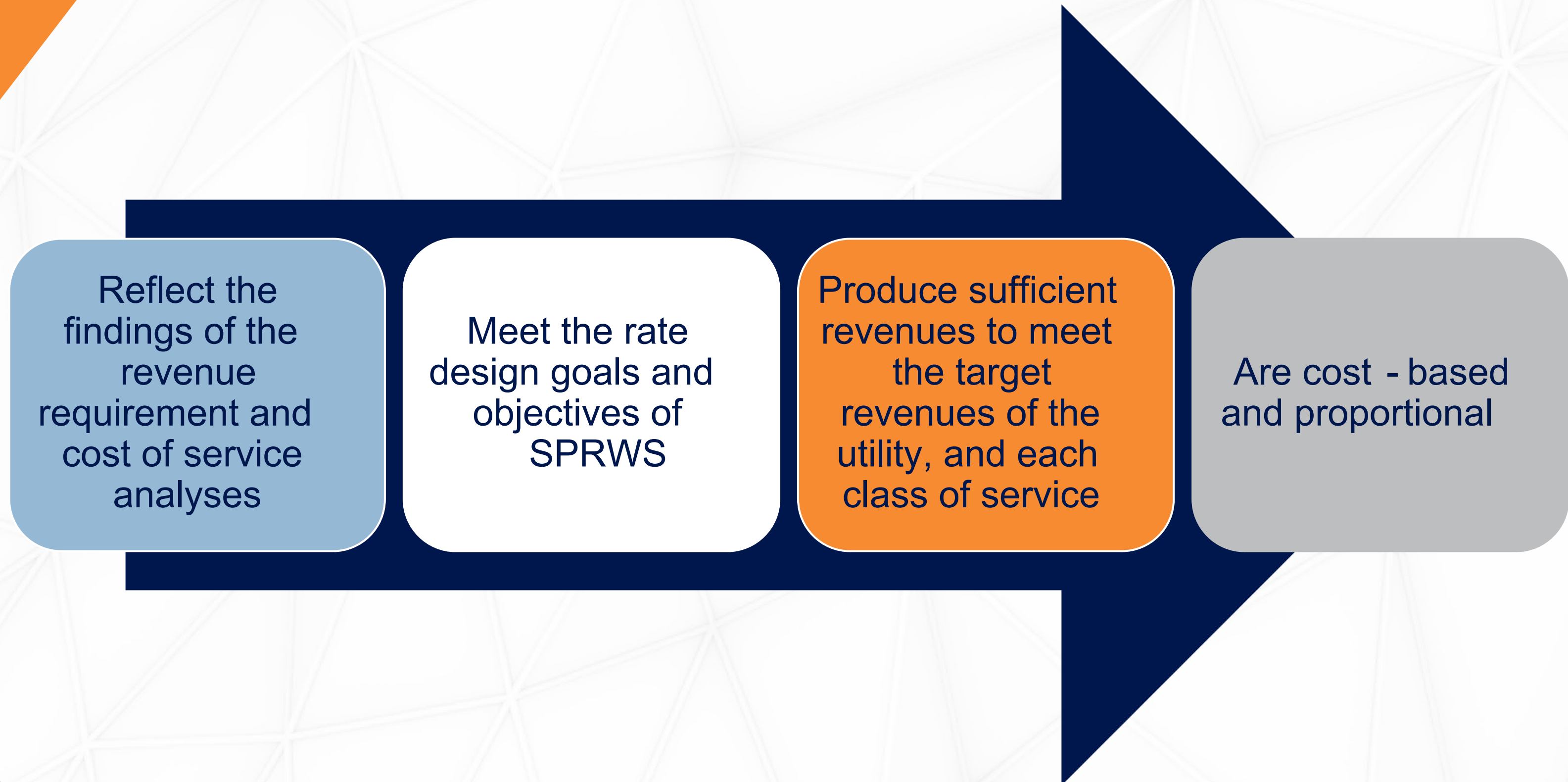




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RATE DESIGN ANALYSIS

RATE DESIGN ANALYSIS OVERVIEW



COMMON RATE SETTING GOALS AND OBJECTIVES

REVENUE SUFFICIENCY AND STABILITY



Easy to Understand (Customer)

Efficient to Administer (SPRWS)

Affordability

Efficient Use of the Resource

Cost-Based and Proportional

Rate Design – Policy Considerations

IDENTIFICATION OF PRIMARY GOALS AND OBJECTIVES

- Revenue stability/sufficiency
- Cost-based
- Affordability

RATE STRUCTURE COMPONENTS

- Fixed vs. variable charges

PROMOTING SPRWS'S GOALS AND OBJECTIVES

RATE STRUCTURE ALTERNATIVES

- Meet goals and objectives
- Reflect customer characteristics

POTENTIAL RATE DESIGNS

- By customer class (including wholesale)
- Revenue Requirement Results
- Reflect cost of service results

