SAINT PAUL REGIONAL WATER SERVICES

2026 BUDGET WORKSHOP

SPRWS BOARD OF WATER COMMISSIONERS

JULY 15, 2026

TIMELINE OF EVENTS

JULY

Budget Workshop

AUGUST

Full Budget Presentation
+ Further Discussion

SEPTEMBER

Public Meeting

OCTOBER

Budget Adoption

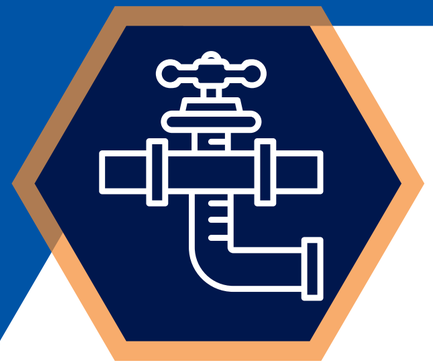
BUDGET WORKSHOP

DISCUSSION TOPICS

Refining Our Financial Lens

As market conditions evolve and new data becomes available, it's critical to revisit our financial inputs to ensure modeling reflects current realities. This section will explore updated financial figures, uncover key insights, and assess implications for accuracy and forecasting. This exercise will continuously refresh our foundation to drive smarter decisions.

- **Updated Consumption Projection**
  - Revenue Shortfall Due to Precipitation
  - WestRock Departure
- **Population Projections**
- **Cash on Hand**



Evaluating Rate Scenarios

With operational expenses remaining relatively stable, shifts in revenue projections and rate impacts play a pivotal role in shaping available capital investment. This discussion explores three distinct investment levels—each with its own set of advantages and trade-offs. Through continued refinement of our 10-year capital plan, we aim to balance affordability, resilience, and infrastructure renewal to support long-term utility performance.

