

2026 Wastewater Rate Study City of Breezy Point, Minnesota

Final Report – May 21, 2026



DDA

David Drown Associates, Inc.
Public Finance Advisors

Minneapolis Office:
5029 Upton Avenue South
Minneapolis, MN 55410
612-920-3320 (phone); 612-605-2375 (fax)
www.daviddrown.com

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EXECUTIVE SUMMARY

In the spring of 2026 staff from David Drown Associates was authorized to begin work on a wastewater utility rate analysis that incorporated expenditures associated with a future capital project that involved the expansion of the wastewater pond system. The planning period for the rate analysis is projected through 2034. The analysis includes an examination of utility rates for the wastewater system that would be necessary to accommodate the proposed expenditures and maintain a targeted minimum cash balance of approximately \$1,000,000.

Four years of audit history were used in examining historical rates and impacts on cash reserves along with year-to-date revenues and expenditures. An implementation year of 2032 has been used for the wastewater treatment pond expansion at a cost of \$6,000,000.

Wastewater Rate Impacts:

Two options were examined for the purpose of funding the proposed project. The first considers a nominal annual increase to all wastewater rates and fees with the assumption that the City will be required to borrow a portion of the project cost in order to maintain a \$1 million cash reserve in the wastewater fund.

The second option considers more significant increases to rates to build a sufficient cash reserve so that the City can pay cash for the project and maintain a minimum cash reserve of \$1 million in the wastewater enterprise fund.

Nominal Increase:

Annual increases to the wastewater rate schedule averaging 6% per year (base, flow, and connection charges) through 2032 will be required to support most of the proposed capital expenditure in 2032, and maintain the minimum targeted cash balance of approximately \$1,000,000 by year end 2034. At the 6% level for increases, the City would still need to borrow approximately \$1,010,000 for the project. Terms for the new debt were assumed to be 20-years at 4.5%. A residential customer with an \$85 quarterly wastewater bill in 2026, would be at \$120.57 in 2032.

More Significant Increases:

Annual increases to the wastewater rate schedule averaging 10% per year (base, flow, and connection charges) through 2032 will be required to support all of the proposed capital expenditure in 2032 and maintain the minimum targeted cash balance of approximately \$1,000,000 by year end 2034. At the 10% level for increases, the City would not need to borrow for the expansion project based on current estimates. A residential customer with an \$85 quarterly wastewater bill in 2026, would be at \$150.58 in 2032.

Wastewater System:

The City of Breezy Point has conducted a study of its wastewater infrastructure to examine the existing system capacity and make a determination as to when the treatment facilities may need to be expanded. The study identified 60 to 80 equivalent residential units (ERU) in capacity being available in the existing system. Projecting 15 new ERU's being added to the system each year, it has been assumed that a \$6 million expansion to the treatment facility would be required in 2032.

The present system has approximately 922 metered customers (some customers have more than one meter), with most customers paying a flat quarterly fee of \$85.00. The City has historically funded extensions and capital projects within its wastewater system with cash.

The City of Breezy Point is in the enviable position of having no debt on the wastewater system, and has accumulated a cash balance of approximately \$4.407 million at the end of 2025. The City has positioned itself well to undertake a significant expansion of the treatment facility when required to do so.

The Wastewater system is comprised largely of residential customers (833 of 922) that generate about 50% of the utility revenues from a fixed quarterly fee.

Rate Analysis – Option 1:

I have evaluated two options for the modification of wastewater rates to support the proposed expansion and operating costs. The first option includes increases of 6% annually through 2034, with more modest inflation-based increases thereafter.

A summary of key assumptions used in the projection include the following:

- 1) The city will average 15 new connections to the Wastewater system each year.
- 2) Operating costs will increase by 4% per year with an additional increase of \$20,000 per year once the treatment plant expansion is operational.
- 3) Revenue increases from growth will average approximately 1% per year.
- 4) The City will finance, through the issuance of bonds or a PFA loan (State), a portion of the project costs totaling \$1,010,000 structured over a 20-year term. At this point I have assumed a 4.5% interest rate. Debt service will start in 2033.
- 5) The City will earn an average of 3% interest on its invested cash.

Attached (Exhibit 1) you will find the financial projection for the Wastewater enterprise based on the assumptions outlined above.

