



Richfield City Council Agenda

March 24, 2026 -- 5:00 PM

**Richfield Municipal Center
Bartholomew Conference Room
6700 Portland Avenue South**

- 1. Call to Order**
- 2. Item Discussion**
 - a. Utility Rate Study and Financial Analysis for Infrastructure Renewal Planning**
- 3. Adjournment**

Auxiliary aids for individuals with disabilities are available upon request. Requests must be made at least 96 hours in advance to the City Clerk at 612-861-9739.

Includes Materials - Materials relating to these agenda items can be found in the Council Chambers Agenda Packet book located by the entrance. The complete Council Agenda Packet is available electronically on the City of Richfield website.



Report Prepared By:
Scott Kulzer, Senior Analyst

Department Director:
Kristin Asher, Public Works Director

Item for Consideration:
Utility Rate Study and Financial Analysis for Infrastructure Renewal Planning

EXECUTIVE SUMMARY

In Spring 2025, Public Works undertook a utility rate study and financial analysis of capital project funding strategies with engineering firm HDR, Inc. At its most basic level, the project sought to determine if revenues (utility rates) were sufficient to fund routine operation and maintenance of the utility systems while also reserving funding for system renewal via capital projects. The study and analysis are nearing completion and staff from Public Works and HDR, Inc., will present the findings and recommendations from the effort and are seeking City Council feedback.

RECOMMENDED ACTION

Provide direction on the proposed utility rate policies, structure, and financial strategies.

HISTORICAL CONTEXT

- Utility rates are adjusted annually alongside the adoption of the annual budget in December.
- Rate adjustments typically reflect increases to keep up with inflation.
- Since the Covid-19 pandemic, pricing for routine services, chemicals, and infrastructure investment has increased dramatically.
- Oftentimes, staff will recommend rate increases that exceed inflation when needed and where possible based on internal analysis.
- The last formal utility rate study done for Richfield utilities was in 2017.

EQUITABLE OR STRATEGIC CONSIDERATIONS OR IMPACTS

Strategic Considerations: A thorough review of utility rates and financial strategies of the utility system works toward the following Strategic Plan Outcomes:

- *Financial capacity to deliver essential services;*
- *Operational capability to deliver essential services;*
- *Maintain Richfield as an affordable place to live;*
- *City infrastructure supports service needs;*
- *Sustainable infrastructure financing; and*

- *Equity-based framework is applied to decision-making.*

Equity Considerations: Maintaining utility affordability and not overburdening residents who are struggling to afford their routine expenses is a key consideration in this discussion. The Utility Rate Affordability Study completed in 2023 helps to inform this discussion and is reflected in some of the recommendations contained in this utility rate study.

POLICIES (RESOLUTIONS, ORDINANCES, REGULATIONS, STATUTES, ETC.)

- Utility rates are adjusted annually by City Council alongside the adoption of the annual budget in December.
- Some of the recommendations in this utility rate study may require further City Council action in order to implement.

CRITICAL TIMING ISSUES

The 2026 Revised/2027 Proposed budget cycle kicks off in approximately 6 weeks and direction related to the proposed utility rate changes is needed as soon as possible.

FINANCIAL IMPACT

- There is no direct financial impact as a result of this work session meeting.
- Financial impacts will be solidified once direction is given and staff moves any rate increases or financial policy changes through the budget and approval process.

LEGAL CONSIDERATIONS

- None at this time.

ALTERNATIVE RECOMMENDATION(S)

None.

ATTACHMENTS

1. City of Richfield - Rate and Financial Analysis for Renewal Planning Presentation



City of Richfield

Rate and Financial Analysis for Infrastructure Renewal Planning



March 24, 2026

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Purpose of the Presentation

- Provide a summary of the preliminary rate analyses
- Gain Council input and feedback
 - Financial policies
 - Renewal and replacement funding approach
 - Overall rate revenue adjustment for each utility
- Discuss next steps of study

Study Challenges

- Upcoming water, sewer, and stormwater infrastructure system renewal and replacement needs
 - Renewal and replacement funding sources undefined at this time
 - Study begins to provide funding for future replacement
 - Challenge not specific to the City
 - Unique to the City is majority of infrastructure put in place in same time period
- Adequately funding ongoing capital infrastructure improvements
- Balancing customer bill impacts while maintaining prudent financial metrics (i.e., financial policies)

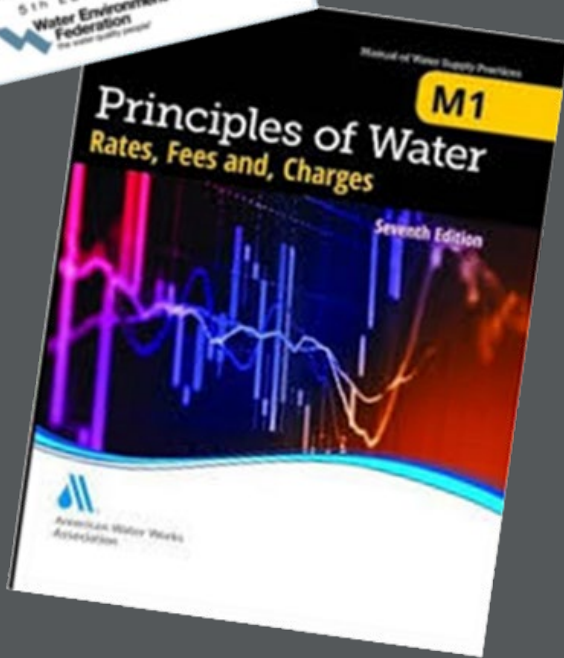
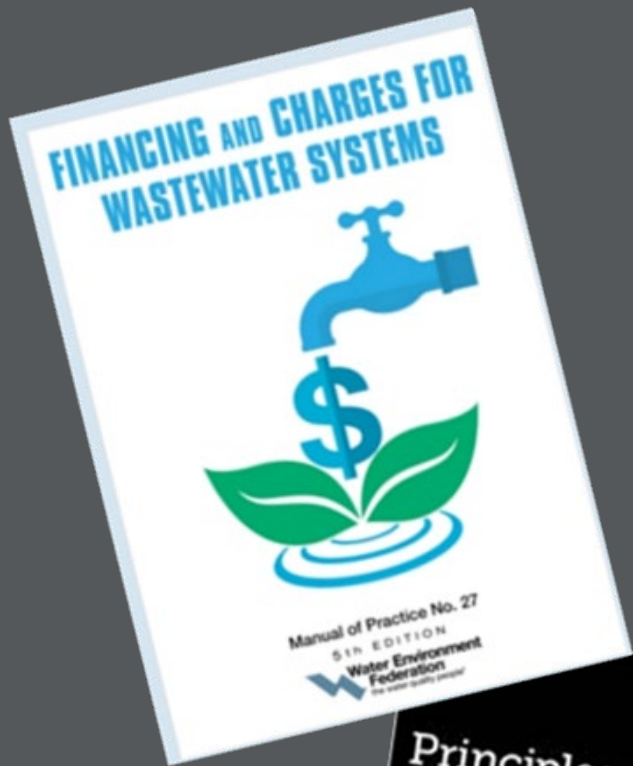
Agenda

- 1.0** Rate Study Introduction
- 2.0** Financial Policies Overview and Discussion
- 3.0** Renewal and Replacement Policy Discussion
- 4.0** Preliminary Rate Study Results
- 5.0** Summary and Next Steps

A close-up photograph of a person's hands holding a black pen over a document. The document contains various charts, including pie charts and tables. The background is blurred, showing other people and documents. A semi-transparent white box with a thin black border is overlaid on the center of the image, containing the text '1.0'.

1.0

Rate Study Introduction



Purpose of a Rate Study

- Provide sufficient revenue to operate and maintain the City's water, sewer, and stormwater infrastructure
- Develop cost-based water, sewer, and stormwater rates
- Reflect prudent financial planning criteria
 - Prudent funding of annual O&M expenses
 - Meet target minimum reserve balances
 - Adequately fund identified capital improvement and replacement needs
- Develop the study using generally accepted methodologies tailored to the City's system and customer characteristics

Rate Study Overview

Revenue Requirement

Compares the revenue of the utility to the expenses to evaluate the level of overall rates



Rate Design

Design rates to meet the revenue needs and cost of service while reflecting the City's rate design goals and objectives



2.0

Financial Policies Overview and Discussion

Financial Policies Overview

- Reserves are reviewed on an individual utility basis
- Provides strong message to outside financial community (e.g., bond rating agencies)
- Financial policy goals and objectives
 - Maintain sufficient operating reserves for day-to-day cash flow requirements
 - Maintain sufficient capital and other reserves to minimize short-term and long-term borrowing for capital projects
 - Fund capital projects in a prudent and least cost manner
 - Provide rate stability
- Reserves established for different purposes and thus have different minimum and target balance amounts

- 
1. Reserve Levels
 2. Renewal and Replacement Funding
 3. Debt Issuance and Management
 4. Debt Service Coverage
 5. Rate and Fee Setting Approach

Financial Policies for Reserves

Operating Reserve

Operating reserve provides support for both O&M and capital expenses

- Minimum – **90** days or **25%** of annual O&M expenses for **each** utility
- Target – **180** days or **50%** of annual O&M expenses for **each** utility

Asset Replacement Reserve

- Target – Equivalent to the escalated value of the fully depreciated assets divided by the number of years in the evaluation period less debt funding assumptions (no minimum and only to be used for utility infrastructure replacement)



3.0

Renewal and Replacement Policy Discussion

Renewal and Replacement Policy

- Purpose is to adequately fund the maintenance and replacement of existing infrastructure through user rates on an on-going basis
- Renewal and replacement funding approach for each utility based on the value of the existing system replacement costs

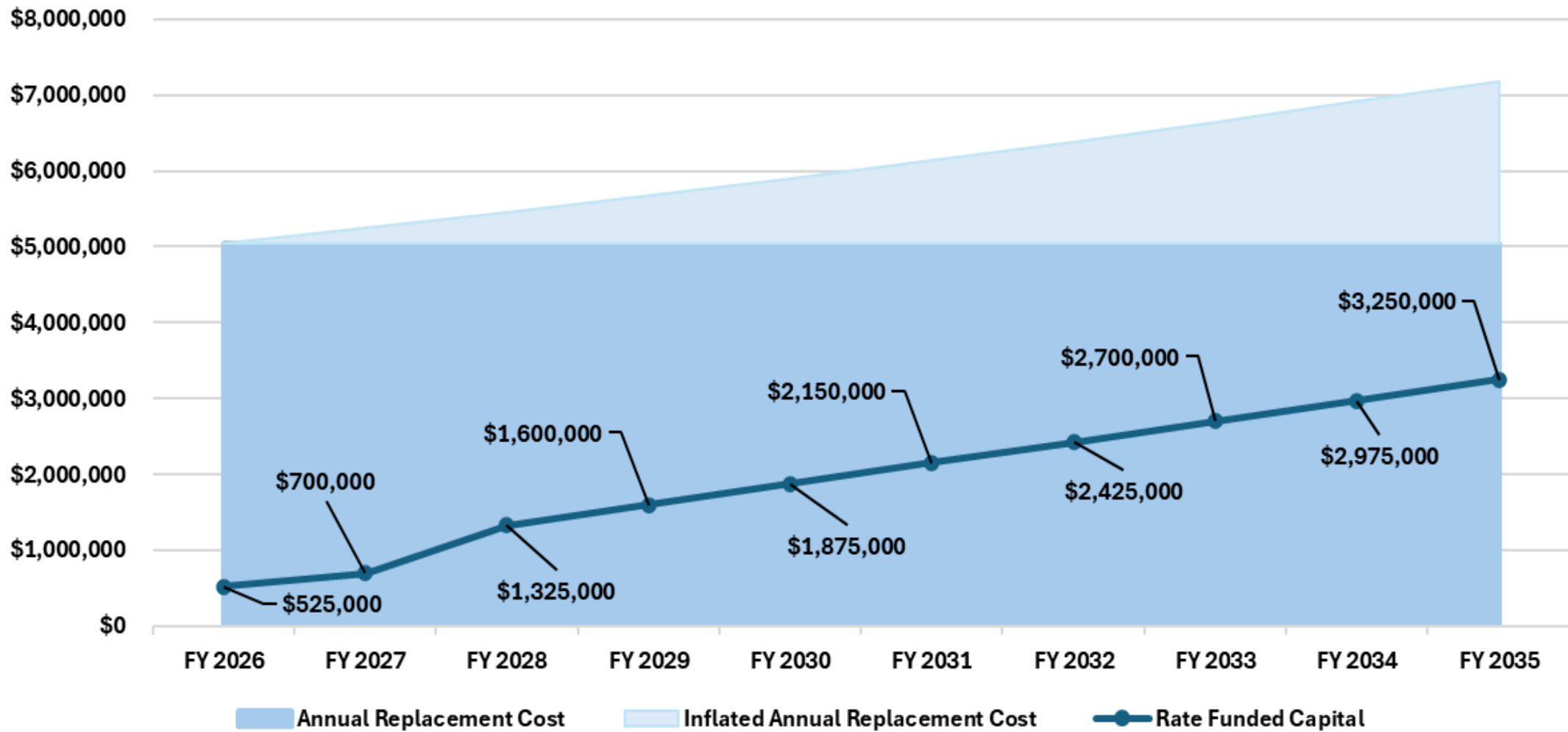
Proposed Renewal and Replacement Policy

- Minimum – Fund an amount equal to annual (**1.0x**) depreciation expense for **each** utility
- Target – **2.0 - 2.5x** annual depreciation expense for **each** utility or the identified renewal and replacement needs for **each** utility over a multi-year period (**5 or 10 years**)

