



# Memo

**To:** Council Members, City of Richfield  
**From:** Rebecca Kurtz, Ehlers  
**Date:** September 26, 2017  
**Subject:** Utility Rate Analysis and Rate Increases

The following information is being provided as a summary of the June 26, 2017 Utility Rate Study presentation to the City Council. The chart below shows the recommended increases over the next five years to ensure payment of current debt obligations, minimize future reliance on bonding, and avoid sudden future rate increases.

		Proposed			
Annual Rate Increase	2017	2018	2019	2020	2021
<b>Water</b>	5.0%	N/A	10.0%	5.0%	5.0%
<b>Sewer</b>	7.0%	10.0%	10.0%	8.0%	3.0%
<b>Storm Sewer</b>	12.5%	9.0%	7.0%	7.0%	7.0%

The increase in rates is driven by the routine maintenance and planned capital improvement projects along with the need to increase cash reserves. This ensures that the Funds have sufficient cash for operations and debt payments through periods of low or stagnant revenues, and it allows the utilities to have adequate cash to pay for current and future capital projects without substantial reliance on future debt (ie., unexpected water tower or well repairs).

In addition, the proposed new water rate structure will promote water conservation, meet State statutory requirements and stabilize revenue.

### What is the projected increase for the average user?

The following chart shows the total quarterly bill along with the proposed increase for the median residential user. The proposed total annual increase for 2018 is \$37.28 or \$3.11 per month.

		Proposed			
Residential Median Quarterly Bill	2017	2018	2019	2020	2021
Water	\$44.49	\$49.08	\$53.99	\$56.69	\$59.52
Sewer	\$32.55	\$35.81	\$39.39	\$42.54	\$43.81
Storm Sewer	\$16.31	\$17.78	\$19.02	\$20.35	\$21.78
<b>Total Quarterly Bill</b>	<b>\$93.35</b>	<b>\$102.67</b>	<b>\$112.40</b>	<b>\$119.58</b>	<b>\$125.11</b>
Annual Cost	\$373.40	\$410.68	\$449.60	\$478.32	\$500.44
<b>Annual \$ Increase</b>		<b>\$37.28</b>	<b>\$38.92</b>	<b>\$28.72</b>	<b>\$22.12</b>



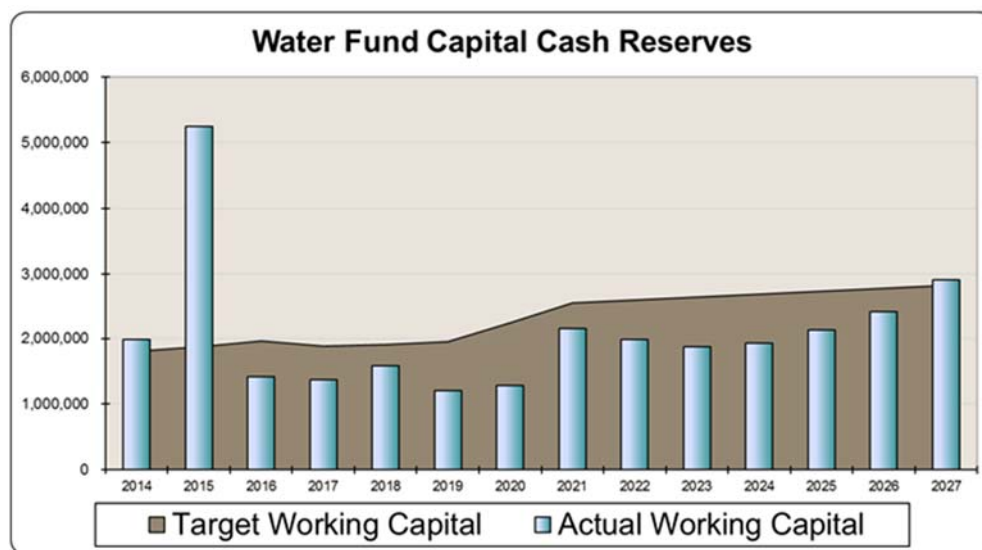
The following chart shows the total quarterly bill along with the proposed increase for the median commercial user. The proposed total annual increase for 2018 is \$89.60 or \$7.47 per month.