RATE DESIGN OPTIONS

STATUS QUO

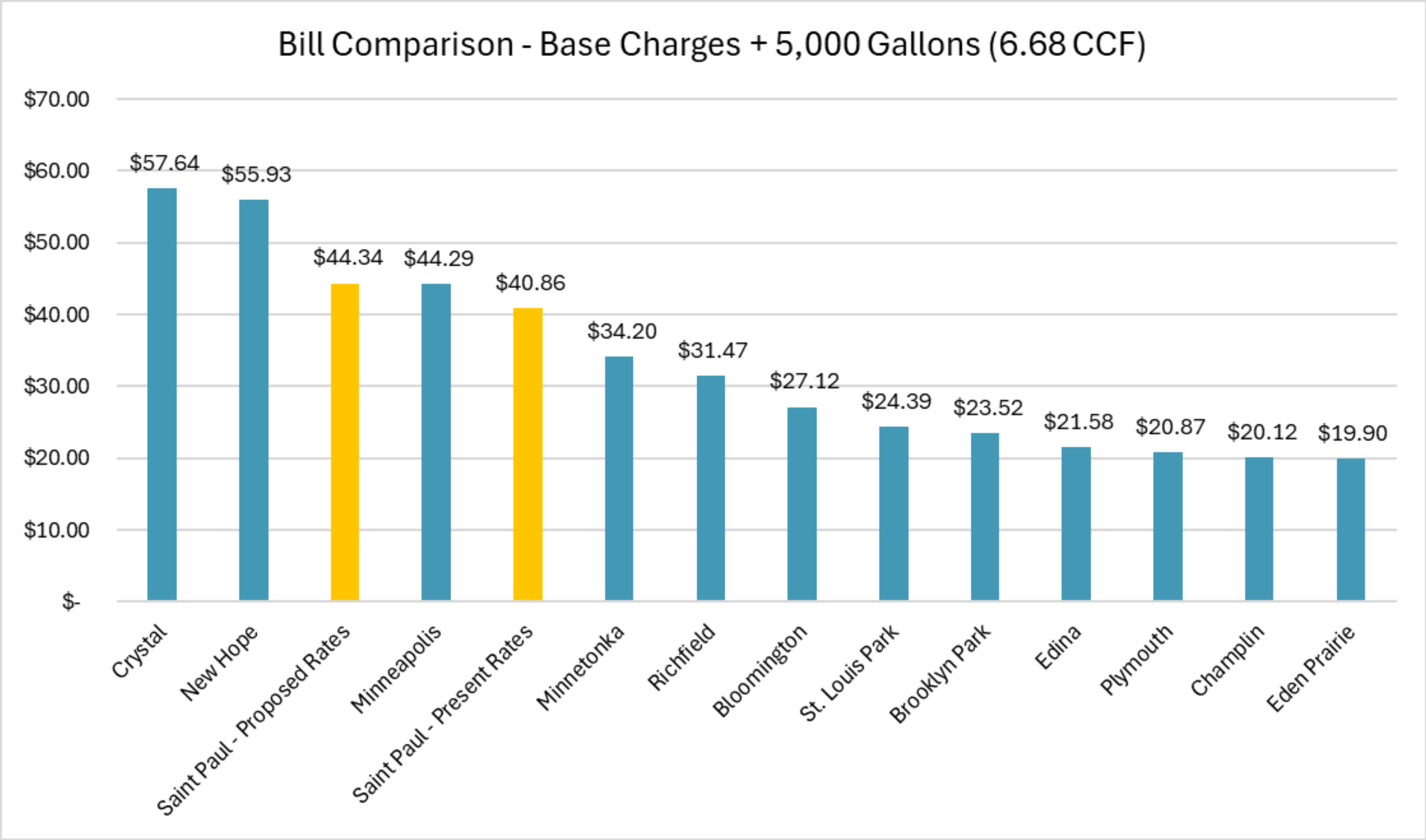
- Maintain Current Rate Structure
 - Seasonal & Base Fee Adjustments

ALTERNATIVES

- Rates by customer class of service
 - Based on cost of service results
- Establish rates and tiers specific to the characteristics of each customer class
- Lifeline Rate Structure



RATE DESIGN- REGIONAL BILL COMPARISON



SUMMARY

Study is based on industry standard approaches and SPRWS specific system and customer characteristics

Draft technical analyses are being developed and refined with SPRWS staff

Study results will be presented to Board for direction for final proposed rates:

Final study recommendations will be presented to Board for consideration and implementation



QUESTIONS AND DISCUSSION