Renewal and Replacement Analysis

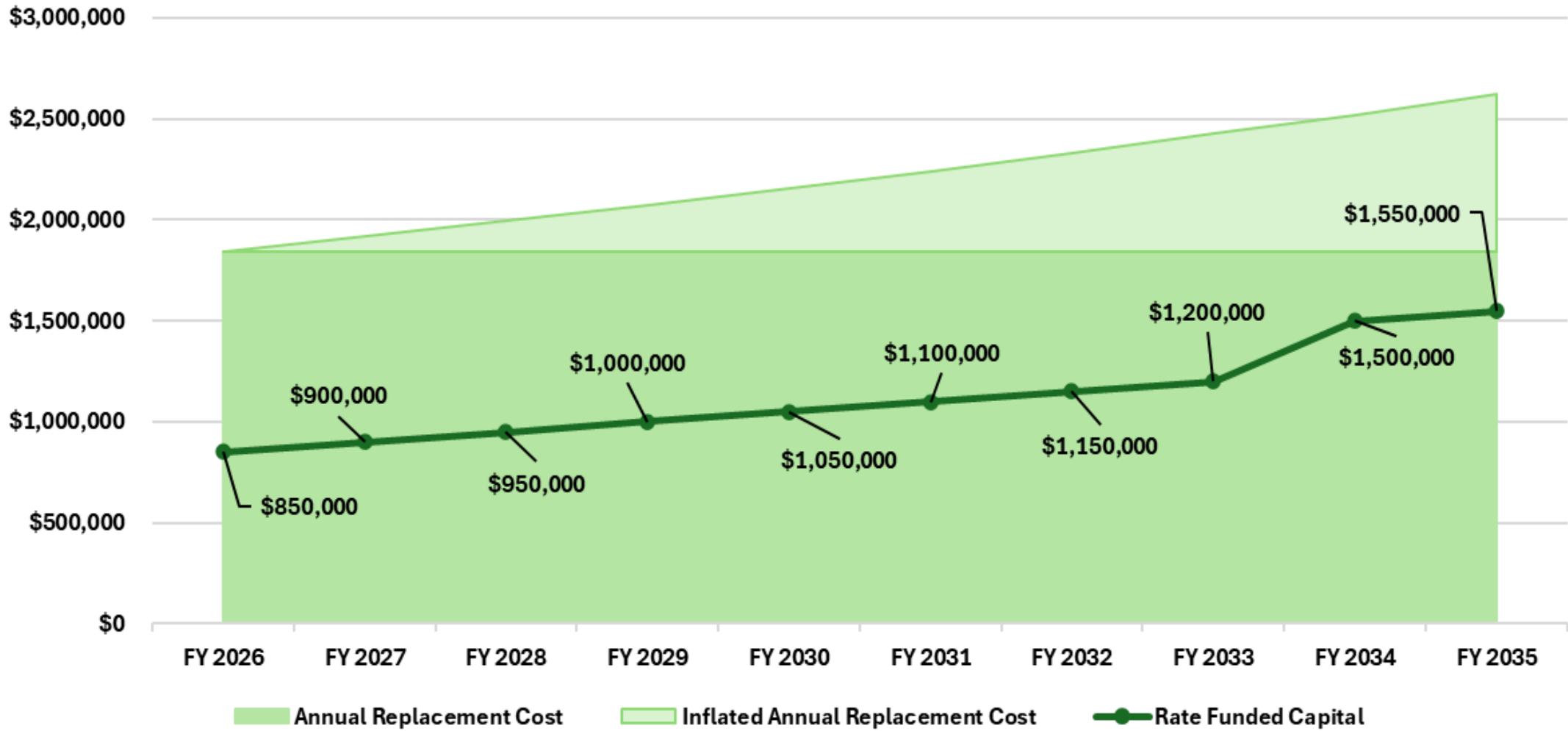
- Multiple methods available for evaluating and determining the appropriate level of replacement funding
 - Asset replacement/condition assessment program
 - Based on current useful life and replacement timing
 - Based on total years useful
- Majority of City's water, sewer and stormwater assets are fully depreciated
 - Significant infrastructure put in place around 1960
- Capital plan includes some renewal and replacement projects
 - Purpose of analysis is to identify total target funding levels
- Analysis for each utility based on replacement cost (in 2025 dollars) divided by total years useful for each asset
 - Provides an annual benchmark funding level

Annual Water Utility Replacement Cost and Rate Funded Capital Comparison



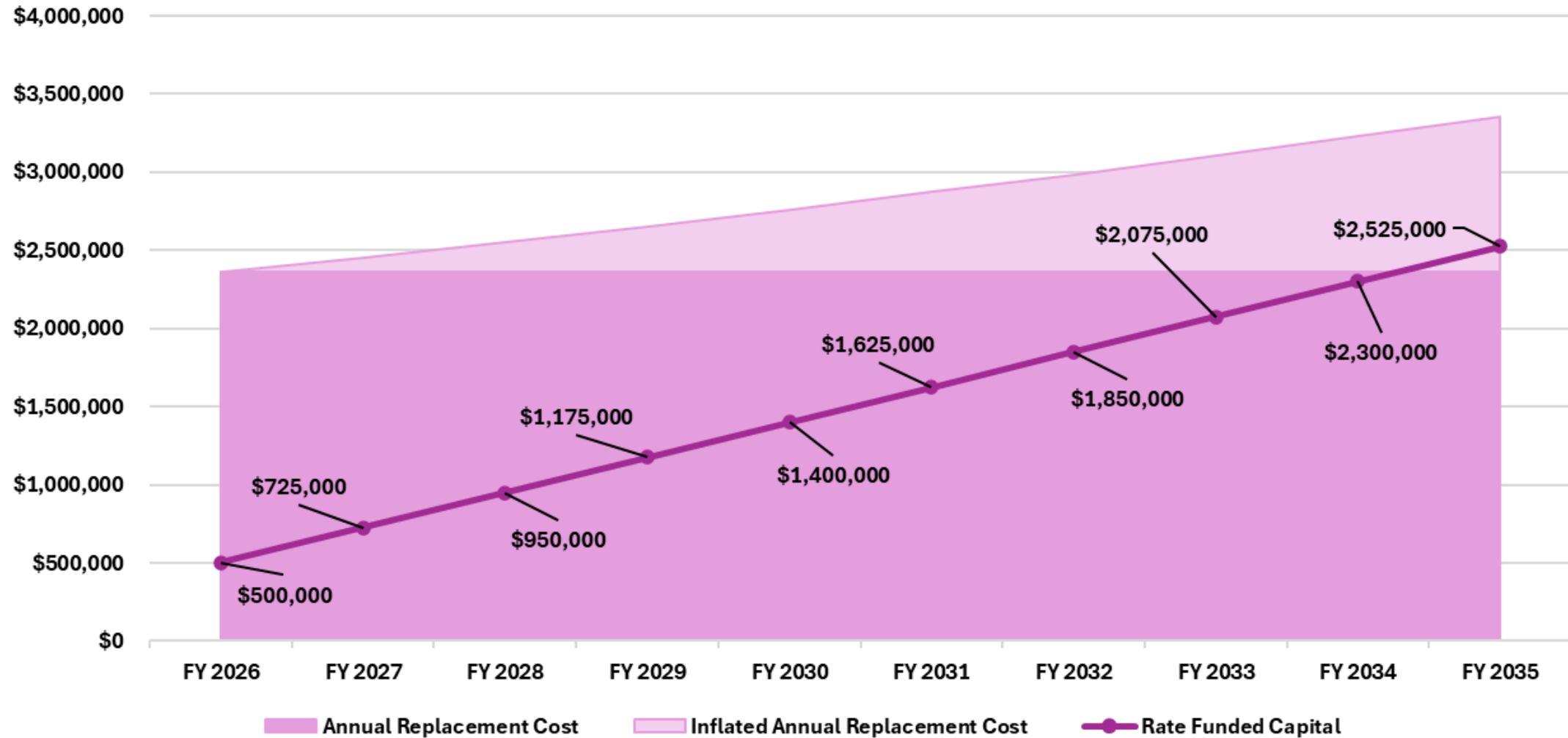
Rate funded capital dependent on proposed annual rate adjustments
Assumes 4.0% inflation

Annual Sewer Utility Replacement Cost and Rate Funded Capital Comparison



Rate funded capital dependent on proposed annual rate adjustments
 Assumes 4.0% inflation

Annual Stormwater Utility Replacement Cost and Rate Funded Capital Comparison



Rate funded capital dependent on proposed annual rate adjustments
Assumes 4.0% inflation



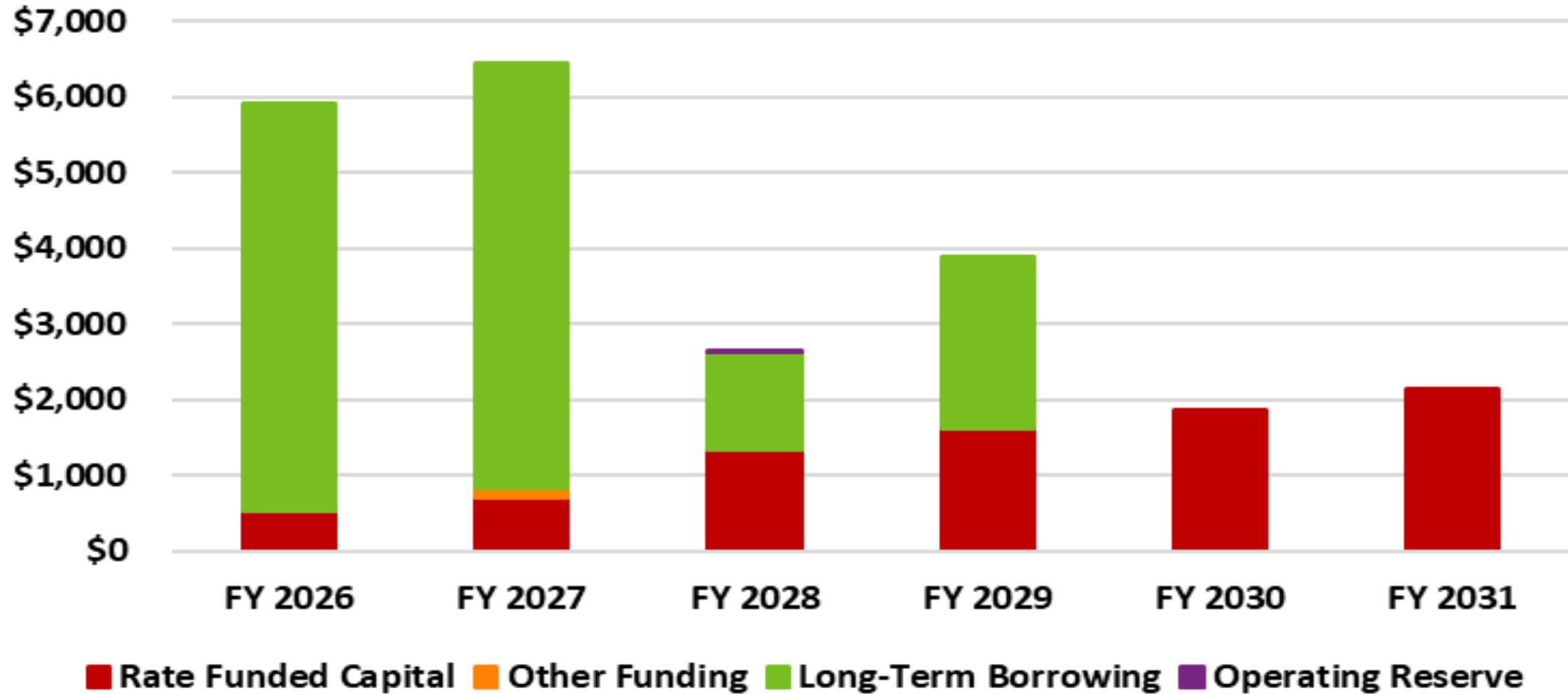
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Preliminary Rate Study Results

