

City Council Joint Committee

1. Call To Order

Documents:

[1. 2019-10-15 JOINT AGENDA.PDF](#)

2. 2020 Budget Work Session #7 - Water Utility (Fund 601), - Sanitary Sewer Utility (Fund 602) And - Stormwater Utility (Fund 603)

Documents:

[2. 2020 UTILITY BUDGETS COUNCIL COMMITTEE MEMO JOINT COMMITTEE WITH PROJECTIONS.PDF](#)

3. Future Discussion

4. Adjourn - (The Council May Meet As A Group For Dinner)

Please contact the City Administrator's Office if you need special accommodations while attending this meeting



**City Council Joint Committee
Tuesday, October 15, 2019 at 6:00pm
City Hall – Public Meeting Room**

AGENDA

1. Call to Order
2. 2020 Budget Work Session #7
 - Water Utility (Fund 601)
 - Sanitary Sewer Utility (Fund 602)
 - Stormwater Utility (Fund 603)
3. Future Discussion
4. Adjourn
(The Council may meet as a group for dinner)

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Council Committee Memorandum

TO: Joint Council Committee

THROUGH: Tim Murray, City Administrator

FROM: Travis Block, Public Works Director
Jeanne Day, Finance Director

MEETING DATE: October 15, 2019

SUBJECT: 2020 Budget Work Session #7

- Water Utility (Fund 601)
- Sanitary Sewer Utility (Fund 602)
- Stormwater Utility (Fund 603)

Background:

During this budget work session we will review the City’s three Utility Funds - the Water Fund (601), the Sewer Fund (602), and the Storm Water Fund (603). These funds are classified as enterprise, or proprietary funds, relying on user fees to support the operations, infrastructure and capital improvements of utility funds. The Utilities are supported by the Public Works Director, 2 Superintendents, 2 Forepersons, 10 Water/Sewer Operators, and 1 Water Quality Specialist.

Discussion:

Water Fund

The Water Fund operates with a customer base of 7,471 meters. The Water Fund finances the infrastructure which is supplied with ground water from five active wells, with two pumping stations and 133 miles of infrastructure throughout the City managed through three major storage reservoirs and one water tower. In 2019 the City began construction of a new water treatment plant for filtration and chemical additions that will be completed in 2020.

Water rates are comprised of two components, a fixed rate and a consumption rate. The fixed rate is determined by the fixed costs of operation that do not change with the amount of water pumped, treated, and consumed. This includes meters & service, billing & collection, debt service and other fixed costs. The consumption rates are established in a tier rate structure established in 2011 to comply with legislative conservation efforts. The consumption rates are established for three customer types of residential, commercial, and industrial. Consumption rates cover all variable costs associated with pumping, treating, and delivery of quality water.

Both of these rate types were increased beginning in 2018 based on a Water Rate Study completed in anticipation of debt service for a water treatment plant. Based on this study the 2020 and 2021 rates will require the increases proposed to provide additional revenue to cover the debt service payment of approximately \$610,000 beginning in 2020 as well as inflation. The water rates have a projected need to increase the base fee by 16.5%, or \$1.28 per month for residential customers, and the consumption rate at 4.0%, or \$0.41 per month for average residential customer.

As a comparable, the city's rates are among the lowest in the area even with the comparison of the proposed 2020 rate increase to the neighboring 2019 rates. This dynamic may change as the operation of the water treatment plant become active.

Staff has established the following budget which includes the proposed rate increase. Application has been submitted for a \$1,500,000 grant from MN Department of Employment and Economic Development (DEED) through their Business Development Public Infrastructure Program (BDPI) to offset some costs of the NW Water Tower project. This budget does not include those grant proceeds as it has not yet been awarded. This budget also does not reflect depreciation of \$1,100,000. Excess revenues have been utilized to build a reserve and are available to fund depreciation and future capital projects or purchases. The proposed budget will tap into those reserves for that very purpose.

<u>Revenues:</u>	
Charges for Services	\$3,354,185
Other Revenue	\$87,200
Interest on Investments	<u>\$50,000</u>
TOTAL REVENUES	\$3,491,385
<u>Expenses:</u>	
Personnel	\$569,126
Supplies & Materials	\$345,110
Utilities	\$297,300
Expert & Professional Services	\$137,475
Debt Service	\$610,610
Other Services & Charges/Transfer Out	\$281,650
Capital Outlay	<u>\$4,380,500</u>
TOTAL EXPENSES	\$6,621,771
REVENUES OVER (UNDER) EXPENSES	(\$3,130,386)

The capital projects for 2020 include water infrastructure activities with various street projects, a water sampling station, garage improvements, a water tower mixer, and the replacement of a 2004 medium duty truck. The most significant component of the capital outlay included in this budget is the \$3,800,000 for direct water system improvements. A NW Water Tower estimated at \$3,500,000 is the majority. The remaining \$300,000 include improvements for the replacement of piping with multiple break history.

