



**Special Council Meeting  
Agenda**  
Wednesday, August 7, 2019 at 8:00 AM  
Council Chambers

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Page

**1. CALL TO ORDER**

**2. ROLL CALL**

**3. PLEDGE OF ALLEGIANCE**

**4. ADOPTION OF AGENDA**

**5. CONSIDERATION OF PROPOSED WATER/SEWER RATE CHANGES**

5.a. Proposed Water and Sewer Rates - Resolution #081901 2 - 21  
[Memo - Proposed Water and Sewer Rate](#)

**6. COMMUNICATIONS AND MISCELLANEOUS**

**7. ADJOURNMENT**



## MEMO

**Prepared for:** City Council  
**Staff Contact:** Rae Ann Ailts, Finance Director  
**Meeting:** Special Council - 07 Aug 2019  
**Subject:** Proposed Water and Sewer Rates - Resolution #081901

### **BACKGROUND INFORMATION:**

The last conventional water rate case brought before the PSC was in August of 2007, with simplified rate increases occurring in 2013 and 2014. Changes in sewer rates were last increased in 2012. Since then, population growth has increased overall demand while state and federal environmental regulations, aging infrastructure, and normal market inflation have increased current and future costs. Five-year capital improvement projections anticipate several large scale projects that are necessary to maintain current service levels or are required to meet changing state/federal environmental standards. For example, the wastewater treatment plant requires upgrades and replacement of core infrastructure in 2020-2021 to meet changing state regulations, increase capacity, and replace equipment that has reached the end of its useful life.

Recognizing these challenges, in May 2018 the Utility Commission authorized the issuance of an RFP seeking a firm that specialized in utility rate studies to independently examine water and sewer operations. In August 2018, Trilogy Consulting LLC was selected to perform a comprehensive water and sewer rate analysis and provide rate design recommendations. At the March 2019 Commission meeting, Trilogy presented preliminary findings and analysis. Over the following 60 days, the Utility Commission, Trilogy, and City staff evaluated and discussed rate design options based on cash flow impact, reserves, debt covenants, current and future capital needs, and financial sustainability. Attached to this memo is the executive summary of Water and Sewer Rate Study report prepared by Trilogy Consulting, LLC.

Following NRU's commitment to the New Richmond Way and "telling the story," staff initiated a public engagement program focused on explaining to customers why new rates are proposed and how they will be affected, including:

- Letters mailed to all impacted customers
- Three public open houses (6/5/19, 6/19/19 and 8/6/19)
- Individual meetings with businesses most impacted by the proposed change
- Informational and educational materials posted to City/Utility websites and promoted via social media
- Bill message outlining impact of proposed rates

In June 2019, a joint Utility Commission and City Council meeting was held to review the key findings of the rate study. The key findings of the study were:

- Revenue has increased at a slower pace than operational and maintenance expenses and debt service.
- Cash flow has been declining for sewer and fluctuating for water.
- Reserves are currently healthy but if rates are not addressed reserves will be depleted by 2024 and 2025.
- Outstanding debt and annual debt service remains low relative to operating revenue.
- Significant capital investment in the waste water treatment plant is needed to comply with state and federal environmental guidelines

**FINANCIAL IMPACT:**

**Water Rate - Proposed Rates**

The proposed water rate structure would provide a benchmark rate of return of 5.40% (versus an approved 6.50% in 2008), and an overall revenue increase of \$366,000. The proposed rate structure would gradually draw down utility reserves to fund a portion of the capital improvement program while remaining at recommended healthy levels.

Under the proposed rate structure, the average household using 3,000 gallons per month would see an increase of \$5.35 per month (actual increase is dependent upon individual usage patterns, etc). Attached to this memorandum is a schedule of proposed water rates comparing current to proposed rates by classification and public and private fire protection.

**Sewer Rate - Proposed Rates**

The utility net rate base has decreased by \$140,278 since 2013. Under the proposed rate structure an overall revenue increase of \$236,748 is projected. The proposed rate structure utilizes utility reserves to fund a portion of the capital improvement program drawing reserves down to recommended levels.

Under the proposed rate structure, the average household using 3,000 gallons per month would see an increase of \$3.87 per month (actual increase is dependent upon individual usage patterns, etc.). Attached to the resolution is a schedule of proposed sewer rates. Additionally, under the proposed rates, surcharge rates have been established to address any future industrial use which requires additional processing.

**POLICY IMPLICATIONS:**

**Next Steps**

**Water Rates**

Changes to water rates require authorization from the Utility Commission and City Council. Upon authorization staff and Trilogy Consulting, LLC will submit an application to the Public Service Commission (PSC) requesting the proposed rates. The PSC approves final rates. Approval by the PSC is anticipated in late 2019/early 2020, with rates becoming effective in 1Q20.

**Sewer Rates**

Changes to sewer rates require authorization from the Utility Commission in accordance with ordinance Section 86-34, in which the proposed rates will be established. Proposed rates are anticipated to go into effect on November 1, 2019.

**RECOMMENDATION:**

**Water Rate Recommendation**

The Utility Commission has authorized and recommends City Council authorization to submit an application to the Public Service Commission of Wisconsin to request approval of the attached water rate schedule.

**Sewer Rate Recommendation**

The Utility Commission has authorized and recommends City Council approval of Resolution #081901 authorizing sewer rates as outlined beginning November 1, 2019.

**ATTACHMENTS:**

[2019 New Richmond Utility Rate Study - FINAL 20190628 - Exec Summ](#)

[Proposed Water Rates](#)

[Resolution #081901 - Sewer Rates](#)

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# **Water and Sewer Rate Study**

## **Executive Summary**

Prepared for the

**City of New Richmond**

by Trilogy Consulting, LLC

June 2019



## **INTRODUCTION**

The City of New Richmond owns and operates a water supply and distribution system, wastewater collection system and Wastewater Treatment Facility that provides water and wastewater service to over 3,700 customers within the City.