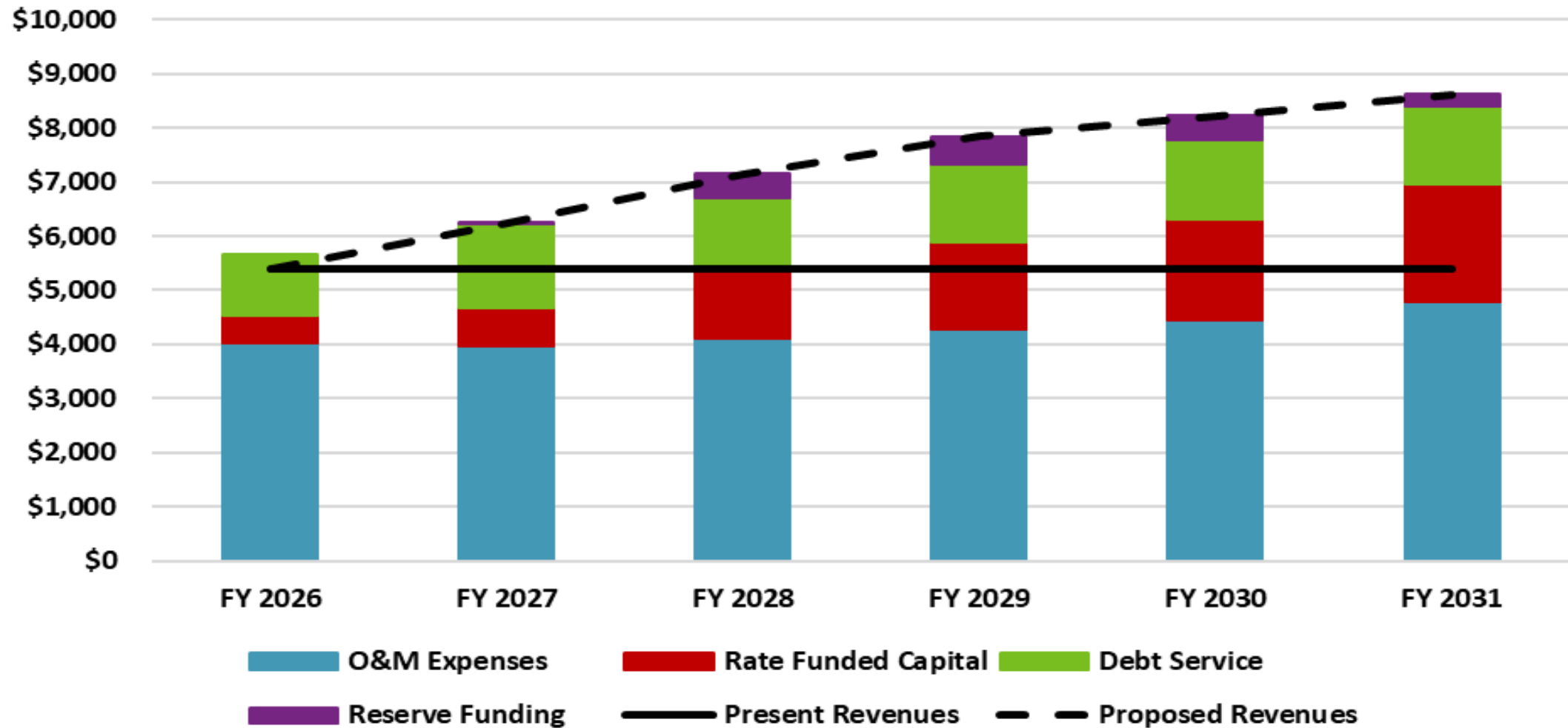
Revenue Requirement Key Assumptions

- Revenues independently calculated based on the specific customer characteristics of each utility
- O&M expenses based on FY 2025 and FY 2026 budgets for each utility
 - Projected through FY 2035 based on annual inflationary factors (~4% annually)
- Capital funding plan addresses system improvement needs for each utility
 - Funding of capital improvement through rates on on-going basis (rate funded capital)
- Current analysis **does not** include funding of future renewal and replacement projects or renewal and replacement reserves
 - Some renewal and replacement projects addressed in City's current CIP for each utility

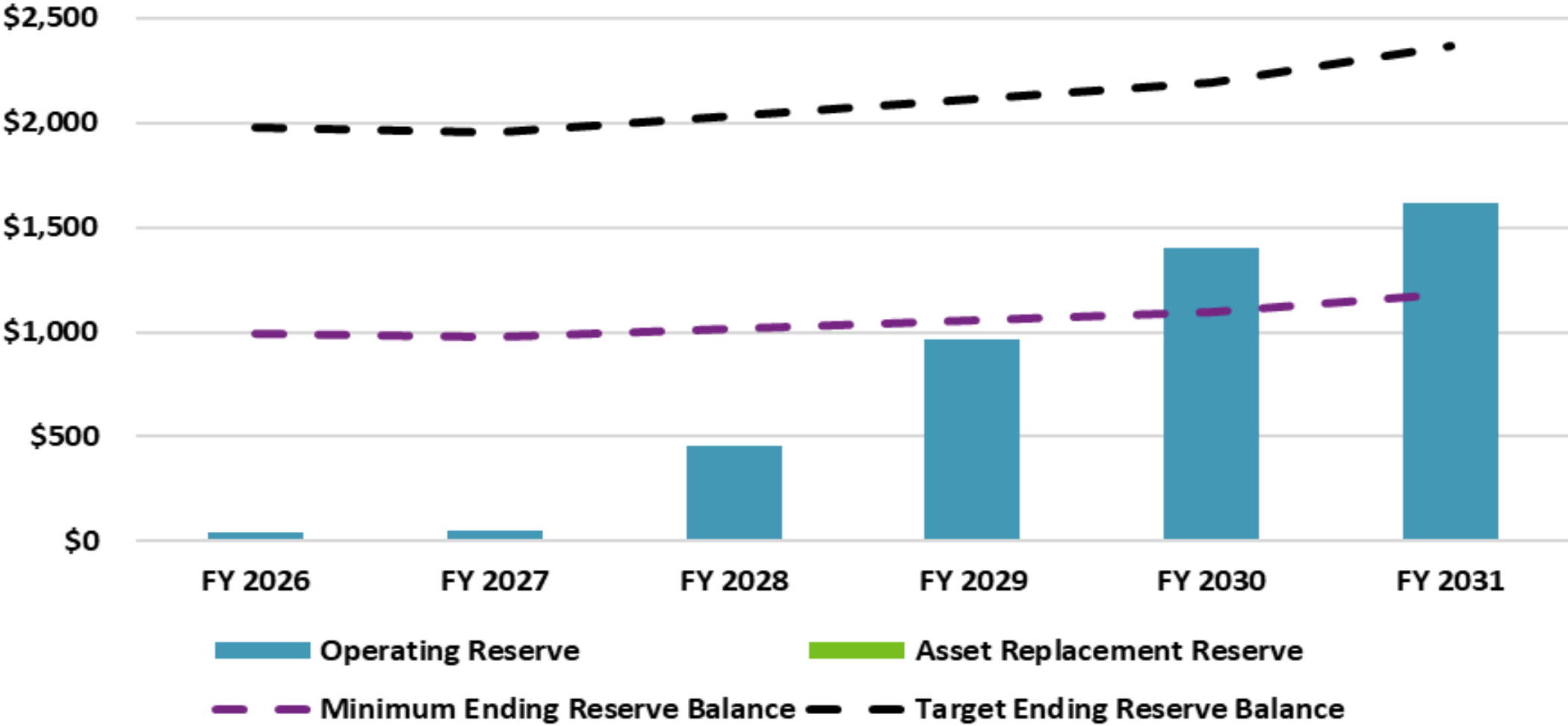
Water Capital Funding Plan (\$000s)



Water Revenue Requirement Summary (\$000s)

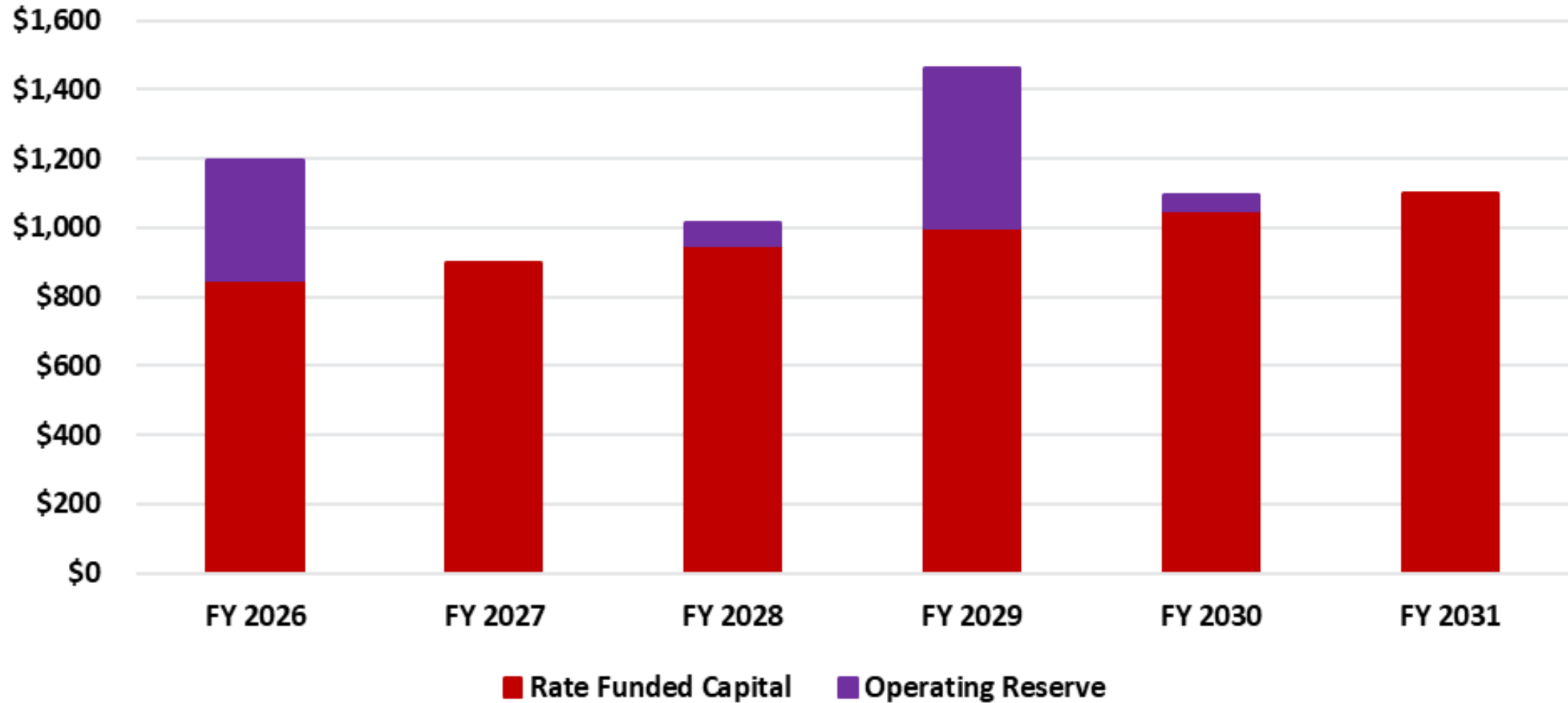


Water Ending Reserves (\$000s)