The water treatment plant construction began in 2019 and was financed through a Public Facilities Authority (PFA) loan for \$10,205,719 at 1% interest for 20 years. The repayment of the debt service begins in 2020, with a payment of \$610,610, which consists of \$501,419 principal and \$109,191 in interest.

The Water Fund cash balances are recovering from the significant outlay in 2013 and 2014 for the large meter replacement project. Finance continues to review the proposed budget along with the proposed 5 year CIP and future debt service to analyze the financial position of the fund. Projections included the assumption of a 5% adjustment in wages and benefits, 2.5% for supplies & others services, along with the proposed rate increases indicated above. The fund is projected to have expenses exceeding revenues through 2021. Excess revenues over expenses in 2022 will begin the process of replenishing the reserves within the fund. The City adopted a Fund Balance Policy July 10, 2018--the projections for the fund are falling within the parameters laid out within that policy.

The Water Availability Charge (WAC) is recommended to increase \$117.50, totaling \$1,265, in 2020 based on the 2016 Water Rate Study as well. It is projected that this rate will increase annually by \$117.50 through 2022 to bring the fee to \$1,500. The WAC fees are budgeted at \$85,000 in revenue for 2020.

Sewer Fund

The Sewer Fund operates with a 7,334 customer base throughout the City as well as Roberds Lake. The Sewer Fund finances the operation and maintenance of the city wastewater collection and treatment system through 2 separate divisions. The collection system division functions consist of cleaning, inspecting, and repairing sewer lines and lift stations to ensure the consistent, trouble free conveyance of wastewater to the reclamation facility for treatment. The water reclamation division provides for the operation of the Water Reclamation Facility which collects and treats all wastewater from the collection system.

Similar to the Water Fund, there is also a fixed charge along with a consumption charge. The fixed rate is a similar rate across all user classes, and the consumption rate is broken out between residential and significant industrial users. The residential rate shall not exceed a maximum of

\$35.00 per month and there are no sewer charges for a designated irrigation meter.

The City's sewer rates were decreased by 4% in 2019 and are proposed to remain the same for 2020. These rates continue to remain low in comparison to neighboring communities. The following budget also proposes a 0% increase in the Sewer Availability Charge.

Staff has established the following budget which includes the proposed rate freeze. It does not include a \$1,930,000 DNR grant to offset half of the costs of the flood control and bank stabilization measures project. This project has been submitted for bonding bill consideration as this grant is funded through Flood Damage Reduction program. This budget also does not reflect depreciation of \$1,905,000. Excess revenues have been utilized to build a reserve and are available to fund depreciation and future capital projects or purchases. The proposed budget will tap into those reserves for that very purpose.

<u>Revenues:</u>	
Charges for Services	\$6,275,000
Other Revenue	\$19,000
Interest on Investments	<u>\$85,000</u>
TOTAL REVENUES	\$6,379,000
<u>Expenses:</u>	
Personnel	\$1,371,486
Supplies & Materials	\$435,275
Utilities	\$16,800
Expert & Professional Services	\$114,420
Other Services & Charges/Transfer Out	\$1,413,269
Debt Service	\$1,497,285
Capital Outlay	<u>\$5,872,500</u>
TOTAL EXPENSES	\$10,721,035
REVENUES OVER (UNDER) EXPENSES	(\$4,342,035)

Of the \$5,872,500 of capital outlay, \$3,942,500 is funded through the sewer fund. As indicated above, half of the flood control and bank stabilization measures project is submitted for funding through a DNR grant for \$1,930,000. Sanitary sewer system improvements consist of \$1,350,000 to replace/upgrade aged systems, as well as extension, redirection and rehabilitation of sanitary infrastructure.

The Sewer Fund has a PFA loan for \$23,332,461 which was secured in 2009 to upgrade the wastewater treatment plant. The annual payment is approximately \$1,497,000 and the final payment will be made in 2029.

