



To: MAYOR AND CITY COUNCIL

Agenda Item #: WS. IV.

From: Eric Roggeman, Finance Director

Action

Date: July 7, 2015

Discussion

Subject: Utility Rate Study

Information

Action Requested:

Review and discuss a draft Utility Rate Study for 2016 rates.

Information / Background:

The City hired Ehlers to complete the last Utility Rate Study in late 2013 for 2014 rates. Due to increasing capital costs for our utility system that were identified during the 2014 Capital Improvement Planning process, the City has again hired Ehlers to update the rate study for 2016 rates.

Representatives from Ehlers and City staff will be at the rate study to discuss the preliminary results.

Attachments:

Powerpoint presentations slides
Proposed rate schedule
Sample bills



City of Edina Utility Rate Study

Nick Anhut and Jessica Cook - Ehlers



Key Findings

- Utility funds are in good financial health
- Contribute to AAA/Aaa bond ratings
- Minor adjustments recommended for water
- Revised CIP puts pressure on sanitary and storm sewer rates
- Discussion of development related connection fees



History

- First rate study completed in 2009 to address \$8M Country Club street reconstruction
- Added conservation rates for water
- Updated every 1-3 years
- 2015 update prompted by revised CIP for street reconstruction
- No change to rate structure considered in this analysis



Street Reconstruction Policy

- Street reconstruction provides an opportunity to strategically address our utility infrastructure needs.
- Impacts average annual CIP costs related to streets

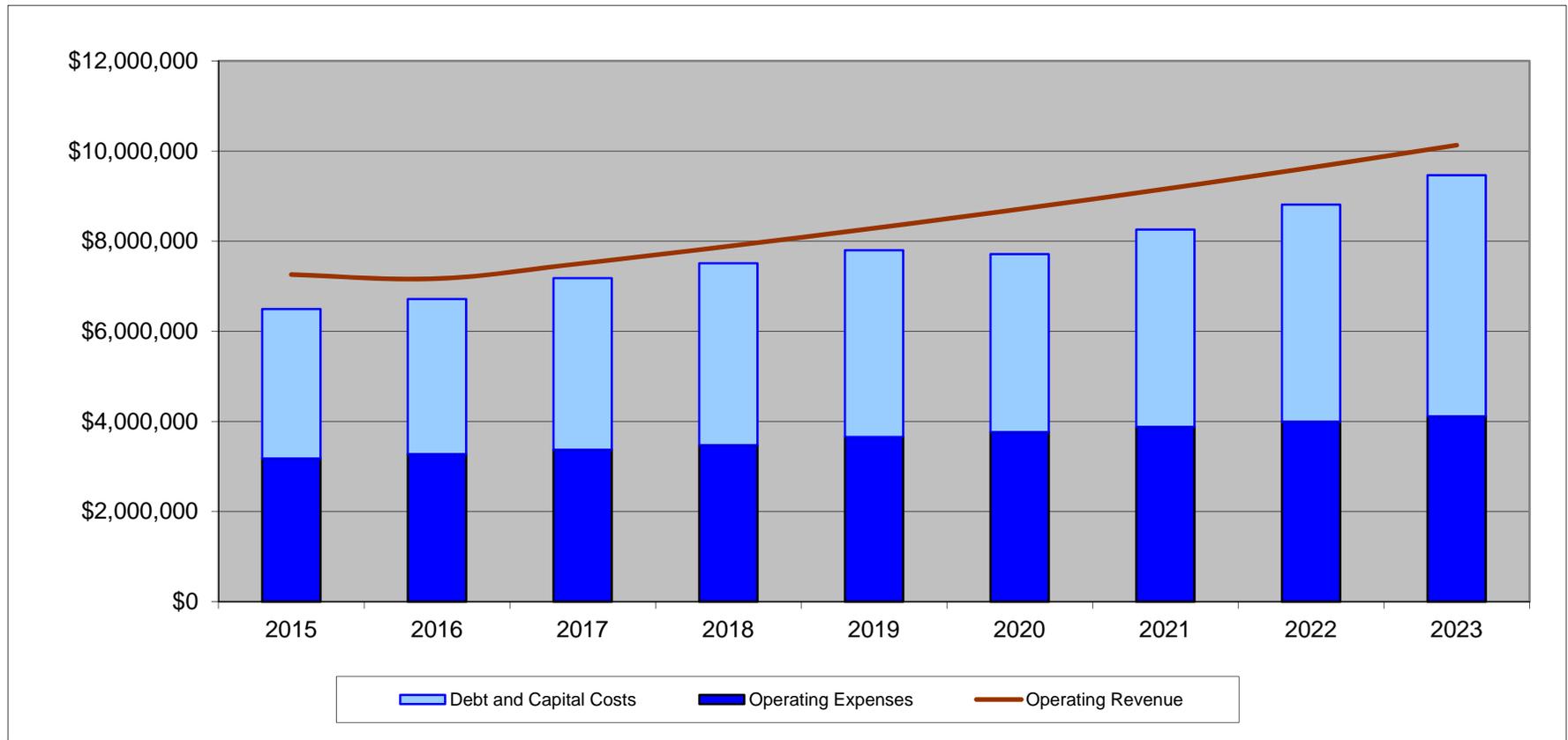
	2013 Study	2015 Study	% Change
Water	\$2.3 million	\$2.0 million	-13%
Sanitary Sewer	\$1.4 million	\$2.5 million	80%
Storm Sewer	\$2.4 million	\$3.2 million	33%