Commercial Median Quarterly Bill	Proposed				
	2017	2018	2019	2020	2021
Water	\$173.73	\$176.99	\$194.69	\$204.42	\$214.64
Sewer	\$176.70	\$194.37	\$213.81	\$230.91	\$237.84
Storm Sewer	\$16.31	\$17.78	\$19.02	\$20.35	\$21.78
<b>Total Quarterly Bill</b>	<b>\$366.74</b>	<b>\$389.14</b>	<b>\$427.52</b>	<b>\$455.68</b>	<b>\$474.26</b>
Annual Cost	\$1,466.96	\$1,556.56	\$1,710.08	\$1,822.72	\$1,897.04
<b>Annual \$ Increase</b>		<b>\$89.60</b>	<b>\$153.52</b>	<b>\$112.64</b>	<b>\$74.32</b>

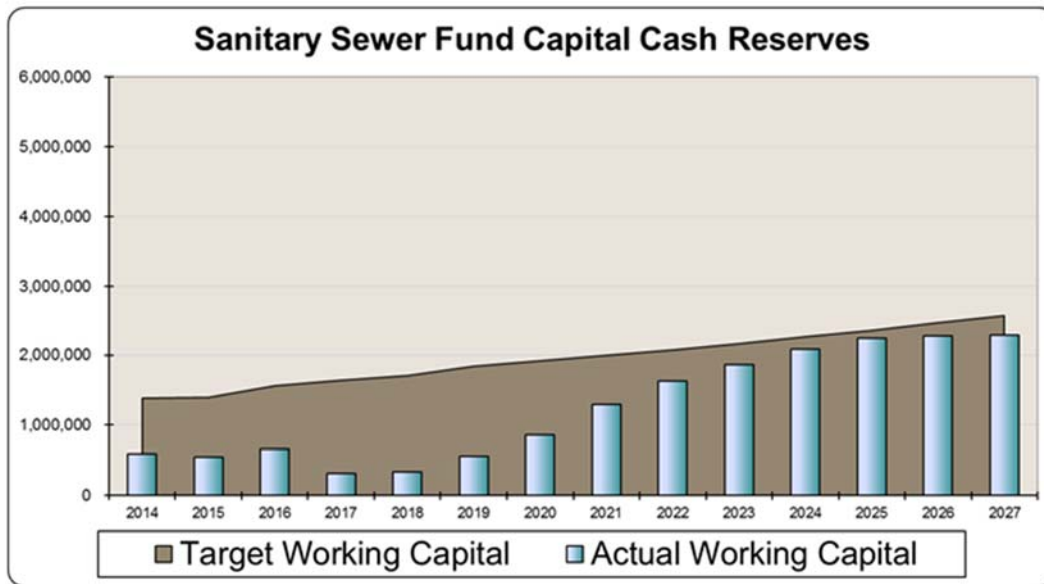
Additional billing scenarios for both residential and commercial are attached.

### What is the projected impact to the cash balance of each Fund?

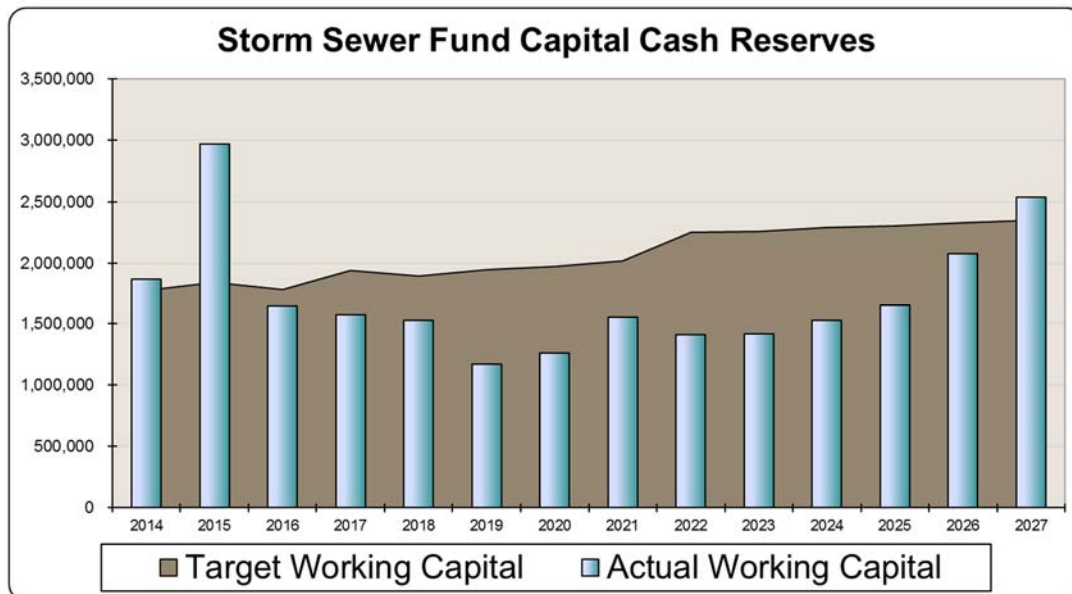
The following charts illustrate the target working capital for each utility fund compared to the actual working capital.