Finance continues to review the proposed budget along with the proposed 5 year CIP and future debt service to analyze the financial position of the fund. Projections included the assumption of a 5% adjustment in wages and benefits, 2.5% for supplies & others services, along with the proposed rate increases indicated above. The fund is projected to have expenses exceeding revenues for 2020 due to the significant capital projects. Excess revenues over expenses in future years will begin the process of replenishing the reserves within the fund. The City adopted a Fund Balance Policy July 10, 2018--the projections for the fund are falling within the parameters laid out within that policy.

Stormwater Fund

The Stormwater Fund is utilized to provide the operation, maintenance and repair of the storm water conveyance system, including 88 miles of infrastructure and implementation of the city-wide Stormwater Pollution Prevention Program (SWPPP) for compliance with the NPDES Municipal Separate Storm Sewer System (MS4) permit program, which authorized the city to discharge stormwater runoff. Infrastructure and storm water facilities are properly maintained to manage, convey and treat storm water runoff. In addition, infrastructure improvements are constructed and repaired as may be deemed necessary.

There are 12,601 RLEs within the City. RLEs are Residential Lot Equivalent which equals 3,500 square feet of impervious surface. Each single family residential property is considered to be one RLE. The other developed property is individually assigned a certain number of RLEs based on property size, impervious surface, and calculated storm water runoff. The property will also receive a credit if it has a storm water retention pond or facility on site.

Stormwater revenue is mainly generated through the stormwater rate charge per RLE throughout the City. Based on a rate study in 2017, rate increases were proposed at 14.5% each year for the next four years (2018-2021). The study also included a phase out of credits over a four year period. The 2020 rate would be \$4.98/RLE based on the study.

Staff has established the following budget which includes the proposed rate increase. This budget does not reflect depreciation of \$400,000. Excess revenues have been utilized to build a reserve and are available to fund depreciation and future capital projects or purchases. The proposed budget will tap into those reserves for that very purpose.

<u>Revenues:</u>	
Charges for Services	\$968,167
Other Revenue	\$15,000
Interest on Investments	<u>\$7,750</u>
TOTAL REVENUES	\$990,917
<u>Expenses:</u>	
Personnel	\$213,359
Supplies & Materials	\$46,850
Utilities	\$1,370
Expert & Professional Services	\$23,500
Other Services & Charges/Transfer Out	\$152,115
Capital Outlay	<u>\$682,000</u>
TOTAL EXPENSES	\$1,119,194
REVENUES OVER (UNDER) EXPENSES	(\$128,277)

The large street and infrastructure improvement projects place a difficult burden on the fund to pay for the portions of the projects related directly to the storm water system. Of the \$682,000 in capital outlay, \$307,000 is related to street reconstruction and overlays. An additional \$150,000 is for the Twin Lakes Storm Sewer Overflow to improve high water level control. This budget also includes the replacement of a 1992 truck.

Fiscal years, 2019 and 2020 are projecting a need to utilize reserves as the capital activity is significant. With the proposed rate increases the fund will gradually generate sufficient revenues. The City adopted a Fund Balance Policy July 10, 2018, the projections for the fund are falling within the parameters laid out within that policy.

Summary:

The three funds are projected to maintain affordable rates and capture the reserves to adequately fund projected future needs on a five year outlook, and remain compliant with the City Fund Balance Policy from 2018. Staff is recommending implementation of the rate increases to the water and stormwater rates in accordance with their respective rate studies. The overall impact on an average residential utility bill would be \$2.32 per month or \$27.89 annually.

Attachments:

- Water Fund - 601 2020 Thru 2024 Projection
- Sewer Fund - 602 2020 Thru 2024 Projection
- Stormwater Fund - 603 2020 Thru 2024 Projection