- Revised CIP puts pressure on sanitary and storm sewer funds



Water

- Capital costs increasing due to
 - Road reconstruction
 - \$9 million water treatment plant in 2017-2018



Water Rates

- No changes needed to rate structure
- Recommend 4.75% annual increase 2016-2025
- Rate increases apply to:
 - Fixed charge
 - All tiers
 - Morningside rates
- Less than 2013's recommended 5.25% rate increase
 - New meters accurately measure consumption
 - Operating expenses have declined since 2013
 - Growth will generate future revenue



Revenues from Growth Help Offset Costs

- Assumed new multifamily housing

Year	New Units
2016-2018	240 units per year
2019 and beyond	30 units per year

- Proposed connection fees will generate almost \$2.2 Million over next 10 years
- Within 5 years, new users will be paying \$100,000/yr.
- Without growth, annual rate increases would be 5.00% per year vs. 4.75%



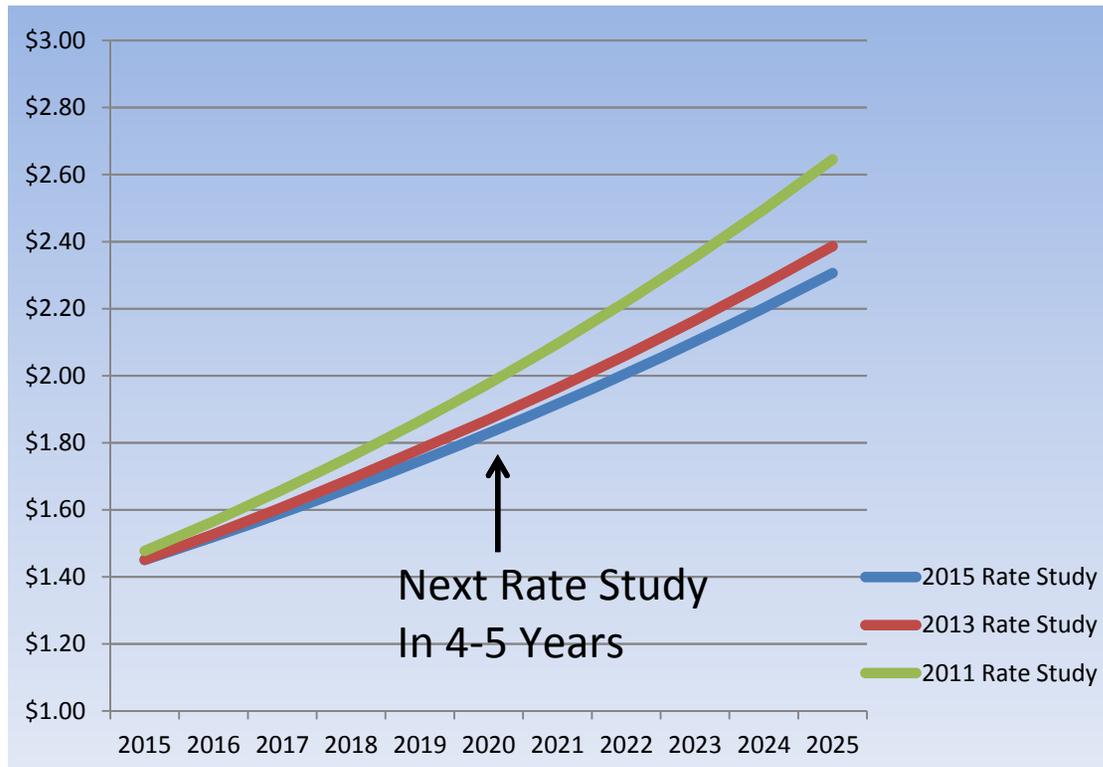
Sample Water Bill: Cubic Feet to Gallons

Sample Water Bill	Cubic Foot Charge	Gallon Charge
<i>Winter Quarter Bill (30 Units/22,500 Gallons)</i>	\$62.41	\$62.44
<i>Summer Quarter Bill (50 Units/37,500 Gallons)</i>	\$100.31	\$100.53



