City of Northfield

Utility Rate Analysis and Recommendations

Matt Stark

September 16, 2025

Overview

- Determining appropriate revenue targets
- Analysis of utility funds
- Recommended rate adjustments
- Impacts on customer bills

Determination of appropriate revenue targets

Determination of revenue targets

Enterprise funds are expected to generate enough revenue to be self-sustaining. Revenues should cover everything needed to keep enterprise running indefinitely.

Operating expenses	• Day-to-day operations & maintenance costs • Includes payroll costs, supplies & materials, contracted services, etc. • Generally stable year over year, unless significant changes are made to the operation
Capital outlay	• New facilities and infrastructure projects • Major repair and replacement projects • Usually one-time projects with big price tags
Debt service	• Past projects which were financed with long-term debt • Includes annual debt service payments for principal and interest • Often includes minimum revenue limits (e.g. revenues over 105% of debt service)
Cash reserves	• Cashflow and contingency funding • Helps cushion against unplanned repairs or disruptions to service • Minimum 3-6 months of operating expenses plus debt service

Determining rate adjustments

- Looking backward:
  - Have recent years shown positive revenue and fund balance?
  - Do past decisions have impacts we need to address?

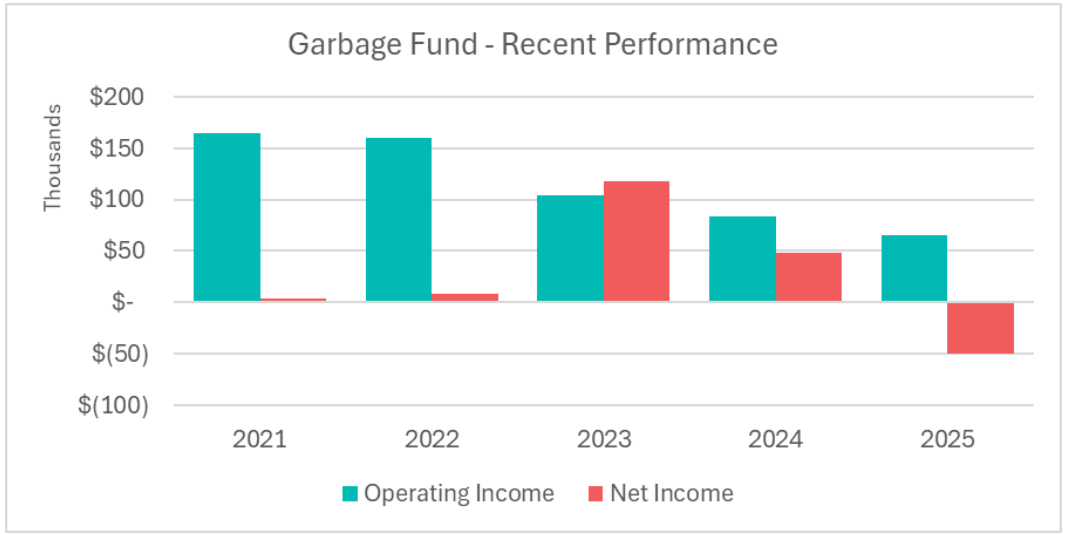
- Looking forward:
  - How are expenses likely to change?
  - What big-ticket capital projects need to be funded?

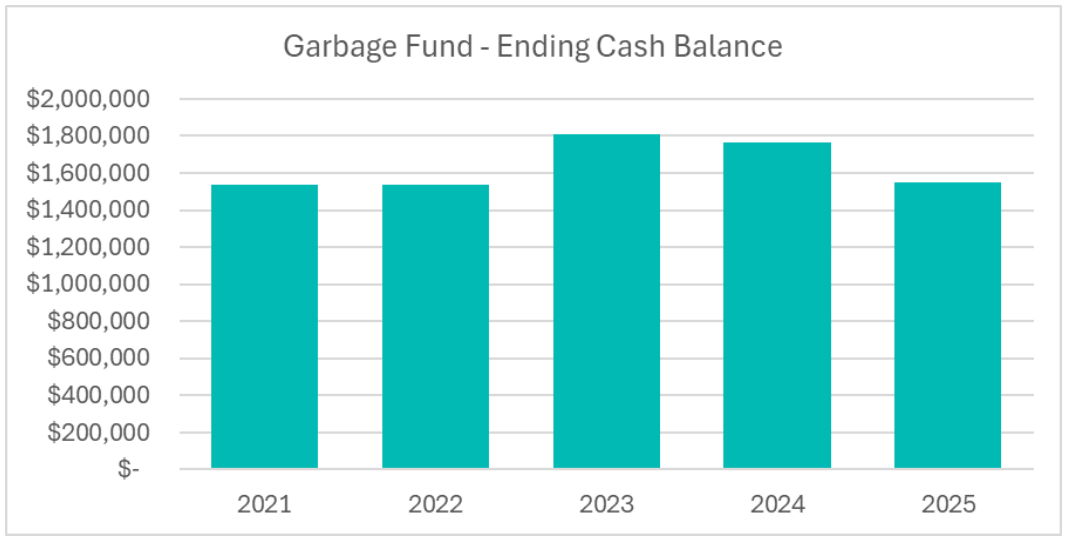
Determining rate adjustments

- Review all four balancing factors:
  - Income, capital outlay, debt service and fund reserves
- Find rates to provide enough revenue to satisfy all four factors
- Work with planners on timing for big-ticket capital projects
  - Often, an extra year or two to generate revenue can greatly minimize need for big rate increases
- Use fund balance to help cushion large outlays, but always with an eye toward replenishment
- Try to minimize abrupt swings in user rates

Analysis of utility funds

Garbage Fund - historical





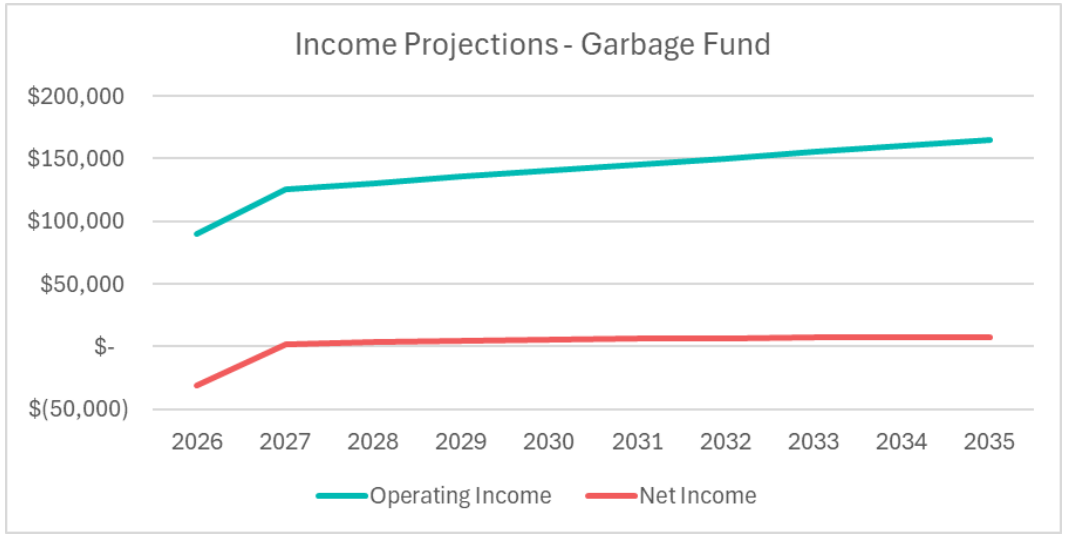
- Operating income declining
- Net income negative in 2025 due to lack of investment income
- Adjustments needed to address declines
- Cash balance maintaining at healthy levels

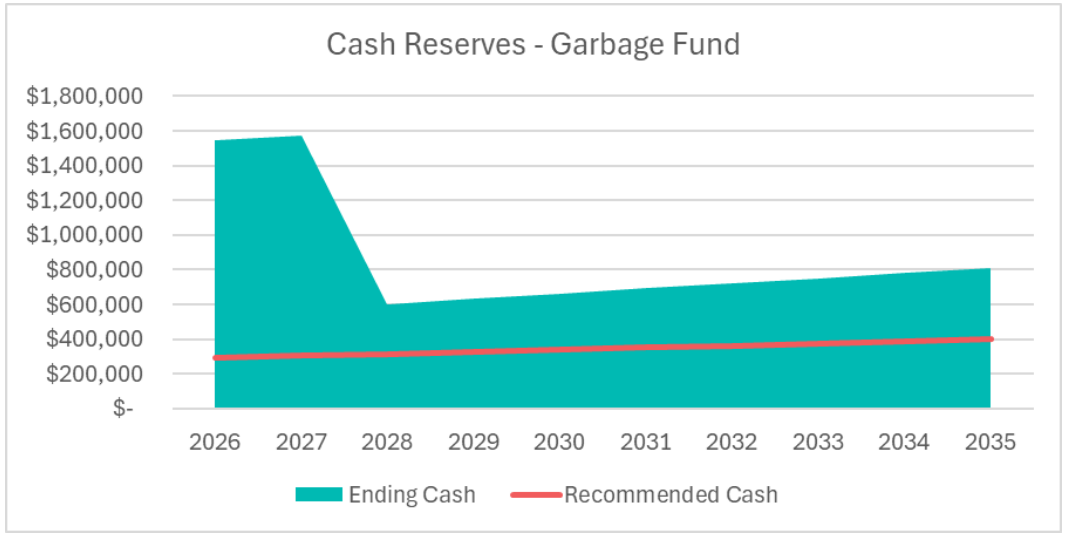
Garbage Fund

- Future issues to address:
  - Regular inflationary pressures
  - New contract for trash hauler
  - Capital project: $1 million at compost site in 2028

- Recommended rate adjustments:
  - 6.5% in 2026 and 2027 to reverse declining income
  - 3.5% in 2028 and after

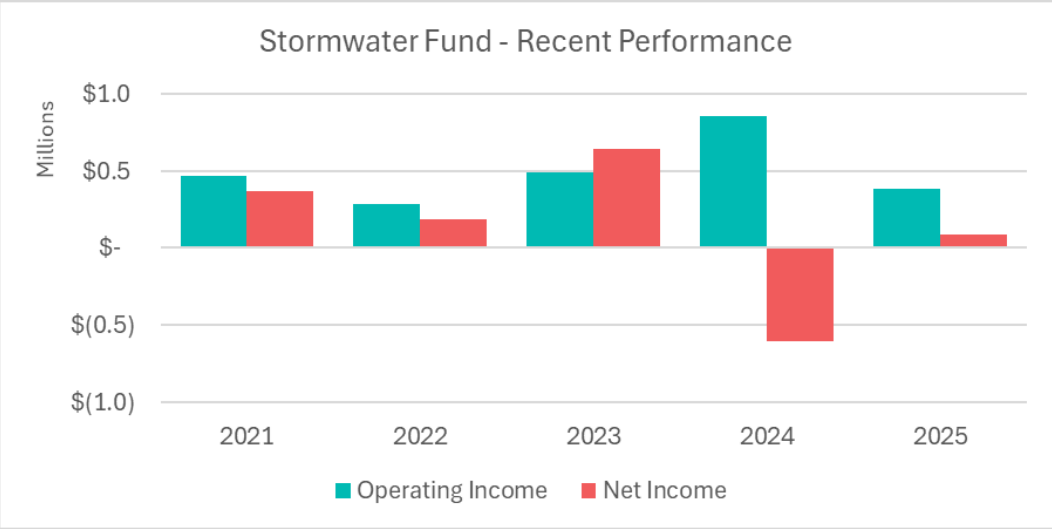
Garbage Fund - projections

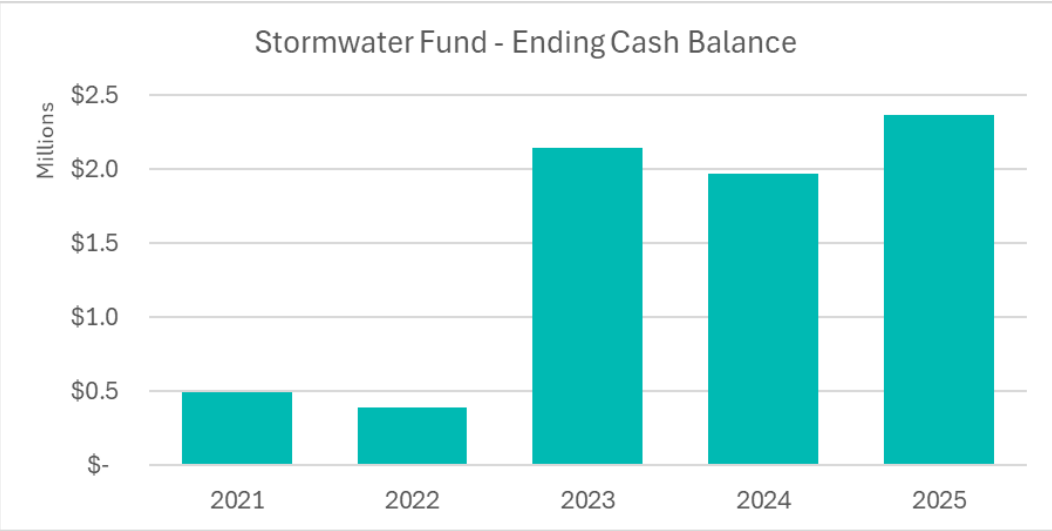




- Rates bring net income back above zero in 2027
- Net income reflects fund transfer for administrative costs
- Cash reserves drop in 2028 to pay for capital project
  - Reserves stay above recommended minimum
  - Reserves continue to grow slowly
- Fine-tuning may be needed to address actual construction costs and outcome of contract negotiations

