



Osseo City Council

AGENDA

WORK SESSION
Monday, January 30, 2023
6:00 p.m., Council Chambers

MAYOR DUANE POPPE COUNCILMEMBERS: JULIANA HULTSTROM, HAROLD E. JOHNSON, MARK SCHULZ, ALICIA VICKERMAN

1. **Call to Order**
2. **Roll Call** (quorum is 3)
3. **Approval of Agenda** (requires unanimous additions)
4. **Discussion Items**
 - A. **Discuss Utility Rate Study – Ehlers**
5. **Adjournment**



City of Osseo City Council Work Session Meeting Item

Agenda Item: Discuss Utility Rate Study

Meeting Date: January 30, 2023

Prepared by: Riley Grams, City Administrator

Attachments: Ehlers Utility Rate Study Presentation

Background:

At the end of 2023, the City Council directed City Staff to move forward with a full utility rate study in quarter one of 2023, with the goal of selecting and implementing the new rate structure to begin on April 1, 2023 (which is when the second quarter of 2023 begins, and when we start to see more and more outdoor lawn/garden watering). The goal for the January 30 work session meeting is for Staff to present the necessary information to the Council that we have regarding utility rates, so that the Council can discuss the rate study and direct Staff on how to develop the new structure. From there, I anticipate that Staff will take that direction and develop the final proposed rate structure to be reviewed by the Council at a future Council work session, followed by official approval of the final rate structure at a future regular Council meeting.

On Monday night, Rebecca Kurtz and Jessica Cook will be presenting to the Council. They will provide the Council with an overview of how our utilities have been managed and what cost pressures are now being applied to those funds in order to pay for on-going maintenance and capital costs.

At the end of Monday night's work session meeting, the Council should provide Staff with specific direction on what they envision the utility rate structure should look like, and what specific costs should be incorporated into those rates.

Recommendation/Action Requested:

Staff recommends the City Council discuss the item and direct Staff accordingly.

Next Step:

After direction is provided to Staff, Staff will develop a draft structure and utility fees to be presented at a future Council work session meeting.



City of Osseo

Water and Sewer Rate Discussion

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Enterprise Funds

- Utilities should be financially self-sufficient
 - ✓ No tax support
 - ✓ Pay for portion of public works time and facilities dedicated to maintaining utilities
- “Good” financial years (lots of water sales during drought) offset rainy years (reduced revenues)



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What do Sewer Rates Pay For?

Collection
System Capital
Improvements

Operations

Sewer
Treatment
(Met Council)



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What do Water Rates Pay For?

Collection
System Capital
Improvements

Operations

Purchased
Water (Maple
Grove)



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Why do Osseo residents pay more than Maple Grove residents?

- Maple Grove contract runs 15 years (2012 – 2026)
- Osseo pays more for its wholesale water than Maple Grove residents pay retail
- Then Osseo still has to pay for its distribution system, metering and billing
- Maple Grove is still developing
 - ✓ Osseo's aging water and sewer infrastructure needs rebuilding
 - ✓ Maple Grove is receiving developer fees for system expansion



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Rate Study History

City needed to raise water and sewer revenues in 2019-2020

Major Capital
Improvements

Cost of purchased
water from Maple
Grove

MCES Charges



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Recent Major Capital Improvements

Project	Amount	Year Financed
Lift Stations and Sewer Mains	\$1,330,000	2020
SCADA and Software	\$ 440,000	2020
Sewer Jetter	\$ 365,000	2020
Water Meters	\$ 375,000	2020
Sewer Mains	\$ 750,000	2022
TOAL	\$3,260,000	



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Future Major Capital Improvements

Project	Amount	Year Financed
Sewer Mains	\$250,000	2024
Water Mains	\$50,000	Annually beginning in 2026



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Cost of Purchased Water

- City purchases water from Maple Grove
 - ✓ Wholesale price is HIGHER than retail rate for Maple Grove resident
 - ✓ Annual increases same as Maple Grove increases its retail rates



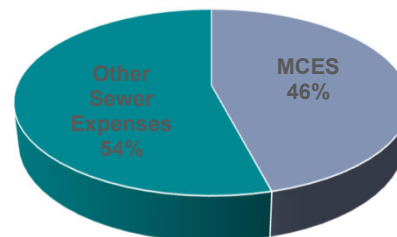
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MCES Charge Increases

Year	Total MCES Charges	% Annual Change
2019	\$164,279	8%
2020	\$179,260	9%
2021	\$171,230	-5%
2022	\$186,003	9%
2023	\$215,219	16%

2022 Sewer Operating Expenses
(excluding depreciation)



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In 2019 Rate Structures Changed to Address City Goals

Water and sewer rates were redesigned to achieve City goals

Generate sufficient revenue for financial stability

Keep indoor water use affordable

Protect small volume users from rate hikes

Distribute costs equitably



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Current Rate Structure – Residential Water

- Meter fee of \$21.84 per quarter for single-family customers
 - ✓ Fee increases with meter size
- Additional base fee of \$21.84 includes 8,000 gallons
 - ✓ Equal to \$2.73 per 1,000 gallons
- Use after 8,000 gallons is tiered

Tier	Rate per 1,000 gallons
Tier One (8,001 to 16,000 gallons)	\$4.37
Tier Two (16,001 to 24,000 gallons)	\$5.46
Tier Three (over 24,000 gallons)	\$6.83