- **7.5%**
- **9.0%**
- **13%**

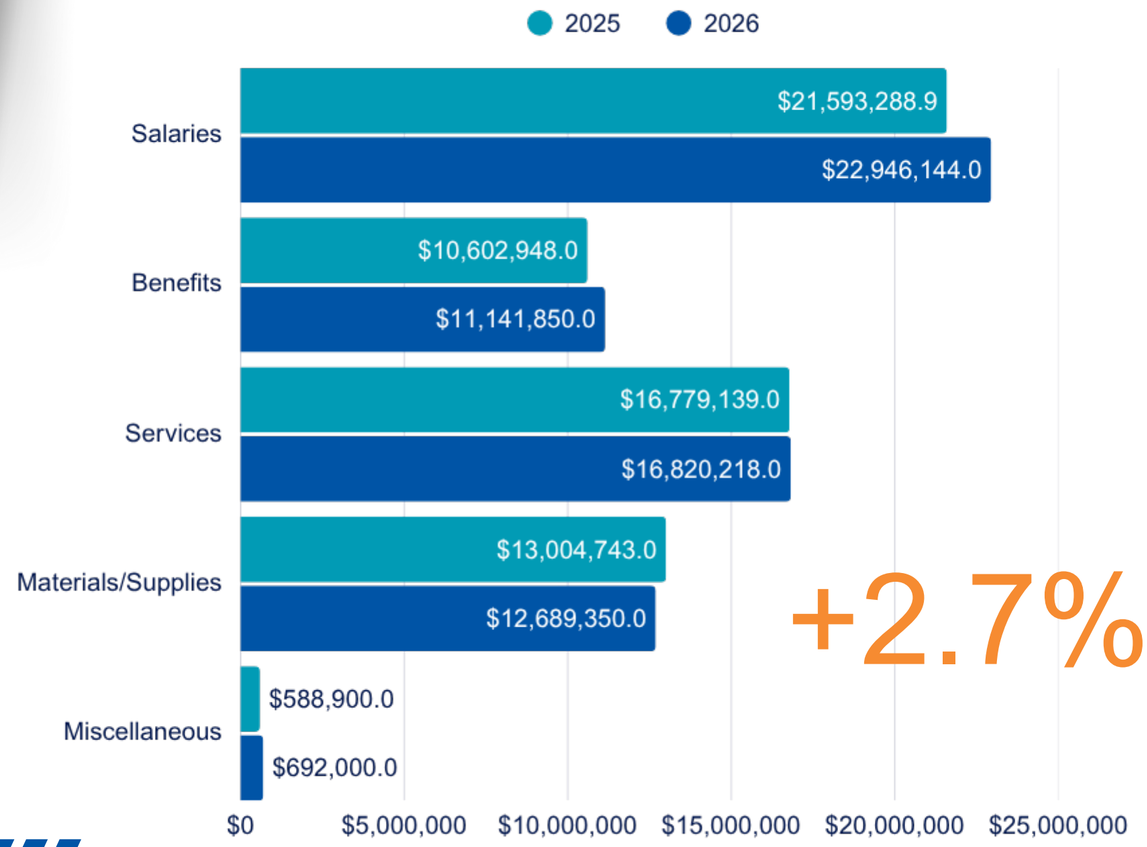
Operations & Maintenance

Cost Management

These numbers reflect initial drafts and will be further refined over the next month and with feedback received during the Budget Workshop.

Over the last few years, innovation and substantial progress has occurred in many key areas - community