Stormwater Fund - historical





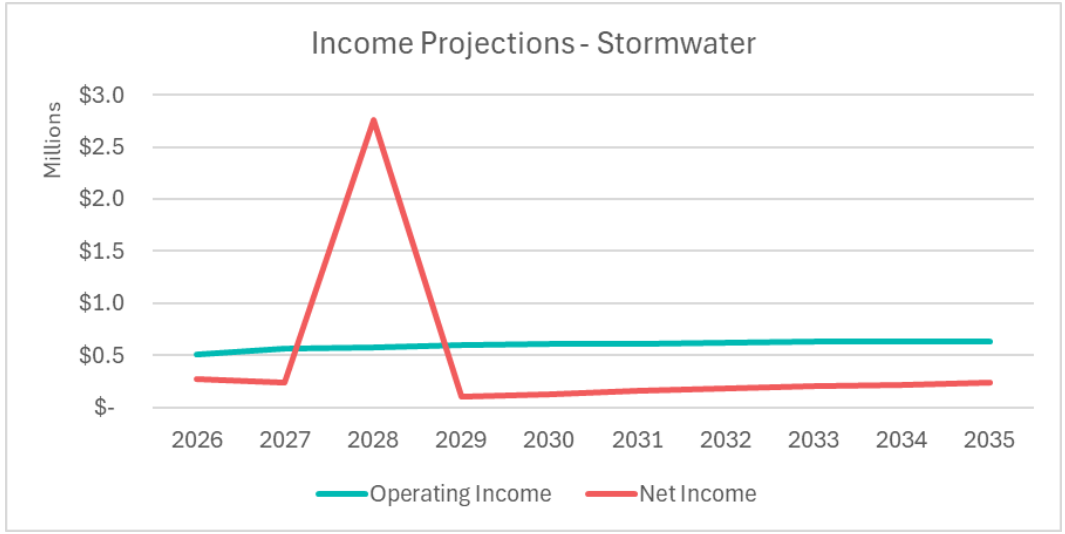
- Positive operating income
  - Lower in 2025 due to one-time personnel expense
- Net income negative in 2024 due to maintenance fund charges
- Cash balance grew from debt issuance

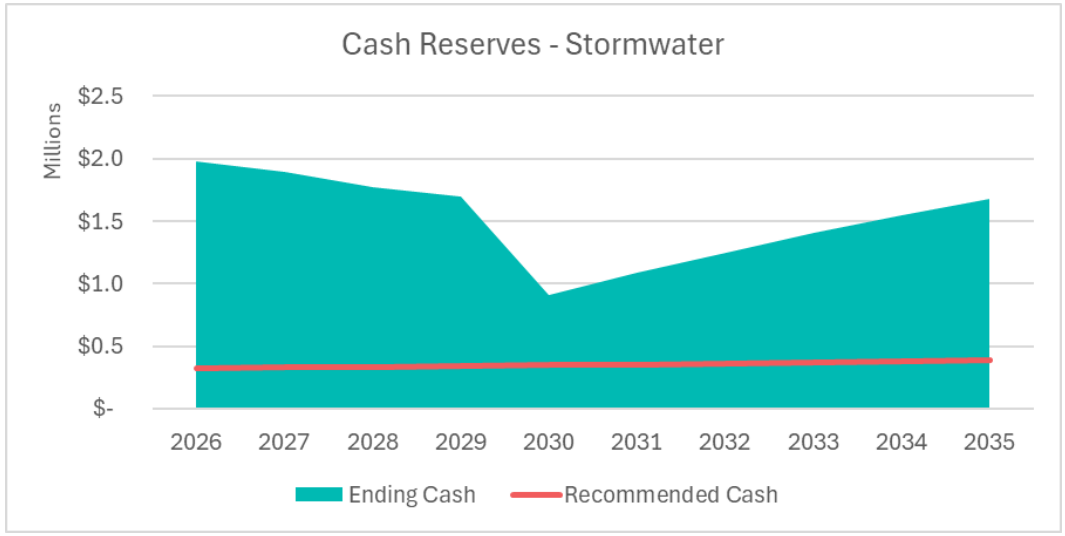
Stormwater Fund

- Issues affecting rate recommendations:
  - $6 million in flood projects to fund
    - $2.5 million expected in grant funding
  - Recommend debt financing in 2028 to allow time to build up resources

- Recommended rate adjustments:
  - 5.0% in 2026 and 2027
  - 2.0% in 2028 and after

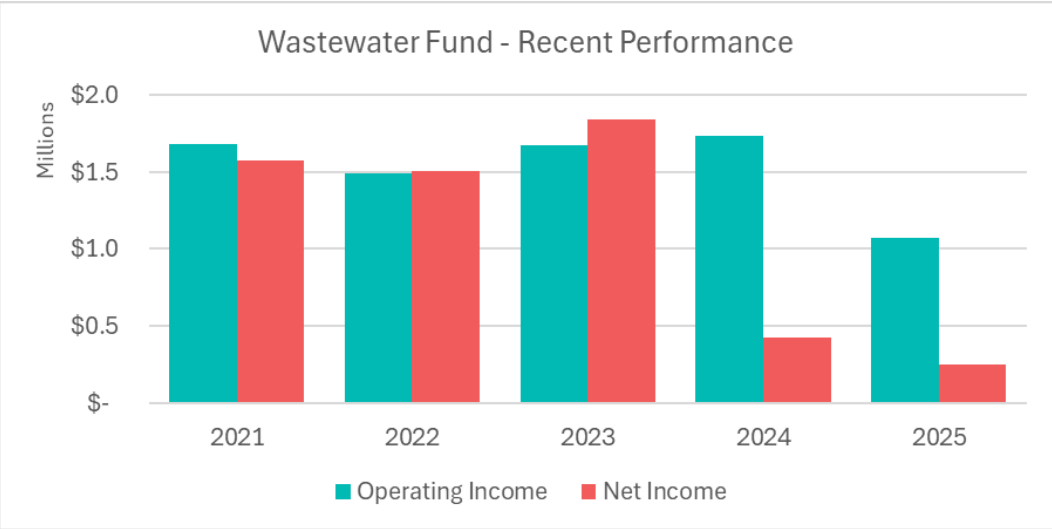
Stormwater Fund - projections

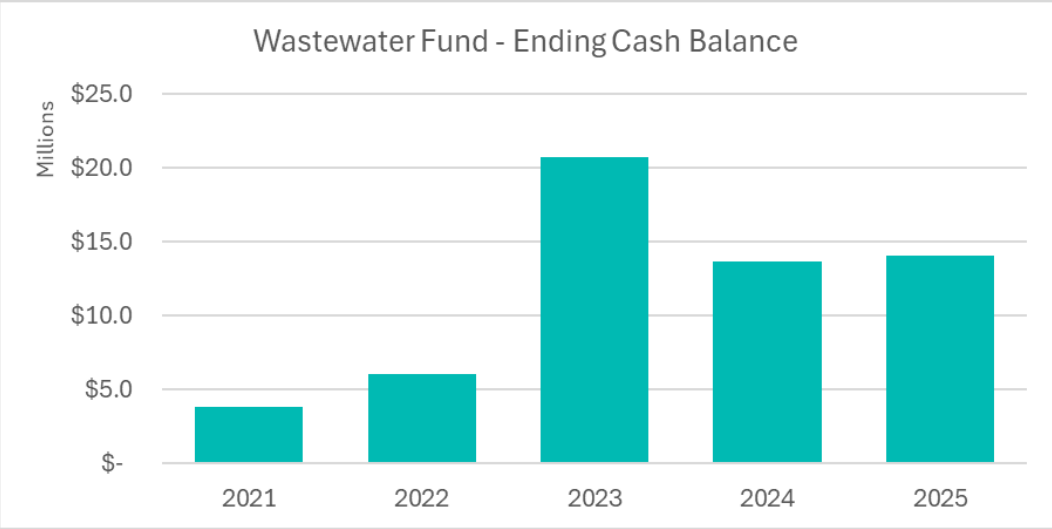




- Rates keep operating income stable
- Net income shows spike in 2028 due to grant money coming in
- Cash reserves drop in 2030 to pay for pond dredging and mill/overlay projects
  - Reserves sufficient to pay for 2030 project without new debt

Wastewater Fund - historical



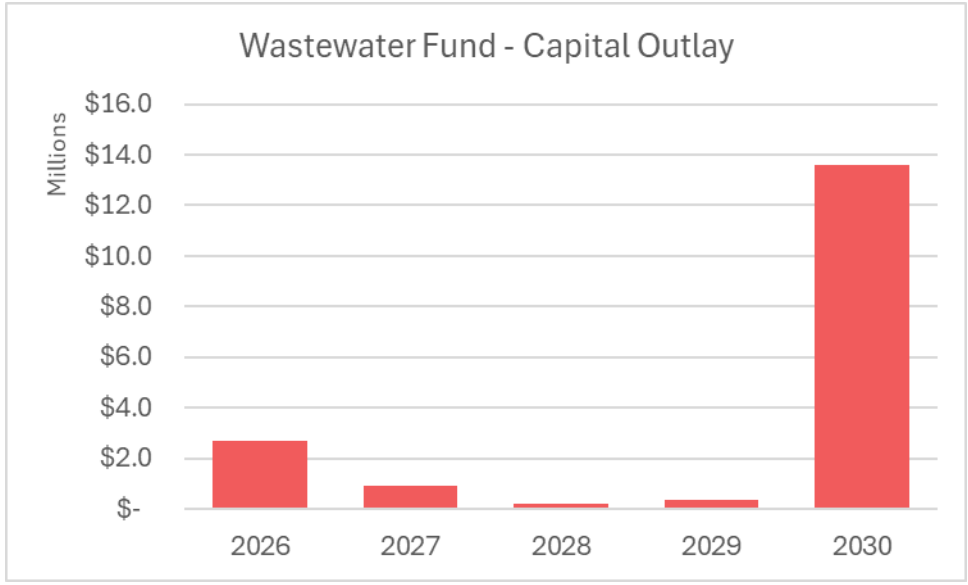


- Wastewater Fund is in a good position
- Positive operating income
  - Lower in 2025 due to depreciation on new assets
- Net income lower since 2024 due to debt service payments
- Cash balance grew to $20 million because of debt issuance
  - Debt proceeds are being spent down, but good reserve levels will remain