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Current Rate Structure – Residential Sewer

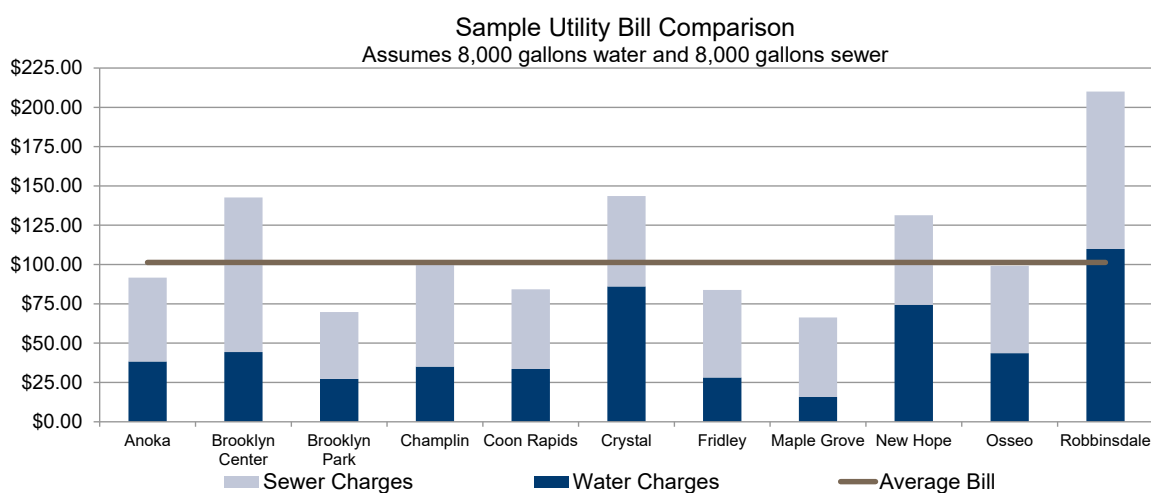
- Base fee of \$55.44 per quarter
 - ✓ Includes 15,000 gallons (equal to \$4.92 per 1,000 gallons)
- \$10.67 per 1,000 gallons over 15,000 gallons
- No winter quarter averaging
 - ✓ Customers pay sewer rates on 100% of water consumption year-round



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Community Comparison: Low Volume Users



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Impact in a Year of Drought

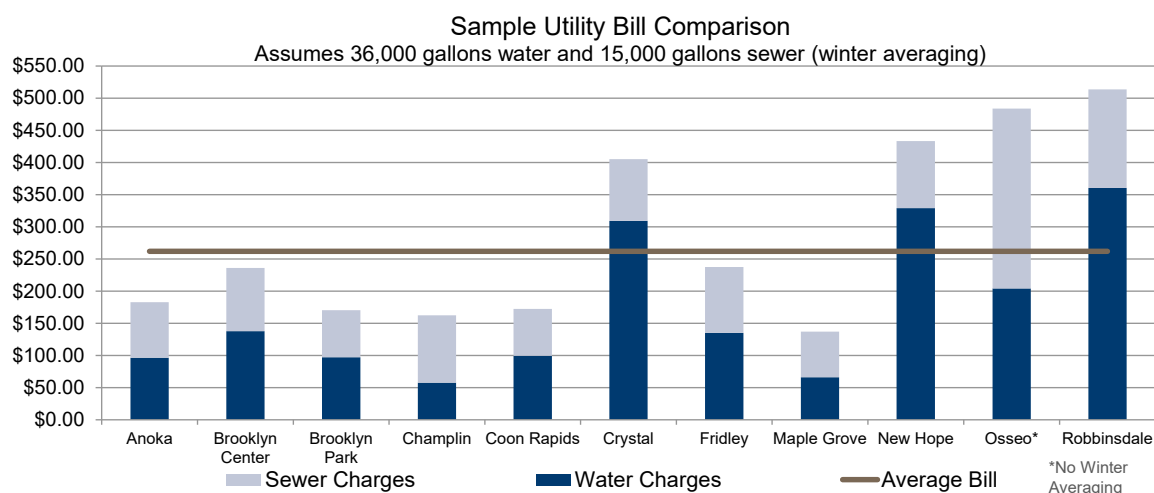
- Water customers use more water in the higher priced tiers
- More sewer customers exceed the 15,000 gallons per quarter included in base rate and begin paying \$10.67 per 1,000 gallons
- Bills go up



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Community Comparison: Higher Volume Users



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Options to Reduce Drought Impacts - Sewer

- Adopt winter quarter averaging for residential sewer customers
 - ✓ Most common practice in Minnesota
- Encourage businesses to install irrigation meters
- Adjust minimum of 15,000 gallons per quarter to fit usage patterns
 - ✓ Adjust rate for minimum usage
- Result: Steady sewer bills throughout the year



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Options to Reduce Drought Impacts - Water

- Potentially revise tiers and rates
 - ✓ Policy direction on water conservation
- Renegotiate Maple Grove water contract in 2026
 - ✓ Start process in early 2025
 - ✓ Result: Everyone may pay less with contract renegotiation



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Next Steps

- Discussion and Feedback
- Ehlers to complete rate study to incorporate future cost pressures and new City priorities
- Consider rate options for February work session
- Adopt new rates in March



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