The target cash balance for the Water Fund for 2017 is \$1.9 million, and the expected year-end balance is \$1.37 million.



The target cash balance for the Sewer Fund for 2017 is \$1.6 million, and the expected year-end balance is \$315,000.



The target cash balance for the Storm Sewer Fund for 2017 is \$1.9 million, and the expected year-end balance is \$1.58 million.



**City of Richfield**  
**Impact Analysis by Customer Type**

Type	Residential Accounts			Commercial Accounts			
	Low	Median	High	Low	Median	High	Best Buy
Sample 2015 Usage	6,000	11,000	35,000	10,000	47,000	669,000	5,274,000
Winter Portion REUs	4,000	7,000	15,000	6,000	38,000	553,000	4,203,000
	1	1	1	1	1	80	480
	<b>Existing 2017 Rate Structure</b>			<b>Existing 2017 Rate Structure</b>			
Total Water	\$ 26.54	\$ 44.49	\$ 134.05	\$ 40.90	\$ 173.73	\$ 2,406.71	\$ 18,938.66
Total Sewer	32.55	32.55	69.75	32.55	176.70	2,571.45	19,543.95
Total Storm Water	16.31	16.31	16.31	16.31	16.31	1,304.80	7,828.80
Total Quarterly Bill	\$ 75.40	\$ 93.35	\$ 220.11	\$ 89.76	\$ 366.74	\$ 6,282.96	\$ 46,311.41
<b>Annual Cost</b>	<b>\$ 301.60</b>	<b>\$ 373.40</b>	<b>\$ 880.44</b>	<b>\$ 359.04</b>	<b>\$ 1,466.96</b>	<b>\$ 25,131.84</b>	<b>\$ 185,245.64</b>
	<b>Proposed 2018: Adjusted Residential and Two Commercial Tier Breaks; Base Charge at \$10/Qtr</b>			<b>Proposed 2018: Adjusted Residential and Two Commercial Tier Breaks; Base Charge at \$10/Qtr</b>			
Total Water	\$ 31.32	\$ 49.08	\$ 157.24	\$ 45.53	\$ 176.99	\$ 2,793.79	\$ 22,447.93
Total Sewer	35.81	35.81	76.73	35.81	194.37	2,828.60	21,498.35
Total Storm Water	17.78	17.78	17.78	17.78	17.78	1,422.23	8,533.39
Total Quarterly Bill	\$ 84.91	\$ 102.67	\$ 251.75	\$ 99.12	\$ 389.14	\$ 7,044.62	\$ 52,479.67
<b>Annual Cost</b>	<b>\$ 339.64</b>	<b>\$ 410.68</b>	<b>\$ 1,007.00</b>	<b>\$ 396.48</b>	<b>\$ 1,556.56</b>	<b>\$ 28,178.48</b>	<b>\$ 209,918.68</b>
<b>\$ Increase/(Decrease)</b>	<b>\$ 38.04</b>	<b>\$ 37.28</b>	<b>\$ 126.56</b>	<b>\$ 37.44</b>	<b>\$ 89.60</b>	<b>\$ 3,046.64</b>	<b>\$ 24,673.04</b>
	<b>Proposed 2019</b>			<b>Proposed 2019</b>			
Total Water	\$ 34.45	\$ 53.99	\$ 172.96	\$ 50.08	\$ 194.69	\$ 3,073.17	\$ 24,692.72
Total Sewer	39.39	39.39	84.40	39.39	213.81	3,111.46	23,648.19
