



## Legislation Text

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**File #:** 16-450, **Version:** 1

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**City Council Meeting Date:** October 11, 2016

**To:** Mayor and City Council  
City Administrator

**From:** Melanie Lammers, Finance Director

Review proposed 2017 utility rates.

**Action Requested:**

The Northfield City Council will discuss the proposed utility rates for 2017.

**Summary Report:**

The City conducted a Utility rate study in 2014, and staff continually integrates the Capital Improvement plan with the proposed utility rate increases. Here are the recommendations for the utility rate increases.

Water Rates

Rates remain the same, no increase recommended at this time. We have used some of the Water Fund for a well project, but the fund balance is at an appropriate level. It is recommended we keep the rates stable to continue to grow the fund balance in anticipation of future large project expenditures.

*CIP/CEP Scheduled funding requirements*

2017 - \$158,365

This includes a street reclamation project, new well house roofs, hatches and doors. Also included in 2017 is the replacement of a 2001 Chevy S-10.

2018 - \$583,798

The Division and Seventh Street reconstruction is about half of this cost. Also being replaced in 2018 is a Case 580 Super L Backhoe and a 1998 Chevy 2500 Pickup Truck. Smaller improvements include a generator for Well #5 and a Wachs valve wrench.

2019 - \$873,137

This year has a street reclamation project and some maintenance on well #5. The large portions of expenditures are painting the storage tanks at St Olaf, and Hall Avenue.

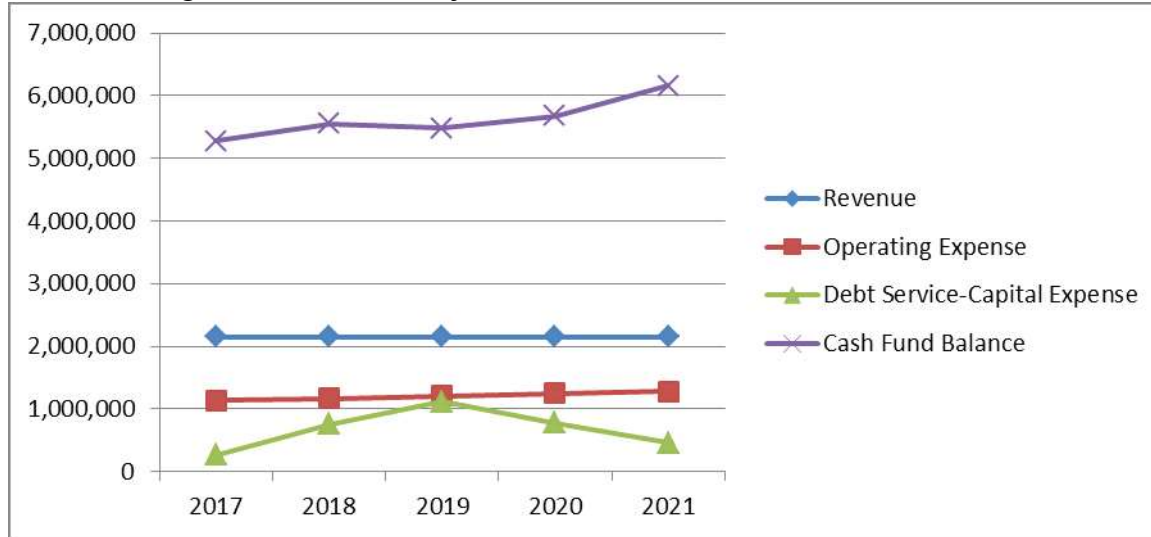
2020 - \$637,439

The majority of 2020 expense is an anticipated reconstruction of the College and Winona St area. Some smaller expense anticipated is maintenance costs on Well No. 2, and replacement of a 2010 pickup truck.

2021 - \$364,131

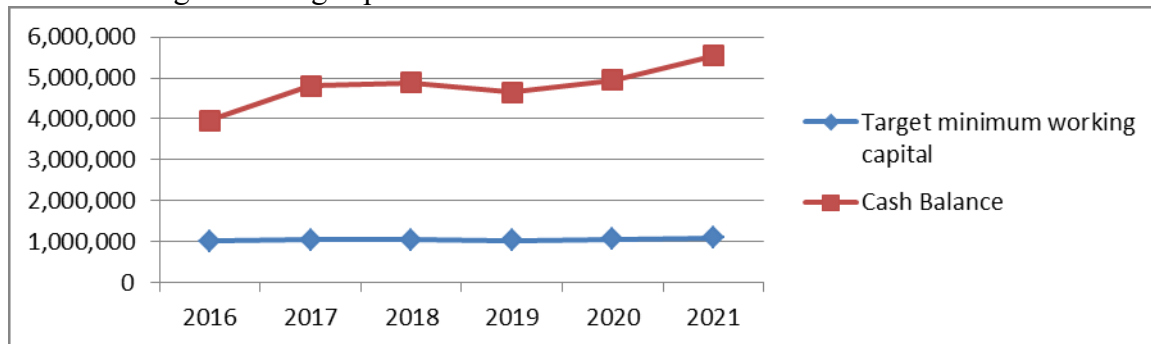
Projecting out this far we have the Water Street Reconstruction project anticipated at this time.