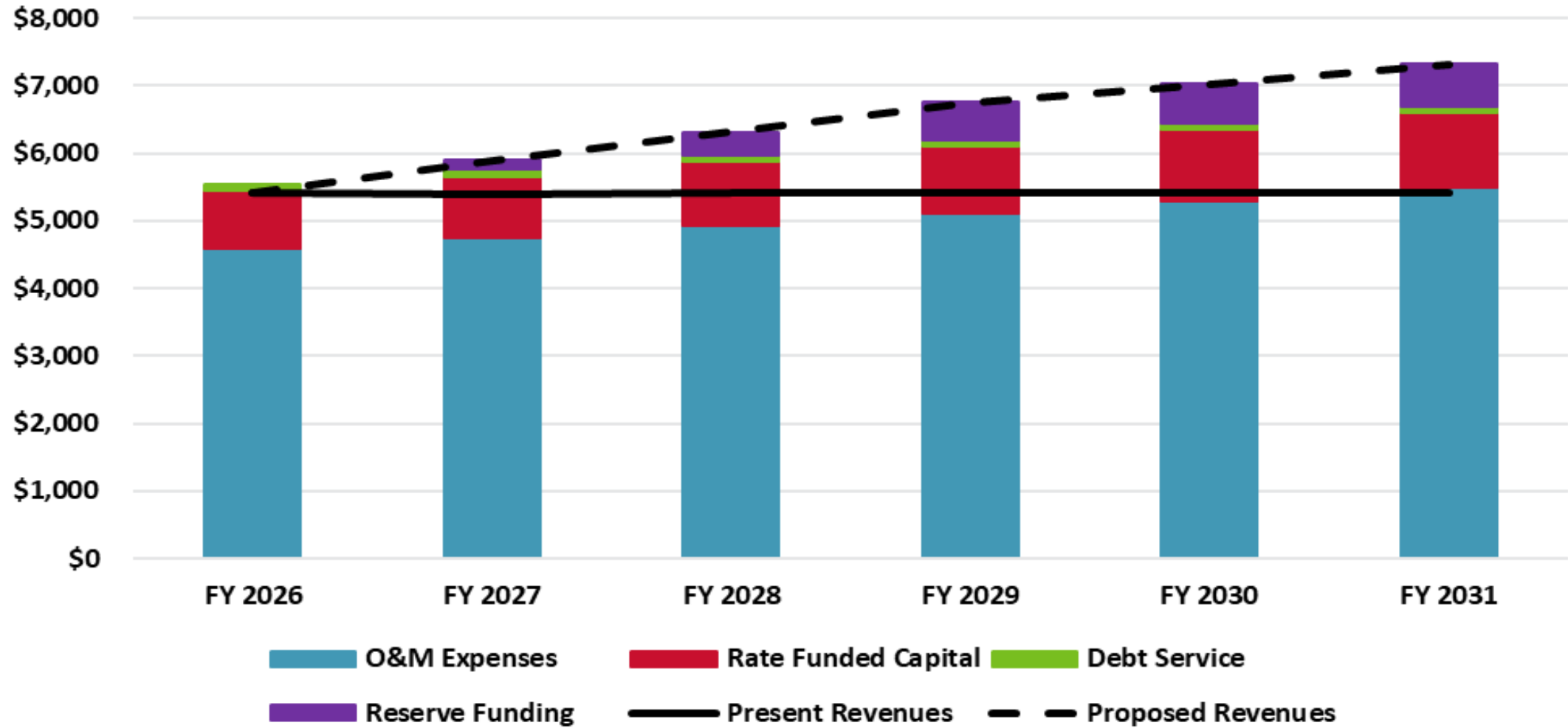


Reserve levels are dependent on proposed annual rate adjustments

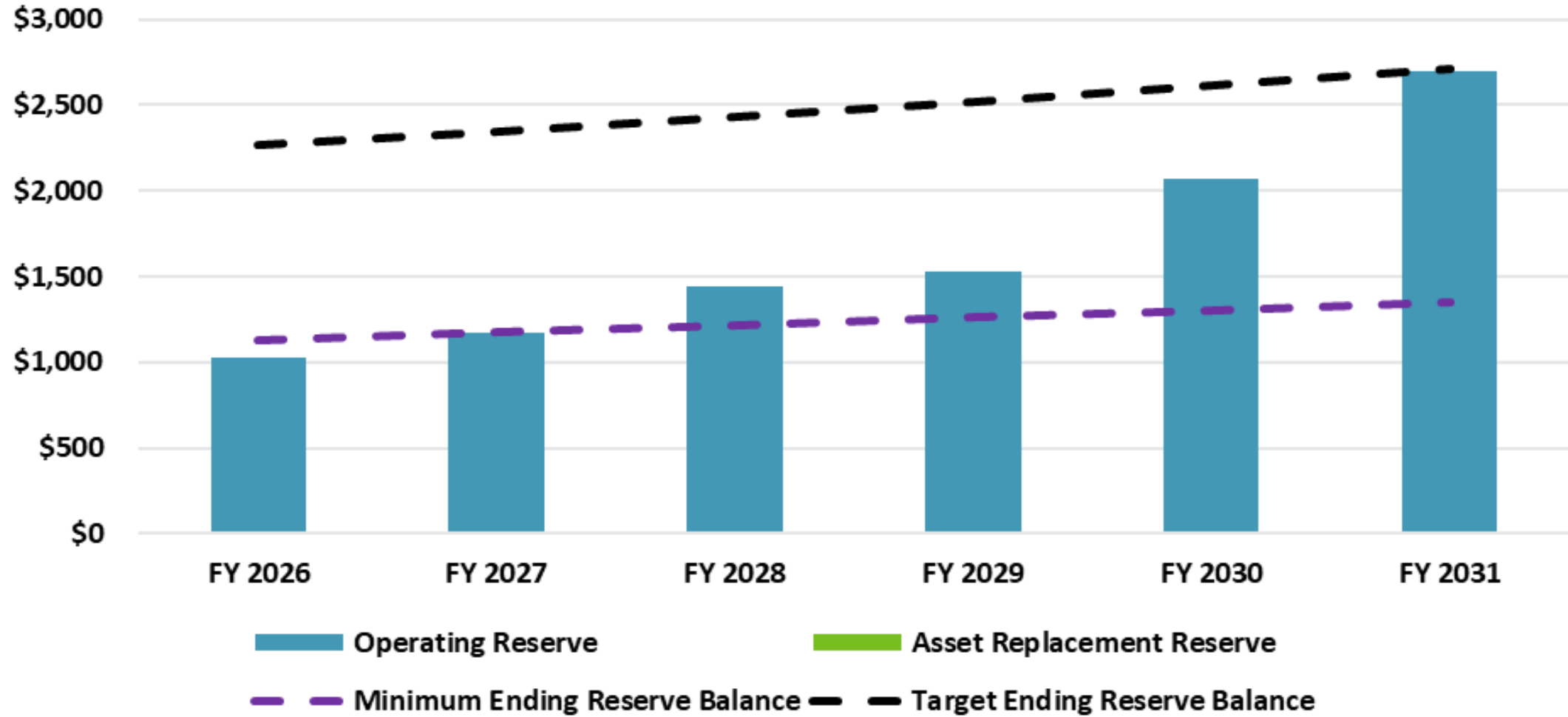
Sewer Capital Funding Plan (\$000s)



Sewer Revenue Requirement Summary (\$000s)

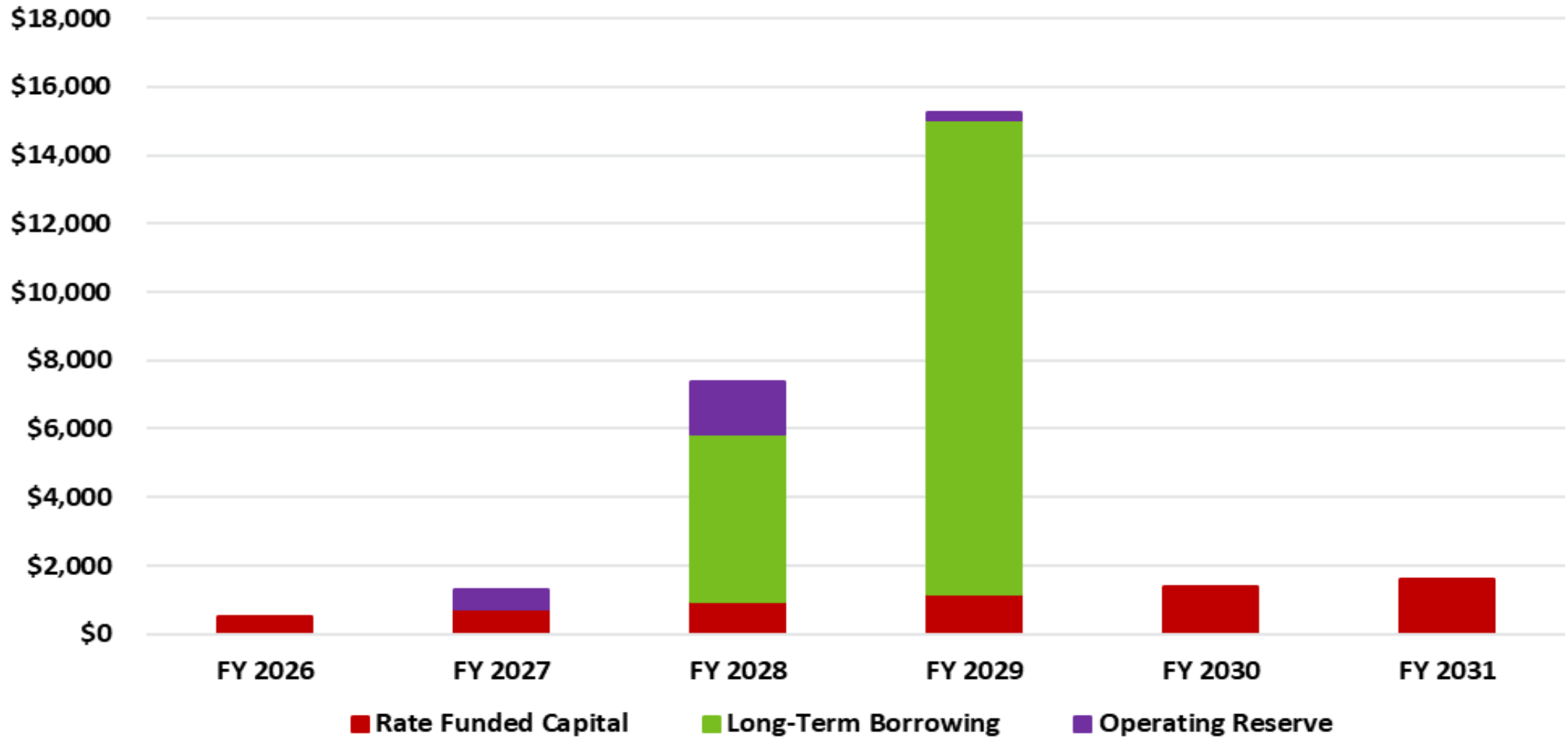


Sewer Ending Reserves (\$000s)