engagement, register replacements, a new customer portal, asset management, affordability, a new plant, lead service line replacements...

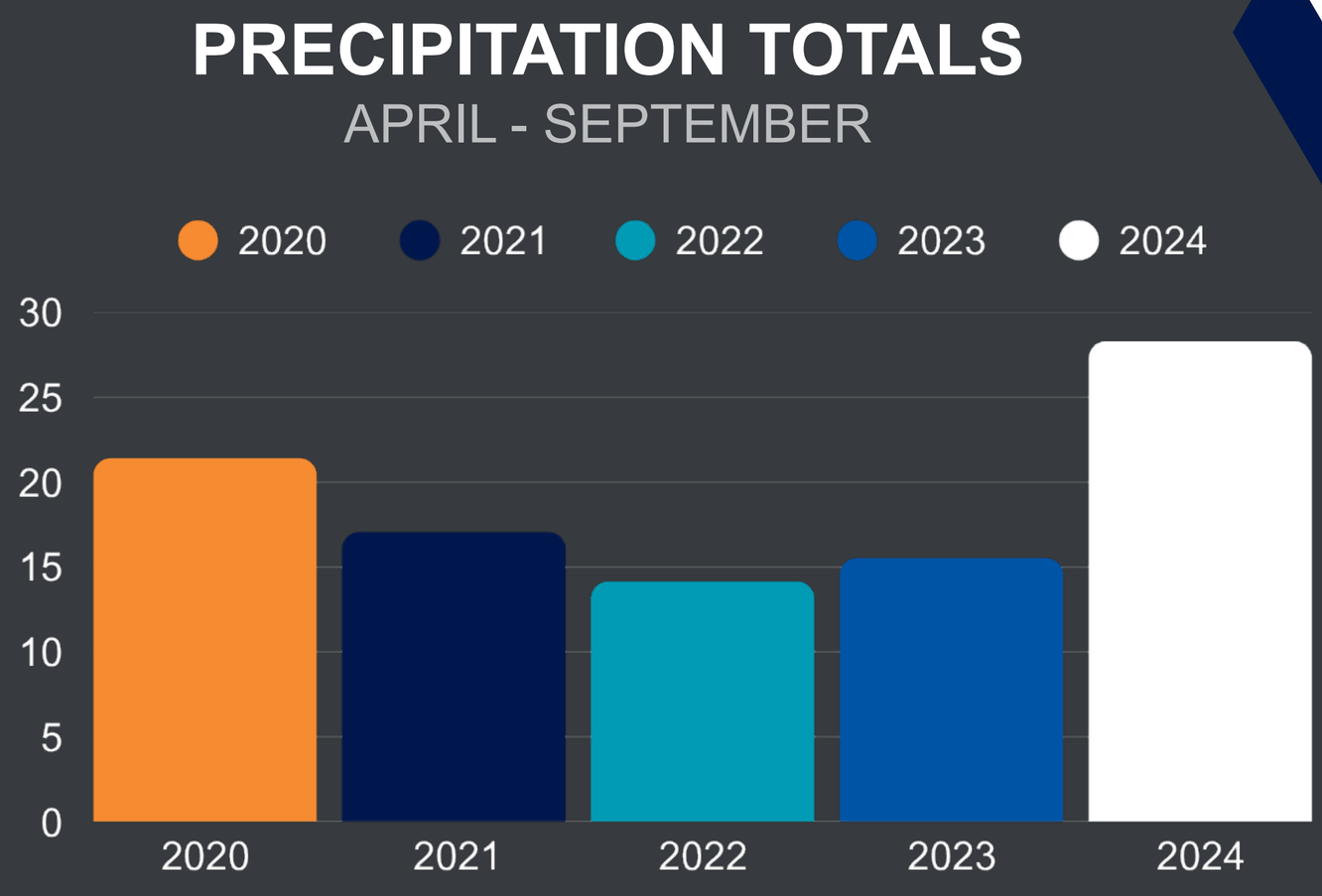
While we continue moving these initiatives forward, overall increases in Operations & Maintenance (O&M) costs have been kept minimal through a focus on efficiency and prioritizing existing efforts.