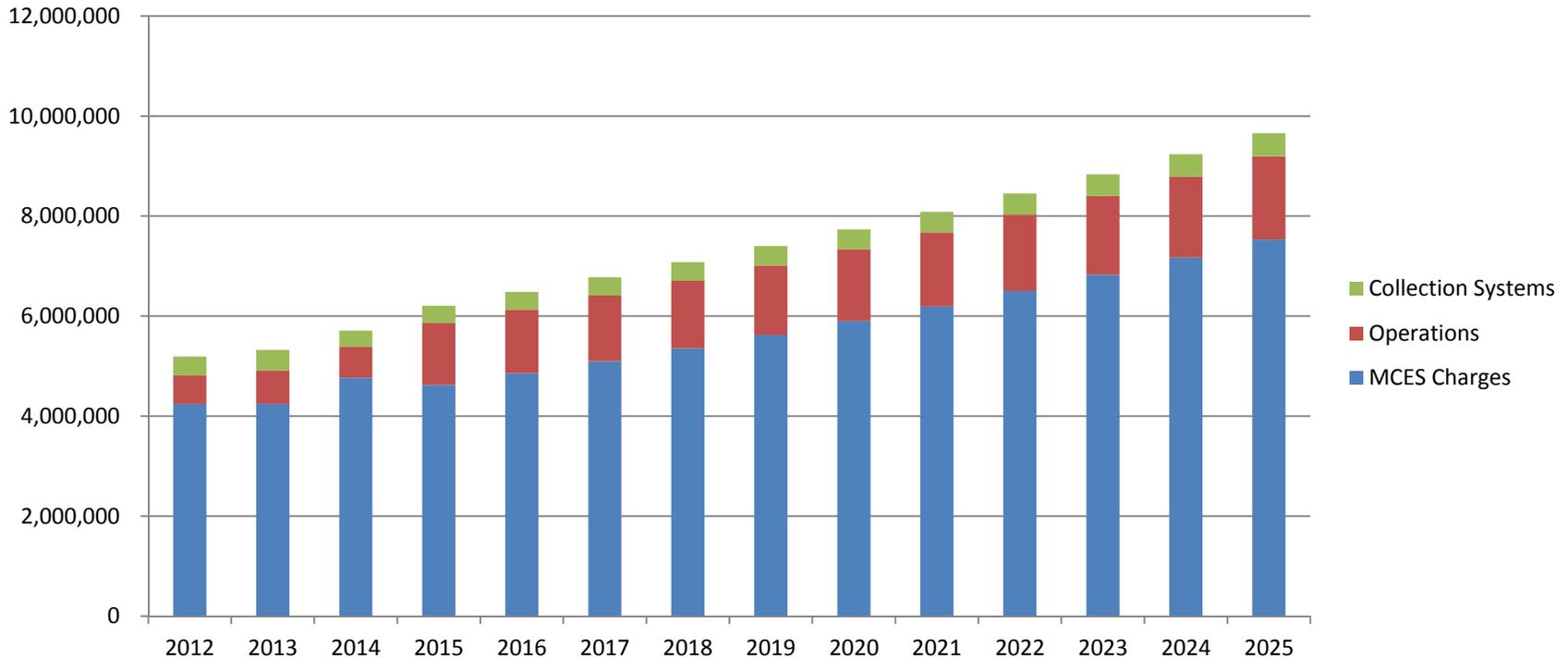
Consistent, Affordable Water Rates

Proposed Rates for Tier 1 Water



Sanitary Sewer

- MCES disposal charge is biggest expense in sewer
- Expected to increase 5% annually