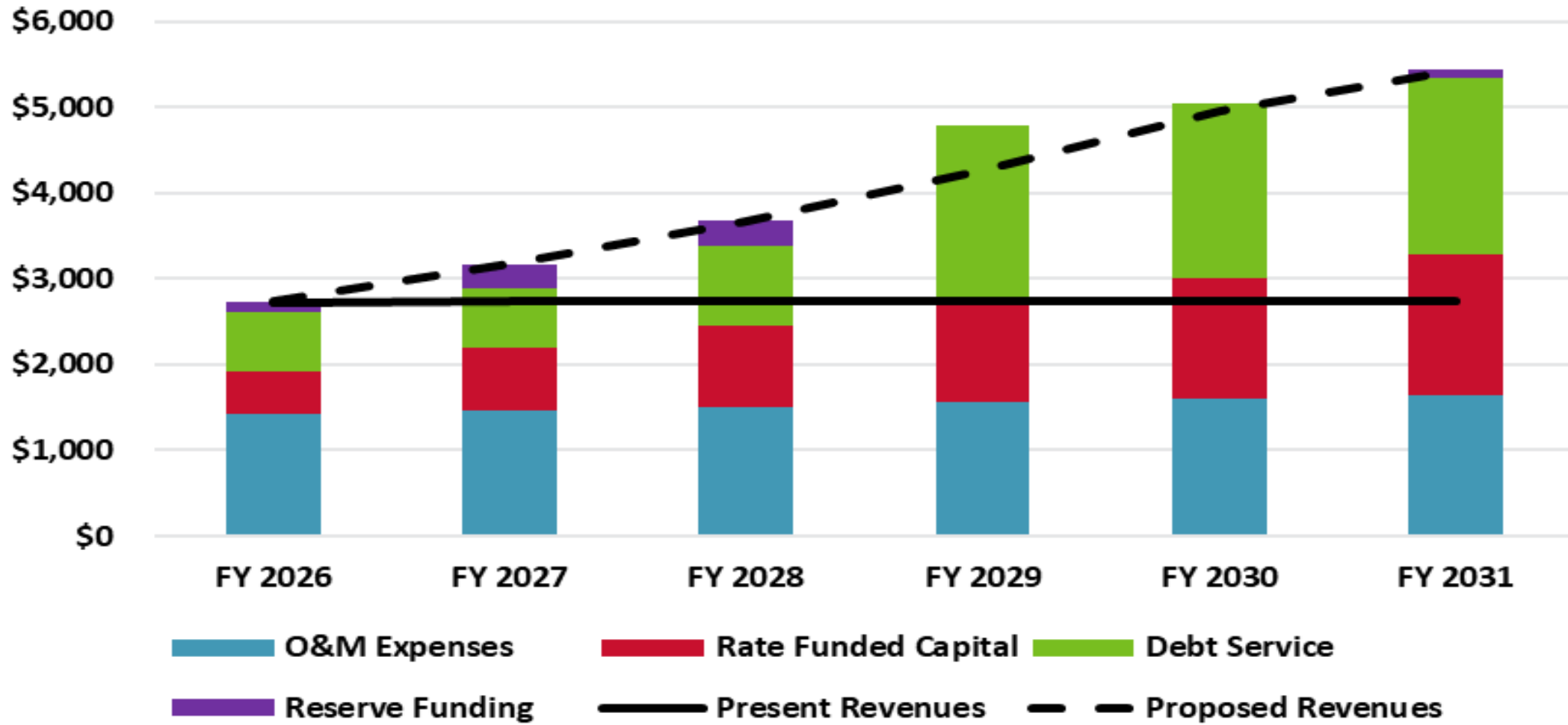


Reserve levels are dependent on proposed annual rate adjustments

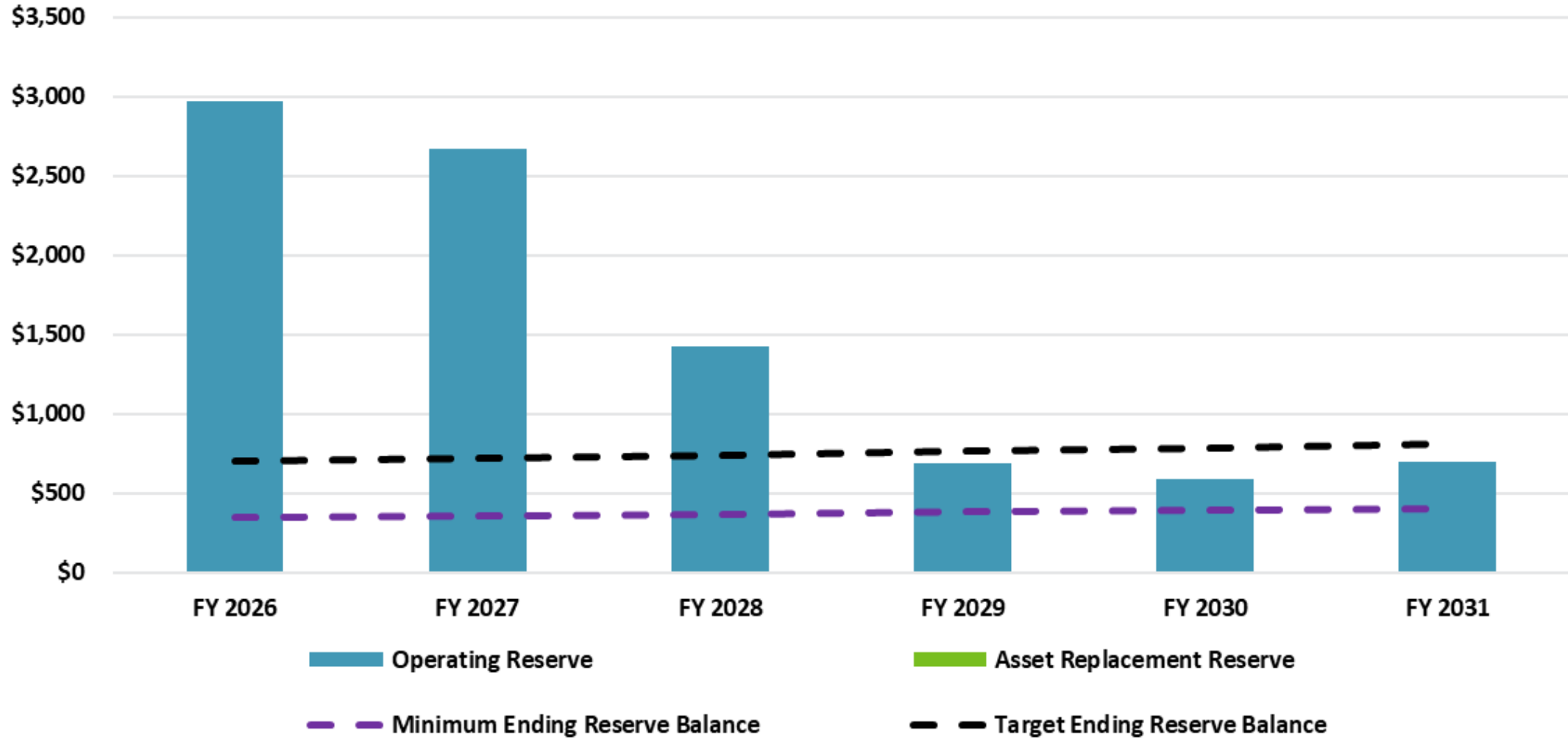
Stormwater Capital Funding Plan (\$000s)



Stormwater Revenue Requirement Summary (\$000s)



Stormwater Ending Reserves (\$000s)



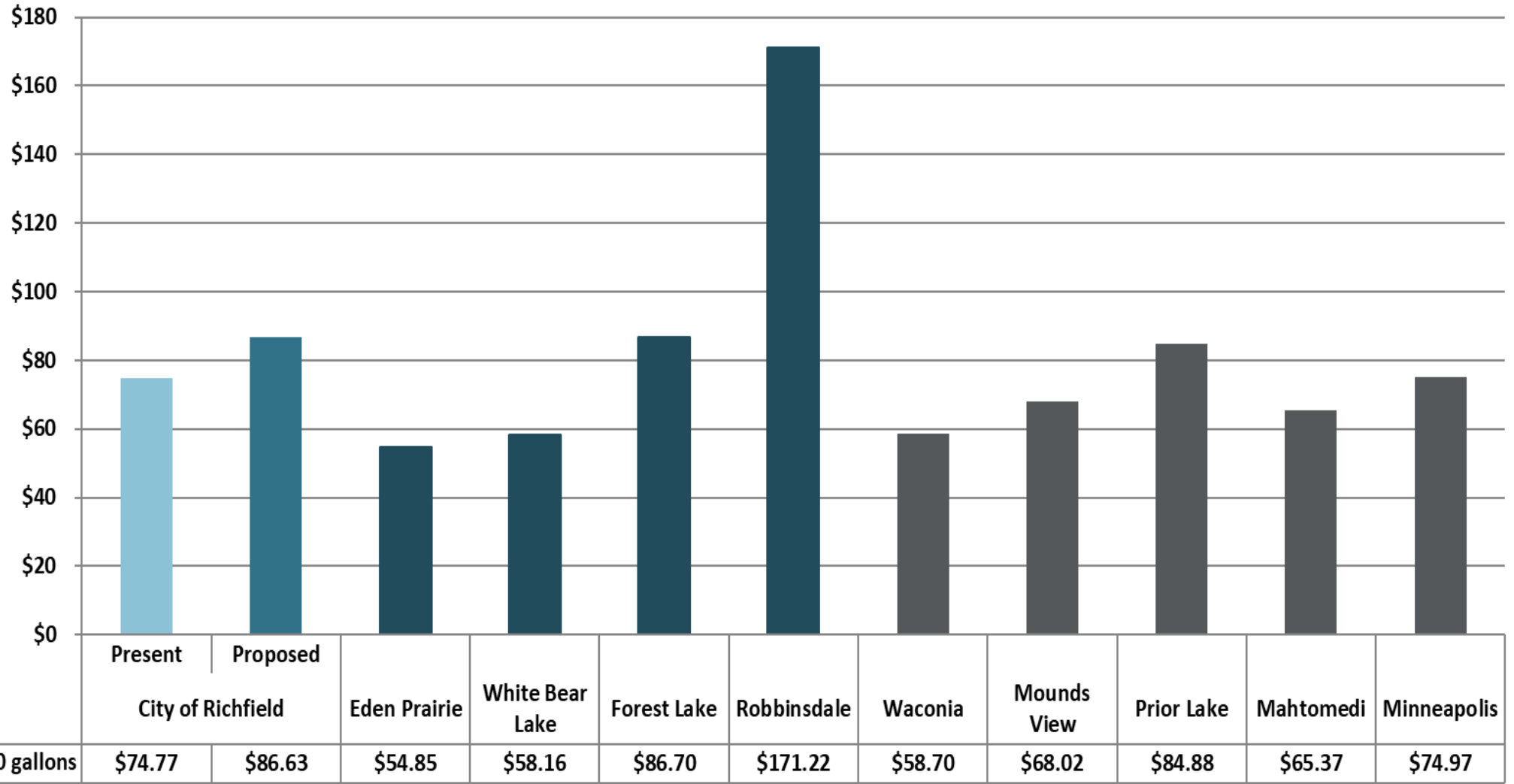
Reserve levels are dependent on proposed annual rate adjustments

Summary of the Revenue Requirement Analyses

- Rate revenue adjustments are necessary to support annual O&M expenses and prudently fund system improvements and replacements
- Current analysis **does not** include funding of future renewal and replacement projects or renewal and replacement reserves
 - Some renewal and replacement projects addressed in City’s current CIP for each utility
- Developed a system rate revenue transition plan for each utility

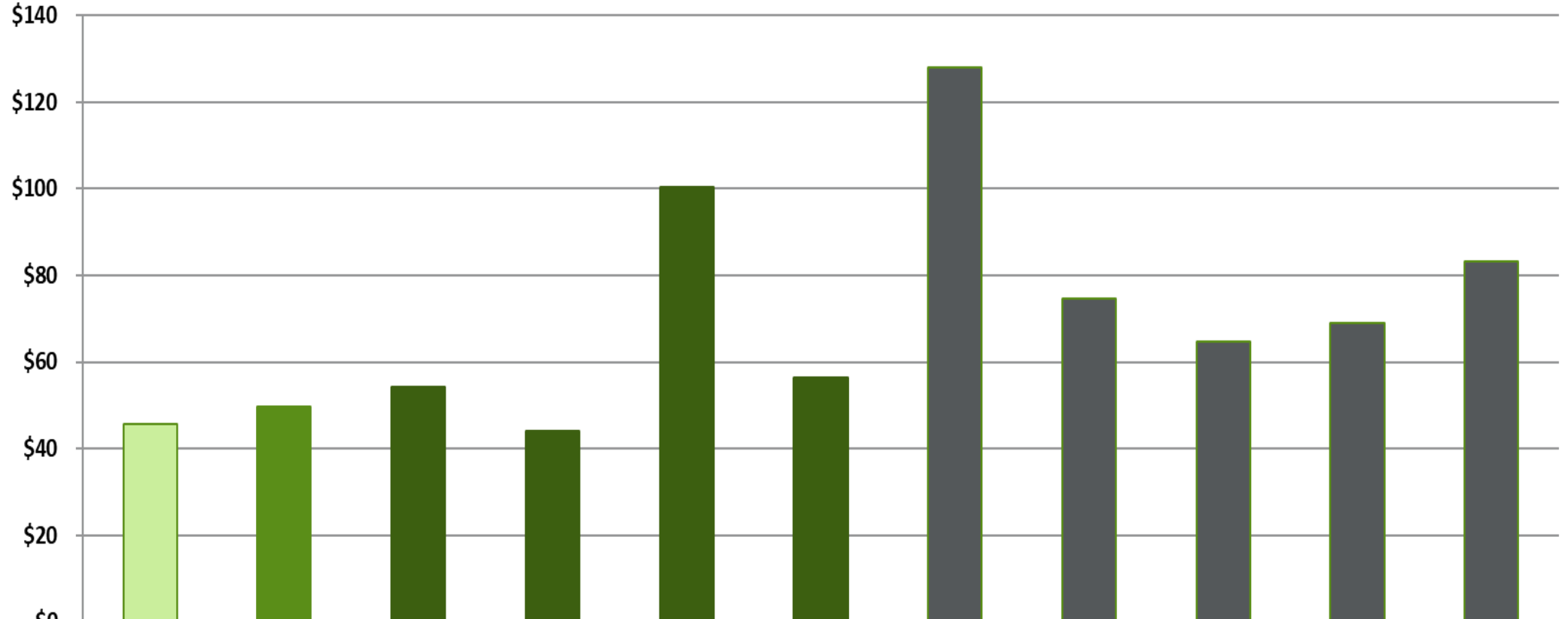
Rate Transition Plans	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Water Rate Adj.	16.5%	15.0%	10.0%	5.0%	5.0%
Water Qtr \$ Change	\$12.34	\$13.07	\$10.02	\$5.51	\$5.79
Sewer Rate Adj.	9.0%	7.0%	7.0%	4.0%	4.0%
Sewer Qtr \$ Change	\$4.11	\$3.49	\$3.73	\$2.28	\$2.37
Stormwater Rate Adj.	17.0%	17.0%	17.0%	17.0%	10.0%
Stormwater Qtr \$ Change	\$4.49	\$5.26	\$6.15	\$7.20	\$4.95