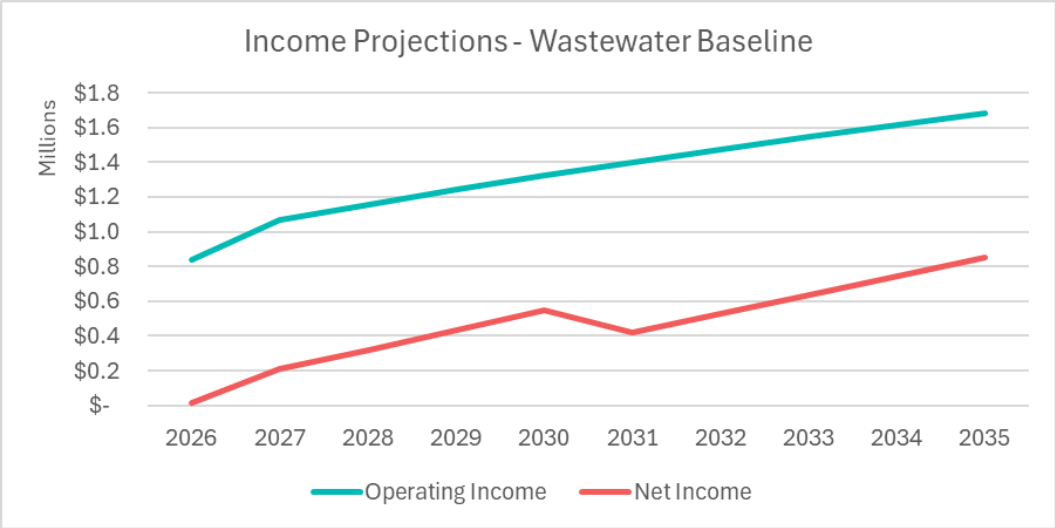
Wastewater Fund – baseline scenario

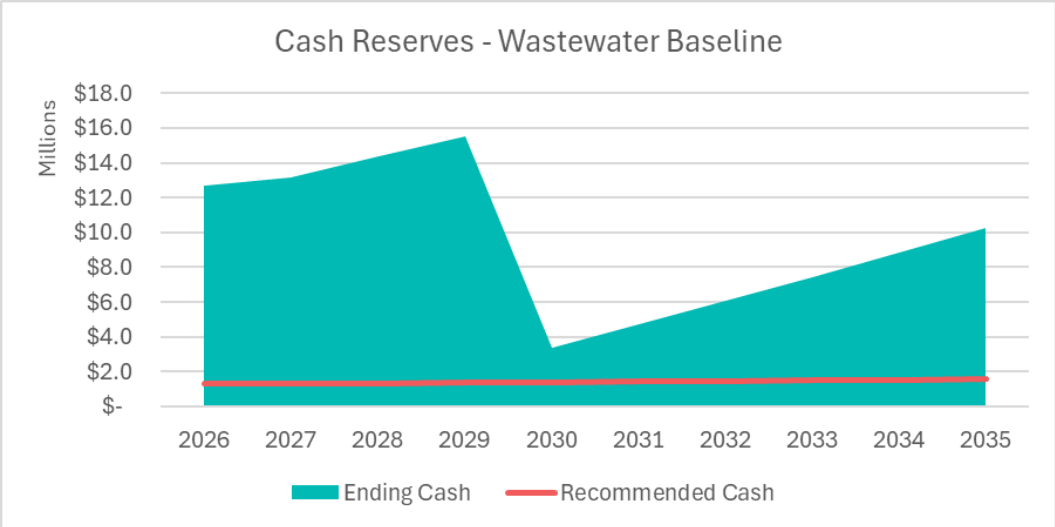
- Issues affecting rate recommendations:
  - Big capital projects around 2030
    - $10.6 million for biosolids cake storage
    - $2.7 million for new water supply system
  - Plenty of lead time to build up resources

- Recommended rate adjustments:
  - 3.0% per year



Wastewater Fund – baseline projections

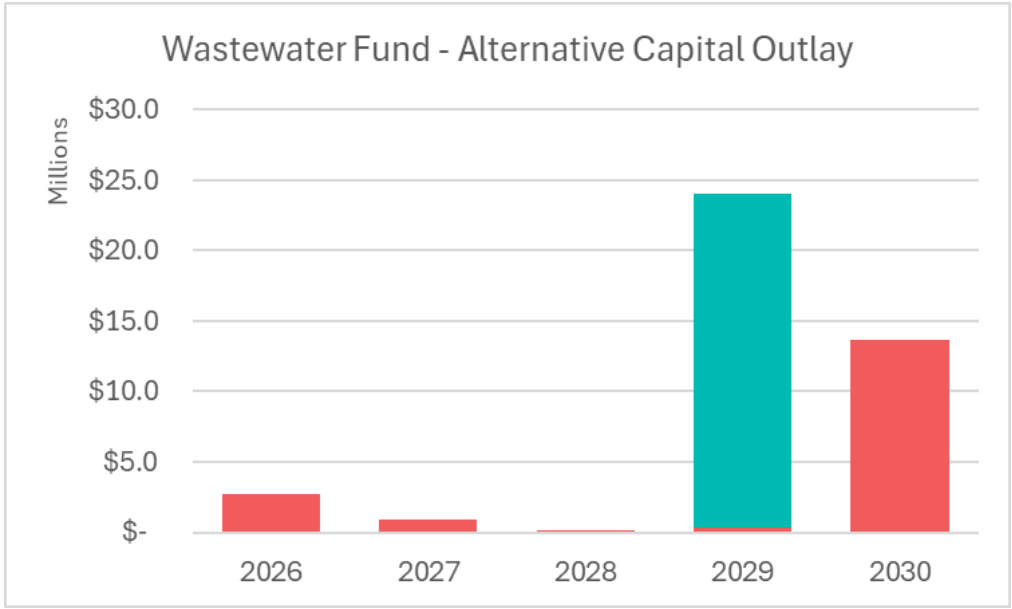




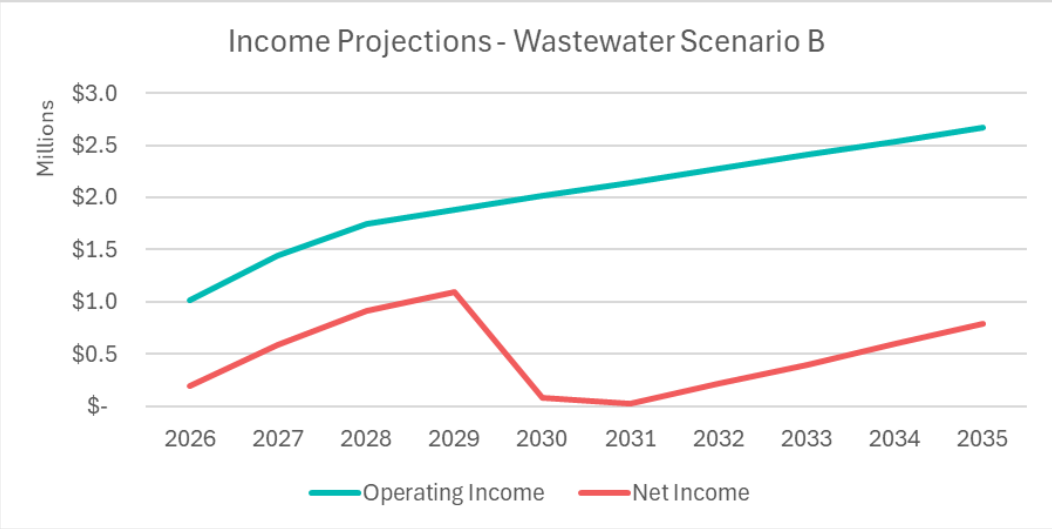
- Steady growth in operating income
- Net income shows dip in 2031
  - Spending down reserves on capital projects means lower investment income
- Cash reserves drop in 2030 to pay for biosolids storage and water supply
  - Able to pay for 2030 projects without issuing new debt

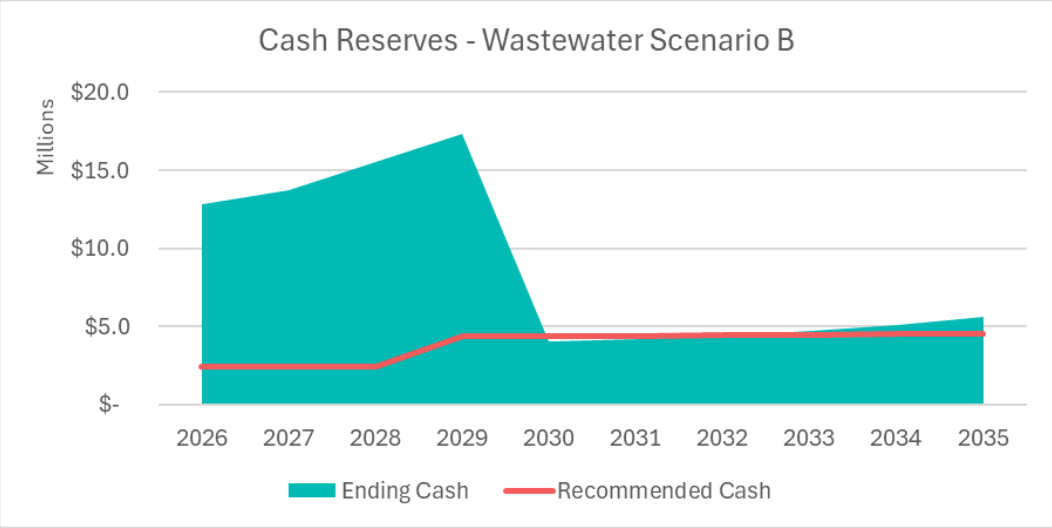
Wastewater Fund – scenario B

- Includes trunk extension to NW Industrial Area:
  - Estimated cost of $20.4 million in 2025
  - Recommend pushing back to 2029
    - Estimated cost in 2029 is $23.7 million
- Recommended rate adjustments:
  - 6.5% in 2026, 2027 and 2028
  - 3.5% yearly thereafter



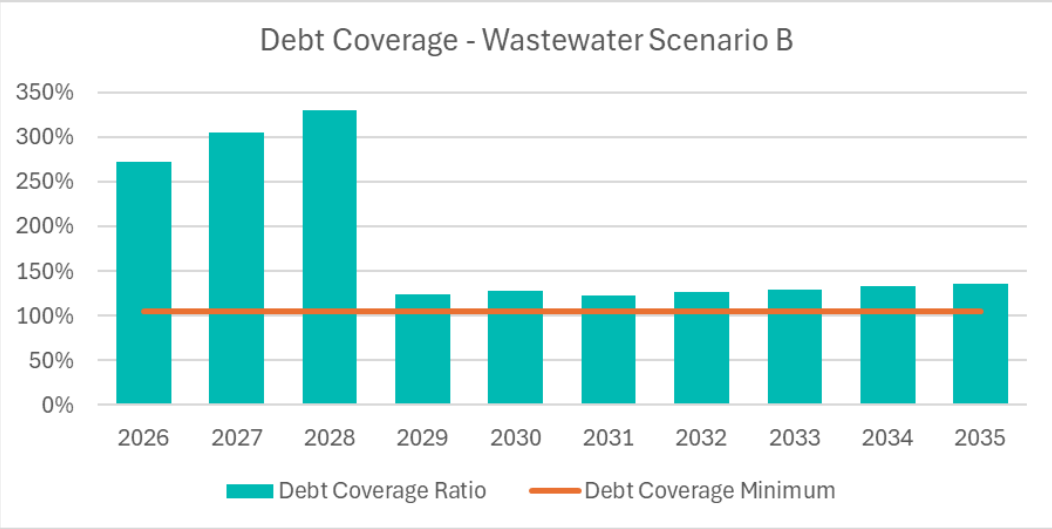
Wastewater Fund – scenario B





- Still see steady growth in operating income
- Net income drops close to zero in 2030 and 2031 because of debt service
  - Stays below $1 million each year
- Cash reserves still drop in 2030 to pay for biosolids storage and water supply