The City last applied for a conventional water rate case with the Wisconsin Public Service Commission (PSC) in August 2007. In February 2013 and July 2014, the City implemented PSC-approved simplified rate increases of 3.2 and 3 percent, respectively, which are reflected in the current water rates for the City. The City last increased wastewater rates in April of 2012.

Both utilities are planning on significant capital investment in ongoing water and sewer main replacements, upgrades to the Wastewater Treatment Facility, equipment replacement, and potential extension of infrastructure to serve new development. For these reasons, the City hired Trilogy Consulting to conduct a formal Water and Sewer User Rate Study. The study consisted of determining recommended user rates based on a detailed cost of service study for 2019, and cash flow projections, including future rate increases. A ten-year projection of user rates and cash flows was prepared to develop a plan to complete all necessary capital improvement projects and meet all debt requirements while maintaining the financial health of the utilities.

## **WATER RATE STUDY**

### ***SUMMARY***

The results of the study indicate a 25.5 percent rate increase is required to fund the Utility's current operation expenses and provide some revenues for its capital improvement program over the next five years, as well as pay for debt service for major capital projects. Even with the increase, the Utility will need to rely somewhat on its cash reserves to completely fund its capital program. Of \$2.1 million in capital projects included in the study, \$1.2 million would be funded through debt, \$515,000 would be funded from existing reserves, with the remaining \$385,000 funded through current annual revenues. Currently, the City's water rates are below average among communities in New Richmond's surrounding area. Following the proposed increase, rates would be slightly above the average of regional communities' current rates. Several alternative rate structures were considered based on different methods of allocating costs. All alternatives were calculated to provide about the same overall amount of revenue.

**HISTORICAL AND FORECAST CUSTOMER DEMANDS**

The utility has experienced slight growth in most customer classes over the last several years, with a steady decrease in consumption from the public authority class. Additionally, while overall residential sales have increased slightly, this has been fueled entirely by growth in new customers, as residential water use per customer has been steadily declining. The trends for each customer class were analyzed separately to develop projections for 2019, resulting in a projection of 327,372,000 gallons of water consumption.

**REVENUE REQUIREMENTS**

The following table summarizes the revenue requirement proposal that was evaluated and discussed with City staff under the current PSC benchmark rate of return and compares it to the approved revenue requirements from the 2008 water rate increase. As shown, the increase in revenue requirements has outpaced the growth in user charge revenues. Under a benchmark rate of return of 5.40% (versus an approved 6.50% in 2008), an overall rate increase of \$366,000 would be projected for the 2019 test year, or an increase of about 25.5 percent over user charge revenues at current rates.

Category	2008	2019	Change 2008-2019	
Operation and Maintenance	\$643,077	\$1,089,884	\$446,807	69%
Depreciation Expense	\$156,693	\$225,390	\$68,697	44%
Taxes and Tax Equivalent	\$209,677	\$331,083	\$121,406	58%
Return on Net Investment Rate Base	\$301,052	\$296,929	(\$4,123)	-1%
<b>Total</b>	<b>\$1,312,507</b>	<b>\$1,945,304</b>	<b>\$632,797</b>	<b>48%</b>
Net Investment Rate Base	\$4,631,563	\$5,498,680	\$867,117	19%
Operating Revenues at Current Rates	\$1,310,499	\$1,577,161	\$266,662	20%
Required Increase in Revenues			\$366,135	
Percentage Increase in User Charge Revenues				25.5%

**CASH FLOW PROJECTIONS**

Key findings and recommendations regarding the Utility’s current and projected financial status were as follows:

- The Utility’s cash flow has fluctuated from negative to positive in recent years, and is expected to be negative in 2019, as the recommended rate increase is not expected to

take effect until next year. The majority of 2019 capital improvements will be funded by use of reserves.

- Utility reserve levels, at \$1.2 million of restricted reserves and \$2.0 million of unrestricted reserves, are currently above the recommended minimum amount of about \$1.4 million. However, without a rate increase, the reserves are expected to drop below the recommended minimum by 2022 and be completely depleted by 2024.
- Currently, debt as a percentage of total utility plant is quite low, at about 17 percent.
- The utility has potential utility-financed capital improvements totaling \$2.1 million, or an average of \$420,000 per year, planned for the period 2019-2023.
- An increase in user charge revenues of approximately 25.5 percent in 2019 and several additional 3 percent increases are needed to generate sufficient revenues to fund the expected level of expenses, the capital improvement program, and projected debt service while maintaining the cash reserves at the recommended level. Even with a rate increase, the utility will need to issue debt for an estimated \$1.2 million of its 5-year CIP.
- Under the recommended plan, the Utility's cash reserves would be drawn down gradually to fund a portion of the capital improvement program.

### **RATE STRUCTURE EVALUATION**

Several alternative rate structures were designed and evaluated as part of this study. Each alternative would recover approximately the amount of revenues assigned to each customer class under the cost of service analysis. However, different rate structures would result in different impacts on customers of different sizes.

Currently, water rates are comprised of a 4-tiered volumetric rate for how much water is used monthly, where the 2<sup>nd</sup> and 3<sup>rd</sup> tier are decreasing, and the 4<sup>th</sup> is set at the same rate as the 2<sup>nd</sup> tier. Fixed monthly charges by meter size are charged for general service and public fire protection, with larger meter sizes being charged a higher rate. Irrigation meters are charged the regular rates for volume of water consumption, a lower fixed charge for general service, and no charge for public fire protection. Rate structure Alternative 1 keeps the same basic rate structure as is currently used, with the fourth rate tier equal to the same charge as the second tier. Alternative 2 maintains that same rate structure, but with the fourth rate tier equal to the first rate tier. Alternative 3 has the fourth rate tier as the highest of the tiers, with all irrigation and Lakeside usage charged the highest rate, in an effort to collect as close to 100 percent of the cost-of-service from each customer class. Alternative 4 is the same structure as Alternative 3, but collects 90 percent of the cost-of-service from Lakeside Foods. Public and private fire protection charges and fixed service charges would be the same under all four alternatives.