Residential Local Water Rate Comparison (Quarterly Bill)



Assumes 11,000 gallons quarterly of water usage, 3/4" meter and winter rate (when applicable)

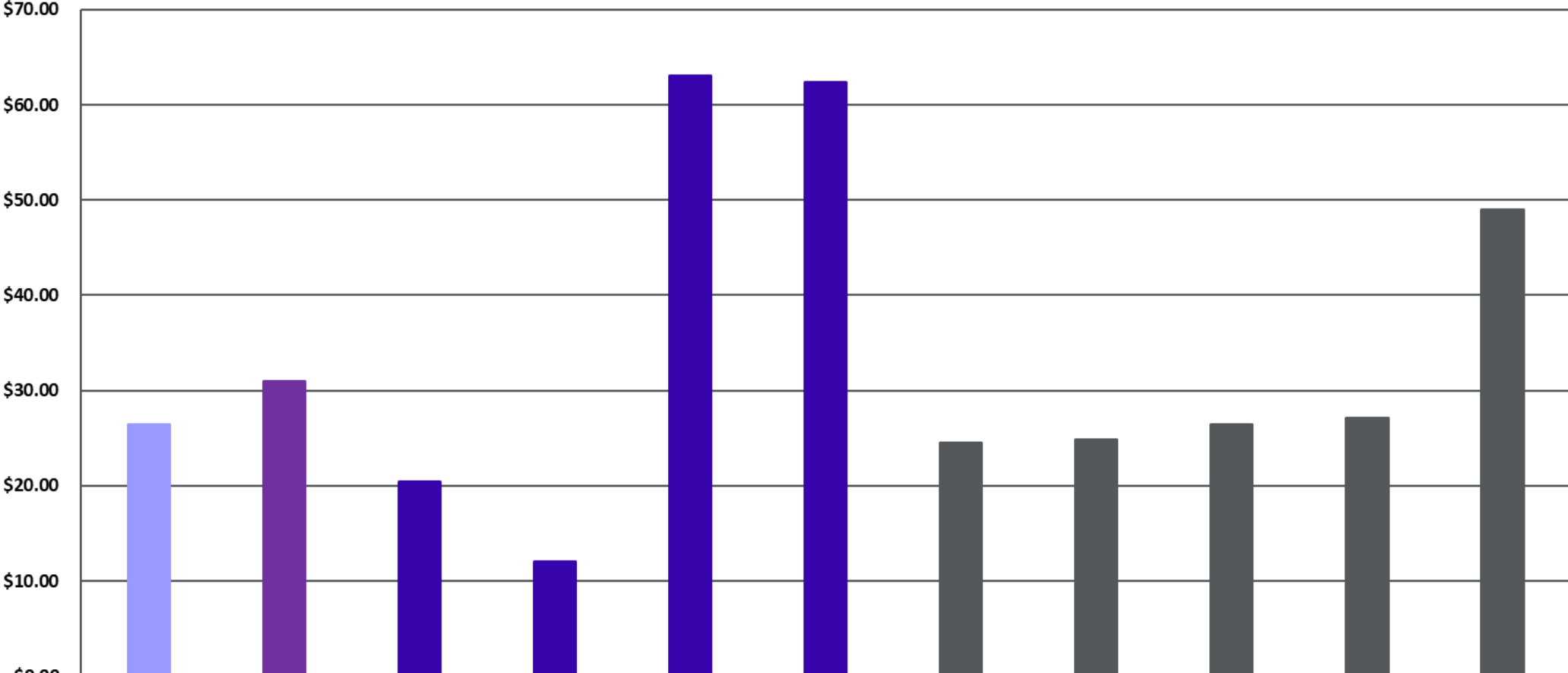
Residential Local Sewer Rate Comparison (Quarterly Bill)



	Present	Proposed	Eden Prairie	White Bear Lake	Forest Lake	Robbinsdale	Minnetrista	Mounds View	Inver Grove Heights	Plymouth	Minneapolis
7,000 gal	\$45.71	\$49.82	\$54.35	\$44.08	\$100.28	\$56.35	\$128.00	\$74.62	\$64.84	\$69.00	\$83.29

Assumes a monthly winter water average of 2,333 gallons and 3/4" meter (when applicable)

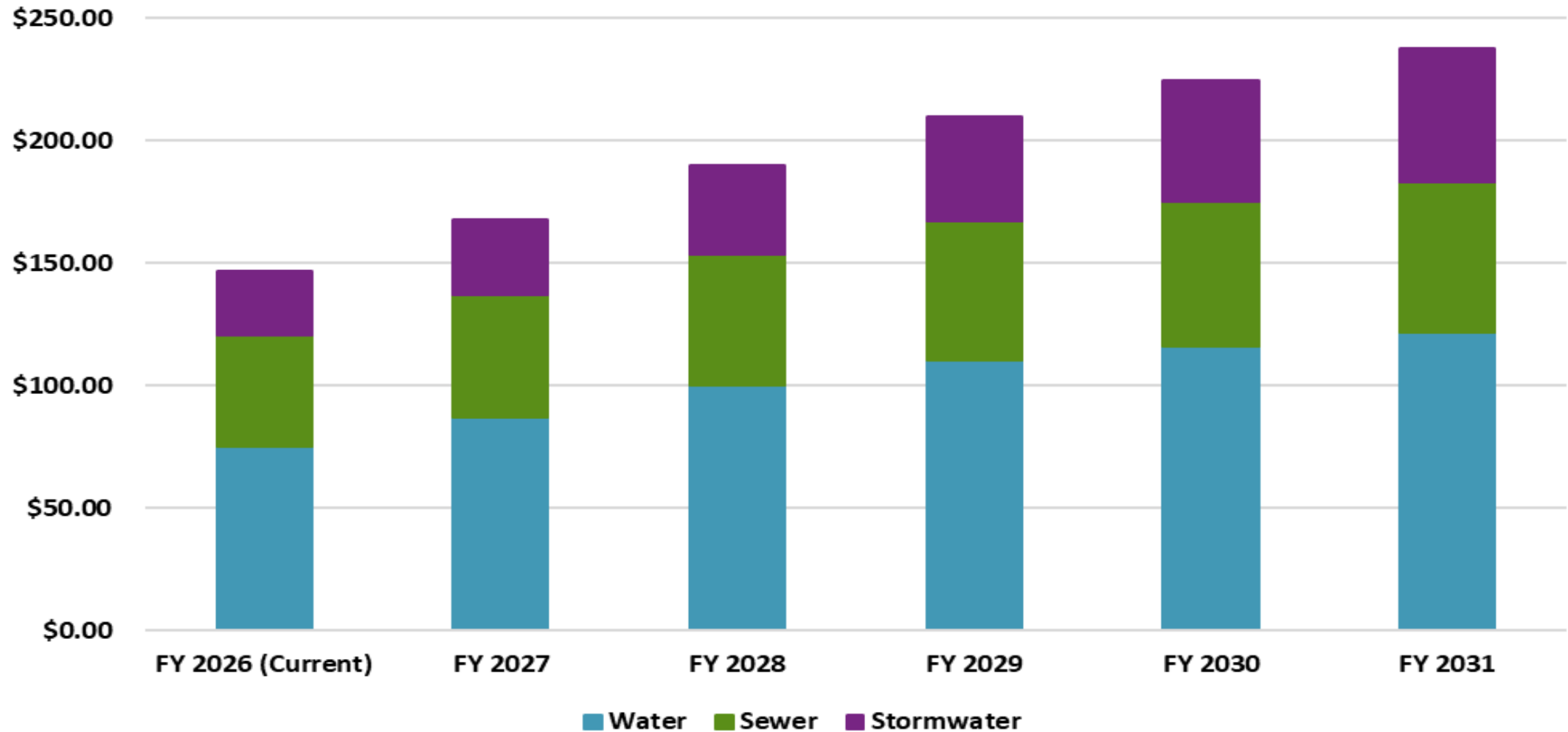
Residential Local Stormwater Rate Comparison (Quarterly Bill)



	Present	Proposed									
	City of Richfield		Eden Prairie	White Bear Lake	Forest Lake	Robbinsdale	Burnsville	New Brighton	Minnetonka	Woodbury	Minneapolis
■ \$/Per REU	\$26.44	\$30.94	\$20.40	\$12.00	\$63.12	\$62.43	\$24.54	\$24.91	\$26.40	\$27.10	\$49.05

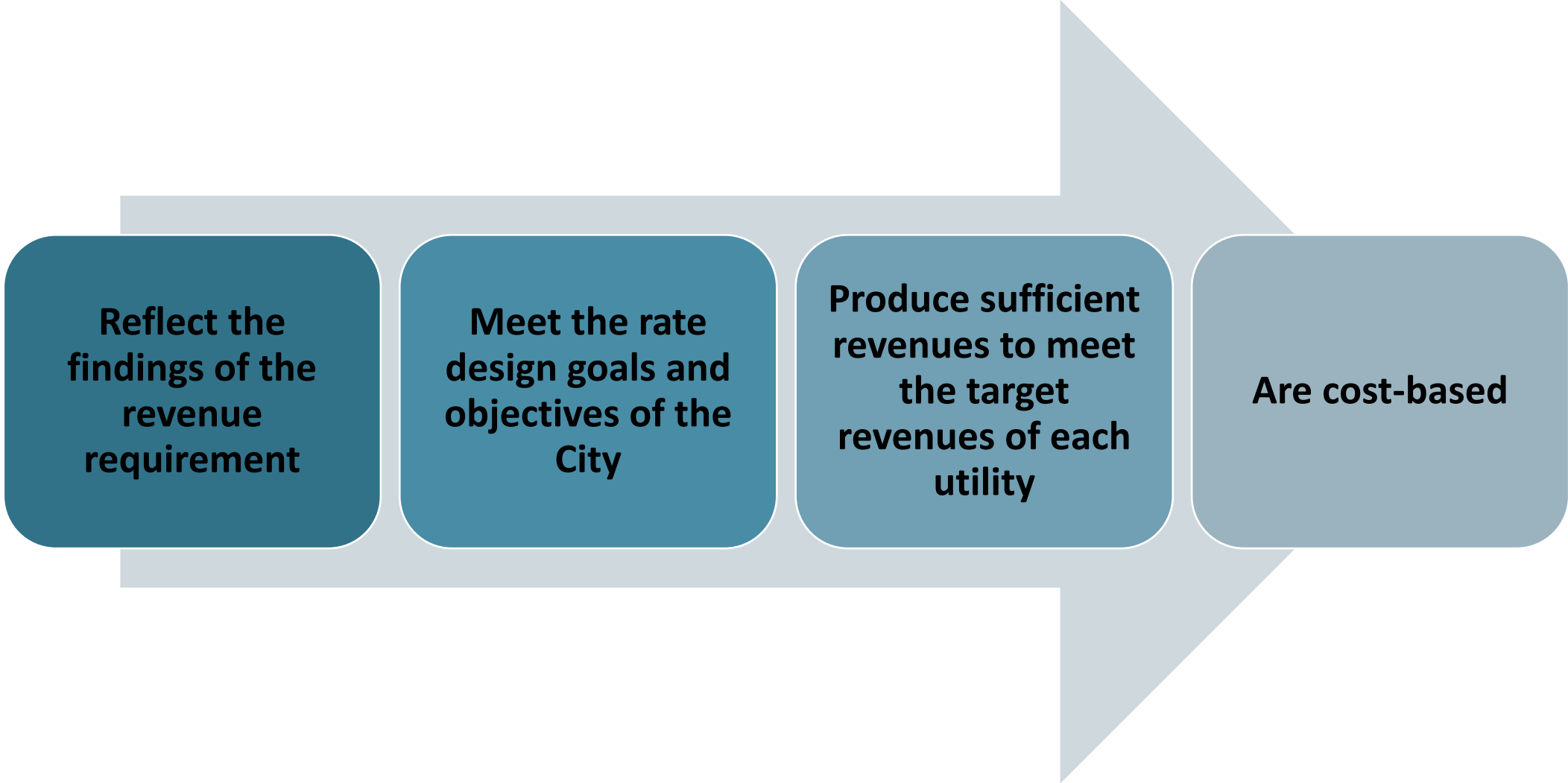
Assumes one residential equivalent factor (REU), equal to one-fifth acre