Total Storm Water	19.02	19.02	19.02	19.02	19.02	1,521.79	9,130.73
Total Quarterly Bill	\$ 92.86	\$ 112.40	\$ 276.38	\$ 108.49	\$ 427.52	\$ 7,706.42	\$ 57,471.64
<b>Annual Cost</b>	<b>\$ 371.44</b>	<b>\$ 449.60</b>	<b>\$ 1,105.52</b>	<b>\$ 433.96</b>	<b>\$ 1,710.08</b>	<b>\$ 30,825.68</b>	<b>\$ 229,886.56</b>
<b>\$ Increase/(Decrease)</b>	<b>\$ 31.80</b>	<b>\$ 38.92</b>	<b>\$ 98.52</b>	<b>\$ 37.48</b>	<b>\$ 153.52</b>	<b>\$ 2,647.20</b>	<b>\$ 19,967.88</b>
	<b>Proposed 2020</b>			<b>Proposed 2020</b>			
Total Water	\$ 36.17	\$ 56.69	\$ 181.61	\$ 52.58	\$ 204.42	\$ 3,226.83	\$ 25,927.36
Total Sewer	42.54	42.54	91.15	42.54	230.91	3,360.38	25,540.05
Total Storm Water	20.35	20.35	20.35	20.35	20.35	1,628.32	9,769.88
Total Quarterly Bill	\$ 99.06	\$ 119.58	\$ 293.11	\$ 115.47	\$ 455.68	\$ 8,215.53	\$ 61,237.29
<b>Annual Cost</b>	<b>\$ 396.24</b>	<b>\$ 478.32</b>	<b>\$ 1,172.44</b>	<b>\$ 461.88</b>	<b>\$ 1,822.72</b>	<b>\$ 32,862.12</b>	<b>\$ 244,949.16</b>
<b>\$ Increase/(Decrease)</b>	<b>\$ 24.80</b>	<b>\$ 28.72</b>	<b>\$ 66.92</b>	<b>\$ 27.92</b>	<b>\$ 112.64</b>	<b>\$ 2,036.44</b>	<b>\$ 15,062.60</b>
	<b>Proposed 2021</b>			<b>Proposed 2021</b>			
Total Water	\$ 37.98	\$ 59.52	\$ 190.69	\$ 55.21	\$ 214.64	\$ 3,388.17	\$ 27,223.73
Total Sewer	43.82	43.82	93.88	43.82	237.84	3,461.19	26,306.25
Total Storm Water	21.77	21.77	21.77	21.77	21.77	1,742.30	10,453.77
Total Quarterly Bill	\$ 103.57	\$ 125.11	\$ 306.34	\$ 120.80	\$ 474.25	\$ 8,591.66	\$ 63,983.75
<b>Annual Cost</b>	<b>\$ 414.28</b>	<b>\$ 500.44</b>	<b>\$ 1,225.36</b>	<b>\$ 483.20</b>	<b>\$ 1,897.00</b>	<b>\$ 34,366.64</b>	<b>\$ 255,935.00</b>
<b>\$ Increase/(Decrease)</b>	<b>\$ 18.04</b>	<b>\$ 22.12</b>	<b>\$ 52.92</b>	<b>\$ 21.32</b>	<b>\$ 74.28</b>	<b>\$ 1,504.52</b>	<b>\$ 10,985.84</b>



# **Service Line Warranty & Alternatives**

**City Council Work Session**

**September 26, 2017**



# Background

- Service Line Warranty
  - Company offering coverage for private sewer and water lines
  - Entered Marketing License Agreement in 2016
    - Agreement allows SLW use of City logo/letterhead
- Resident Proposal
  - City implements their own private utility line coverage program
  - See Memorandum