The following summarizes the water rate structures that were calculated under each method:

**Public Fire Protection Charge**

Connection Size	Current Charge	Proposed Charge	Percent Change
5/8	\$7.44	<b>\$8.85</b>	19%
3/4	\$7.44	<b>\$8.85</b>	19%
1	\$9.57	<b>\$11.50</b>	20%
1 1/4	\$12.75	<b>\$15.00</b>	18%
1 1/2	\$14.88	<b>\$17.70</b>	19%
2	\$22.32	<b>\$26.50</b>	19%
3	\$29.77	<b>\$35.40</b>	19%
4	\$37.20	<b>\$44.20</b>	19%
6	\$44.64	<b>\$53.10</b>	19%
8	\$52.09	<b>\$61.90</b>	19%
10	\$59.52	<b>\$70.80</b>	19%
12	\$66.97	<b>\$79.60</b>	19%

**Private Fire Protection Charge**

Connection Size	Current Charge	Proposed Charge	Percent Change
2-inch	\$6.00	<b>\$6.00</b>	0%
3-inch	\$10.00	<b>\$10.00</b>	0%
4-inch	\$15.00	<b>\$17.00</b>	13%
6-inch	\$33.00	<b>\$33.00</b>	0%
8-inch	\$45.00	<b>\$53.00</b>	18%
10-inch	\$60.00	<b>\$80.00</b>	33%
12-inch	\$75.00	<b>\$117.00</b>	56%
14-inch	\$90.00	<b>\$133.00</b>	48%
16-inch	\$105.00	<b>\$180.00</b>	71%

City of New Richmond  
2019 Water and Sewer Rate Study Executive Summary

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**Service Charge**

Connection Size	Current Charge	Proposed Charge	Percent Change
5/8	\$6.91	<b>\$11.60</b>	68%
3/4	\$6.91	<b>\$11.60</b>	68%
1	\$10.63	<b>\$17.60</b>	66%
1 1/4	\$14.35	<b>\$23.20</b>	62%
1 1/2	\$18.07	<b>\$28.60</b>	58%
2	\$28.70	<b>\$42.70</b>	49%
3	\$46.77	<b>\$68.60</b>	47%
4	\$72.29	<b>\$103.30</b>	43%
6	\$127.56	<b>\$182.20</b>	43%
8	\$201.96	<b>\$275.90</b>	37%
10	\$292.31	<b>\$399.10</b>	37%
12	\$382.67	<b>\$522.30</b>	36%

**Service Charge - Irrigation Meters**

Connection Size	Current Charge	Proposed Charge	Percent Change
5/8	\$3.25	<b>\$6.40</b>	97%
3/4	\$3.25	<b>\$6.40</b>	97%
1	\$5.00	<b>\$10.80</b>	116%
1 1/4	\$6.75	<b>\$14.40</b>	113%
1 1/2	\$8.50	<b>\$18.20</b>	114%
2	\$13.50	<b>\$27.10</b>	101%

Rate Tier	Volume	Unit	Rate per 1,000 gallons				
			Current	Alt. 1	Alt. 2	Alt. 3*	Alt. 4*
FIRST	17,000	Gallons	\$2.44	\$2.35	\$2.31	\$2.02	\$2.19
NEXT	150,000	Gallons	\$1.80	\$2.18	\$2.15	\$1.88	\$2.03
NEXT	1,833,000	Gallons	\$1.47	\$1.79	\$1.76	\$1.54	\$1.66
OVER	2,000,000	Gallons	\$1.80	\$2.18	\$2.31	\$2.64	\$2.37

\*Under Alternatives 3 and 4, all usage for Lakeside Foods and irrigation customers is at the highest rate per 1,000 gallons

Under Alternative 1, bill impacts for residential customers would be an increase of about 13 to 31 percent, with the average customer seeing a monthly increase of \$5.83 or 27 percent. Under Alternative 2, residential users would experience somewhat smaller increases, between 12 and 30 percent, as the volumetric rate would be decreased slightly more. Under Alternative 3, residential users would see a smaller increase yet, between 4 and 27 percent, with large

customers seeing the biggest benefit. Alternative 4 would result with an impact in the mid-range between the others, from 9 to 29 percent, based on usage.

Multi-family users' bills would increase by between 9 and 22 percent under Alternative 1, between 8 and 20 percent under Alternative 2, only by between 0 to 5 percent under Alternative 3, and from 5 to 13 percent under Alternative 4. Under each alternative the smallest customers in the class would see the lowest increase, with higher increases for customers that use more water.

Non-residential users' bills would vary depending on their amount of usage and the rate alternative. Under Alternative 1, bills would increase about 13 percent to 22 percent, with the largest increases generally seen by the largest water users. Under Alternative 2, bill impacts show a greater variety of rate increases, potentially ranging from about 12 percent up to 27 percent for the highest user. Alternative 3 increases this disparity of bills, with increases ranging from 3 to 36 percent. Again, Alternative 4 has impacts in between the others, with increases ranging from 8 to 27 percent. Irrigation customers would see similar impacts as non-residential customers under the three alternatives, although under Alternative 3 and 4, all irrigation customers would see higher increases than Alternatives 1 and 2.

### **COMMUNITY RATE COMPARISON**

In order to provide context for the proposed rates for New Richmond, a comparison with the water user rates charged by other communities in the region was prepared for each of the alternative rate structures. The basis of the charges and the estimated total annual bill for a residential customer for each community are shown in the following tables. The bills are sorted from highest to lowest without public fire protection because several of the comparison communities do not collect some or all of the public fire protection through a direct customer charge, but through a municipal charge, so a comparison using fire protection is misleading. The level of rates of various utilities are due to a combination of factors and are also affected by the average amount of water sold per customer.