Average Residential Quarterly Combined Utility Bill

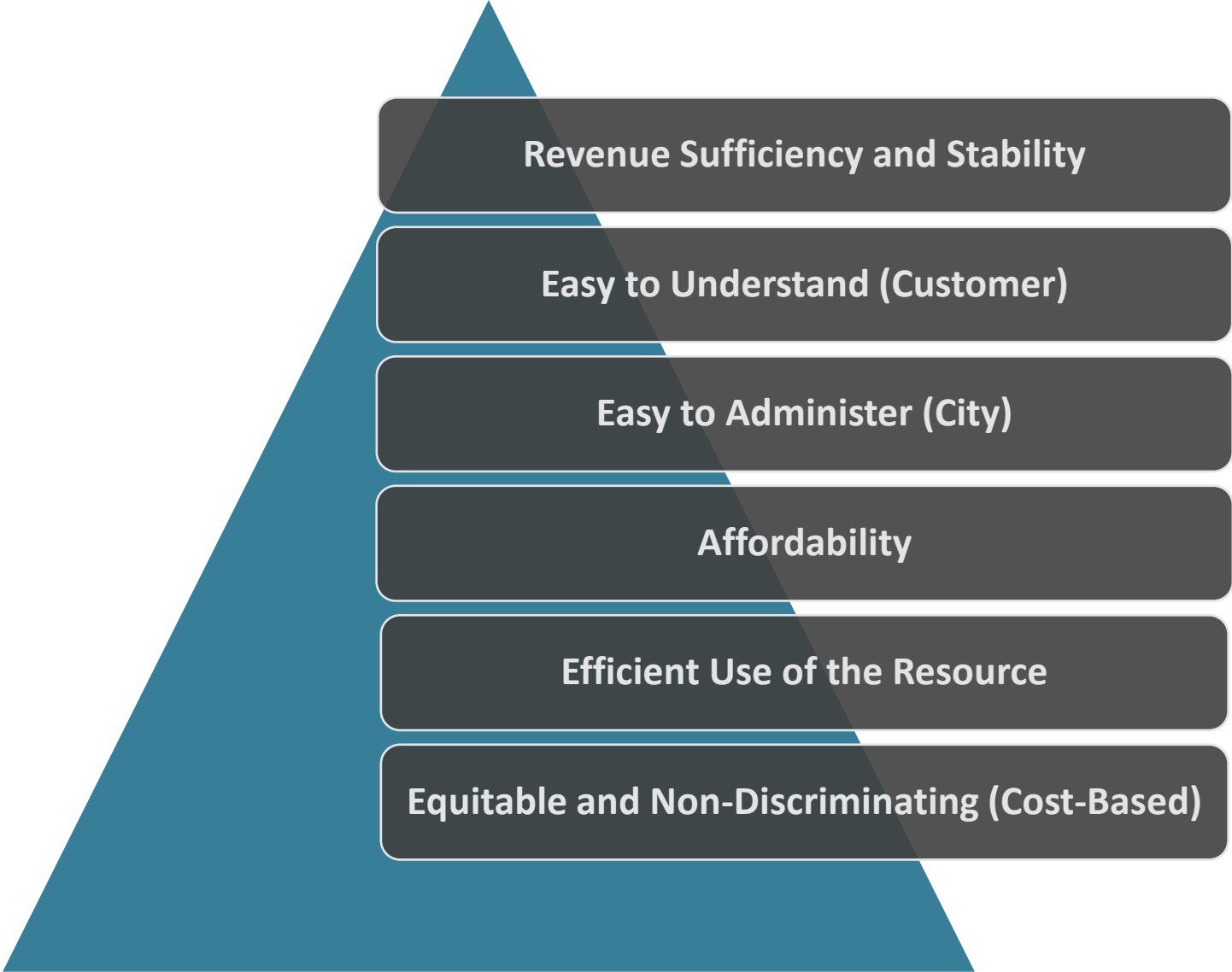


Assumes 11,000 gallons quarterly of water usage, 7,000 gallons quarterly for sewer (minimum bill) and one-fifth acre or 1 REF for stormwater

Rate Design Analysis Overview



Common Rate Setting Goals and Objectives



Present Rate Schedules

Water Rates	
Administrative Charge (\$/Qtr)	\$10.00
Consumption Charge (\$/1,000 gal)	
Minnesota State Testing Fee (Annual)	\$15.22
Residential	
0 – 15,000	\$5.54
15,001 – 25,000	6.66
25,001+	8.00
Residential Irrigation	
All Consumption	\$8.00
Apartment (Multi-Family)	
All Consumption	\$5.54
Commercial	
All Consumption	\$5.54
Commercial Irrigation	
All Consumption	\$8.00

Sewer Rates	
Minimum Charge (\$/Qtr)	\$45.71
Sewer Usage (\$/1,000 gal)	
0 – 7,000	\$0.00
7,001+	6.53

Stormwater Rate	
Stormwater Rate (\$/REF/Qtr)	\$26.44

Rate Design Alternatives

Water

- **Status Quo** – adjusts all water rates by system rate adjustments, updates administrative charge to base charge
- **Alternative 1** – addition of water debt service charge

Sewer

- **Status Quo** – adjusts all sewer rates by system rate adjustments, no rate structure changes
- **Alternative 1** – addition of sewer debt service charge
- **Alternative 2** – addition of sewer debt service charge and updates sewer minimum charge usage from 7,000 gallons quarterly to 5,000 gallons quarterly

Stormwater

- **Status Quo** – adjusts all stormwater rates by system rate adjustments, no rate structure changes
- **Alternative 1** – addition of stormwater debt service charge

Debt Service Charge

Water	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Total Annual Debt Service	\$1,568,548	\$1,274,075	\$1,457,284	\$1,463,059	\$1,458,346
Percentage of Debt	25%	60%	65%	85%	100%
Debt Service Charge	\$9.07	\$17.69	\$21.92	\$28.78	\$33.75

Sewer	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Total Annual Debt Service	\$96,627	\$95,571	\$94,208	\$98,562	\$97,285
Percentage of Debt	100%	100%	100%	100%	100%
Debt Service Charge	\$2.24	\$2.22	\$2.19	\$2.29	\$2.26

Stormwater	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Total Annual Debt Service	\$703,860	\$933,332	\$2,050,292	\$2,049,415	\$2,055,535
Percentage of Debt	100%	100%	75%	100%	100%
Debt Service Charge	\$7.32	\$9.71	\$16.00	\$21.33	\$21.39

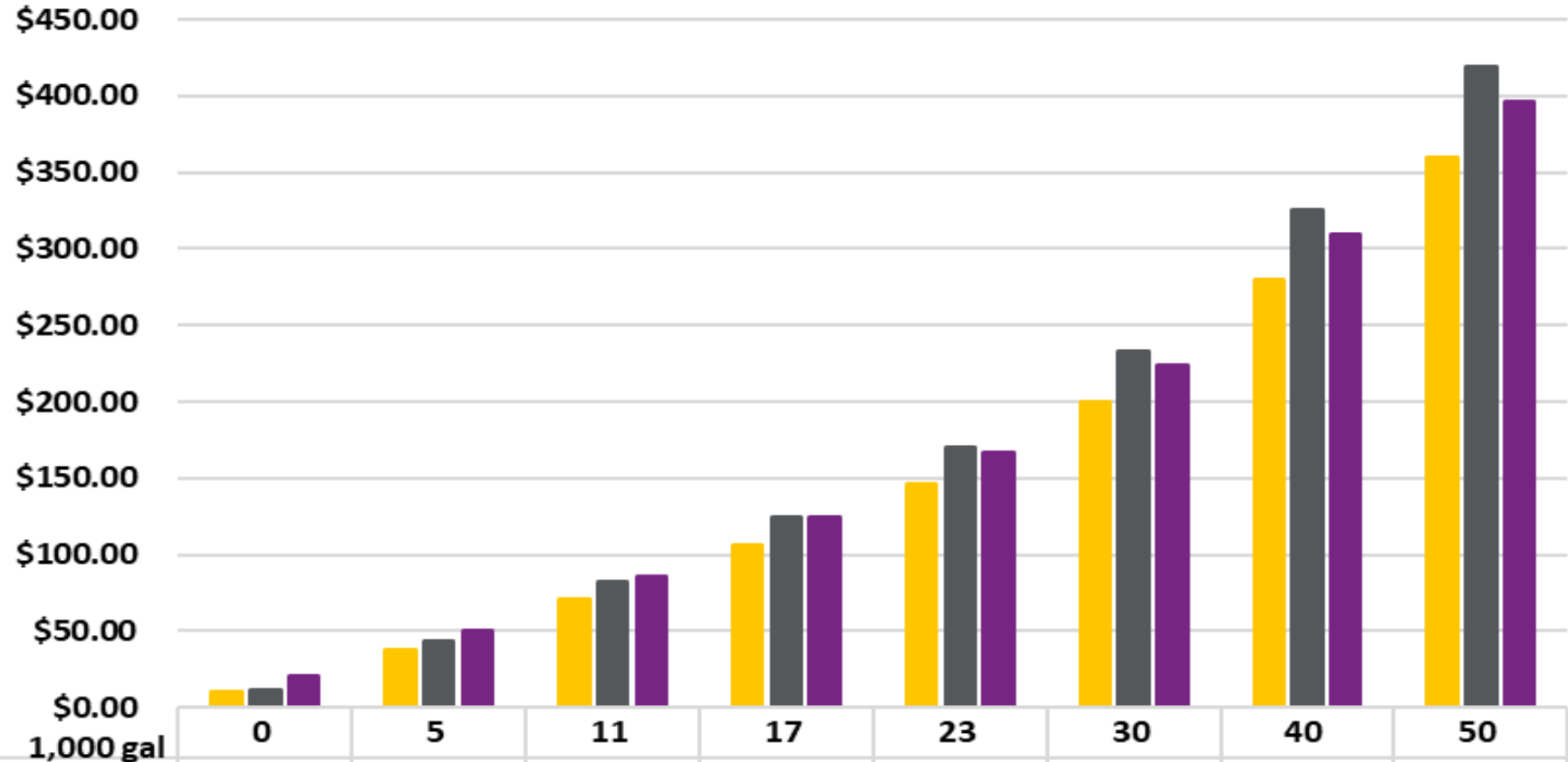
Proposed Water Rate Designs – Status Quo

Status Quo	Present Rates	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Administrative Charge (\$ / Qtr)						
Administrative Charge	\$10.00	N/A	N/A	N/A	N/A	N/A
Base Charge (\$ / Qtr)						
Base Charge	N/A	\$11.65	\$13.40	\$14.74	\$15.48	\$16.25
Residential Consumption Charge (\$ / 1,000 gal)						
0 – 15,000	\$5.54	\$6.47	\$7.44	\$8.18	\$8.59	\$9.02
15,001 – 25,000	6.66	7.75	8.91	9.80	10.29	10.80
25,001+	8.00	9.32	10.72	11.79	12.38	13.00
Residential Irrigation Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$8.00	\$9.32	\$10.72	\$11.79	\$12.38	\$13.00
Apartment (Multi-Family) Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$5.54	\$6.47	\$7.44	\$8.18	\$8.59	\$9.02
Commercial Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$5.54	\$6.47	\$7.44	\$8.18	\$8.59	\$9.02
Commercial Irrigation Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$8.00	\$9.32	\$10.72	\$11.79	\$12.38	\$13.00

Proposed Water Rate Designs – Alternative

Alternative	Present Rates	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Administrative Charge (\$ / Qtr)						
Administrative Charge	\$10.00	N/A	N/A	N/A	N/A	N/A
Base Charge (\$ / Qtr)						
Base Charge	N/A	\$12.00	\$12.35	\$12.70	\$13.10	\$13.50
Debt Service Charge (\$ / Qtr)						
Debt Service Charge	N/A	\$9.07	\$17.69	\$21.92	\$28.78	\$33.75
Residential Consumption Charge (\$ / 1,000 gal)						
0 – 15,000	\$5.54	\$5.94	\$6.36	\$6.92	\$7.00	\$7.19
15,001 – 25,000	6.66	7.13	7.95	8.65	8.75	8.99
25,001+	8.00	8.58	11.13	12.11	12.25	12.58
Residential Irrigation Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$8.00	\$8.58	\$11.13	\$12.11	\$12.25	\$12.58
Apartment (Multi-Family) Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$5.54	\$5.94	\$6.36	\$6.92	\$7.00	\$7.19
Commercial Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$5.54	\$5.94	\$6.36	\$6.92	\$7.00	\$7.19
Commercial Irrigation Consumption Charge (\$ / 1,000 gal)						
All Consumption	\$8.00	\$8.58	\$11.13	\$12.11	\$12.25	\$12.58