Table 1. Long Term Financial Projection-Water Fund.



In looking at the graph for the Water Fund, you can see the revenue staying relatively the same due to no water rate increases. It is projected the operating expense will gradually increase with inflation, and the line trends slightly upward to reflect this. Our debt service and capital expense peak in 2019, and the cash fund balance available at the top of the graph trends down slightly as a result. In years further out it shows the cash fund balance growing. This is a projection, and each year we will re-evaluate our expense, debt, and capital projects for an updated projection, and updated recommendation on the Water rates.

Table 2. Target working capital for Water Fund.



### Wastewater (Sewer) Rates

A 3% increase is recommended for 2017. The Wastewater Treatment Plant had a facility study completed in 2015 to prioritize repairs and upgrades the plant needs. The fund balance is already below desired levels, and upcoming improvements are costly. This is an increase that will allow the fund to pay for its upgrades and repairs over the next few years.

### CIP/CEP Scheduled funding requirements

2017 - \$310,061

For 2017, we have increased the projects in the Wastewater Fund. We will have excess proceeds from our bond issue for the UV equipment, due to the fact the bids came in lower than anticipated. We are able to use the excess proceeds for Wastewater Capital projects next year. Staff is recommending we replace the Clarifier

Scum Pipe, and BAF Frames and Stop Logs to use these funds. The other projects that were already scheduled include sealing the Wastewater Treatment Plant Well, a roof replacement at a pretreatment building, an Influent Channel Air Exchange, and replacing a 2006 F-350.

2018 - \$510,956

A large street reconstruct project is due for Division and Seventh Street in 2018. Also several pieces of equipment are due to be replaced including a front end loader, super L backhoe, and a 2007 Chevy Colorado. The operations building and another pretreatment building will have the roofs replaced. Safety rails will be added to the roof of the operations building and radiant heaters will be replaced in the shop.

2019 - \$1,011,951

We have a project to replace the BAF Gates in 2019 for over \$800,000. Our other large expense is the replacement of a 2001 E-450 TV Van.

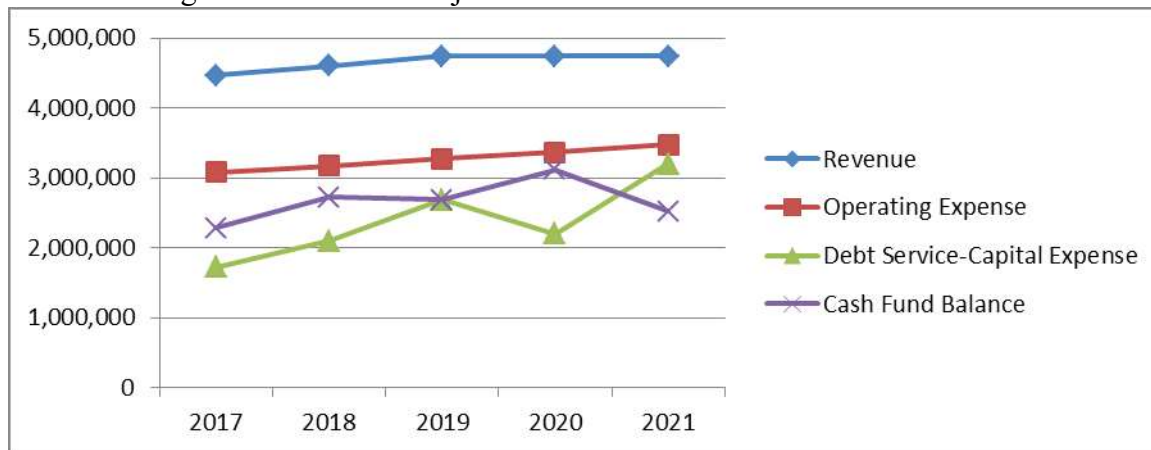
2020 - \$658,094

Our street reconstruction project for this year is around the College and Winona Street area. The other large expense is replacing the Sterling Jet Vac Truck.