REVENUE FLUCTUATIONS

DUE TO PRECIPITATION

When precipitation levels rise, demand for water drops. This decline in consumption directly impacts revenue, leading to shortfalls that can strain the budget and result in the use of additional cash or cuts in projects. In essence, wet weather means fewer gallons sold, and fewer dollars earned.



Smurfit Westrock announced on April 30, 2025 that it will permanently close its coated recycled board (CRB) mill in St. Paul, Minnesota. This closure will occur in June 2025 and will impact revenue at SPRWS (and PW) in 2025 as well as all future years.

In 2024, SPRWS generated $1,627,887 in revenue from water sales to Westrock
Westrock was our 3rd largest customer

UPDATED CONSUMPTION PROJECTION

10-Year Average Consumption 2014-2023 12.411 Billion Gallons

Budgeted Consumption 2017-2024 12.343 Billion Gallons

NEW 10-Year Average Consumption 2015-2024 12.325 Billion Gallons

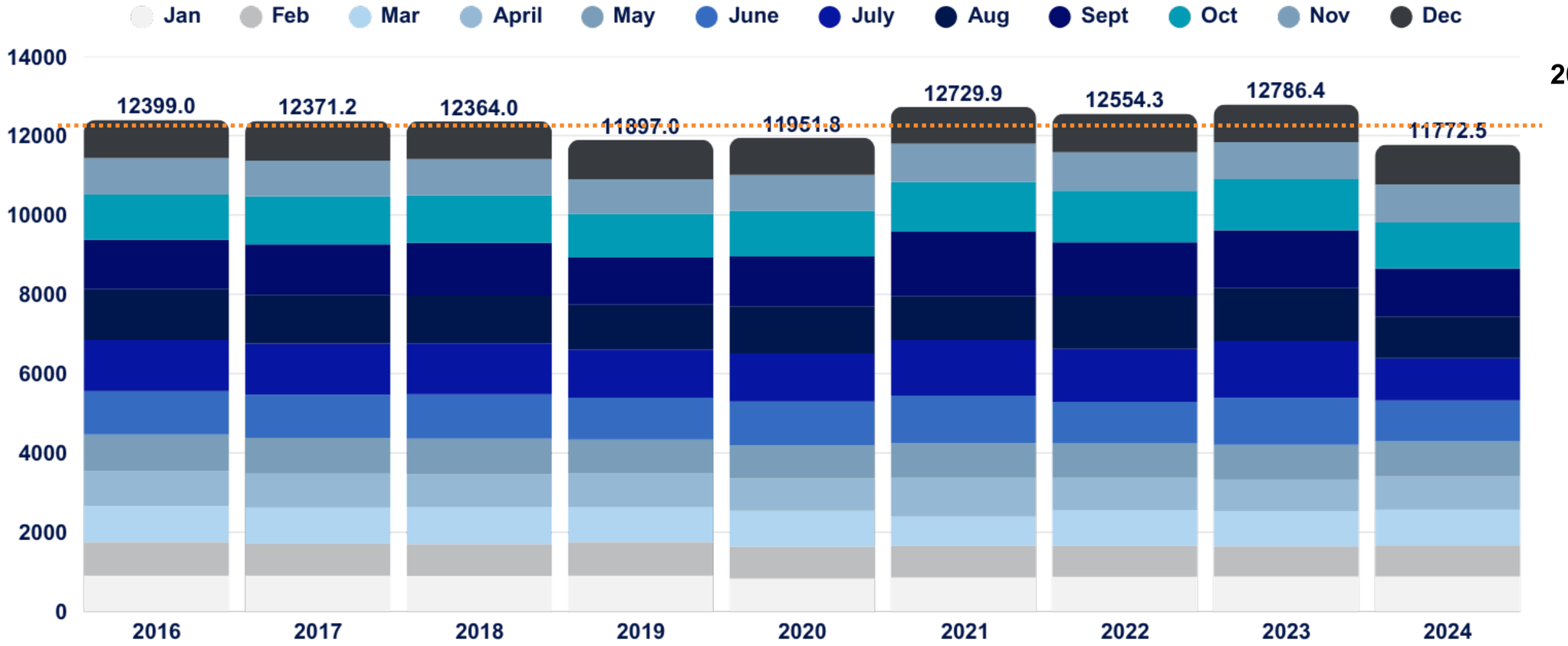
Adjust Down for Westrock -0.125 BG

12.2 Billion Gallons

2026

-1.16%

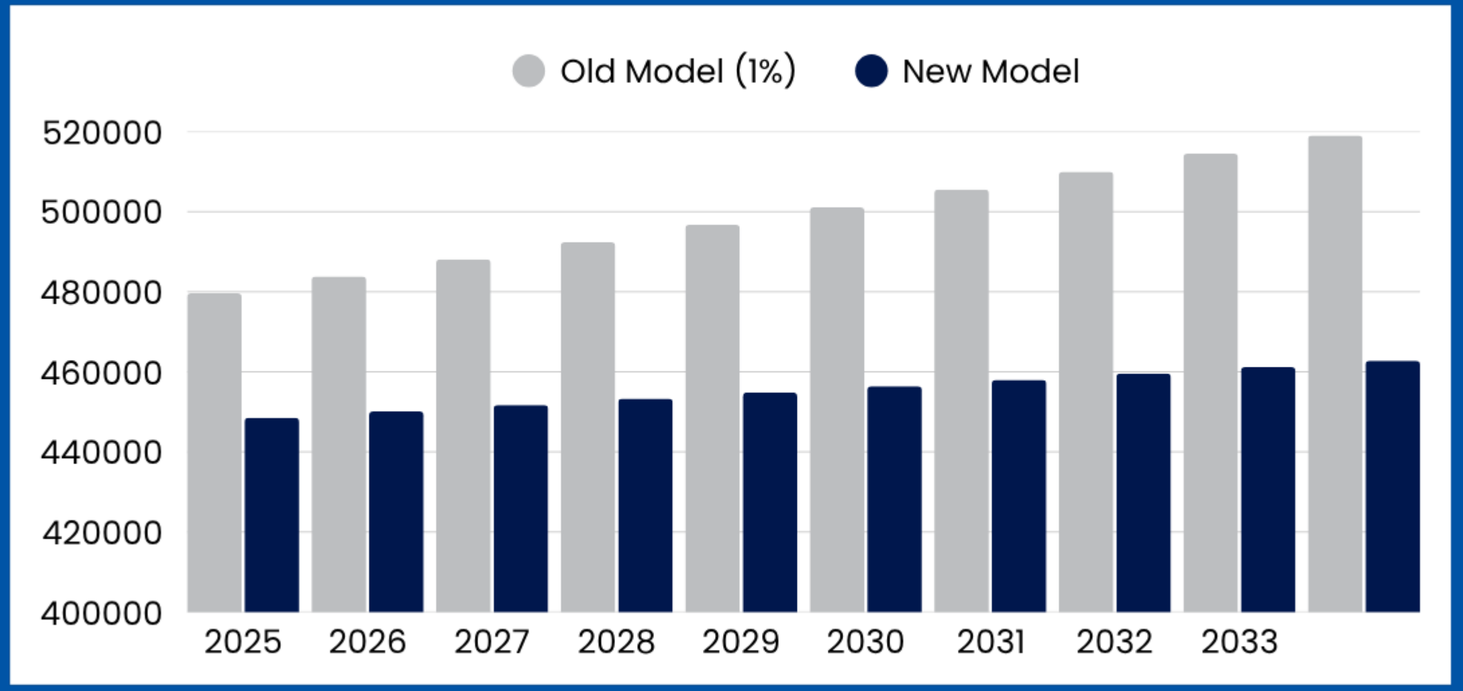
CONSUMPTION PROJECTION



2024 Budgeted Consumption:
12.343 Billion Gallons
2024 Actual Consumption:
11.772 Billion Gallons
Consumption Shortfall:
0.571 Billion Gallons (4.6%)

2024 Budgeted Revenue:
$75,681,580
2024 Actual Revenue:
$73,067,991
Revenue Shortfall:
$2,613,589 (3.5%)

POPULATION GROWTH ESTIMATES



2026	2027	2028	2029	2030	2031	2032	2033	2034
$ (494,722.00)	$ (1,058,388.00)	$ (1,674,293.00)	$ (2,354,327.00)	$ (3,103,665.00)	$ (3,853,040.00)	$ (4,650,494.00)	$ (5,498,462.00)	$ (6,399,489.00)

AAA RATING