City of New Richmond  
2019 Water and Sewer Rate Study Executive Summary

**Comparison of Average Residential Bills with Regional Communities - Water Rates - Alternative 1**

Community	Fixed Charge	PFP Charge	Bills per Year	Volume Rate	Annual Usage	Units	Annual Bill	Annual Bill w/PFP
Ashland	\$12.15	\$10.20	12	\$5.31	4,832	ft <sup>3</sup>	\$402.39	\$524.79
Hammond	\$8.00	\$17.00	12	\$4.50	36,000	gallons	\$258.00	\$462.00
Wyoming, MN	\$34.52		4	\$2.852	36,000	gallons	\$240.75	\$240.75
Star Prairie*	\$17.10		4	\$4.75	36,000	gallons	\$239.40	\$239.40
<b>New Richmond (proposed 2019)</b>	<b>\$11.60</b>	<b>\$8.85</b>	<b>12</b>	<b>\$2.35</b>	36,000	<b>gallons</b>	<b>\$223.80</b>	<b>\$330.00</b>
Somerset*	\$8.70	\$3.14	12	\$3.04	36,000	gallons	\$213.84	\$251.52
Glenwood City*	\$24.00		4	\$3.00	36,000	gallons	\$204.00	\$204.00
Baldwin	\$18.54	\$18.00	4	\$3.16	36,000	gallons	\$187.92	\$259.92
Rice Lake	\$9.30	\$10.58	12	\$1.95	36,000	gallons	\$181.80	\$308.76
Osceola*	\$23.88		4	\$1.73	4,832	ft <sup>3</sup>	\$179.12	\$179.12
Roberts*	\$15.45		4	\$3.19	36,000	gallons	\$176.64	\$176.64
<b>New Richmond (current)</b>	<b>\$6.91</b>	<b>\$7.44</b>	<b>12</b>	<b>\$2.44</b>	36,000	<b>gallons</b>	<b>\$170.76</b>	<b>\$260.04</b>
Menomonie	\$13.50	\$14.85	4	\$2.10	4,832	ft <sup>3</sup>	\$155.48	\$214.88
Chippewa Falls	\$6.59	\$5.08	12	\$1.55	4,832	ft <sup>3</sup>	\$153.98	\$214.94
River Falls	\$8.00	\$4.15	12	\$1.39	36,000	gallons	\$146.04	\$195.84
Amery	\$17.42	\$23.24	4	\$2.07	36,000	gallons	\$144.20	\$237.16
Hudson	\$14.25	\$15.60	4	\$1.55	4,832	ft <sup>3</sup>	\$131.90	\$194.30
Lindstrom, MN	\$10.00		4	\$2.00	36,000	gallons	\$112.00	\$112.00
Average w/o New Richmond							\$195.47	\$251.00
Median w/o New Richmond							\$180.46	\$226.05

\*Note: Charges part or all of public fire protection to the municipality.

**Comparison of Average Residential Bills with Regional Communities - Water Rates - Alternative 2**

Community	Fixed Charge	PFP Charge	Bills per Year	Volume Rate	Annual Usage	Units	Annual Bill	Annual Bill w/PFP
Ashland	\$12.15	\$10.20	12	\$5.31	4,832	ft <sup>3</sup>	\$402.39	\$524.79
Hammond	\$8.00	\$17.00	12	\$4.50	36,000	gallons	\$258.00	\$462.00
Wyoming, MN	\$34.52		4	\$2.852	36,000	gallons	\$240.75	\$240.75
Star Prairie*	\$17.10		4	\$4.75	36,000	gallons	\$239.40	\$239.40
<b>New Richmond (proposed 2019)</b>	<b>\$11.60</b>	<b>\$8.85</b>	<b>12</b>	<b>\$2.31</b>	36,000	<b>gallons</b>	<b>\$222.36</b>	<b>\$328.56</b>
Somerset*	\$8.70	\$3.14	12	\$3.04	36,000	gallons	\$213.84	\$251.52
Glenwood City*	\$24.00		4	\$3.00	36,000	gallons	\$204.00	\$204.00
Baldwin	\$18.54	\$18.00	4	\$3.16	36,000	gallons	\$187.92	\$259.92
Rice Lake	\$9.30	\$10.58	12	\$1.95	36,000	gallons	\$181.80	\$308.76
Osceola*	\$23.88		4	\$1.73	4,832	ft <sup>3</sup>	\$179.12	\$179.12
Roberts*	\$15.45		4	\$3.19	36,000	gallons	\$176.64	\$176.64
<b>New Richmond (current)</b>	<b>\$6.91</b>	<b>\$7.44</b>	<b>12</b>	<b>\$2.44</b>	36,000	<b>gallons</b>	<b>\$170.76</b>	<b>\$260.04</b>
Menomonie	\$13.50	\$14.85	4	\$2.10	4,832	ft <sup>3</sup>	\$155.48	\$214.88
Chippewa Falls	\$6.59	\$5.08	12	\$1.55	4,832	ft <sup>3</sup>	\$153.98	\$214.94
River Falls	\$8.00	\$4.15	12	\$1.39	36,000	gallons	\$146.04	\$195.84
Amery	\$17.42	\$23.24	4	\$2.07	36,000	gallons	\$144.20	\$237.16
Hudson	\$14.25	\$15.60	4	\$1.55	4,832	ft <sup>3</sup>	\$131.90	\$194.30
Lindstrom, MN	\$10.00		4	\$2.00	36,000	gallons	\$112.00	\$112.00
Average w/o New Richmond							\$195.47	\$251.00
Median w/o New Richmond							\$180.46	\$226.05

\*Note: Charges part or all of public fire protection to the municipality.