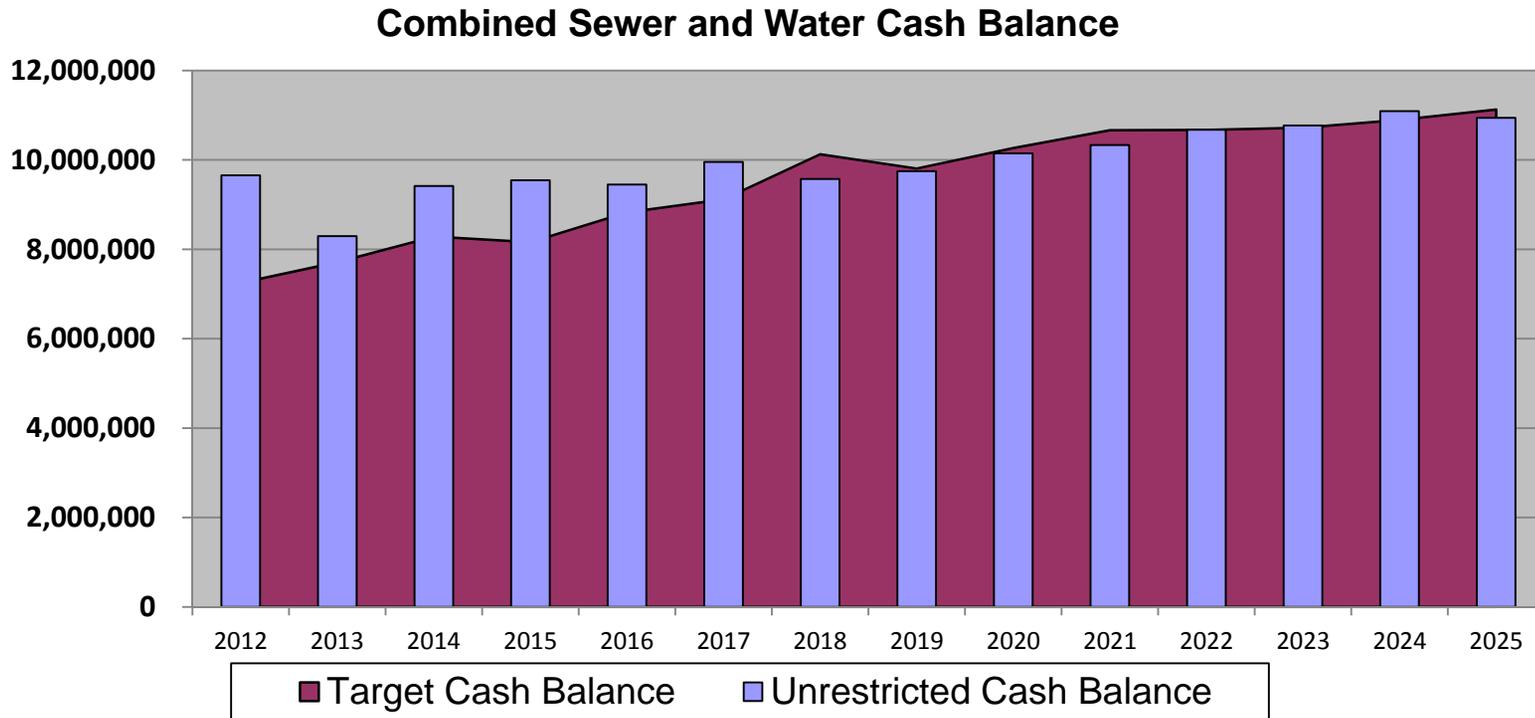


Sanitary Sewer Rates

- Recommend 4.5% rate increase 2016-2025
- Higher than 3.25% recommendation in 2013 study
 - MCES charges increased 12% between 2013 and 2014
 - Average annual capital costs increased \$1.1 million since last study
- Sewer fund financially stable



Water and Sewer Fund Stable



- About 45% of sewer projects will be financed with bonds
- About 70% of water projects will be financed with bonds



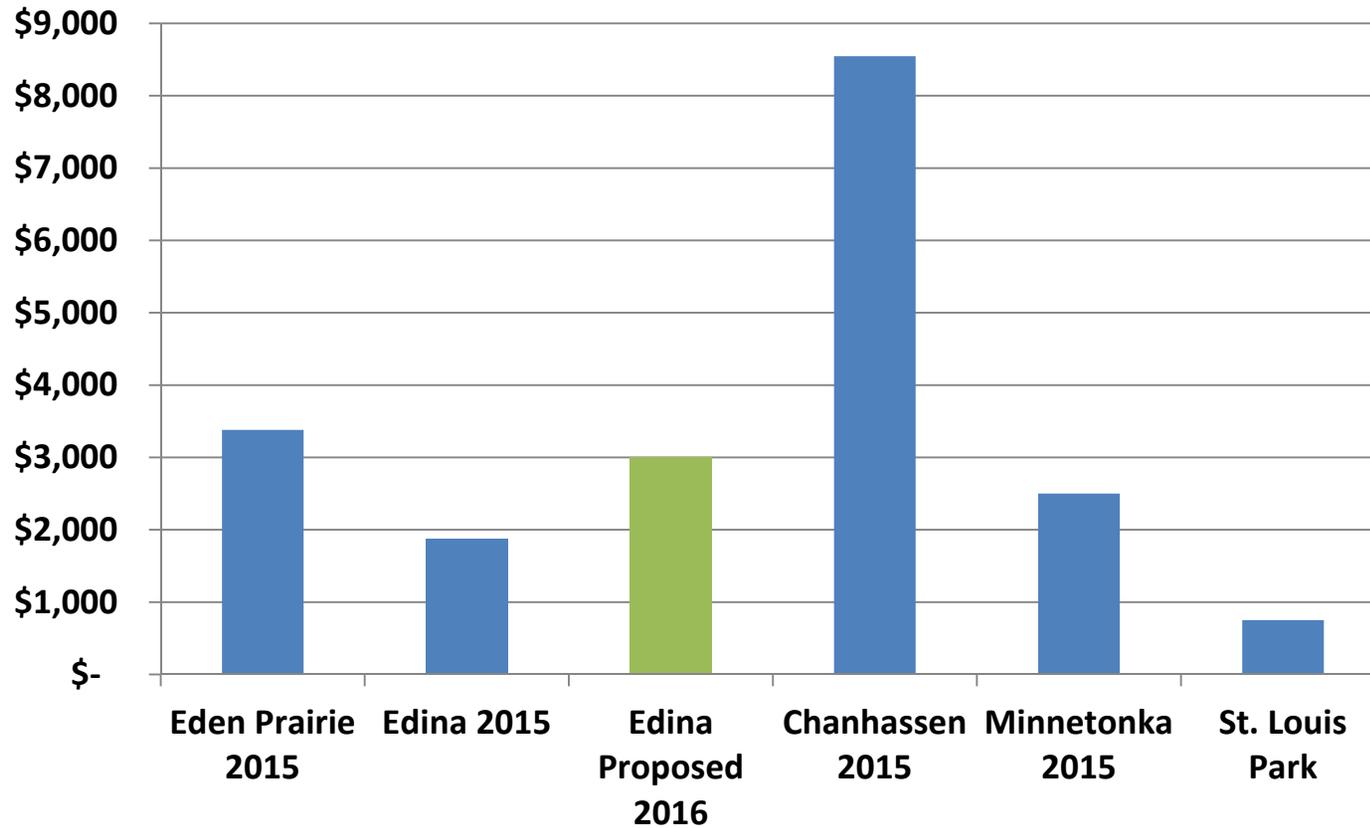
Proposed SAC and WAC Fees

- Significant increase in 2016
- 7% annual increase thereafter
- Fees remain competitive

	2013	2014	2015	2016	2017
SAC	\$400	\$500	\$625	\$1,000	\$1,070
WAC	<u>\$800</u>	<u>\$1,000</u>	<u>\$1,250</u>	<u>\$2,000</u>	<u>\$2,140</u>
Total	\$1,200	\$1,500	\$1,875	\$3,000	\$3,210