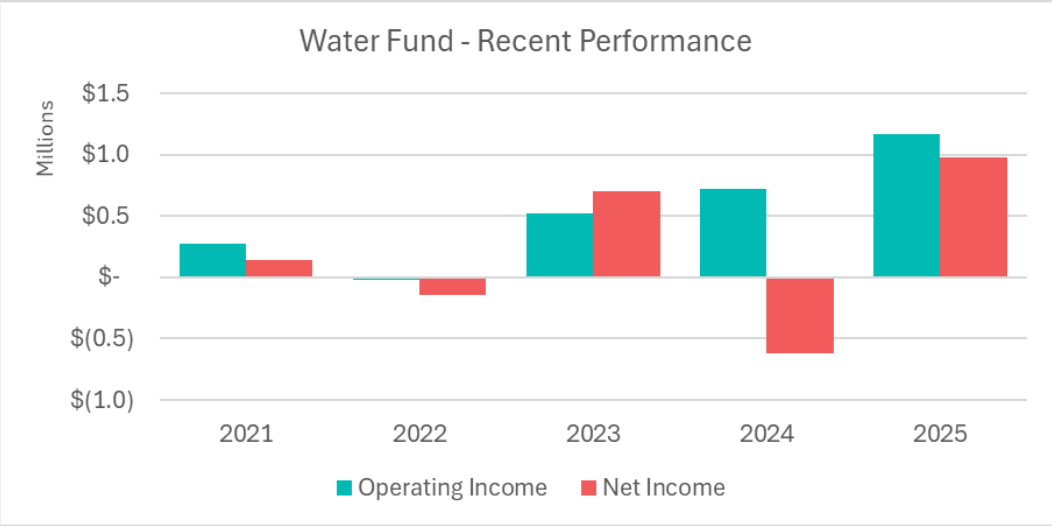
Wastewater Fund – scenario B

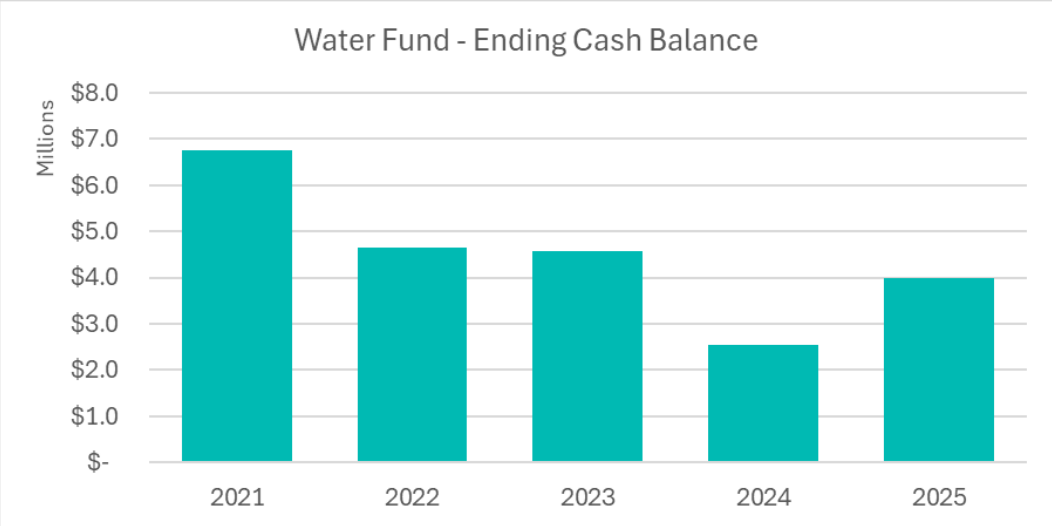


- Revenues in 2028 and beyond are sufficient to provide 125% coverage against debt service payments
- Minimum is generally 105%

Water Fund

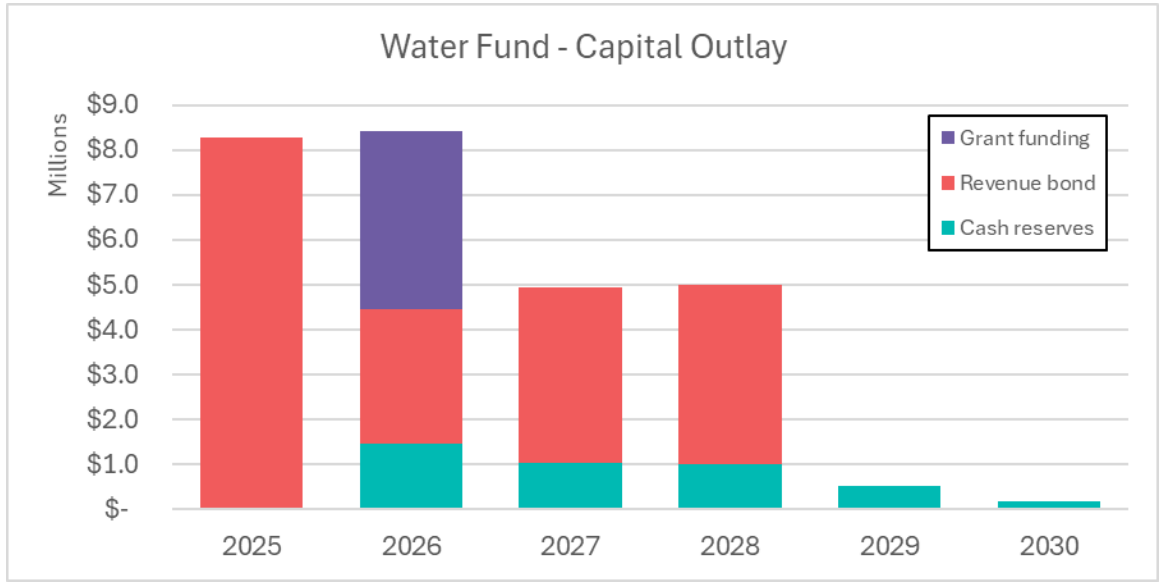
Water Fund - historical





- Operating and net income essentially at break-even in 2021 and 2022
- Improvement seen since 2023
- Net income negative in 2024 due to maintenance fund charges
- Cash balance fell in 2022
  - Made cash advance to 5th Street Fund

Water Fund – capital outlay

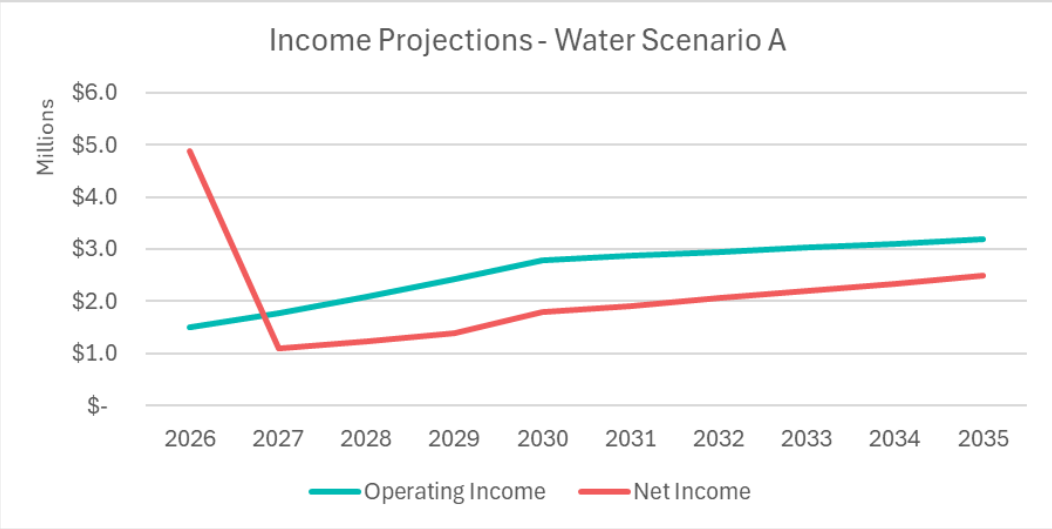


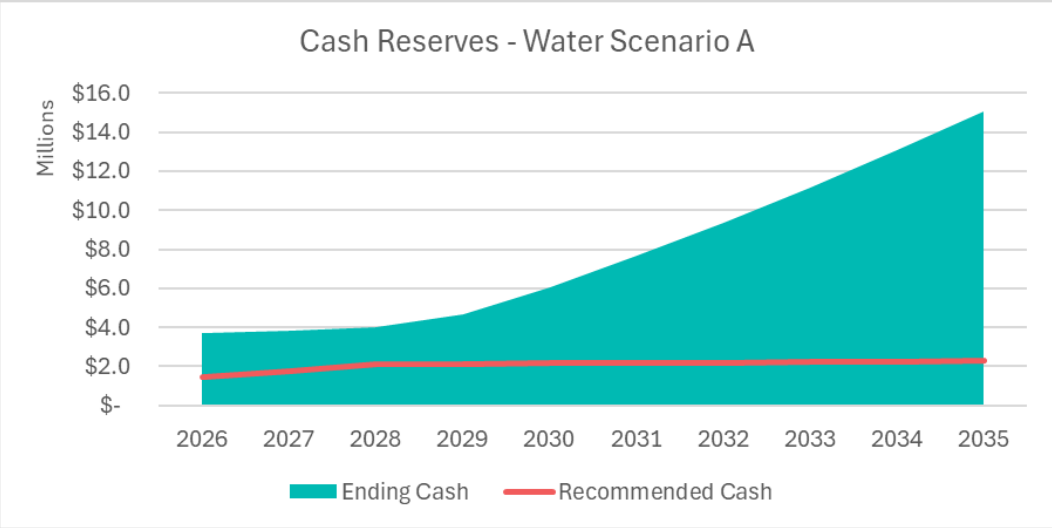
- $8.3 million for Jefferson Parkway approved for this year
- $6.9 million for NW Water Tower in 2026
  - $3.9 million from grant funding
- $3.9 million for water meter replacements in 2027
- $3.0 million for tank painting in 2028
- $1.0 million for Hwy 3 water main in 2028
- Many smaller projects each year
- Treatment plant on the horizon

Water Fund - scenarios

- Scenario A: Baseline scenario – pay for projects through 2028 and accumulate resources for future treatment plant
- Scenario B: Minimum rate impacts – pay for projects without growing reserves
- Scenario C: Plan for $82.7 million gravity/RO treatment plant in 2030
- Scenario D: Plan for $75.6 million gravity plant in 2030

Water Fund – baseline

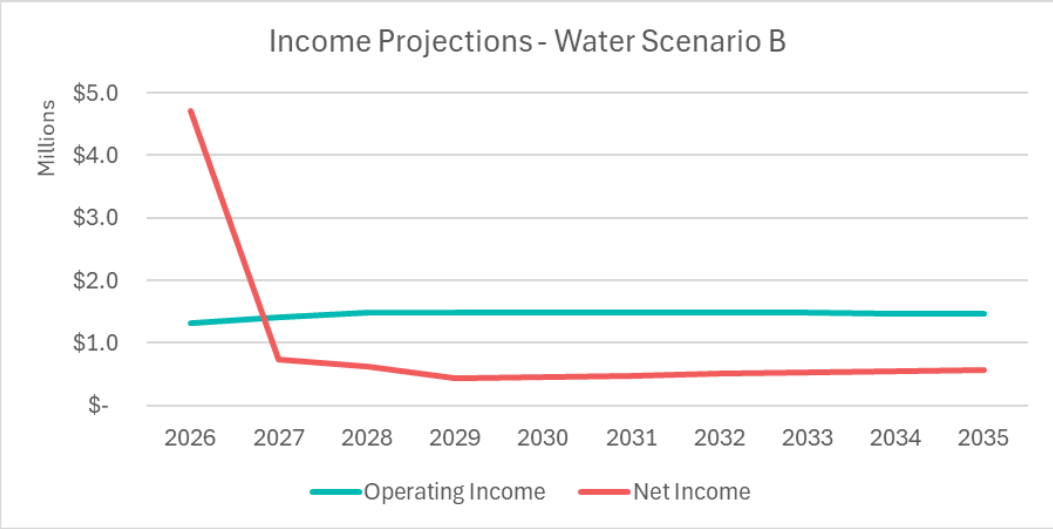


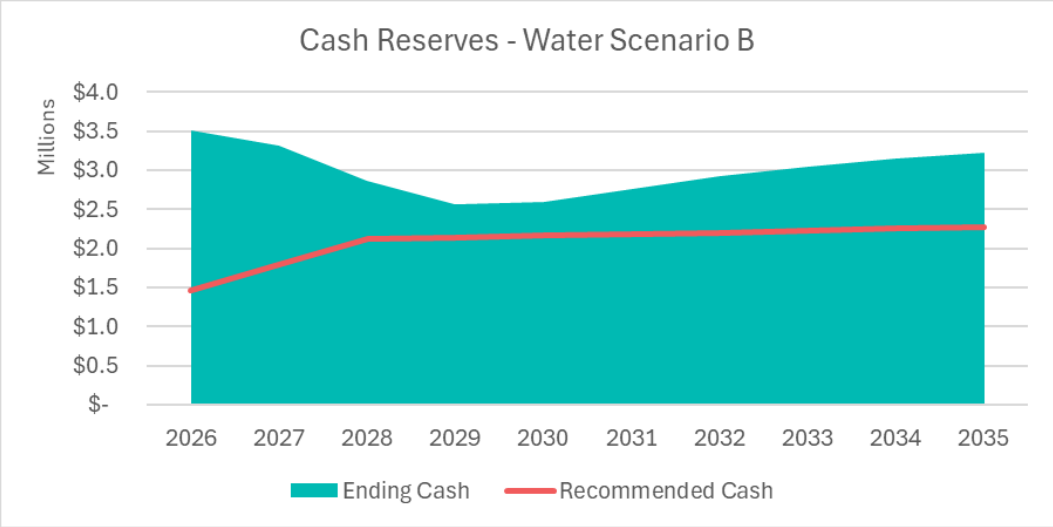


- Steady growth in operating and net income
  - Net income higher in 2026 due to incoming grant funding
- Cash reserves grow quickly after 2029
  - No capital outlays projected in later years
- Reserves reach $14 million by 2035