City of New Richmond  
2019 Water and Sewer Rate Study Executive Summary

**Comparison of Average Residential Bills with Regional Communities - Water Rates - Alternative 3**

Community	Fixed Charge	PFP Charge	Bills per Year	Volume Rate	Annual Usage	Units	Annual Bill	Annual Bill w/PFP
Ashland	\$12.15	\$10.20	12	\$5.31	4,832	ft <sup>3</sup>	\$402.39	\$524.79
Hammond	\$8.00	\$17.00	12	\$4.50	36,000	gallons	\$258.00	\$462.00
Wyoming, MN	\$34.52		4	\$2.852	36,000	gallons	\$240.75	\$240.75
Star Prairie*	\$17.10		4	\$4.75	36,000	gallons	\$239.40	\$239.40
Somerset*	\$8.70	\$3.14	12	\$3.04	36,000	gallons	\$213.84	\$251.52
<b>New Richmond (proposed 2019)</b>	<b>\$11.60</b>	<b>\$8.85</b>	<b>12</b>	<b>\$2.02</b>	36,000	<b>gallons</b>	<b>\$211.92</b>	<b>\$318.12</b>
Glenwood City*	\$24.00		4	\$3.00	36,000	gallons	\$204.00	\$204.00
Baldwin	\$18.54	\$18.00	4	\$3.16	36,000	gallons	\$187.92	\$259.92
Rice Lake	\$9.30	\$10.58	12	\$1.95	36,000	gallons	\$181.80	\$308.76
Osceola*	\$23.88		4	\$1.73	4,832	ft <sup>3</sup>	\$179.12	\$179.12
Roberts*	\$15.45		4	\$3.19	36,000	gallons	\$176.64	\$176.64
<b>New Richmond (current)</b>	<b>\$6.91</b>	<b>\$7.44</b>	<b>12</b>	<b>\$2.44</b>	36,000	<b>gallons</b>	<b>\$170.76</b>	<b>\$260.04</b>
Menomonie	\$13.50	\$14.85	4	\$2.10	4,832	ft <sup>3</sup>	\$155.48	\$214.88
Chippewa Falls	\$6.59	\$5.08	12	\$1.55	4,832	ft <sup>3</sup>	\$153.98	\$214.94
River Falls	\$8.00	\$4.15	12	\$1.39	36,000	gallons	\$146.04	\$195.84
Amery	\$17.42	\$23.24	4	\$2.07	36,000	gallons	\$144.20	\$237.16
Hudson	\$14.25	\$15.60	4	\$1.55	4,832	ft <sup>3</sup>	\$131.90	\$194.30
Lindstrom, MN	\$10.00		4	\$2.00	36,000	gallons	\$112.00	\$112.00
Average w/o New Richmond							\$195.47	\$251.00
Median w/o New Richmond							\$180.46	\$226.05

\*Note: Charges part or all of public fire protection to the municipality.

**Comparison of Average Residential Bills with Regional Communities - Water Rates - Alternative 4**

Community	Fixed Charge	PFP Charge	Bills per Year	Volume Rate	Annual Usage	Units	Annual Bill	Annual Bill w/PFP
Ashland	\$12.15	\$10.20	12	\$5.31	4,832	ft <sup>3</sup>	\$402.39	\$524.79
Hammond	\$8.00	\$17.00	12	\$4.50	36,000	gallons	\$258.00	\$462.00
Wyoming, MN	\$34.52		4	\$2.852	36,000	gallons	\$240.75	\$240.75
Star Prairie*	\$17.10		4	\$4.75	36,000	gallons	\$239.40	\$239.40
<b>New Richmond (proposed 2019)</b>	<b>\$11.60</b>	<b>\$8.85</b>	<b>12</b>	<b>\$2.19</b>	36,000	<b>gallons</b>	<b>\$218.04</b>	<b>\$324.24</b>
Somerset*	\$8.70	\$3.14	12	\$3.04	36,000	gallons	\$213.84	\$251.52
Glenwood City*	\$24.00		4	\$3.00	36,000	gallons	\$204.00	\$204.00
Baldwin	\$18.54	\$18.00	4	\$3.16	36,000	gallons	\$187.92	\$259.92
Rice Lake	\$9.30	\$10.58	12	\$1.95	36,000	gallons	\$181.80	\$308.76
Osceola*	\$23.88		4	\$1.73	4,832	ft <sup>3</sup>	\$179.12	\$179.12
Roberts*	\$15.45		4	\$3.19	36,000	gallons	\$176.64	\$176.64
<b>New Richmond (current)</b>	<b>\$6.91</b>	<b>\$7.44</b>	<b>12</b>	<b>\$2.44</b>	36,000	<b>gallons</b>	<b>\$170.76</b>	<b>\$260.04</b>
Menomonie	\$13.50	\$14.85	4	\$2.10	4,832	ft <sup>3</sup>	\$155.48	\$214.88
Chippewa Falls	\$6.59	\$5.08	12	\$1.55	4,832	ft <sup>3</sup>	\$153.98	\$214.94
River Falls	\$8.00	\$4.15	12	\$1.39	36,000	gallons	\$146.04	\$195.84
Amery	\$17.42	\$23.24	4	\$2.07	36,000	gallons	\$144.20	\$237.16
Hudson	\$14.25	\$15.60	4	\$1.55	4,832	ft <sup>3</sup>	\$131.90	\$194.30
Lindstrom, MN	\$10.00		4	\$2.00	36,000	gallons	\$112.00	\$112.00
Average w/o New Richmond							\$195.47	\$251.00
Median w/o New Richmond							\$180.46	\$226.05

\*Note: Charges part or all of public fire protection to the municipality.