**CITY OF FARIBAULT
WATER FUND - 601
2020 Thru 2024 PROJECTION**

	<u>Budget 2019</u>	<u>Projected 2020</u>	<u>Projected 2021</u>	<u>Projected 2022</u>	<u>Projected 2023</u>	<u>Projected 2024</u>
Cash Balance January 1	\$ 5,901,076	\$ 5,818,974	\$ 2,688,588	\$ 2,462,875	\$ 2,866,443	\$ 4,008,496
Revenues						
Interest on Investments	\$ 50,000	\$ 50,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000
Miscellaneous Revenue	45,500	47,200	47,200	47,200	47,200	542,200
Water Service Charge	3,044,833	3,257,185	3,492,972	3,756,081	4,050,498	4,380,844
Connection/Reconnection Fees	12,000	12,000	12,000	11,500	11,500	11,500
Water Access Charges	100,000	85,000	93,500	102,850	102,850	102,850
Penalties	40,000	40,000	40,000	40,000	40,000	40,000
Revenue Bond Proceeds	<u>9,720,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	\$ 13,012,333	\$ 3,491,385	\$ 3,720,672	\$ 3,992,631	\$ 4,287,048	\$ 5,112,394
Expenditures						
Personnel Services	\$ 528,754	\$ 569,126	\$ 597,582	\$ 627,461	\$ 658,834	\$ 691,776
Supplies	324,110	345,110	353,738	362,581	371,646	380,937
Other Services & Charges	1,208,227	1,726,425	1,839,586	1,885,575	1,932,715	1,942,378
Debt Service	-	610,610	563,043	563,383	562,673	562,923
Transfer Out	241,358	90,000	90,000	90,000	90,000	90,000
Capital Projects						
Facilities	9,895,000	150,000	25,000			
Infrastructure	300,000	3,844,000	1,200,000	750,000	550,000	525,000
Street Reconstruction	1,070,000	341,500	302,311	507,500	151,250	190,000
Equipment & Vehicles	117,000	45,000	172,625	30,000	86,000	75,000
Prior Year Infrastructure	9,986					
Total Expenditures	<u>\$ 13,694,435</u>	<u>\$ 7,721,771</u>	<u>\$ 5,143,885</u>	<u>\$ 4,816,501</u>	<u>\$ 4,403,118</u>	<u>\$ 4,458,014</u>
Revenue Over/Under Expenditures	\$ (682,102)	\$ (4,230,386)	\$ (1,423,213)	\$ (823,870)	\$ (116,070)	\$ 654,380
Balance sheet items/Depreciation	<u>\$ 600,000</u>	<u>\$ 1,100,000</u>	<u>\$ 1,197,500</u>	<u>\$ 1,227,438</u>	<u>\$ 1,258,123</u>	<u>\$ 1,289,577</u>
Projected Cash & Cash Equivalents	<u><u>\$ 5,818,974</u></u>	<u><u>\$ 2,688,588</u></u>	<u><u>\$ 2,462,875</u></u>	<u><u>\$ 2,866,443</u></u>	<u><u>\$ 4,008,496</u></u>	<u><u>\$ 5,952,452</u></u>

NOTES

- Personnel (wages and benefits) was adjusted by 5% for 2021 through 2024
- Supplies and Other Services/Charges were adjusted by 2.5% for 2020 through 2024
- Capital Project totals are taken from the 5-year CIP.
- Water Service Charges assume a 4% increase in consumption revenues and a 16.5% increase in base rates
- Water Access Charges assume an increase of 10% (\$117.50) for 2020 through 2022.

**CITY OF FARIBAULT
SEWER FUND - 602
2020 Thru 2024 PROJECTION**

	<u>Budget 2019</u>	<u>Projected 2020</u>	<u>Projected 2021</u>	<u>Projected 2022</u>	<u>Projected 2023</u>	<u>Projected 2024</u>
Cash Balance January 1	\$ 10,269,793	\$ 9,484,889	\$ 5,142,854	\$ 6,155,663	\$ 6,627,106	\$ 7,323,528
<u>Revenues</u>						
Interest on Investments	\$ 110,000	\$ 85,000	\$ 100,000	\$ 107,500	\$ 118,000	\$ 129,000
Miscellaneous Revenue	504,000	19,000	14,000	14,000	14,000	14,000
Special Assessments						
Sewer Service Charges	3,135,792	2,900,000	2,900,000	2,900,000	2,900,000	2,900,000
Significant Users (SIU)	2,695,000	3,200,000	3,200,000	3,200,000	3,200,000	3,200,000
Sewer Access Charges	250,000	175,000	175,000	175,000	175,000	175,000
Total Revenues	\$ 6,694,792	\$ 6,379,000	\$ 6,389,000	\$ 6,396,500	\$ 6,407,000	\$ 6,418,000
<u>Expenditures</u>						
Personnel Services	\$ 1,304,149	\$ 1,371,486	\$ 1,440,060	\$ 1,512,063	\$ 1,587,666	\$ 1,667,050
Supplies	407,960	435,275	446,157	457,311	468,744	480,462
Other Services & Charges	3,393,975	3,239,489	3,320,476	3,403,488	3,488,575	3,575,790
Debt Service	1,497,228	1,497,285	1,497,603	1,497,156	1,496,944	1,496,942
Capital Projects						
Facilities	385,000	70,000	50,000	175,000	50,000	50,000
Infrastructure	1,250,000	5,226,000	-	200,000	125,000	250,000
Street Reconstruction	680,000	346,500	189,370	385,000	156,250	15,000
Equipment & Vehicles	317,000	230,000	165,625	67,000	149,000	45,000
Prior Year Infrastructure	125,742					
Transfer Out	243,642	210,000	210,000	210,000	210,000	210,000
Total Expenditures	\$ 9,604,696	\$ 12,626,035	\$ 7,319,291	\$ 7,907,018	\$ 7,732,179	\$ 7,790,244
Revenue Over/Under Expenditures	\$ (2,909,904)	\$ (6,247,035)	\$ (930,291)	\$ (1,510,518)	\$ (1,325,179)	\$ (1,372,244)
Balance Sheet Items/Depreciation	\$ 2,125,000	\$ 1,905,000	\$ 1,943,100	\$ 1,981,962	\$ 2,021,601	\$ 2,062,033
Projected Cash & Cash Equivalents	\$ 9,484,889	\$ 5,142,854	\$ 6,155,663	\$ 6,627,106	\$ 7,323,528	\$ 8,013,318