- Rate increases are 9% through 2030 and 3% thereafter

Water Fund – scenario B

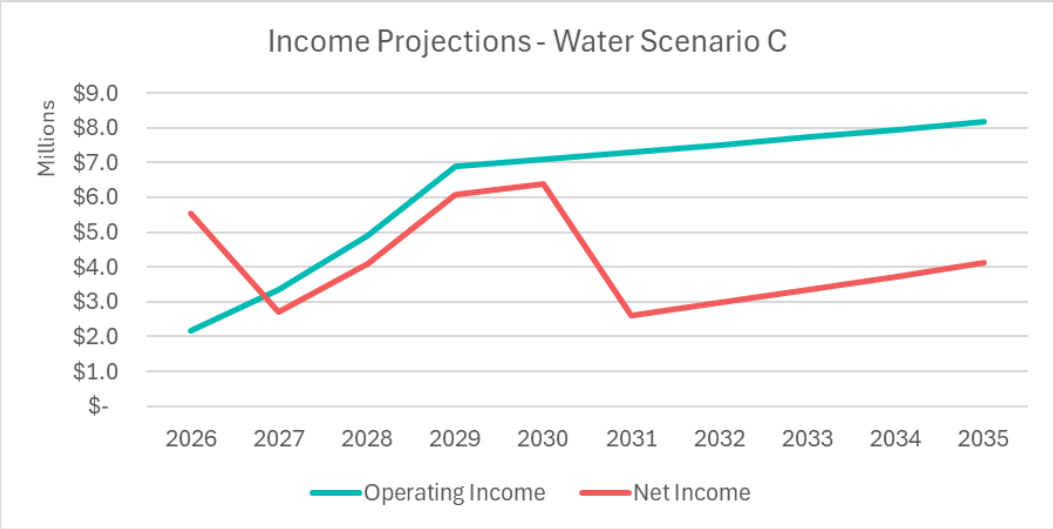


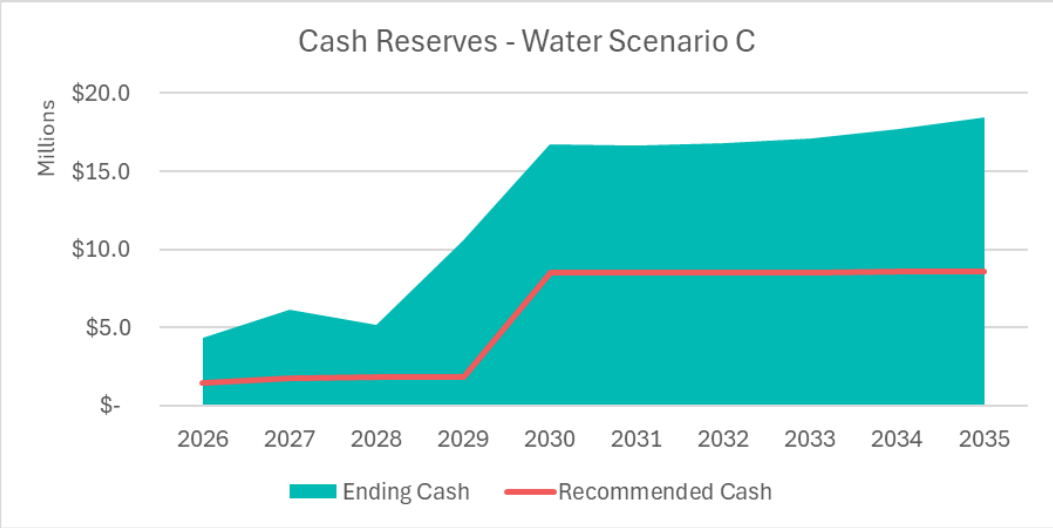


- Operating and net income remain level
- Cash reserves grow slowly
- Reserves reach $3.2 million by 2035

- Rate increases are 4% through 2028 and 2% thereafter

Water Fund – scenario C

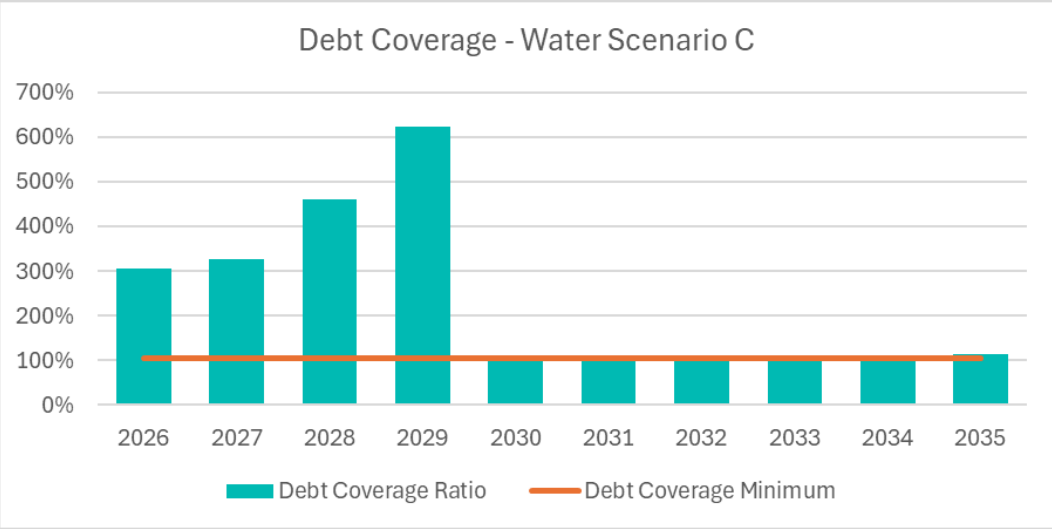




- Operating income grows to $7 million by 2029
- Net income falls to $2.6 million when debt service kicks in
- Cash reserves level off at $17 million

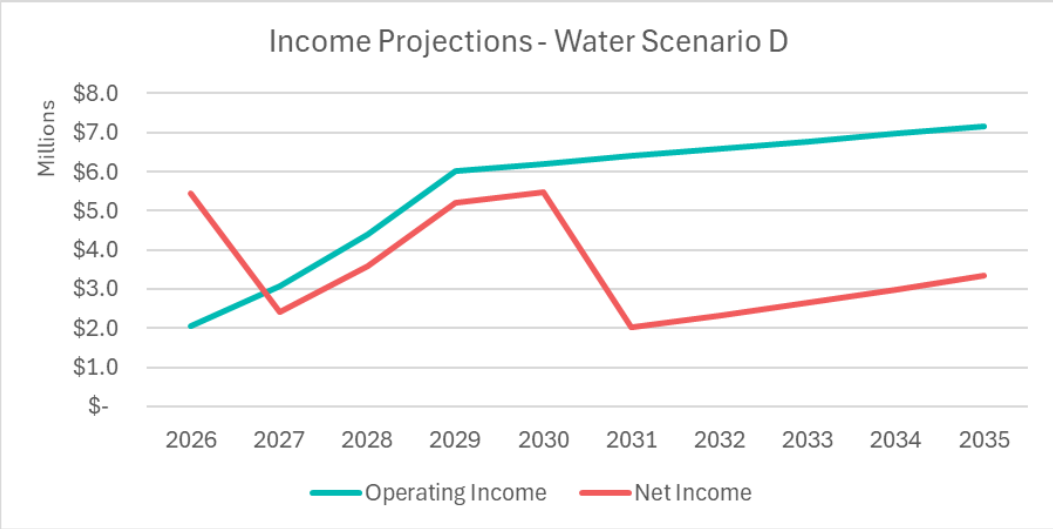
- Rate increases are 28% through 2029 and 3% thereafter

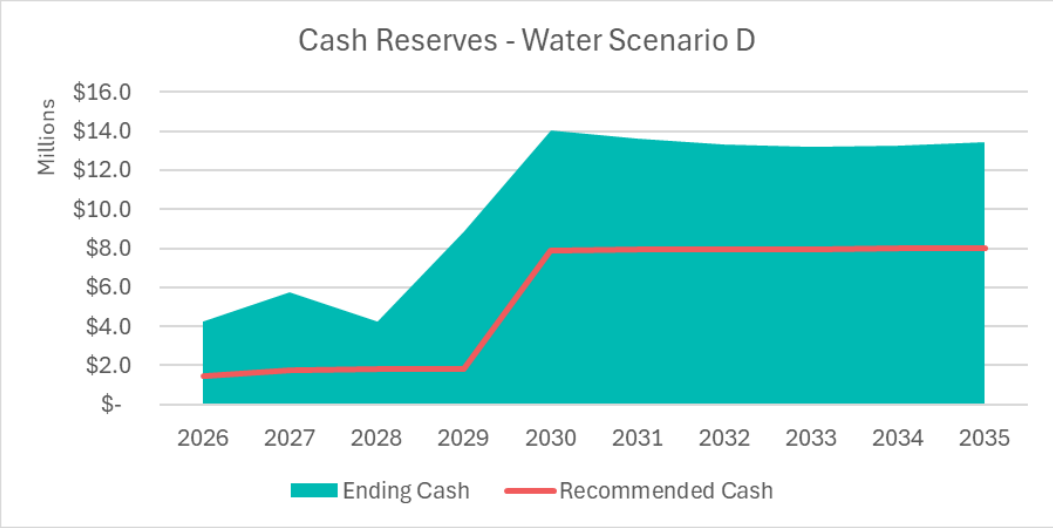
Water Fund – scenario C



- Rate increases provide just enough revenue to meet debt service coverage on 2030 bond for treatment plant

Water Fund – scenario D

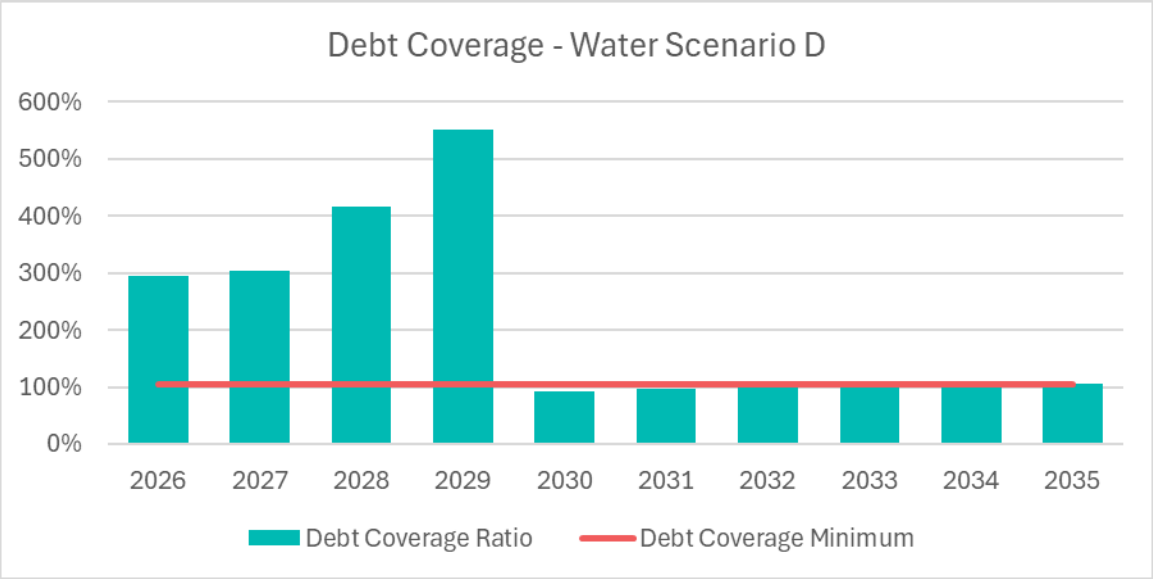




- Very similar to scenario C
- Operating income grows to $6 million by 2029
- Net income falls to $2.0 million when debt service kicks in
- Cash reserves level off at $13 million