AWWA UTILITY BENCHMARKING

DAYS CASH ON HAND

Definition: This measure represents the number of days a company can continue to pay its operating expenses with the current cash it has available.

$$= \frac{\text{Undesignated Cash and Cash Equivalents}}{\text{Operating Expenses Excluding Depreciation / 365 Days}}$$

Utility should report directly from utility's Annual Comprehensive Financial Report (ACFR), Annual Information Statement (AIS) or approved financial documents.

Saint Paul Regional Water Services Days Cash on Hand (2023 ACFR):

325 Days

Since 2023, SPRWS has continued to spend down cash while operating expenses continue to increase. This will likely result in a lower Days Cash on Hand measure once 2024 ACFR is ready.

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

Rate Models

OPTION 1 **7.5%**

Sustained Operations

Covers Operational Expenses
Addresses Consumption Projection Decline

Reductions to Capital Investment Plan
Total: $18M

OPTION 2 **9.0%**

Restrained Growth

Covers Operational Expenses
Addresses Consumption Projection Decline

Stabilizes Capital Investment Plan
Total: $25.5M

OPTION 3 **13.0%**

Accelerated Recovery

Covers Operational Expenses
Addresses Consumption Projection Decline
Quicker Recovery of Cash Reserve
Matches Saint Paul Public Works Increase
Quicker Ability to Level Rates

Stabilizes Capital Investment Plan
Total: $25.5M

CUSTOMER IMPACT

The following shows the impact to 2026 a customer's monthly expenditure compared to 2025 adopted rates assuming average usage which = 6 units/month (4,488 gallons of drinking water).