# Current Service Line Warranty Use

## Program Update

### Active Orders

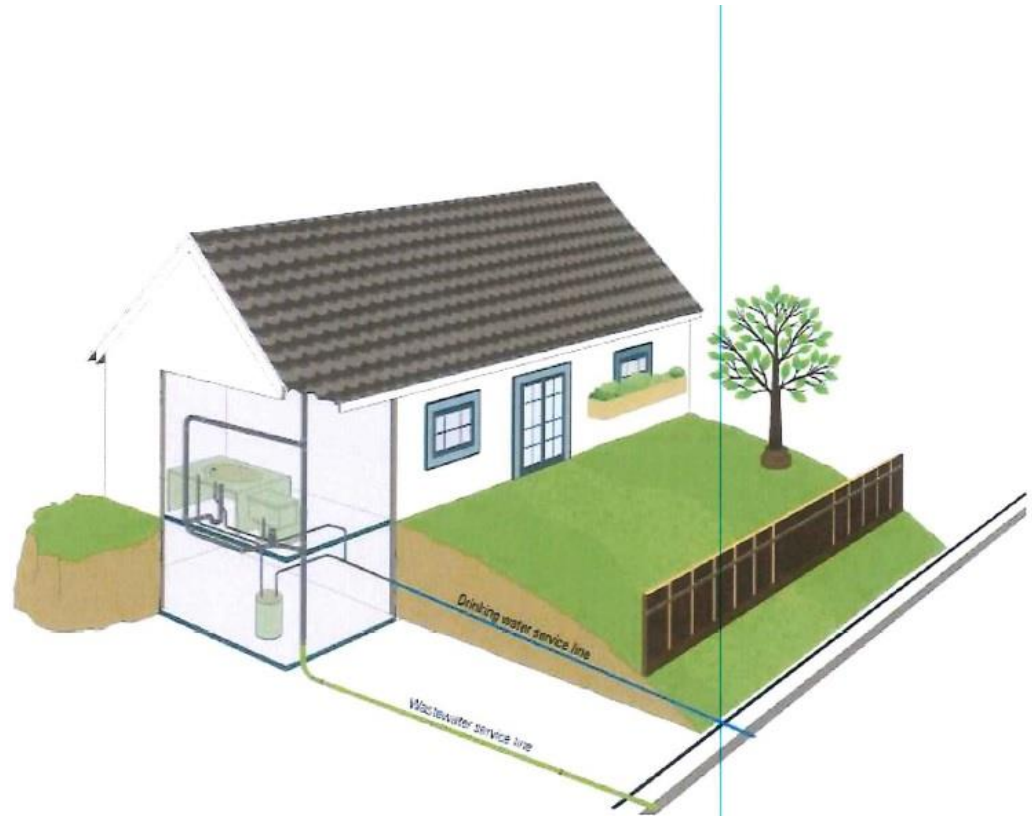
- External Sewer Line: 711
- External Water Line: 341
- In-Home Plumbing: 50

### Number of Claims

- External Sewer Line: 73
- External Water Line: 3
- In Home Plumbing: 16

### Claims Paid Out

- External Sewer Line: \$45,250.36
- External Water Line: \$1,053.75
- In-Home Plumbing: \$5,553.55



There have been 0 denied claims in Richfield, MN.



# Current Service Line Warranty Use

## Current Results– To Date

- The NLC Service Line Warranty Program has campaigned once since the start of the program.
- Direct Mail is the top performing channel.
- Data was pulled on 7/26/17.

City of Richfield New Policies by Acquisition Method

Channel	2016-2017 YTD	% of enrollments
Direct Mail	622	56%
Call Center	195	18%
Website	284	26%
<b>Total</b>	<b>1,101</b>	<b>100%</b>