City Connection Fees are Competitive

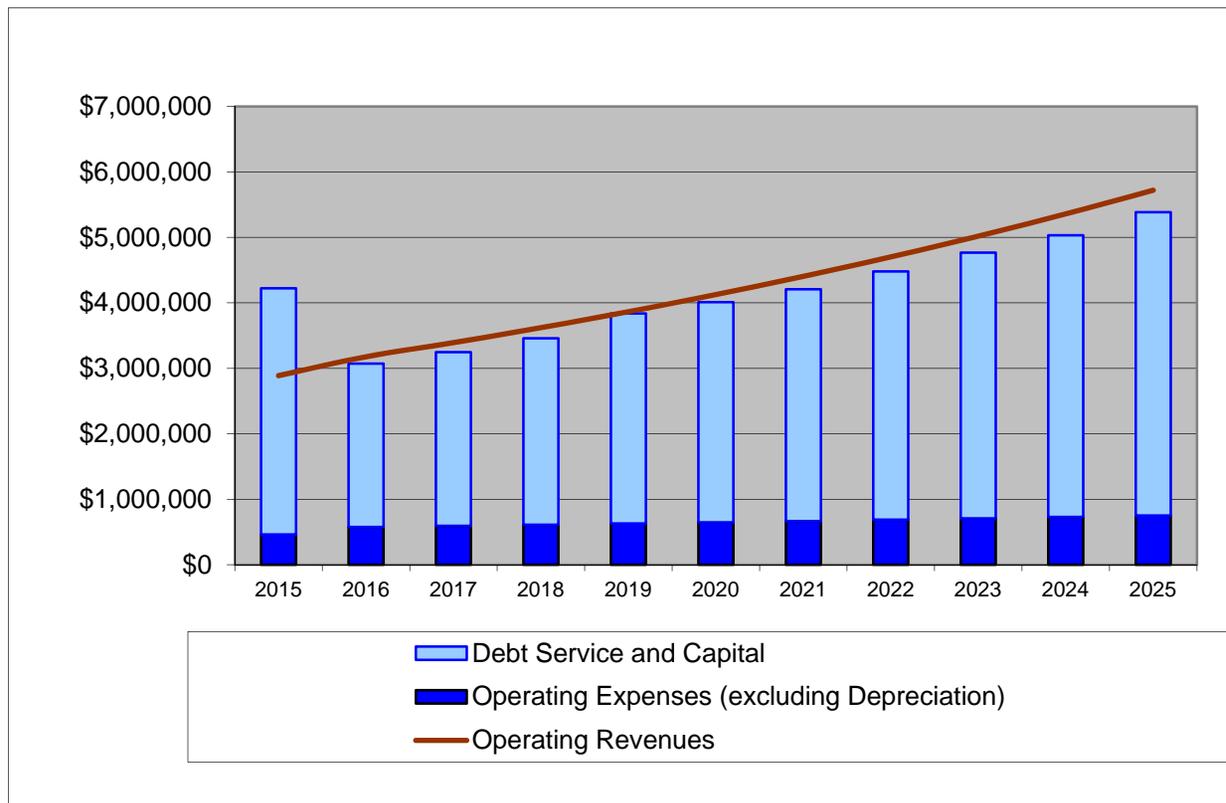


Bloomington, Hopkins, and Richfield do not have connection fees



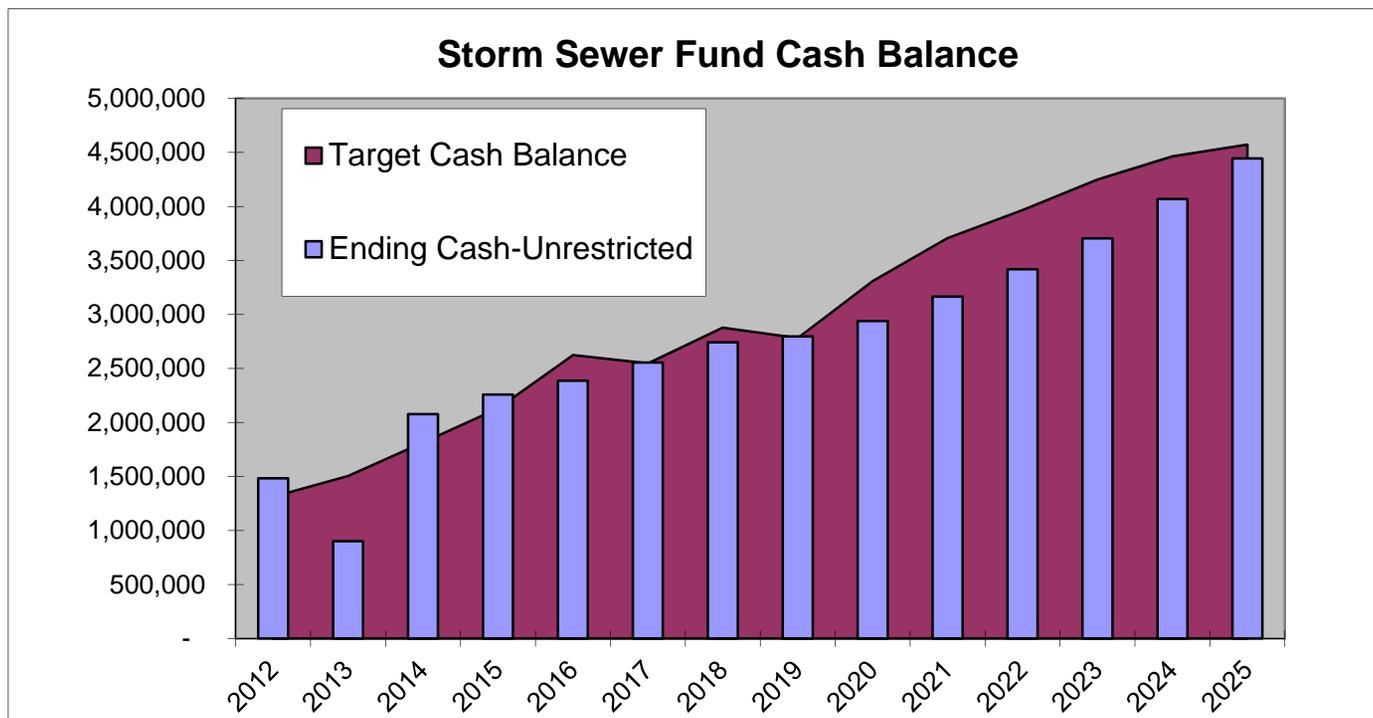
Storm Sewer

- Capital needs increasing for road reconstruction and water quality projects



Storm Sewer – Option #1

- Recommended rate increase is 6.75 % per year (vs. 6% in 2013 study)



Storm Sewer Rates – Option #2

- \$100,000/yr. in storm water operating costs now paid from General Fund
- Can move the costs to the Storm Sewer Fund
- Fee Impact
 - 10% increase in 2016 (vs. 6.75%)
 - 6.75% annual increase in 2017 and beyond
- Pros:
 - Tax exempt property would pay its full share of storm water costs
 - Could reduce levy or provide more capacity in general fund
- Cons:
 - Increases storm sewer rates



Residential Storm Sewer Bill

	2015	2016	2017	2018
Option #1	\$24.26	\$25.90	\$27.64	\$29.51