2021 - \$1,491,033

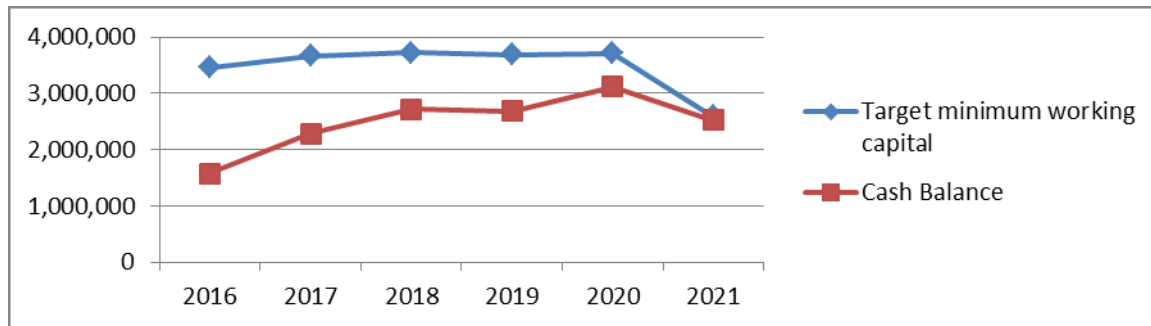
Our long term projection includes a street reconstruction project, and an overhaul of the Bio solids liquid storage.

Table 3. Long Term Financial Projection Wastewater Fund.



The graph above shows the moderate revenue increase until 2019, where we are anticipating keeping it. The operating expense is slowly going up, which is a reflection of inflation and wage increases. Our Debt payments and Capital projects climb until 2019. In 2020, there are smaller projects, and in 2021, our debt payment falls off, but we have a very large upgrade to the plant. Our cash balance recovers a bit in 2020, but will be used heavily for a portion of the 2021 project.

Table 4. Target working capital Wastewater.

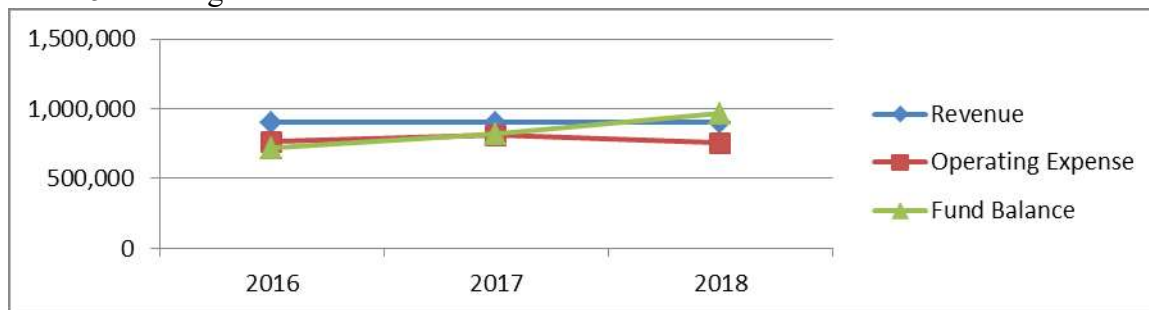


As you can see above our moderate 3% rate increase through 2019, and the strategic staggering of capital projects, will result in our target minimum cash fund balance being where it needs to be in 2021. The target minimum significantly drops due to a large bond payment being done that year. The target minimum will increase when we bond in 2021. We will continue to evaluate the rates and cash fund balance goals each year to ensure we are on target to meet our minimum requirements.

### Garbage Rates

No increase is recommended at this time. The fund balance is at adequate levels and has been slowly accumulating fund balance. Part of this was due to a new contract and a \$2 across the board increase in rates that both started in 2014. Staff is intending to review the programs of this fund in 2017 to consider potential additional services that could be achieved while keeping rates at the same level or alternatively evaluate a rate decrease, implementation of a “pay by weight” option that may have some up-front costs to implement, addition of yard waste pick up subsidy seasonally and/or following major storm events, curbside organic waste disposal, and others. We believe it is prudent to research these options before considering any rate adjustments. No major capital purchases are currently anticipated by this fund in the next 4 years.

Table 5. Garbage Fund Finances.



### Storm Water Rates

A 6% increase is recommended for 2017. The Storm Water Fund has no fund balance, and several storm ponds that will be needing work in the future. The fund is currently making some large bond payments. Steady rate increases over the next few years, will enable the fund to complete projects in the future. The Engineering Department is evaluating the ponds throughout the City to gain a full picture of the needs for the City, and develop a timeline for completion.