NOTES

- Revenues projected for 2020 reflect the 4% decrease in consumption rate implemented in 2019.
- Personnel (wages and benefits) was adjusted by 5% for 2021 through 2024
- Supplies and Other Services/Charges were adjusted by 2.5% for 2021 through 2024.
- Capital Project totals are taken from the 5-year CIP.

**CITY OF FARIBAULT
STORMWATER FUND - 603
2020 thru 2024 PROJECTION**

	<u>Budget 2019</u>	<u>Projected 2020</u>	<u>Projected 2021</u>	<u>Projected 2022</u>	<u>Projected 2023</u>	<u>Projected 2024</u>
Cash Balance January 1	\$ 1,706,223	\$ 1,164,814	\$ 1,036,537	\$ 1,152,130	\$ 1,816,502	\$ 2,310,153
<u>Revenues</u>						
Interest on Investments	\$ 16,500	\$ 7,750	\$ 7,750	\$ 7,750	\$ 7,750	\$ 7,750
Storm Water Charges	868,138	968,167	1,108,551	1,111,323	1,114,101	1,116,886
Penalties	10,000	12,500	12,500	12,500	12,500	12,500
Miscellaneous	62,500	2,500	2,500	2,500	2,500	2,500
Municipal State Aid	-	-	-	150,000	-	-
Total Revenues	\$ 957,138	\$ 990,917	\$ 1,131,301	\$ 1,284,073	\$ 1,136,851	\$ 1,139,636
Expenditures						
Personnel Services	\$ 223,197	\$ 213,359	\$ 224,027	\$ 235,228	\$ 246,990	\$ 259,339
Supplies	48,350	46,850	48,021	49,222	50,452	51,714
Other Services & Charges	675,834	576,985	273,660	280,501	287,514	294,701
Capital Projects						
Infrastructure	470,000	300,000	250,000	150,000	300,000	150,000
Street Reconstruction	200,000	307,000	620,000	315,000	99,000	25,000
Equipment & Vehicles	120,000	75,000	10,000	10,000	90,000	-
Prior Year Infrastructure	1,166	-	-	-	-	-
Total Expenditures	\$ 1,738,547	\$ 1,519,194	\$ 1,425,708	\$ 1,039,951	\$ 1,073,956	\$ 780,754
Revenue Over/Under Expenditures	\$ (781,409)	\$ (528,277)	\$ (294,407)	\$ 244,121	\$ 62,895	\$ 358,882
Balance Sheet Items/Depreciation	\$ 240,000	\$ 400,000	\$ 410,000	\$ 420,250	\$ 430,756	\$ 441,525
Projected Cash & Cash Equivalents	\$ 1,164,814	\$ 1,036,537	\$ 1,152,130	\$ 1,816,502	\$ 2,310,153	\$ 3,110,560

NOTES

- Personnel (wages and benefits) was adjusted by 5% for 2021 through 2024
- Supplies and Other Services/Charges were adjusted by 2.5% for 2021 through 2024.
- Capital Project totals are taken from the 5-year CIP.