Option #2	\$24.26	\$26.68	\$28.49	\$30.41

- Decision can be made in context of general fund budget discussions



Sample Utility Bills

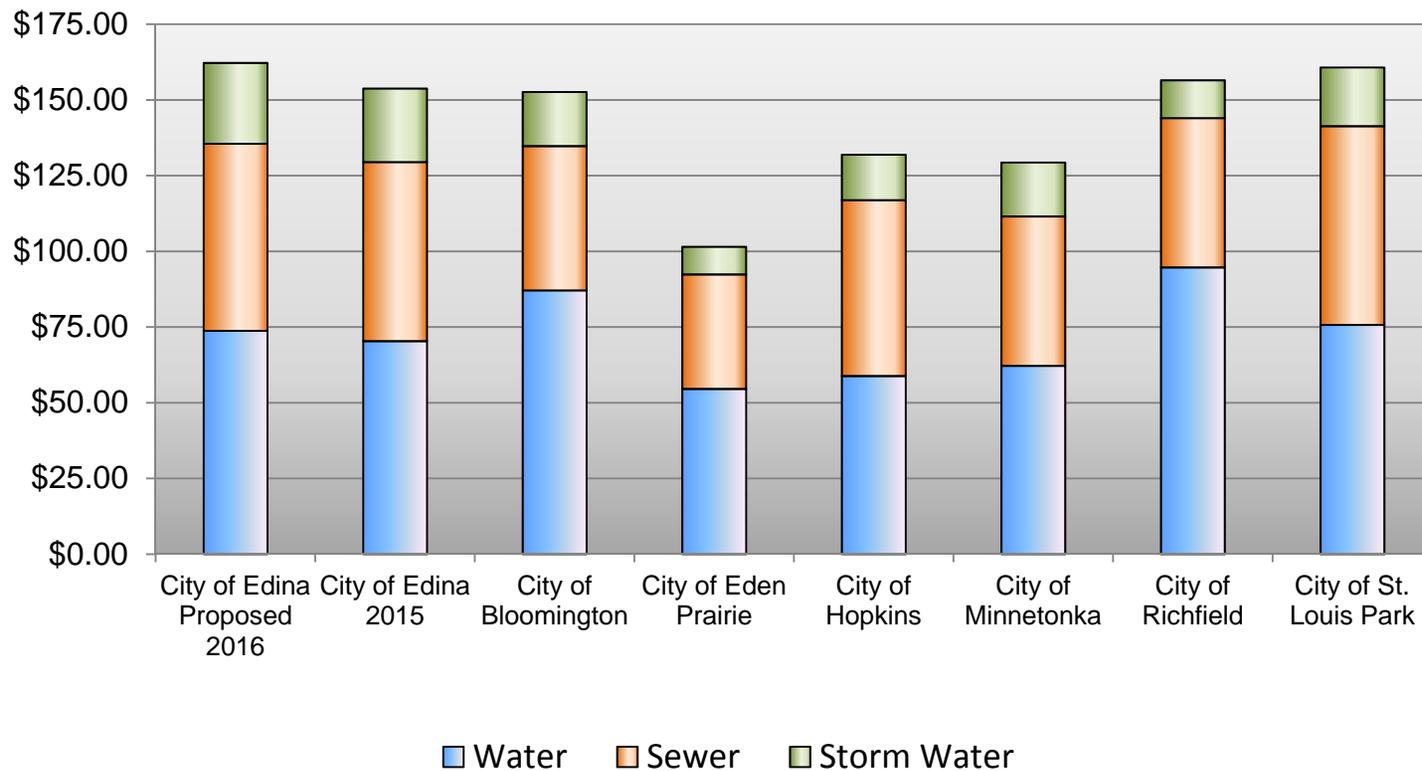
Sample Family Quarterly Bill	2015	2016	2017	2018
Winter months - 30 units water and sewer				
Sewer	102.34	106.95	111.76	116.79
Water	61.19	64.10	67.14	70.33
Storm Water	<u>24.26</u>	<u>25.90</u>	<u>27.64</u>	<u>29.51</u>
Total	\$ 187.79	\$ 196.94	\$ 206.54	\$ 216.63
Combined Fee Increase	\$ 7.61	\$ 9.15	\$ 9.61	\$ 10.08
Percent Increase	4.23%	4.87%	4.88%	4.88%
Summer months - 50 units water and 30 units sewer				
Sewer	102.34	106.95	111.76	116.79
Water	97.39	102.02	106.86	111.94
Storm Water	<u>24.26</u>	<u>25.90</u>	<u>27.64</u>	<u>29.51</u>
Total	\$ 223.99	\$ 234.86	\$ 246.27	\$ 258.24
Combined Fee Increase	\$ 9.45	\$ 10.87	\$ 11.41	\$ 11.97
Percent Increase	4.40%	4.85%	4.86%	4.86%