## **RECOMMENDATIONS**

It is the recommendation of this report that the Utility implement the overall rate increase of approximately 25.5 percent. After several discussions with City and Utility staff and their discussions with the Utilities Commission, it is recommended that the City request the rates under Alternative 4 from the PSC for approval. This rate structure balances the fairness of the rate structure to all customers and customer classes while taking into account the immediate impact of the rates on customers. Ultimately, the PSC has the final authority to set rates for the City.

## **SEWER RATE STUDY**

### **SUMMARY**

The results of the study indicate a significant rate increase of about 16 percent is recommended to fund the utility's ongoing operating expenses, to provide some funding for the \$3.75 million capital improvement program over the next five years and to maintain an adequate level of reserve funds available to cover ongoing equipment replacements, unexpected replacement and rehabilitation needs, or unexpected fluctuations in revenues or expenses. Of the \$3.75 million in capital projects included in the projections, \$1.66 million would be funded through debt, \$1.07 million through existing utility reserves and the remaining \$1.02 million through annual current revenues generated through user charges. Currently, the City's wastewater rates are lower than most communities in New Richmond's geographic region. Following this recommendation would increase rates to be closer to the average of surrounding communities' current rates, not considering any increases to wastewater rates that other communities may also implement in the interim.

Once the initial rate is set for 2019, continuing inflationary cost-of-living type rate increases should be evaluated on an annual basis and adjusted for changing conditions, such as an increase in sales or unexpected capital needs. The recommended and projected rate increases would increase the utility's user charge revenues by about \$285,000 in 2019 and by a total of about \$448,000 per year by 2023, when including new direct pass-through charges for biosolids disposal.

### **HISTORICAL AND FORECAST CUSTOMER DEMANDS**

The total volume of wastewater treated at the plant has decreased steadily over the last several years. However, the 'billable' flow, or wastewater generated by customers, experienced a slight increase during the same time. Forecast flows for 2019 follow trends over the previous three

years and are projected to be slightly higher than 2017 and 2018 flows, with the exception of the public authority class.

**REVENUE REQUIREMENTS**

The following table compares the changes in revenue requirements since 2013 (shortly after the last rate increase was implemented). As shown, the increase in operation and maintenance expense and depreciation has outpaced the growth in user charge revenues. The utility’s net rate base has decreased since 2013 due to depreciation of system assets. Even with a decrease in rate return on net asset base, an overall rate increase of \$236,748 would be projected for the 2019 test year, or an increase of about 16.0 percent over user charge revenues at current rates.

Category	2013	2019	Change, 2013-2019	
Operation and Maintenance	1,074,626	1,432,507	357,881	33.3%
Depreciation Expense	531,465	572,284	40,819	7.7%
Return on Net Asset Base	(131,654)	(271,932)	(140,278)	-106.6%
Total	1,474,437	1,732,858	258,421	17.5%
Net Investment Rate Base	10,084,557	9,064,389	(1,020,168)	-10.1%
Operating Revenues at Current Rates	1,474,437	1,496,111	21,674	1.5%
Required Increase in Revenues			236,748	
Percentage Increase in User Charge Revenues				16.0%

**CASH FLOW FORECASTS**

Key findings and recommendations regarding the utility’s financial condition are as follows:

- The utility has had positive cash flow for several years but was expected to have negative cash flow in 2018, with most of the capital additions being funded through reserves.
- Utility reserve levels of \$853,000 unrestricted plus \$2.4 million unrestricted are currently above the minimum recommended amount of \$1.7 million, although without an increase, reserves are expected to drop below the recommended minimum in 2022 and be completely depleted near 2025.
- Currently, debt as a percentage of utility plant is quite low at approximately 14 percent.
- The utility has utility-financed capital improvements totaling \$3.75 million, or an average of \$750,000 per year, planned for the period 2019-2023.

- An increase in user charge revenues of approximately 16.0 percent in 2019 and several additional 3 percent increases are needed to generate sufficient revenues to fund the expected level of expenses, the capital improvement program, and projected debt service while maintaining the cash reserves at the recommended level. Even with a rate increase, the utility will need to issue debt for \$1.66 million of its 5-year CIP.
- Under the recommended plan, the Utility’s cash reserves would be drawn down gradually to fund a portion of the capital improvement program.

**PROPOSED RATE SCHEDULE**

The targeted overall increase in user charge revenues for 2019 is approximately 16 percent. Rate increases for specific types of charges vary from the overall rate increase, as shown in the following detailed schedule of proposed rate increases.

*Comparison of Current and Proposed Rate Schedules*

Billing Cycle - Monthly Billing Units - 1,000 Gallons								
Flat Charge				Usage Charges				
Connection Size	Current Charge	Proposed Charge - 2019	Percent Change		Units	Current Rate	Proposed Rate - 2019	Percent Change
5/8	\$6.82	\$8.50	25%					
3/4	\$6.82	\$8.50	25%					
1	\$8.52	\$12.90	51%	<b>Domestic Sewage</b>	\$/1,000 gallons	\$5.95	\$6.68	12.3%
1 1/4	\$9.90	\$16.60	68%					
1 1/2	\$11.38	\$20.50	80%					
2	\$14.82	\$29.60	100%					
2 1/2	\$19.95	\$41.50	108%	<b>Surcharge Rates</b>				
3	\$22.83	\$50.40	121%	BOD	\$/pound	NA	\$0.45	NA
4	\$34.26	\$79.90	133%	TSS	\$/pound	NA	\$0.47	NA
6	\$62.76	\$153.10	144%	Phosphorus	\$/pound	NA	\$17.63	NA
8	\$97.12	\$240.90	148%	TKN	\$/pound	NA	\$1.36	NA
10	\$142.81	\$357.90	151%					
12	\$188.90	\$474.80	151%					

**COMMUNITY RATE COMPARISON**

To provide context for the proposed rates for New Richmond, a comparison with the sewer user rates charged by other communities in the region was prepared. The two communities in Minnesota included in the comparison were chosen because they have their own wastewater treatment plant, to be comparable to New Richmond. The basis of the charges, and the estimated total annual bill for a residential customer for each community are shown in the following tables. As shown, for a customer using 36,000 gallons or 4,832 cubic feet of water per year, the estimated annual sewer bill under current New Richmond rates would be \$296.04 per year.

