

TO: MAYOR AND COUNCIL MEMBERS
FROM: SHELLY RUECKERT, FINANCE DIRECTOR
SUBJECT: 2022 UTILITY RATES
DATE: OCTOBER 26, 2021

The utility rates recommended herein for 2022 builds on the multi-year approach towards rate adjustments that began in 2012. The parameters used for adjusting rates are as follows:

- ∞ Align revenue sources with corresponding costs
- ∞ Provide transparency as to the basis of rates and rate adjustments
- ∞ Maintain a structural balanced operation
- ∞ Ensure that rates appropriately support the ability to:
 - Provide safe drinking water
 - Properly discharge sanitary sewer flows
 - Appropriately control and treat stormwater runoff

Water Rates:

As part of the annual rate adjustment process the water production and distribution costs are categorized as fixed in nature or usage driven. The 2022 budgeted water costs are comprised of \$777,964 in fixed costs and \$962,507 in usage driven costs, see Exhibit A's summary below:

	OPERATING		DEPRECIATION		OVERALL	
FIXED	504,228	42%	273,735	50%	777,964	45%
USAGE	687,492	58%	275,015	50%	962,507	55%
	1,191,721	100%	548,750	100%	1,740,471	100%

The Multiyear approach to water rates includes the phase in of the flat fee which began in 2016. The transition process expected the usage rate growth to decelerate as flat fee was phased-in. Based on estimated actual results for 2021 and 2022 budgeted costs the proposed rates for 2022 are reflected below.

Proposed 2022 water rates:

Per 1000 gallons	2021	2022	\$ Increase
	Rates	Rates	
Water Tier I	3.13	3.19	.06
Water Tier II	3.30	3.37	.07
Water Tier III	3.63	3.70	.07
Water Tier IV	4.16	4.24	.08
Water Tier V	5.22	5.32	.10
Irrigation	4.16	4.24	.08
Quarterly flat fee	17.75	21.25	3.50

The above rates are projected to produce \$1,285,431 in revenues assuming water consumption in 2022 returns to a normalized level versus the higher consumption levels seen in 2021. With a normalized consumption the operating income before depreciation is budgeted to be \$103,373. The water budget is attached as **Exhibit B**.

The recommendation's impact on 2022 quarterly Water bills is reflected below:

	3.19	3.19	3.37	3.70	4.24	5.32
2022 Usage levels	4,600	7,500	15,000	22,500	30,000	37,500
Fixed Fee	21.25	21.25	21.25	21.25	21.25	21.25
Usage	14.67	23.93	50.55	83.25	127.20	199.50
2022 Billing	35.92	45.18	71.80	104.50	148.45	220.75
2021 Billing	32.15	41.23	65.99	93.18	124.38	163.54
DIFFERENCE	3.77	3.95	5.81	11.32	24.07	57.21

Sewer Rates:

As part of the annual rate adjustment process the sewer treatment and collection system costs are categorized as fixed in nature or flow volume driven. The 2022 budgeted sewer costs are comprised of \$520,157 in fixed costs and \$768,737 in flow volume driven costs (usage), see Exhibit D summary below:

	OPERATING		DEPRECIATION		OVERALL	
FIXED	433,079	37%	87,078	70%	520,157	40%
USAGE	731,419	63%	37,318	30%	768,737	60%
	1,164,498	100%	124,396	100%	1,288,894	100%

The Multiyear approach to sewer rates also includes the phase in of the flat fee. As part of the transition process the usage rate growth was expected to decelerate as flat fee was phased-in. Based on estimated actual results for 2021 and updated 2022 budgeted costs that expectation is reflected in the proposed rates for 2022.

Proposed 2022 Sewer rates are below:

	2021 Rates	2022 Rates	\$ Increase
Per 1000 gallons			
Sewer Usage rate	4.64	4.64	-
Qtr. Collection system charge	15.25	17.20	1.95

The above rates are projected to produce \$1,319,891 in revenues in 2022. At this level of revenues, the operating income before depreciation is budgeted to be \$155,483. The sewer budget is attached as **Exhibit D**.