- Rate increases are 25% through 2029 and 3% thereafter

Water Fund – scenario D



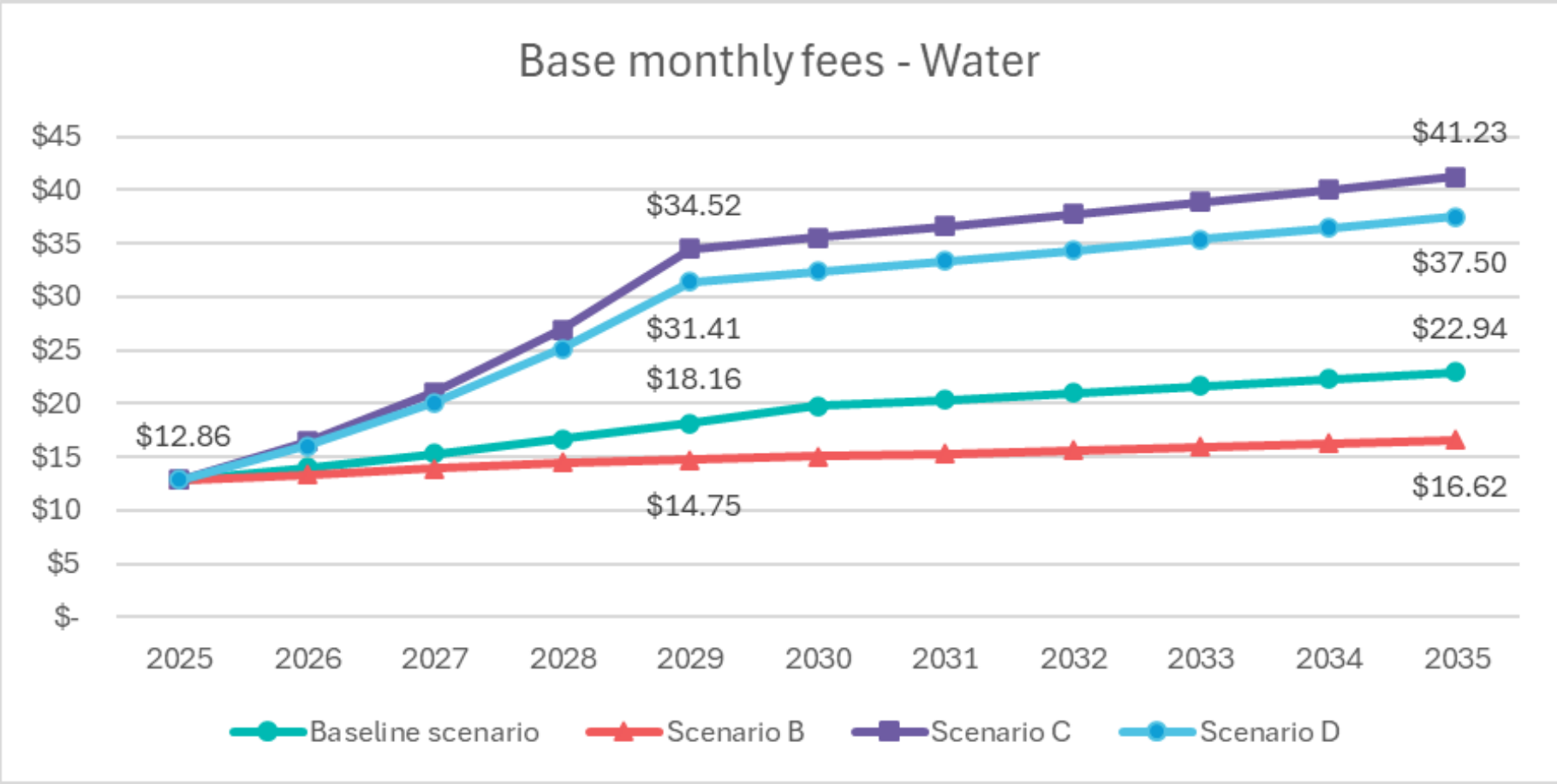
- Rate increases are just shy of meeting debt service coverage on 2030 bond for treatment plant
- May need to delay project 1-2 years, negotiate with creditors or adjust user rates

Water Fund – additional thoughts

- Some scenarios show thin margins against targets
  - Need to watch actual performance in next few years, make adjustments as needed
- Large rate increases can affect water demand
  - Some customers will reduce usage to control monthly bills
  - Watch total demand to ensure revenues are on track
- Some capital outlays may be delayed if funding is insufficient
  - Extra year allows for resources to be gathered, but construction will be more expensive

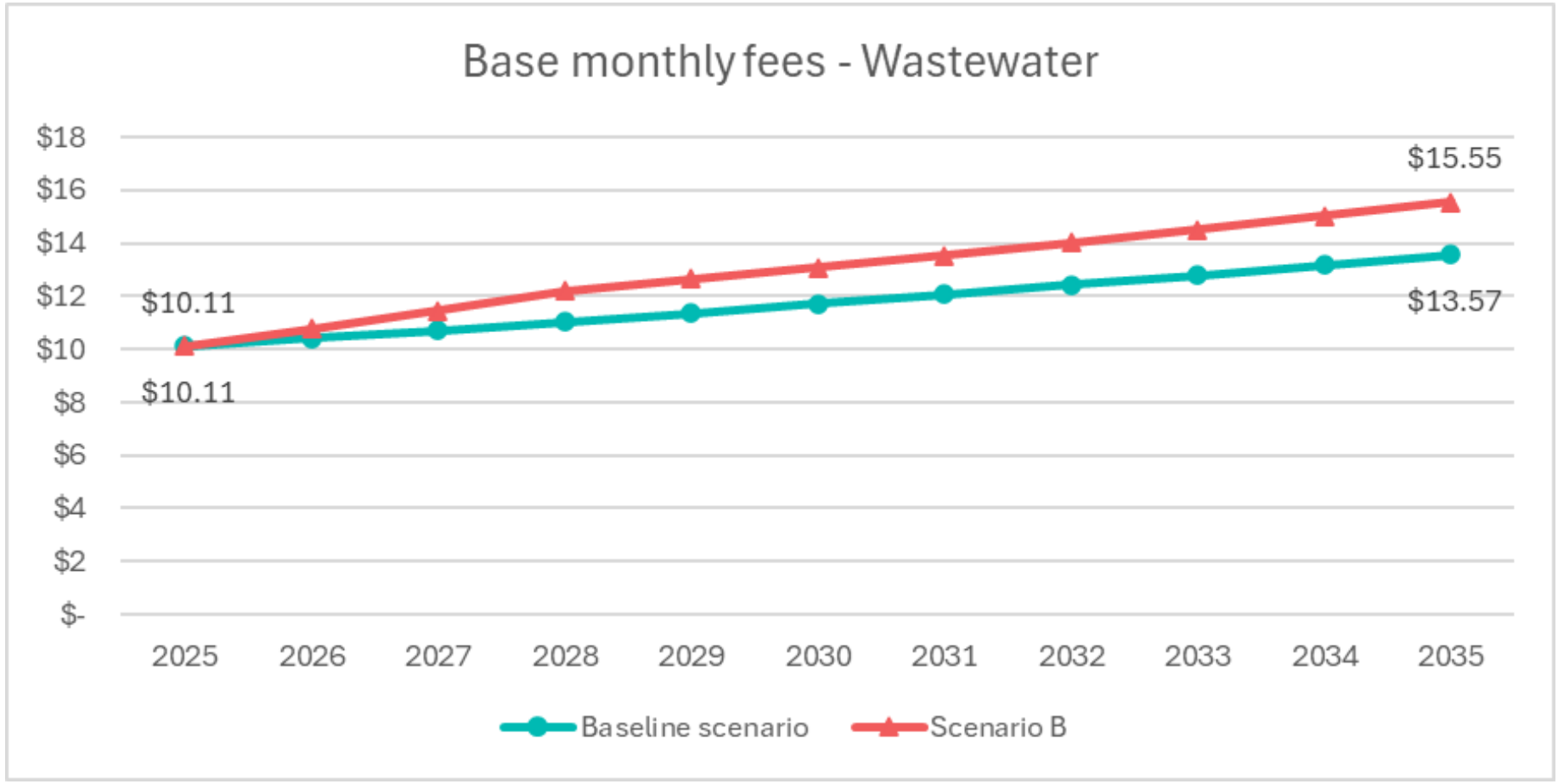
Recommended rates

Projected water rates



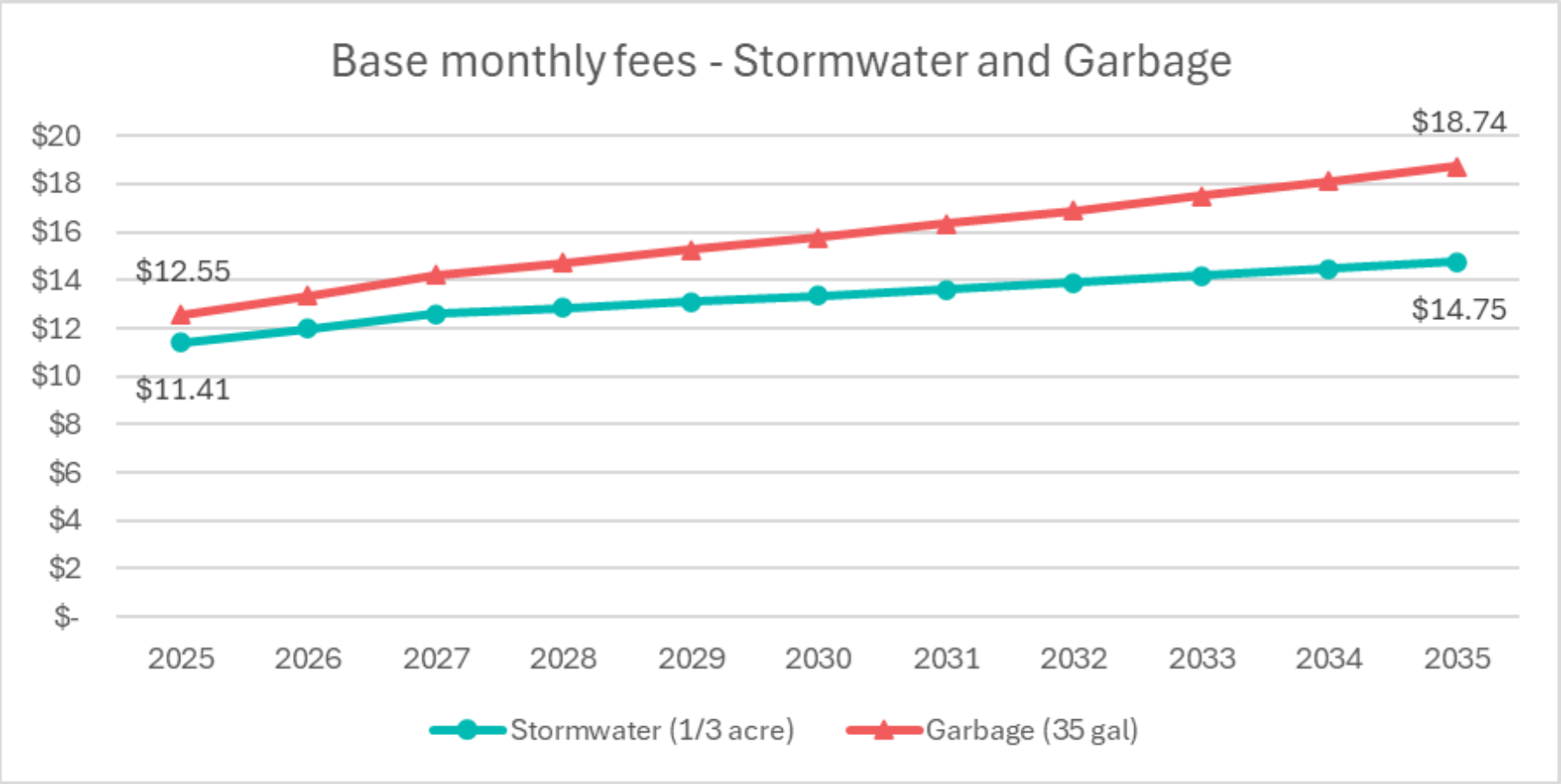
- Monthly base fee currently $12.86
- Base fees range from $14.75 to $34.52 in 2029
- Range is $16.62 to $41.23 in 2030
- Ten-year growth in percentage terms ranges from 29% to 221%
- Volume rates grow by the same %