Under the proposed rate increase for 2019, this would increase to \$342.48, or a total increase of \$3.87 per month. Even with the increase, the average bill would remain below the average or median bill for the other regional communities.

***Comparison of Average Residential Bills with Regional Communities - Sewer Rates***

Community	Fixed Charge	Bills per Year	Volume Rate	Annual Usage	Units	Annual Bill
Hammond	\$14.75	12	\$13.39	36,000	gallons	\$659.04
Roberts	\$52.91	4	\$11.51	36,000	gallons	\$626.00
Star Prairie	\$50.00	12	\$0.00	36,000	gallons	\$600.00
Wyoming, MN	\$29.62	4	\$12.60	36,000	gallons	\$572.08
Osceola	\$35.00	4	\$8.00	4,832	ft <sup>3</sup>	\$526.58
Somerset	\$8.66	12	\$10.82	36,000	gallons	\$493.44
Ashland	\$15.92	12	\$6.21	4,832	ft <sup>3</sup>	\$491.12
River Falls	\$16.50	12	\$7.04	36,000	gallons	\$451.44
Lindstrom, MN	\$32.00	4	\$7.43	36,000	gallons	\$395.60
Amery	\$42.27	4	\$5.33	36,000	gallons	\$360.96
<b>New Richmond (proposed 2019)</b>	<b>\$8.50</b>	<b>12</b>	<b>\$6.68</b>	<b>36,000</b>	<b>gallons</b>	<b>\$342.48</b>
Baldwin	\$27.30	4	\$5.28	36,000	gallons	\$299.28
<b>New Richmond (current)</b>	<b>\$6.82</b>	<b>12</b>	<b>\$5.95</b>	<b>36,000</b>	<b>gallons</b>	<b>\$296.04</b>
Chippewa Falls	\$17.01	4	\$2.85	4,832	ft <sup>3</sup>	\$205.76
Glenwood City	\$29.00	4	\$2.32	36,000	gallons	\$199.52
Menomonie	\$16.00	4	\$2.60	4,832	ft <sup>3</sup>	\$189.64
Rice Lake	\$4.40	12	\$3.08	36,000	gallons	\$163.68
Hudson	\$7.60	4	\$3.00	4,832	ft <sup>3</sup>	\$175.37
Average w/o New Richmond						\$400.59
Median w/o New Richmond						\$423.52

***RECOMMENDATION***

It is recommended that the City adopt the schedule of rates as shown above and continue to monitor the financial health of the utility for the necessity of additional future rate increases as presented in the cash flow analysis. This will allow the Wastewater Utility to generate the revenue needed to provide adequate funding for the utility's operation and maintenance expenses and capital improvement program while maintaining the utility's reserve funds at the recommended levels.

**COMBINED CUSTOMER BILL IMPACTS AND COMMUNITY RATE COMPARISON**

The following tables show the combined impact of the proposed rate increases to the water and sewer rates for the same example customers as in the previous sections. Because the rates are made up of several components, it is important to consider both when evaluating the impact to customers of various sizes and classes.

**Comparison of Average Residential Bills with Regional Communities - Combined Water & Sewer**

Community	Fixed Charge	PFP Charge	Bills per Year	Volume Rate	Annual Usage	Units	Annual Bill
Hammond	\$22.75	\$17.00	12	\$17.89	36,000	gallons	\$1,121.04
Ashland	\$28.07	\$10.20	12	\$11.52	4,832	ft <sup>3</sup>	\$1,015.91
Star Prairie	\$67.10	\$0.00	12	\$4.75	36,000	gallons	\$976.20
Wyoming, MN	\$64.14	\$0.00	4	\$15.45	36,000	gallons	\$812.83
Roberts	\$68.36	\$0.00	4	\$14.70	36,000	gallons	\$802.64
Somerset	\$17.36	\$3.14	12	\$13.86	36,000	gallons	\$744.96
Osceola	\$58.88	\$0.00	4	\$9.73	4,832	ft <sup>3</sup>	\$705.69
<b>New Richmond (proposed 2019)</b>	<b>\$20.10</b>	<b>\$8.85</b>	<b>12</b>	<b>\$8.87</b>	36,000	<b>gallons</b>	<b>\$666.72</b>
River Falls	\$24.50	\$4.15	12	\$8.43	36,000	gallons	\$647.28
Amery	\$59.69	\$23.24	4	\$7.40	36,000	gallons	\$598.12
Baldwin	\$45.84	\$18.00	4	\$8.44	36,000	gallons	\$559.20
<b>New Richmond (current)</b>	<b>\$13.73</b>	<b>\$7.44</b>	<b>12</b>	<b>\$8.39</b>	36,000	<b>gallons</b>	<b>\$556.08</b>
Lindstrom, MN	\$42.00	\$0.00	4	\$9.43	36,000	gallons	\$507.60
Rice Lake	\$13.70	\$10.58	12	\$5.03	36,000	gallons	\$472.44
Chippewa Falls	\$36.78	\$15.24	4	\$4.40	4,832	ft <sup>3</sup>	\$420.70
Menomonie	\$29.50	\$14.85	4	\$4.70	4,832	ft <sup>3</sup>	\$404.51
Glenwood City	\$53.00	\$0.00	4	\$5.32	36,000	gallons	\$403.52
Hudson	\$21.85	\$15.60	4	\$4.55	4,832	ft <sup>3</sup>	\$369.67
Average w/o New Richmond							\$660.14
Median w/o New Richmond							\$622.70