The recommendation’s impact on 2022 quarterly Sewer bills is reflected below:

2022 Sewer Rate	4.64	4.64	4.64	4.64	4.64	4.64
2022 Usage levels	4,600	7,500	15,000	22,500	30,000	37,500
Fixed Fee	17.20	17.20	17.20	17.20	17.20	17.20
Usage	21.34	34.80	69.60	104.40	139.20	174.00
2022 Billing	38.54	52.00	86.80	121.60	156.40	191.20
2021 Billing	36.59	50.05	84.85	119.65	154.45	189.26
DIFFERENCE	1.95	1.95	1.95	1.95	1.95	1.95

Stormwater rates:

The multi-year approach to Stormwater rates in place since 2012 called for an annual increase for single family residential (classifications 2 & 3) of thirty-five cent (\$.35) increase. This represents a 2.08% increase in rate and should generate \$4,310 in additional revenues (majority of new construction expected to be billable in 2023). The 2.08% rate increase will be applied to all levels of stormwater charges. The historical impact on a residential single-family user is as follows:

	<u>Quarterly Bill</u>	<u>Usage Rate</u>	<u>% Change</u>
2011	\$13.00	-	-
2012	\$13.35	\$0.35	2.69
2013	\$13.70	\$0.35	2.62
2014	\$14.05	\$0.35	2.55
2015	\$14.40	\$0.35	2.49
2016	\$14.75	\$0.35	2.43
2017	\$15.10	\$0.35	2.32
2018	\$15.45	\$0.35	2.27
2019	\$15.80	\$0.35	2.22
2020	\$16.15	\$0.35	2.17
2021	\$16.50	\$0.35	2.12
2022	\$16.85	\$0.35	2.08

The rate increase for other land use categories is consistent with the increase in single family residential (classifications 2 & 3) as see below:

<i>Classification-Land Use</i>	<i>Proposed 2022 Charge</i>	<i>2021 Charge</i>	<i>% Change</i>
1-Cemeteries, parks, golf courses, railroads, vacant land	\$69.77 per acre	\$68.35 per acre	2.08%
2- R-1, R-1a, and R-2 residential	\$67.40 per unit	\$65.87 per unit	2.08%
3- R-3 residential	\$67.40 per unit	\$65.87 per unit	2.08%
4- Schools and institutional uses	\$160.60 per acre	\$157.33 per acre	2.08%
5- R-4 Residential , churches and manufactured home parks	\$204.84 per acre	\$200.67 per acre	2.08%
6- Commercial and industrial	\$255.90 per acre	\$250.69 per acre	2.08%

The overall annual impact of the recommended rates for a residential customer at each of the five tier levels is below:

Tier Level	1st -7,500	2nd -15,000	3rd -22,000	4th -30,000	5th- 37,500
Distribution (1st Qrt. 2021)	32%	46%	17%	3%	2%
2022 Proposed	114.03	175.45	242.95	321.70	428.80
2021 Actual	107.78	167.34	229.33	295.33	369.29
Quarterly Increase	6.25	8.11	13.62	26.37	59.51
Annual Increase	24.99	32.43	54.47	105.46	238.04

A **survey of local municipalities 2021 utility rates** is attached as Exhibit E. The Saint Anthony Village 2021 utility rates are lower than many of the surrounding City's surveyed.

The Water/Sewer Utility fund summary budget is attached as **Exhibit F**.

Lastly a **long range Utility revenues plan** is attached as **Exhibit G**. The plan addressed a strategic plan goal to develop long term revenue planning. The rates are being managed to begin supporting capital needs of the water and sewer operations. The current plan projects that support to begin in 2023 with a transfer to Utilities Infrastructure fund.

The plan includes assumptions regarding future City costs and MCES treatment costs. It also factors in the retirement of water /sewer bonds occurring in 2024. A minimum cash balance was established to recognize that the quarterly billing and collection process is recovering 90-120 days of prior cash outlays. No growth in accounts or usage was factored in the projection. Real growth will be noted annually through the process of updating the base year results. Using these factors annual adjustments to the flat fees and usage rates adjustments were determined. Staff believes the model will help guide year to year rate increases while being flexible enough to keep the annual increases reasonable for utility customers.

As always your comments and suggestions are welcomed.