With consumption projections decreasing, average usage is dropping as well. We've left this analysis at 6 units/month but it is approaching 5 units/month.

Did You Know?

1 Gallon = $0.0091

~$0.0087 in these models?

7.5%	+ $2.72/month =$38.94/month	$467.27/Year
9.0%	+ $3.26/month =$39.48/month	$473.79/Year
13.0%	+ $4.71/month =$40.93/month	$491.18/Year

ENERGY COSTS

SPRWS Proposals Range from
$38.94 - $40.93/month

When Wastewater is Included:
$82.92 - $85.96

The average monthly electricity and natural gas costs for single-family homes in Saint Paul, MN typically fall within the following ranges:

Season	Electricity	Natural Gas	Total
Winter	$180+	$150+	~$330/month
Summer	$150+	$60+	~$210/month

SIGNIFICANT IMPACTS WITH 7.5% MODEL

In the models presented last year, we were optimistic that a 7.5% rate increase in 2026 would be feasible. However, given the need to reduce consumption as outlined, maintaining that rate would require significant reductions in capital investments to offset the resulting shortfall.

While we recognize that any rate increase must be carefully considered, we believe that an increase of at least 9% in 2026 is justified and necessary to support critical investments. The additional 1.5%+ is a prudent and strategic choice.

Therefore, staff does not recommend proceeding with the 7.5% rate increase option.

- Scaled back Water Main Replacements ($2M)
- Scaled back Register Replacement ($1.5M)
- Scaled back Tunnel Rehab ($100k)
- Scaled back Sandy Lake Grading Improvements ($200k)
- Scaled back Fleet/Equipment Replacements ($210k)
- Scaled back Engine Room Piping Replacement ($350k)
- Dropped Backup Generator at Beebe Station ($124k)
- Dropped Audible Alarm System ($100k)

POTENTIAL FUTURE RATE IMPACTS

As we explore potential rate models beyond 2026 with the Board of Water Commissioners, it's important to emphasize:

- These projections are planning tools, not commitments.
- While they are helpful in evaluating today's decisions, they are not intended as promises of future rates.

Primary Reason - Comprehensive Rate Study Underway

- A detailed rate structure study is in starting soon and expected to conclude by 2026 for potential implementation in 2027.
- This study could lead to substantial changes in how SPRWS water rates are calculated and applied, including tiered structures, fixed vs. variable charges, and equity considerations.

Additional Uncertainties

- Evolving consumption patterns (e.g. conservation trends, climate impacts)
- Changing capital investment needs and timelines
- Potential state/federal regulatory updates
- Inflation and material/labor cost volatility

Looking Ahead Responsibly

We will share potential long-term concepts to:

- Illustrate the affordability impacts of today's choices.
- Highlight how different decisions may shape future paths.

📌 But again, these are not forecasts, just frameworks to support informed discussion.

AFFORDABILITY ANALYSIS

HBI - Water Costs as a Percent of Income at LQI	PPI - Percent of Households Below 200% of FPL		
	>=35%	20% to 35%	<20%
>=10%	Very High Burden	High Burden	Moderate-High Burden
7% to 10%	High Burden	Moderate-High Burden	Moderate-Low Burden
< 7%	Moderate-High Burden	Moderate-Low Burden	Low Burden

The Household Burden Indicator (HBI), defined as basic water service costs (combined) as a percent of the 20th percentile household income (i.e., the Lowest Quintile of Income (LQI) for the Service Area)

The Poverty Prevalence Indicator (PPI), defined as the percentage of community households at or below 200% of Federal Poverty Level (FPL).
PPI = 29.1%