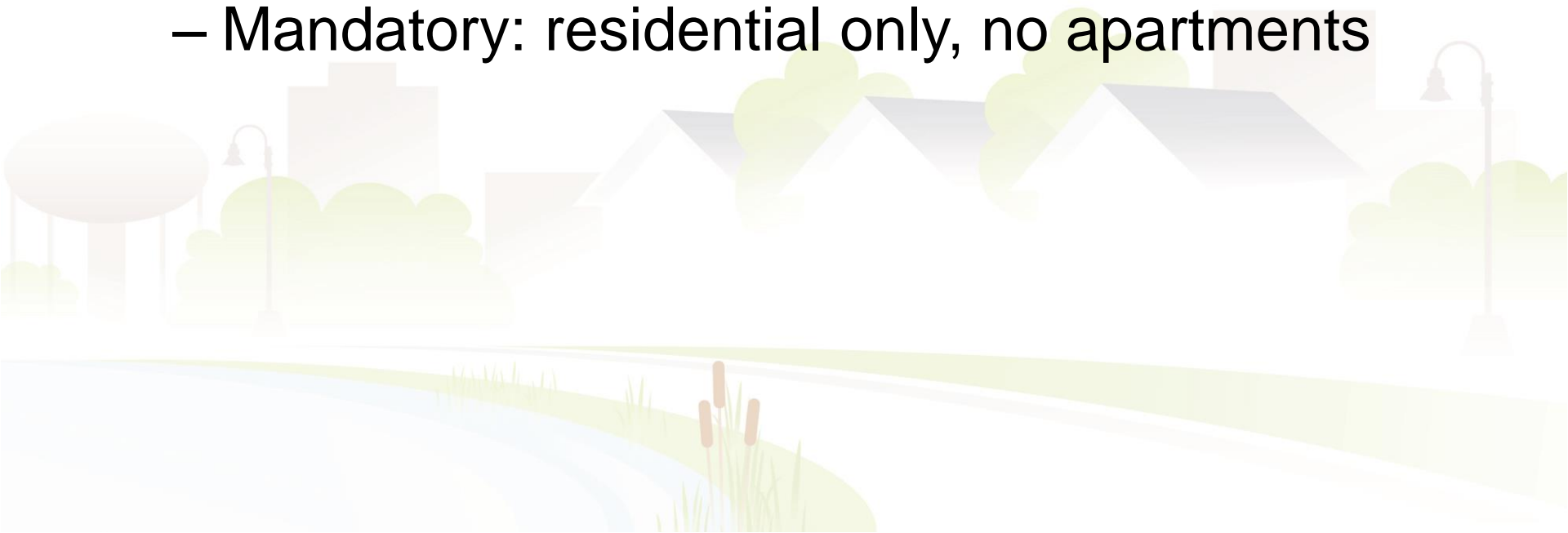
# Service Line Warranty License Fees

- City of Richfield has received: \$3,095.64
  - \$2,063.35 from last quarter in 2016
  - \$1,032.29 received in May
- License fees are \$0.50 each month a warranty is in place on a residential property during the life of the agreement



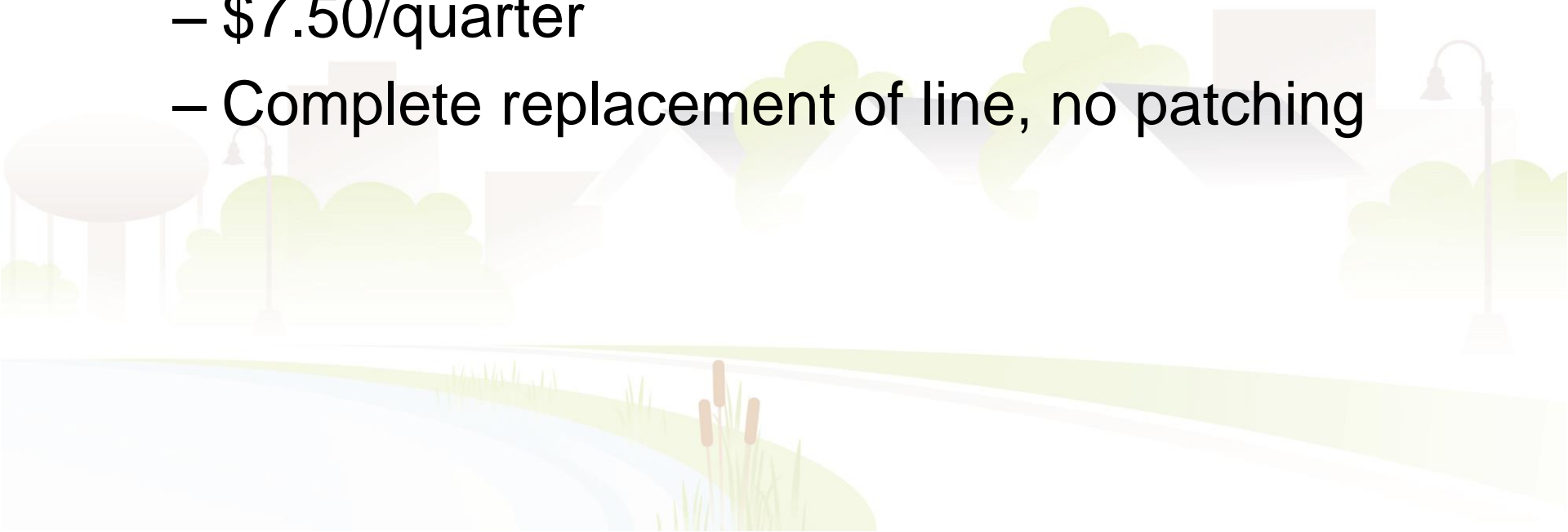
# Lake City (Pop. 5,000)