### *CIP/CEP Scheduled funding requirements*

2017 - \$320,755

The majority of this cost is for a new Elgin street sweeper. A portion has also been allocated for a Citywide pond study. Smaller projects include money for stormwater repairs and replacement of a 2003 Dodge ram.

2018 - \$146,355

Half of these dollars are for a street reconstruction project, the other half is budgeted for stormwater repairs.

2019 - \$110,386

This funding is split between a street project, and stormwater repairs.

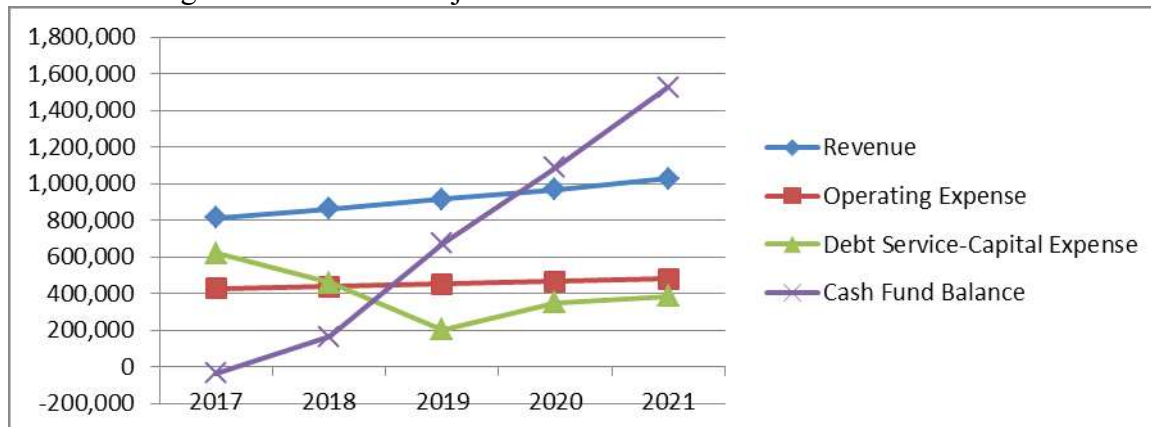
2020 - \$310,835

The majority of this is a street reconstruction project in the College and Winona Street area. The rest is stormwater repairs.

2021 - \$354,429

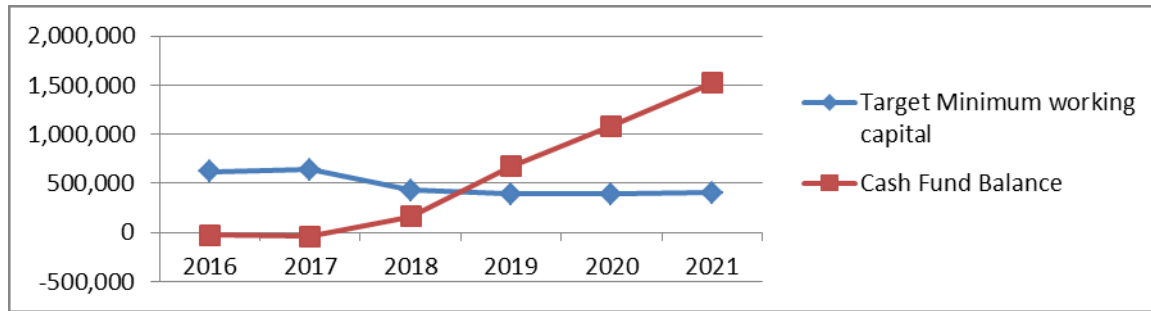
Some of the anticipated Capital expense for this year include: Water Street South Reconstruction, and a Water Truck.

Table 6. Long Term Financial Projection Storm Water.



As you can see from the graph above, we currently have a negative cash fund balance in the Stormwater fund. The cash fund balance steadily climbs with 6% increases each year, and debt falling off. The Cash fund balance line will change with our pond study as significant capital expenditures are expected to be identified. We will need to incorporate bonding or an interfund loan to complete the larger pond cleanouts that will require increased expenses from this fund.

Table 7. Target working capital Storm Water.



Above you can see the cash fund balance steadily increasing. As projects are prioritized and placed back into the CIP, the cash fund balance will not increase as quickly.

**Alternative Options:**

Leave the rates the same. This would cause changes to be made to our Capital Improvement and Equipment Plans. We would need to modify and/or delay projects.

**Financial Impacts:**

See rate impact chart.

**Tentative Timelines:**

The resolution with 2017 rates will be presented for consideration of adoption at the regular meeting of October 18.

Staff is intending on some adjustments to the utility funds but overall it is intended that the budget for these will be completed for review of Council.