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Upper limit 20th percentile HHI (estimates 3% inflation)	$35,268.00	$36,326.04	$37,415.82	$38,538.30	$39,694.44	$40,885.28	$42,111.84	$43,375.19	$44,676.45
Potential Rate Increases - Scenario 2	9.5%	9.5%	9.0%	8.5%	8.0%	7.5%	7.0%	6.5%	5.0%
Annual bill for 48,363 gallons used (~16 units/quarter)	$757.76	$825.88	$900.21	$976.73	$1,054.87	$1,133.98	$1,213.36	$1,292.23	$1,356.84
Household Burden Indicator (HBI)	**2.15%**	**2.27%**	**2.41%**	**2.53%**	**2.66%**	**2.77%**	**2.88%**	**2.98%**	**3.04%**
Potential Rate Increases - Scenario 3	9.5%	9.5%	13.0%	8.5%	8.0%	7.5%	5.0%	5.0%	5.0%
Annual bill for 48,363 gallons used (~16 units/quarter)	$757.76	$825.88	$933.24	$1,012.57	$1,093.58	$1,175.59	$1,234.37	$1,296.09	$1,360.90
Household Burden Indicator (HBI)	**2.15%**	**2.27%**	**2.49%**	**2.63%**	**2.75%**	**2.88%**	**2.93%**	**2.99%**	**3.05%**

2024 Average HBI
(50 Largest US Cities): 2.8%

CONTINUED AFFORDABILITY ANALYSIS

The EPA's standard affordability benchmark is 2% of median household income on water alone (or 4.5% of median household income if including wastewater). This approach has two major flaws:

- It's tied to median income instead of the most economically vulnerable.
- It uses average consumption instead of basic essential needs.

By focusing on median income and average use, it overlooks the very households and core usage levels that face the greatest affordability challenges.

SPRWS projections are well within the goal. The values below assume consistent rate increases by SPRWS + wastewater entities.

	2024	2025	2026	2027	2028	2029	2030	2031	2032
Median Household Income: MHI (estimates 3% inflation)	$73,055	$75,246.65	$77,504.05	$79,829.17	$82,224.05	$84,690.77	$87,231.49	$89,848.44	$92,543.89
Potential Rate Increases - Scenario 2	9.5%	9.5%	**9.0%**	8.5%	8.0%	7.5%	7.0%	6.5%	**5.0%**
Annual bill for 53,856 gallons used (18 units/quarter)	$833.64	$912.84	$994.99	$1,079.57	$1,165.93	$1,253.38	$1,341.11	$1,428.28	$1,499.70
% of Total Income (Goal: Less than 4.5%)	**1.14%**	**1.21%**	**1.28%**	**1.35%**	**1.42%**	**1.48%**	**1.54%**	**1.59%**	**1.62%**
Potential Rate Increases - Scenario 3	9.5%	9.5%	**13.0%**	8.5%	8.0%	7.5%	**5.0%**	**5.0%**	**5.0%**
Annual bill for 53,856 gallons used (18 units/quarter)	$833.64	$912.84	$1,031.50	$1,119.18	$1,208.72	$1,299.37	$1,364.34	$1,432.56	$1,504.18
% of Total Income (Goal: Less than 4.5%)	**1.14%**	**1.21%**	**1.33%**	**1.40%**	**1.47%**	**1.53%**	**1.56%**	**1.59%**	**1.63%**

CLOSING THOUGHTS TO PROMPT DISCUSSION

Pursuit of the more aggressive increase now may be vital with a Board in place that has demonstrated an understanding and commitment to infrastructure investment.

A higher rate may raise short-term concerns among customers.

The long-term benefit is a faster return to stable (5%?), predictable rate increases. The models shown demonstrate an ability to level out by 2030 opposed to 2032.

Provides an additional $2–$4 million annually over the next 4-5 years for critical infrastructure or reserve rebuilding—without sacrificing service levels. Total additional revenues for the next 5 years would be $17.5M.

Alignment with Public Works' Direction
Maintain consistency with Public Works' broader financial planning and expectations.

THANK YOU

SAINT PAUL REGIONAL WATER SERVICES