- **Only** covers water lines, not sewer lines
- Began program in 2015
- Utilized 8 times in 2017
- \$2.00/month fee/property
- Mandatory: residential only, no apartments



# Mounds View (Pop. 13,000)

- **Only** covers water lines, not sewer lines
- Began in 2001
- Mandatory: residential
  - Excludes anything larger than a 4-plex
- \$7.50/quarter
- Complete replacement of line, no patching



# Options

## Staff Recommended:

1. Continue with Service Line Warranty
  - a. Can renew or end at agreement term

## Other options:

1. Cancel Service Line Warranty early
2. Start City Program

**Questions?**



# Protect the lines to your home.

Who is responsible for the service lines that come into your home? Typically, municipalities and utilities are not responsible for the water, sewer, electric, gas and other service lines that are on your premises. You are the one most likely responsible for making repairs to these lines.

**State Farm® Service Line Coverage** may be added to your Homeowners Policy at any time for \$23 per year with a \$500 deductible and a \$10,000 limit per occurrence to provide coverage for loss or damage to critical services to your home.

## Covered Service Lines Include:

Service Line Coverage offers an insurance protection for underground service line failures and related outdoor property that is the responsibility of the homeowner for repair when caused by a service line failure. A service line failure may be caused by, but is not limited to, the following:

- Wear and tear, marring, deterioration or hidden decay
- Rust or other corrosion
- Mechanical breakdown, latent defect or inherent vice
- Weight of vehicles, equipment, animals or people
- Vermin, insects, rodents or other animals
- Artificially generated electrical current
- Freezing or frost heave
- External force from a shovel, backhoe or other form of excavation
- Tree or other root invasion

## Coverage Examples:

- Say for instance, your sewer line cracks as a result of tree root invasion and the covered repair costs total \$10,000. With Service Line Coverage, your responsibility for the loss is your \$500 deductible. Payment for the loss would be the remaining \$9,500.
- Now, suppose a water line ruptures and to fix the damage, a trench has to be dug across your driveway. The pipe needs to be replaced and covered repairs made to the lawn and driveway total \$8,025. With Service Line Coverage, your responsibility for the loss is your \$500 deductible. Payment for the loss would be the remaining \$7,525.

## Covered Service Lines Also Include:

- Excavation costs – We will pay the necessary excavation costs to repair or replace your covered service line.
- Expediting costs – We will pay the reasonable extra costs to make temporary repairs and expedite permanent repairs or replacement.
- Loss of use – We will cover additional living expenses due to a covered loss.
- Outdoor property – We will pay for your outdoor property such as trees, shrubs, plants, lawns, walkways or driveways that are damaged as a result of a service line failure or are damaged as a result of the repair or replacement of the failed service line.

Choosing the right supplemental coverage is an important decision. Fortunately, your State Farm agent is *here to help life go right.™*

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This is only a general description of coverages and is not a statement of contract. Details of coverages or limits vary in some states. All coverages are subject to the terms, provisions, exclusions and conditions in the policy itself, and in any endorsements.