- Assumes Option #1 for Storm Sewer (6.75% annual increase)



Utility Bill Comparison

**Comparison of Utility Bills
For Single Family Customer
(Using 27,000 gal water and 13,000 gal sewer per quarter)**



Summary of Recommendations

- Water rate increase 4.75%
- Convert bills from cubic feet to gallons
- Sewer rate increase 4.5%
- Storm water rate increase 6.75%
- Adopt rates for three to five years at a time
- Increase SAC and WAC fees to defray cost of growth
- Future considerations:
 - Fully fund storm water costs with utility fund?
 - Review additional water conservation measures





EHLERS

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Proposed	2016	2017	2018
Water Rates			
Quarterly Usage Rates			
0-35 units	\$ 1.52	\$ 1.59	\$ 1.67
36-65 units	\$ 2.02	\$ 2.12	\$ 2.22
> 65 units	\$ 3.16	\$ 3.31	\$ 3.47
Morningside			
<div style="border: 1px solid black; padding: 5px; width: fit-content; margin: 0 auto;"> Future rate increases for the Morningside area is dependent on </div>			
Quarterly Fixed Rates-Based on Meter Size			
3/4"-5/8"	\$ 18.53	\$ 19.41	\$ 20.33
1"	\$ 25.27	\$ 26.47	\$ 27.72
1.25"	\$ 28.83	\$ 30.20	\$ 31.63
1.5"	\$ 32.42	\$ 33.96	\$ 35.57
2"	\$ 52.21	\$ 54.69	\$ 57.28
3"	\$ 198.25	\$ 207.67	\$ 217.53
4"	\$ 252.34	\$ 264.33	\$ 276.88
Sanitary Sewer Rates			
Quarterly Usage Rates	\$ 3.56	\$ 3.73	\$ 3.89
Quarterly Fixed Rates	\$ 57.04	\$ 59.60	\$ 62.29
Storm Sewer Rates			
Option #1: 6.75% Increase in 2016	\$ 25.90	\$ 27.64	\$ 29.51
Option #2: 10% Increase in 2016	\$ 26.68	\$ 28.49	\$ 30.41