Residential Water Rate Design Quarterly Bill Impacts



	0	5	11	17	23	30	40	50
Present Rates	\$10.00	\$37.71	\$70.97	\$106.45	\$146.38	\$199.71	\$279.75	\$359.78
Proposed Rates Status Quo	\$11.65	\$44.00	\$82.82	\$124.20	\$170.70	\$232.80	\$326.00	\$419.20
Proposed Rates Alternative	\$21.07	\$50.77	\$86.41	\$124.44	\$167.24	\$224.39	\$310.16	\$395.94

Proposed Sewer Rate Designs – Status Quo/Alternative 1

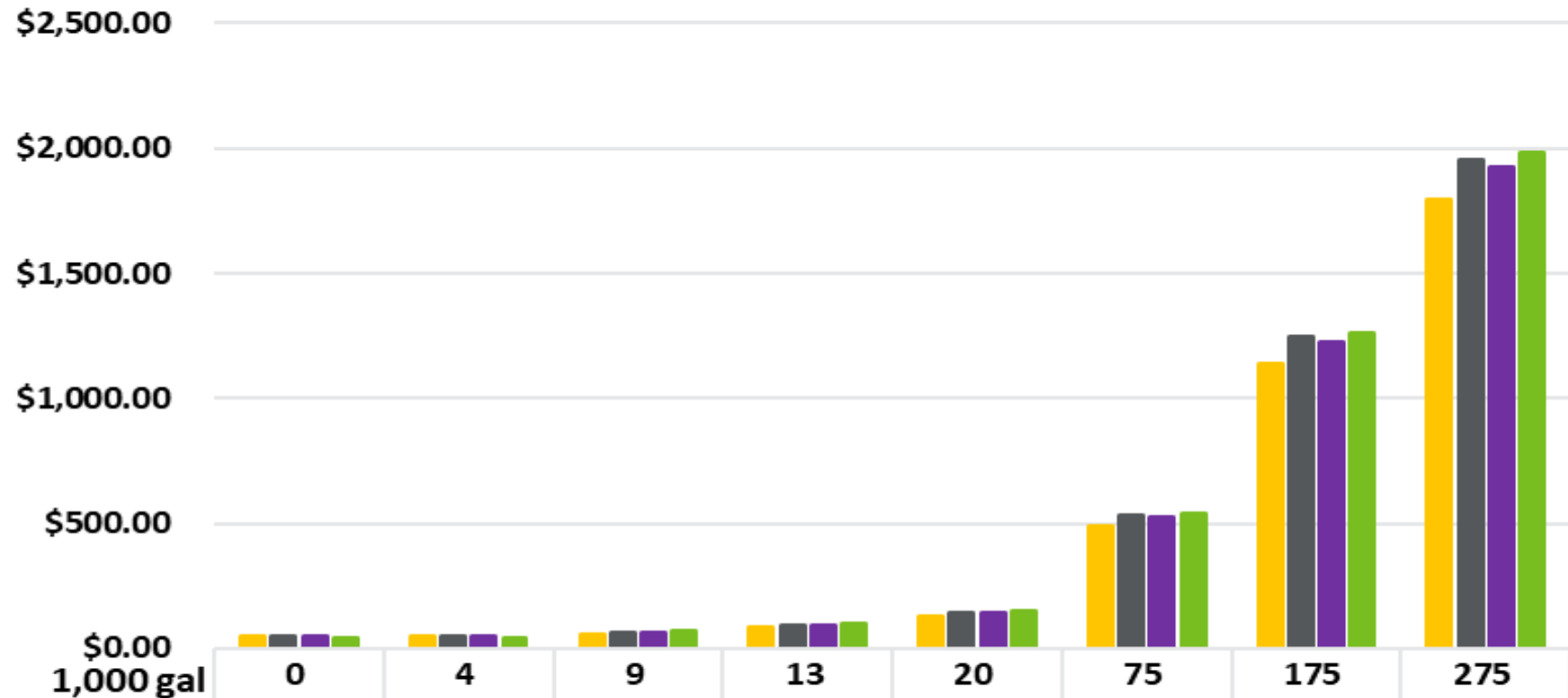
Status Quo	Present Rates	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Minimum Charge (\$ / Qtr)						
Minimum Charge	\$45.71	\$49.82	\$53.31	\$57.04	\$59.32	\$61.69
Sewer Usage (\$ / 1,000 gal)						
0 – 7,000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
7,001+	6.53	7.12	7.62	8.15	8.48	8.82

Alternative 1	Present Rates	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Minimum Charge (\$ / Qtr)						
Minimum Charge	\$45.71	\$49.00	\$52.43	\$56.10	\$58.34	\$60.67
Debt Service Charge (\$ / Qtr)						
Debt Service Charge	N/A	\$2.24	\$2.22	\$2.19	\$2.29	\$2.26
Sewer Usage (\$ / 1,000 gal)						
0 – 7,000	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
7,001+	6.53	7.00	7.65	8.12	8.45	8.80

Proposed Sewer Rate Designs – Alternative 2

Alternative 2	Present Rates	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Minimum Charge (\$ / Qtr)						
Minimum Charge	\$45.71	\$36.05	\$38.57	\$41.27	\$42.92	\$44.64
Debt Service Charge (\$ / Qtr)						
Debt Service Charge	N/A	\$2.24	\$2.22	\$2.19	\$2.29	\$2.26
Sewer Usage (\$ / 1,000 gal)						
0 – 7,000	\$0.00	N/A	N/A	N/A	N/A	N/A
7,001+	6.53	N/A	N/A	N/A	N/A	N/A
0 – 5,000	N/A	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
5,001+	N/A	7.21	7.88	8.36	8.70	9.05

Residential Sewer Rate Design Quarterly Bill Impacts



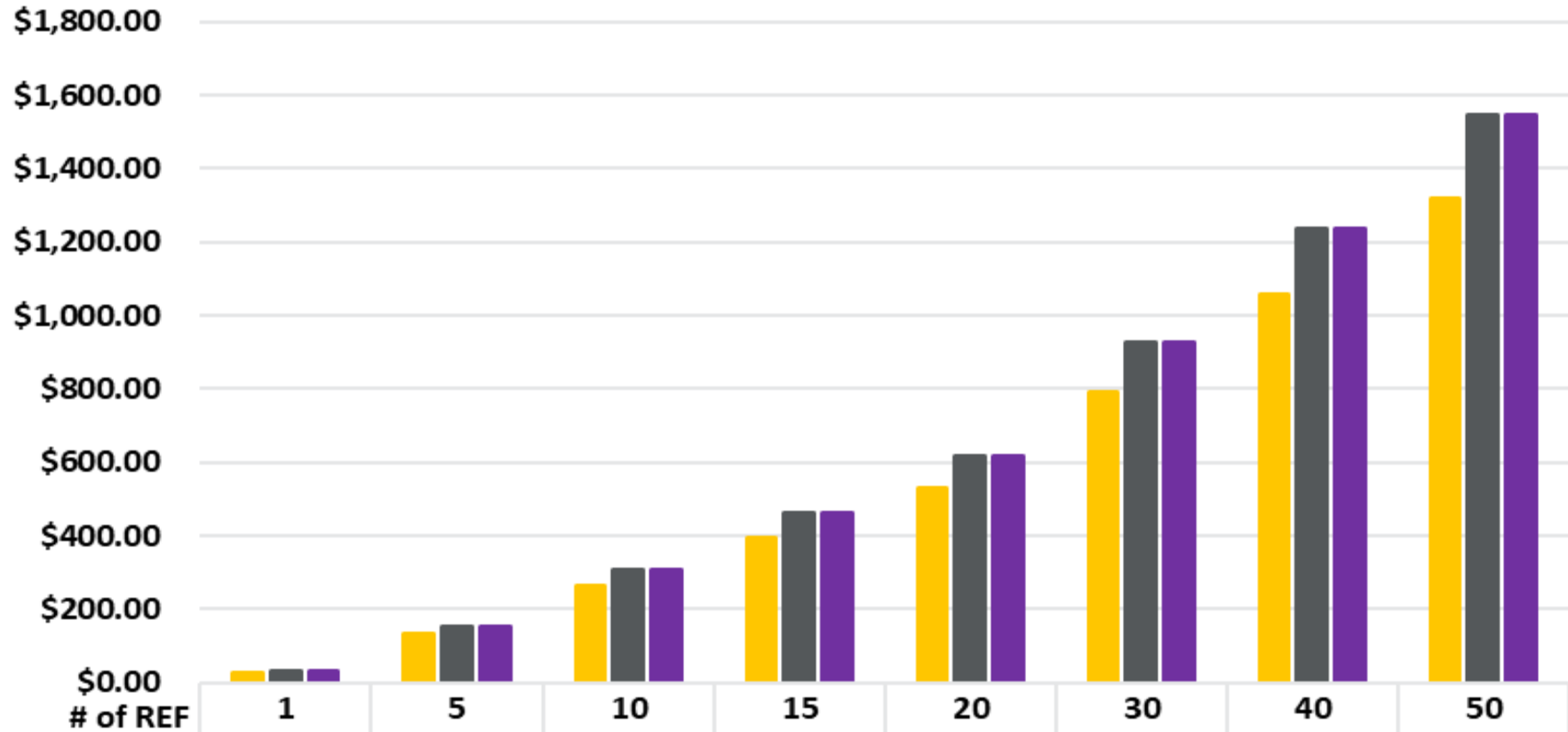
	0	4	9	13	20	75	175	275
Present Rates	\$45.71	\$45.71	\$58.77	\$84.88	\$130.57	\$489.61	\$1,142.41	\$1,795.21
Proposed Rates Status Quo	\$49.82	\$49.82	\$64.06	\$92.54	\$142.38	\$533.98	\$1,245.98	\$1,957.98
Proposed Rates Alternative 1	\$51.24	\$51.24	\$65.24	\$93.24	\$142.24	\$527.24	\$1,227.24	\$1,927.24
Proposed Rates Alternative 2	\$38.29	\$38.29	\$67.13	\$95.97	\$146.44	\$542.99	\$1,263.99	\$1,984.99

Proposed Stormwater Rate Designs

Status Quo	Present Rates	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Stormwater Service Charge (\$ / REF /Qtr)						
Rate Per Equivalent Unit	\$26.44	\$30.94	\$36.20	\$42.35	\$49.55	\$54.51

Alternative 1	Present Rates	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031
Stormwater Service Charge (\$ / REF /Qtr)						
Rate Per Equivalent Unit	\$26.44	\$23.60	\$26.11	\$26.27	\$28.55	\$33.47
Debt Service Charge (\$ / Qtr)						
Debt Service Charge	N/A	\$7.32	\$9.71	\$16.00	\$21.33	\$21.39

Stormwater Rate Design Quarterly Bill Impacts



	# of REF	1	5	10	15	20	30	40	50
■ Present Rates		\$26.44	\$132.20	\$264.40	\$396.60	\$528.80	\$793.20	\$1,057.60	\$1,322.00
■ Proposed Rates Status Quo		\$30.94	\$154.70	\$309.40	\$464.10	\$618.80	\$928.20	\$1,237.60	\$1,547.00
■ Proposed Rates Alternative		\$30.92	\$154.62	\$309.24	\$463.86	\$618.48	\$927.73	\$1,236.97	\$1,546.21

Summary of the Study

- Proposed rate adjustments reflect the prudent funding of operating and capital expenses
 - Begins a rate transition to adequately fund ongoing and upcoming renewal and replacement needs
 - Does not establish a renewal and replacement reserve
- Proposed rate alternatives provide revenue based on study assumptions
 - Status quo maintains current rate structure
 - Alternatives provide method to identify specific ongoing costs (i.e., debt)
- Analysis reflects industry standard methodologies and policies and the City's specific and unique system and customer characteristics

Summary

- Council feedback and input
 - Financial policies
 - Renewal and replacement policies and approach
 - Overall rate transition plans to maintain system integrity

Next Steps

- Finalize analysis based on Council feedback and input
- Develop written documentation
- Present final study recommendations

Discussion