**New Richmond Municipal Water Utility Service Rates (Proposed)**

**Billing Cycle - Monthly**

**Billing Units - per 1,000 gallons**

<b>General Service Charge</b>	
Connection Size	Charge per Month
5/8 inch	\$11.60
3/4 inch	\$11.60
1 inch	\$17.60
1 1/4 inch	\$23.20
1 1/2 inch	\$28.60
2 inch	\$42.70
3 inch	\$68.60
4 inch	\$103.30
6 inch	\$182.20
8 inch	\$275.90
10 inch	\$399.10
12 inch	\$522.30

<b>Service Charge - Irrigation Meters</b>	
Connection Size	Charge per Month
5/8 inch	\$6.40
3/4 inch	\$6.40
1 inch	\$10.80
1 1/4 inch	\$14.40
1 1/2 inch	\$18.20
2 inch	\$27.10

<b>Public Fire Protection Charge</b>	
Connection Size	Charge per Month
5/8 inch	\$8.85
3/4 inch	\$8.85
1 inch	\$11.50
1 1/4 inch	\$15.00
1 1/2 inch	\$17.70
2 inch	\$26.50
3 inch	\$35.40
4 inch	\$44.20
6 inch	\$53.10
8 inch	\$61.90
10 inch	\$70.80
12 inch	\$79.60

<b>Private Fire Protection Charge</b>	
Connection Size	Charge per Month
2 inch	\$6.00
3 inch	\$10.00
4 inch	\$17.00
6 inch	\$33.00
8 inch	\$53.00
10 inch	\$80.00
12 inch	\$117.00
14 inch	\$133.00
16 inch	\$180.00

<b>Monthly Volume Charge</b>			
		Water Usage	Rate per 1,000 Gallons
<b>Residential</b>	FIRST	17,000	\$2.19
	NEXT	150,000	\$2.03
	NEXT	1,833,000	\$1.66
	OVER	2,000,000	\$2.37
<b>Multi-Family</b>	FIRST	17,000	\$2.19
	NEXT	150,000	\$2.03
	NEXT	1,833,000	\$1.66
	OVER	2,000,000	\$2.37
<b>Commercial</b>	FIRST	17,000	\$2.19
	NEXT	150,000	\$2.03
	NEXT	1,833,000	\$1.66
	OVER	2,000,000	\$2.37
<b>Industrial</b>	FIRST	17,000	\$2.19
	NEXT	150,000	\$2.03
	NEXT	1,833,000	\$1.66
	OVER	2,000,000	\$2.37
<b>Public Authority</b>	FIRST	17,000	\$2.19
	NEXT	150,000	\$2.03
	NEXT	1,833,000	\$1.66
	OVER	2,000,000	\$2.37
<b>Irrigation</b>	FIRST	17,000	\$2.37
	NEXT	150,000	\$2.37
	NEXT	1,833,000	\$2.37
	OVER	2,000,000	\$2.37
<b>Lakeside Foods</b>	FIRST	17,000	\$2.37
	NEXT	150,000	\$2.37
	NEXT	1,833,000	\$2.37
	OVER	2,000,000	\$2.37

**RESOLUTION #081901**

**RESOLUTION AMENDING WASTEWATER UTILITY RATE SCHEDULE**

**WHEREAS** wastewater services are considered vital for the health, quality of life, and safety of all residents and businesses; and

**WHEREAS** the New Richmond Common Council finds it necessary to amend the Wastewater Utility rate schedule in order to adequately recover the costs associated with providing wastewater services, meet current and future regulatory and capital requirements, minimize future debt issuance, and ensure that costs are fairly distributed among customer classes; and

**WHEREAS** the New Richmond Utility Commission approved the rates set forth in **Attachment 1** on July 10, 2019, in accordance with Section 86-34 of the New Richmond Code of Ordinances; and

**WHEREAS** sewer rates have not increased since 2012;

**NOW, THEREFORE, BE IT RESOLVED** by the Common Council of the City of New Richmond that the rate schedule set forth in **Attachment 1** is hereby approved.

**BE IT FURTHER RESOLVED** that these rates shall be effective November 1, 2019.

Passed and approved this 7<sup>th</sup> day of August, 2019.

\_\_\_\_\_  
**Fred Horne, Mayor**

**ATTEST:**

\_\_\_\_\_  
**Tanya Batchelor, City Clerk**

**ATTACHMENT 1**

**New Richmond Municipal Wastewater Utility Service Rates**

**Rates effective November 1, 2019 (approved August 7, 2019)**

**GENERAL WASTEWATER SERVICE – METERED**

**FIXED MONTHLY SERVICE CHARGE**

Water Meter Size

5/8"	\$8.50
3/4"	\$8.50
1"	\$12.90
1 ¼"	\$16.60
1 ½"	\$20.50
2"	\$29.60
2 ½"	\$41.50
3"	\$50.40
4"	\$79.90
6"	\$153.10
8"	\$240.90
10"	\$357.90
12"	\$474.80

**PLUS VOLUME CHARGE**

\$6.68 per 1,000 gallons of domestic strength sewage discharged into the sanitary sewer system.

**SURCHARGE RATES**

BOD	\$ .045	per pound
TSS	\$ .047	per pound
Phosphorus	\$17.63	per pound
TKN	\$1.36	per pound

**GENERAL SEWER SERVICE – UNMETERED**

Service shall be billed at the rate of \$41.90 per month. This rate shall be applied only to single-family residential and small commercial customers and approximates the cost of discharging 5,000 gallons per month of domestic strength sewage into the sanitary sewer system. If it is determined by the Utility that the user discharges more than 5,000 gallons per month into the system, an additional charge of \$6.68 per 1,000 gallons will be made for the estimated additional usage.