City of Edina

Sample Projected Residential Utility Bills

Water decreasing to 4.75%; Sewer increasing at 4.50%; Storm increasing at 6.75%

Sample Family Quarterly Bill	2015	2016	2017	2018	2019	2020	2021
<i>Winter months - 30 units water and sewer</i>							
Sewer	102.34	106.95	111.76	116.79	122.04	127.54	133.28
Water	61.19	64.10	67.14	70.33	73.67	77.17	80.84
Storm Water	<u>24.26</u>	<u>25.90</u>	<u>27.64</u>	<u>29.51</u>	<u>31.50</u>	<u>33.63</u>	<u>35.90</u>
Total	\$ 187.79	\$ 196.94	\$ 206.54	\$ 216.63	\$ 227.22	\$ 238.33	\$ 250.01
Combined Fee Increase	\$ 7.61	\$ 9.15	\$ 9.61	\$ 10.08	\$ 10.59	\$ 11.12	\$ 11.67
Percent Increase	4.23%	4.87%	4.88%	4.88%	4.89%	4.89%	4.90%
<i>Summer months - 50 units water and 30 units sewer</i>							
Sewer	102.34	106.95	111.76	116.79	122.04	127.54	133.28
Water	97.39	102.02	106.86	111.94	117.25	122.82	128.66
Storm Water	<u>24.26</u>	<u>25.90</u>	<u>27.64</u>	<u>29.51</u>	<u>31.50</u>	<u>33.63</u>	<u>35.90</u>
Total	\$ 223.99	\$ 234.86	\$ 246.27	\$ 258.24	\$ 270.80	\$ 283.99	\$ 297.83
Combined Fee Increase	\$ 9.45	\$ 10.87	\$ 11.41	\$ 11.97	\$ 12.56	\$ 13.19	\$ 13.84
Percent Increase	4.40%	4.85%	4.86%	4.86%	4.87%	4.87%	4.87%
<i>Sample Summer Bill - High Water User</i>							
<i>100 units water and 30 units sewer</i>							
Sewer	102.34	106.95	111.76	116.79	122.04	127.54	133.28
Water	232.04	243.06	254.61	266.70	279.37	292.64	306.54
Storm Water	<u>24.26</u>	<u>25.90</u>	<u>27.64</u>	<u>29.51</u>	<u>31.50</u>	<u>33.63</u>	<u>35.90</u>
Total	\$ 358.64	\$ 375.90	\$ 394.01	\$ 413.00	\$ 432.92	\$ 453.80	\$ 475.71
Combined Fee Increase	\$ 16.06	\$ 17.26	\$ 18.11	\$ 18.99	\$ 19.92	\$ 20.89	\$ 21.91
Percent Increase	4.69%	4.81%	4.82%	4.82%	4.82%	4.83%	4.83%
<i>Sample Bill for Low Utility User</i>							
<i>12 units water and sewer</i>							
Sewer (minimum quarterly rate)	54.58	57.04	59.60	62.29	65.09	68.02	71.08
Water	35.09	36.76	38.50	40.33	42.25	44.25	46.36
Storm Water	<u>24.26</u>	<u>25.90</u>	<u>27.64</u>	<u>29.51</u>	<u>31.50</u>	<u>33.63</u>	<u>35.90</u>
Total	\$ 113.93	\$ 119.69	\$ 125.75	\$ 132.13	\$ 138.84	\$ 145.90	\$ 153.33
Combined Fee Increase	\$ 4.83	\$ 5.76	\$ 6.06	\$ 6.38	\$ 6.71	\$ 7.06	\$ 7.43
Percent Increase	4.42%	5.06%	5.06%	5.07%	5.08%	5.09%	5.09%

City of Edina

Sample Projected Residential Utility Bills

Water decreasing to 4.75%; Sewer increasing at 4.50%; Storm increasing at 10% for FY 2016 and 6.75% thereafter

Sample Family Quarterly Bill	2015	2016	2017	2018	2019	2020	2021
<i>Winter months - 30 units water and sewer</i>							
Sewer	102.34	106.95	111.76	116.79	122.04	127.54	133.28
Water	61.19	64.10	67.14	70.33	73.67	77.17	80.84
Storm Water	<u>24.26</u>	<u>26.68</u>	<u>28.49</u>	<u>30.41</u>	<u>32.46</u>	<u>34.65</u>	<u>36.99</u>
Total	\$ 187.79	\$ 197.73	\$ 207.39	\$ 217.53	\$ 228.18	\$ 239.36	\$ 251.10
Combined Fee Increase	\$ 7.61	\$ 9.94	\$ 9.66	\$ 10.14	\$ 10.65	\$ 11.18	\$ 11.74
Percent Increase	4.23%	5.29%	4.88%	4.89%	4.90%	4.90%	4.91%
<i>Summer months - 50 units water and 30 units sewer</i>							
Sewer	102.34	106.95	111.76	116.79	122.04	127.54	133.28
Water	97.39	102.02	106.86	111.94	117.25	122.82	128.66
Storm Water	<u>24.26</u>	<u>26.68</u>	<u>28.49</u>	<u>30.41</u>	<u>32.46</u>	<u>34.65</u>	<u>36.99</u>
Total	\$ 223.99	\$ 235.65	\$ 247.11	\$ 259.13	\$ 271.76	\$ 285.01	\$ 298.92
Combined Fee Increase	\$ 9.45	\$ 11.66	\$ 11.46	\$ 12.03	\$ 12.63	\$ 13.25	\$ 13.91
Percent Increase	4.40%	5.20%	4.86%	4.87%	4.87%	4.88%	4.88%
<i>Sample Summer Bill - High Water User</i>							
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Sewer	102.34	106.95	111.76	116.79	122.04	127.54	133.28
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Total	\$ 358.64	\$ 376.69	\$ 394.85	\$ 413.90	\$ 433.87	\$ 454.83	\$ 476.81
Combined Fee Increase	\$ 16.06	\$ 18.05	\$ 18.16	\$ 19.05	\$ 19.98	\$ 20.95	\$ 21.98
Percent Increase	4.69%	5.03%	4.82%	4.82%	4.83%	4.83%	4.83%
<i>Sample Bill for Low Utility User</i>							
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Total	\$ 113.93	\$ 120.48	\$ 126.59	\$ 133.03	\$ 139.80	\$ 146.93	\$ 154.43
Combined Fee Increase	\$ 4.83	\$ 6.55	\$ 6.11	\$ 6.43	\$ 6.77	\$ 7.13	\$ 7.50
Percent Increase	4.42%	5.75%	5.07%	5.08%	5.09%	5.10%	5.11%