Projected wastewater rates



- Monthly base fee currently $10.11
- Fees in 2030 are $13.57 or $15.55
- Ten-year growth in percentage terms ranges from 34% to 54%
- Volume rates grow by the same %

Projected stormwater & garbage rates



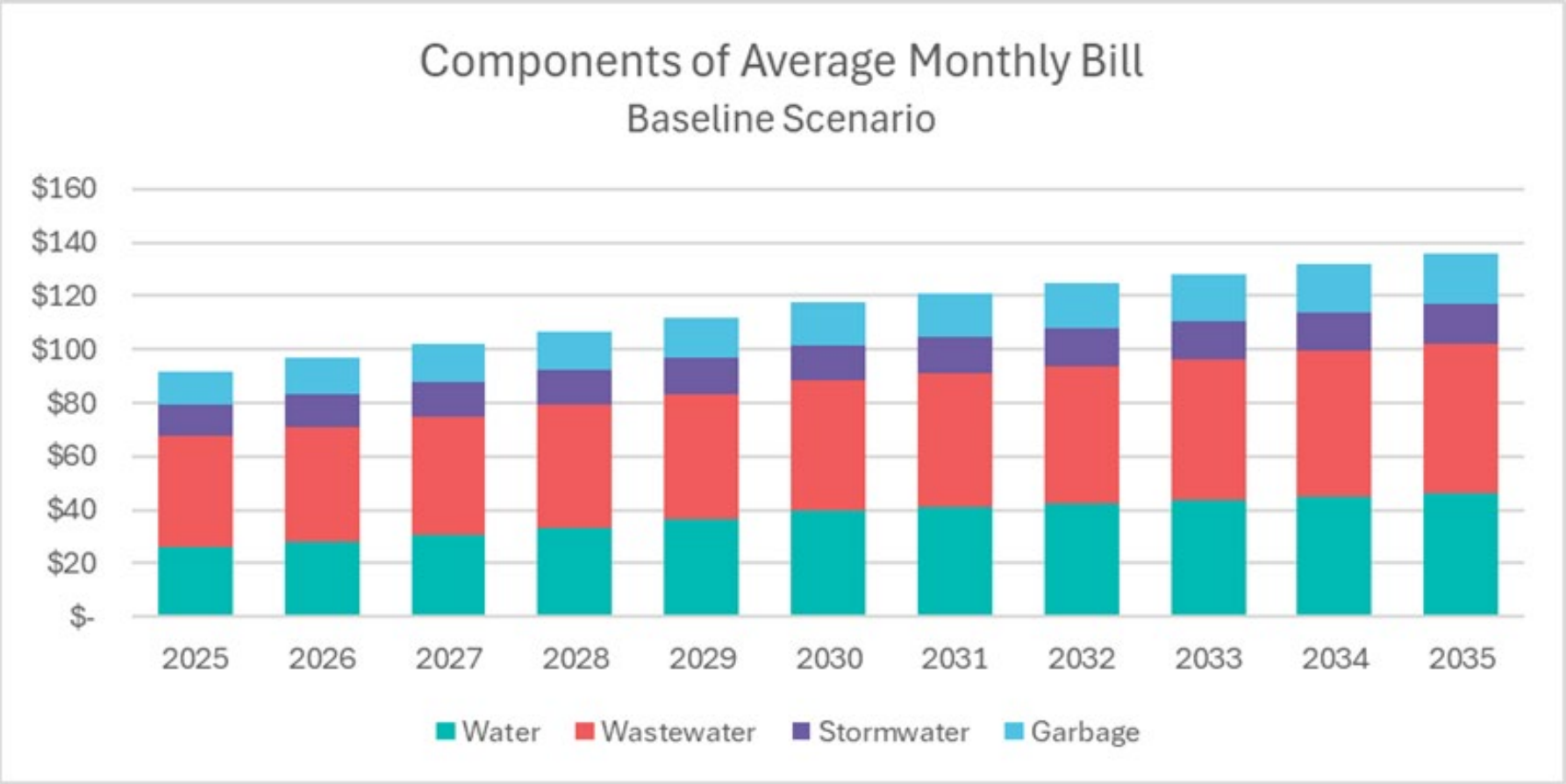
- Monthly fee for stormwater grows from $11.41 to $14.75
- Ten-year increase of 29%
- Monthly fee for garbage grows from $12.55 to $18.74
- Ten-year increase of 49%

Impacts on Customer Bills

Impacts on average residential customer

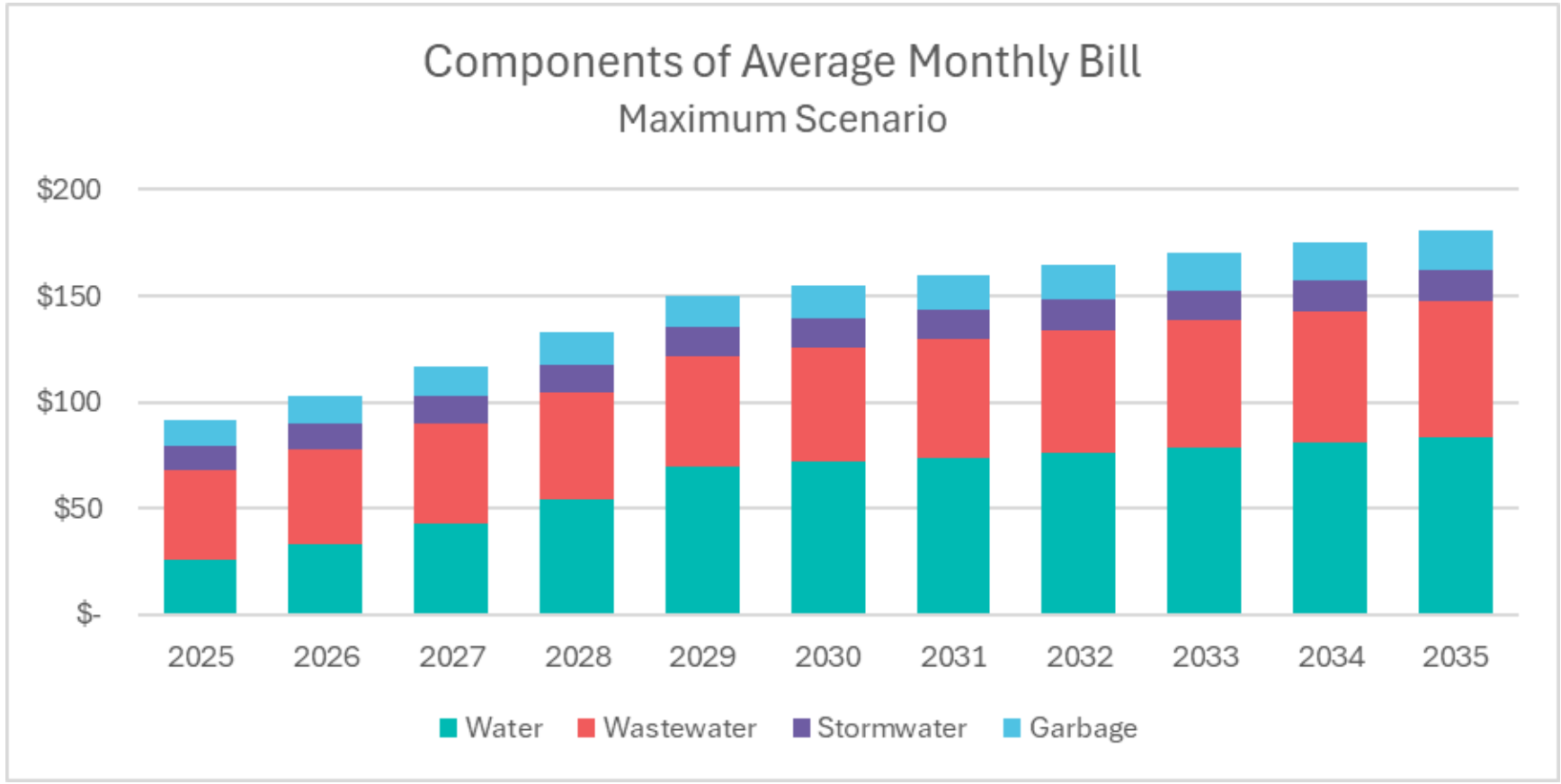
- Profile of average residential customer:
  - 589 cubic feet of water per month (4,400 gallons)
  - 35-gallon trash container
  - 1/3 acre lot

Projected monthly bill for average resident



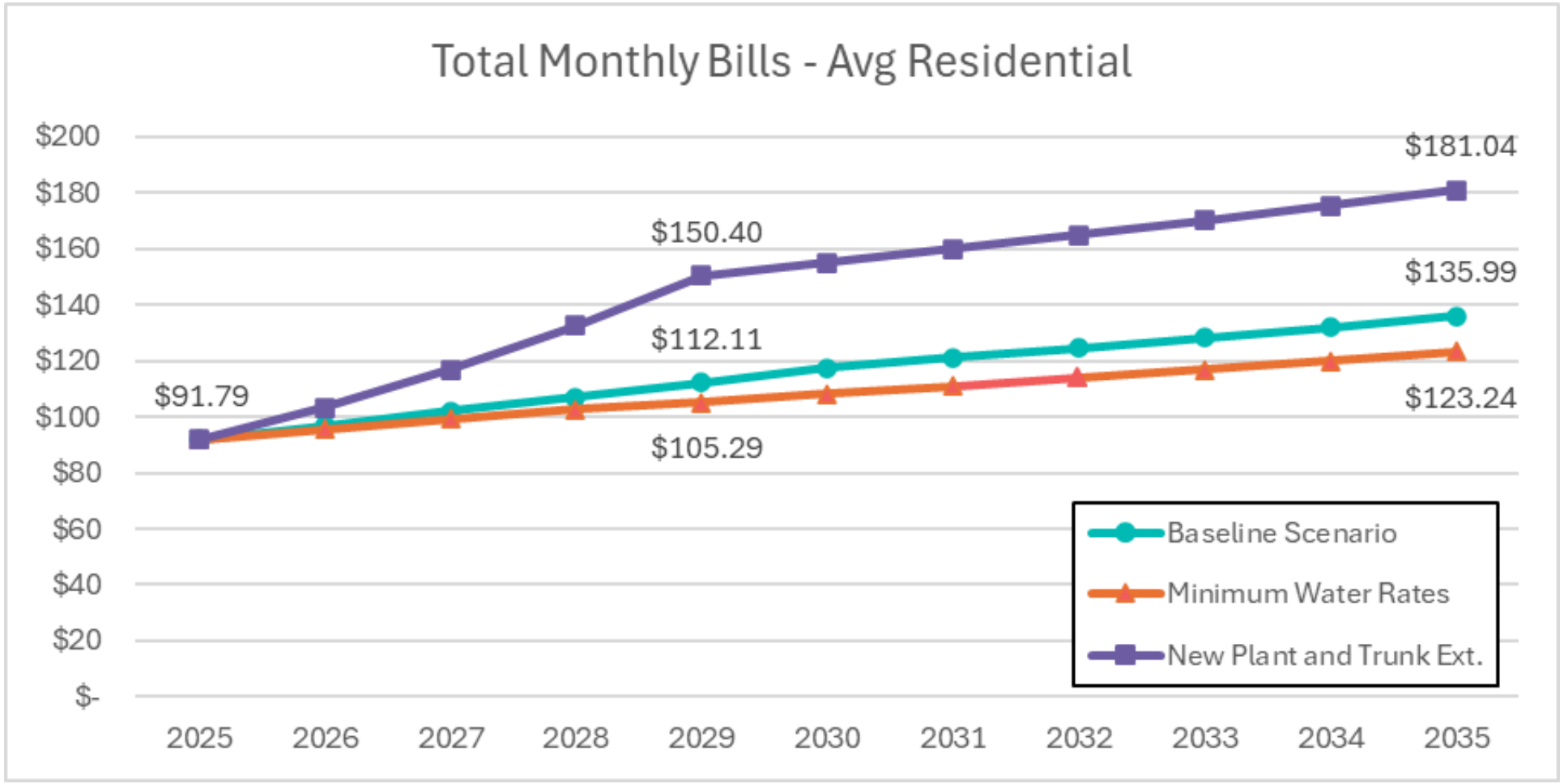
- **Baseline impacts**
- Total bill grows from $91.79 in 2025 to $135.99 in 2035
- Ten-year increase is 48%

Projected monthly bill for average resident



- **Maximum impacts**
- Uses Scenario B for Wastewater and Scenario C for Water
- Total bill grows from $91.79 in 2025 to $181.04 in 2035
- Ten-year increase is 97%

Projected monthly bill for average resident



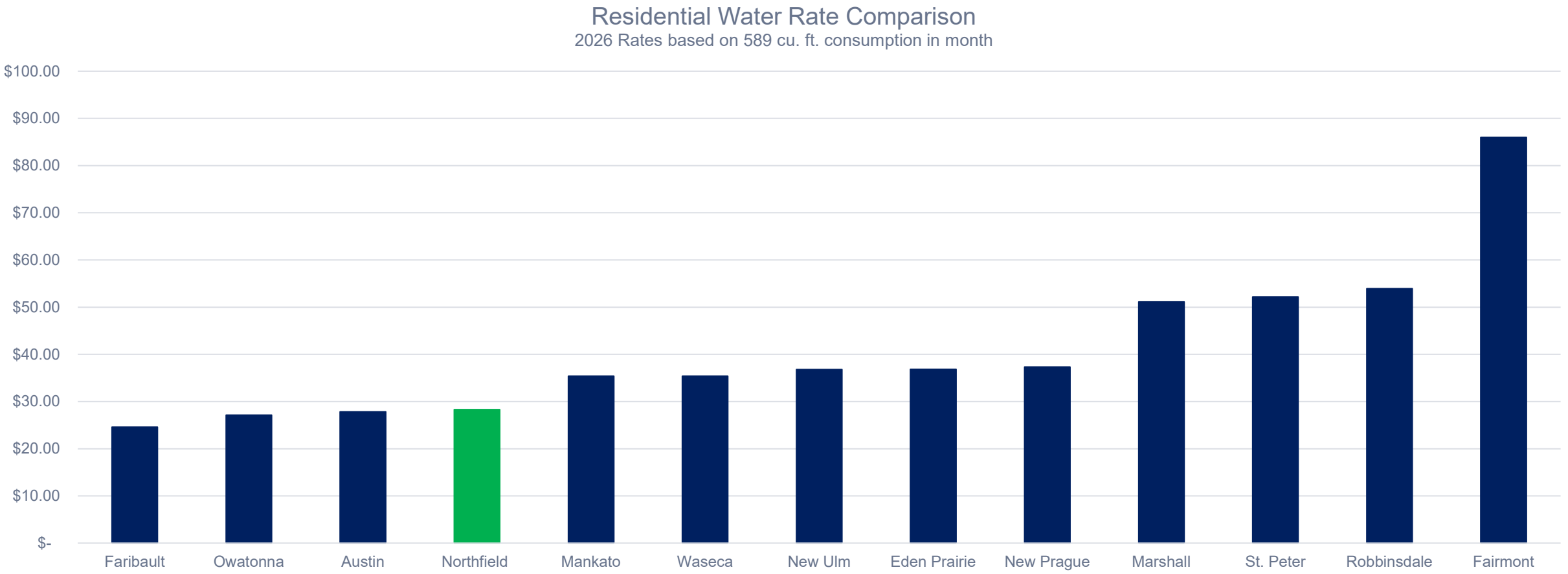
How much does 5 gallons of Water cost?

- 2026 ~ 3.78¢
- Option B ~ 3.61¢
- Option C ~ 4.44¢
- Option D ~ 4.34¢

How much does 5 gallons of Wastewater cost?

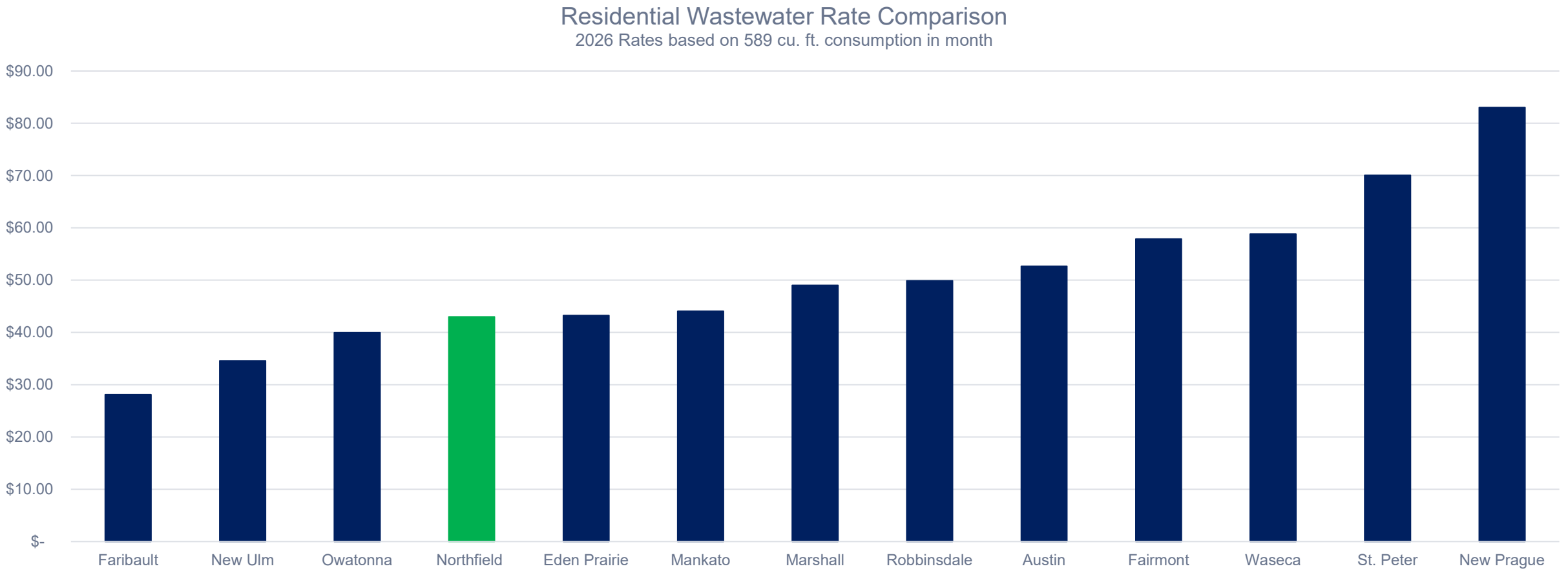
- 2026 ~ 5.75¢

Comparable Water Rates 2026

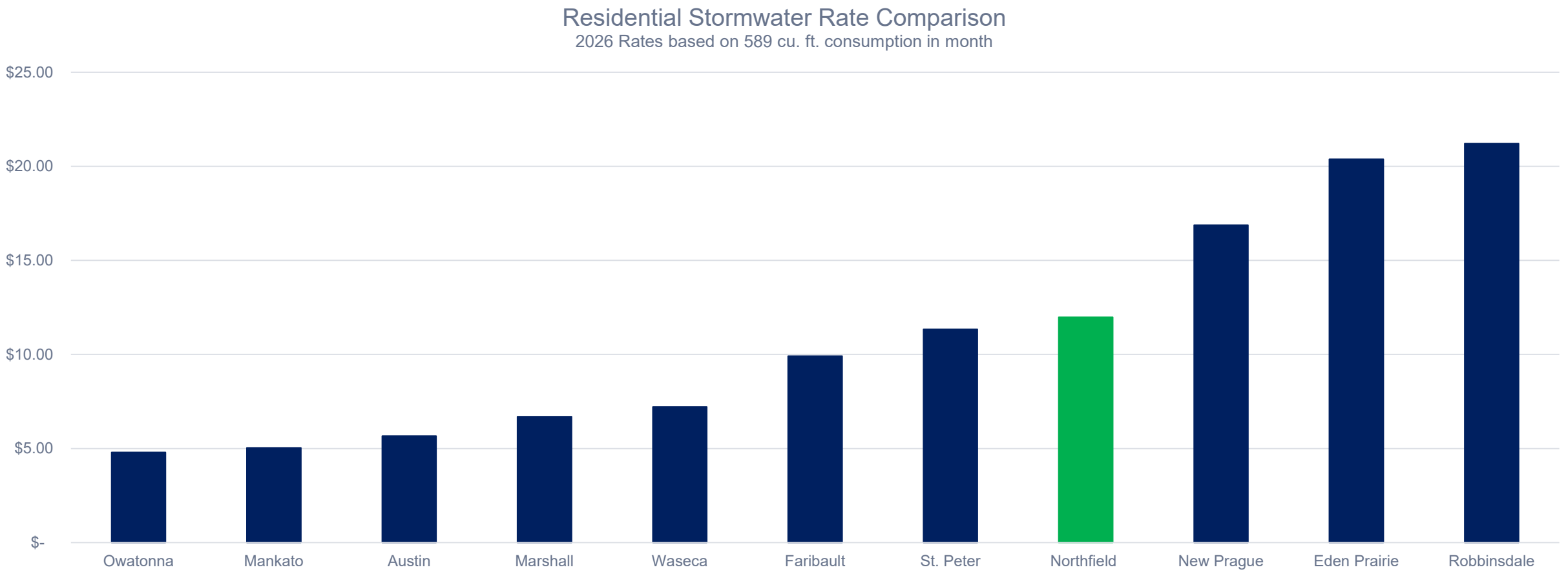


Note: City's average monthly water bill would need to be over $92 to be eligible for state grants based on rates.

Comparable Wastewater Rates 2026



Comparable Stormwater Rates 2026



NCRC Update

- City Explored options for providing treated water to lower manganese concentration for residents at NCRC
  - Expected Cost to be around $75,000
  - Annual maintenance expected to be around $10,000
  - Staff anticipates having sufficient funds in budget, however, if needed would come back to Council for budget amendment if needed
- Staff currently only explored NCRC for water system due to needing to test out system (sizing needs based on usage). Staff will evaluate if installation at NCEC is needed based on usage and sizing needs after roughly one year

Manganese Water Testing for Residents at the Faucet

- Council has had interest in having the City utilities division directly or through reimbursement provide manganese testing at residents faucets.
  - Staff has significant reservations doing this based on the following
    - Manganese samples are a snapshot the level of manganese at one specific moment, not the average going into a home.
    - Manganese is a “short term” exposure duration for infants under 1 year old. “Short term” is defined as greater than one day up to 30 days.
- Staff recommendation is home treatment/bottled water until Water Treatment Plant is constructed

Policy Questions

1. Water rates
    1. Does Council support planning for a future water treatment
    2. If not, please provide scenario recommendation.
2. NCRC
    1. Does Council support construction of the reverse osmosis water fill station and the NCRC?

Questions

bakertilly

Matt Stark
Manager

P: +1 (651) 223-3043
E: Matt.Stark@bakertilly.com