Rate Analysis – Option 2:

The second option includes increases of 10% annually through 2032, with more modest inflation-based increases to be considered thereafter.

A summary of key assumptions used in the projection include the following:

- 1) The city will average 15 new connections to the Wastewater system each year.
- 2) Operating costs will increase by 4% per year with an additional increase of \$20,000 per year once the treatment plant expansion is operational.
- 3) Revenue increases from growth will average approximately 1% per year.
- 4) The City will pay cash for the expansion project and maintain a minimum cash balance in the sewer fund of at least \$1,000,000 by year end 2034.
- 5) The City will earn an average of 3% interest on its invested cash.

Attached (Exhibit 2) you will find the financial projection for the Wastewater enterprise based on the assumptions outlined above.

Additional options may be evaluated now or upon request as a financial model has been created and can be efficiently updated with annual audit information and modified to accommodate other options.

City of Breezy Point, Minnesota Sewer Fund Analysis					Exhibit 1										
Audited					Projected										
Connections/Year:		15													
Annual Inflation Rate:		4.00%													
Sales Growth Rate:		1.00% (15 units per year)													
Rate Increase (2027-2034):		6.00%													
Interest Earned on Cash:		3.00%													
Operating Revenues					Budgeted										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
User Charges	413,766	421,038	454,794	459,163	472,413	525,050	561,804	601,130	643,209	688,233	736,410	787,958	843,116	902,134	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Operating Revenue	413,766	421,038	454,794	459,163	472,413	525,050	561,804	601,130	643,209	688,233	736,410	787,958	843,116	902,134	
Operating Expenses															
Personal Services	197,171	230,934	263,551	331,378	306,151	308,850	321,204	334,052	347,414	361,311	375,763	390,794	406,426	422,683	
Employee Benefits	25,611	38,102	36,222	41,367	20,438	84,965	88,364	91,898	95,574	99,397	103,373	107,508	111,808	116,280	
Professional Services	2,919	2,348	7,007	27,724	18,022	40,000	41,600	43,264	44,995	46,794	48,666	50,613	52,637	54,743	
Utilities	22,952	26,638	27,719	32,325	32,847	35,000	36,400	37,856	39,370	40,945	42,583	44,286	46,058	47,900	
Maintenance and Supplies	23,396	43,961	106,839	90,777	283,744	45,915	47,752	49,662	51,648	53,714	55,863	58,097	60,421	62,838	
Depreciation	-	241,454	241,785	243,828	242,988	242,988	242,988	242,988	242,988	242,988	242,988	242,988	242,988	242,988	
Insurance	6,398	8,178	10,309	13,391	13,520	12,320	12,813	13,325	13,858	14,413	14,989	15,589	16,212	16,861	
Other Services and Charges	12,664	13,769	12,115	18,875	20,179	11,500	11,960	12,438	12,936	13,453	13,992	14,551	15,133	15,739	
Increase in Op Costs from Project	-	-	-	-	-	-	-	-	-	-	-	-	20,000	20,800	
Total Operating Expenses	291,111	605,384	705,547	799,665	937,889	781,538	803,080	825,484	848,784	873,015	898,216	924,426	971,683	1,000,831	
Operating Income	122,655	(184,346)	(250,753)	(340,502)	(465,476)	(256,488)	(241,277)	(224,354)	(205,575)	(184,782)	(161,807)	(136,467)	(128,567)	(98,697)	
Net Cash from Operations	122,655	70,998	(101,300)	(73,527)	(220,612)	(13,500)	1,712	18,634	37,413	58,206	81,181	106,521	114,421	144,291	
Connection Charges	111,375	36,650	29,925	47,525	29,925	48,750	51,675	54,776	58,062	61,546	65,238	69,153	73,302	77,700	
Assessments	137,190	83,891	79,199	81,030	75,289	41,910	41,910	41,910	38,475	38,475	38,475	38,177	38,177	33,868	
Intergovernmental & Other	-	33,760	(48)	5,152	800	-	-	-	-	-	-	-	-	-	
Interest Income	(4,066)	(88,827)	125,915	178,446	172,997	132,197	137,278	142,005	147,408	153,461	160,353	50,000	26,394	28,933	
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	(77,645)	(77,645)	
Issuance of Bonds/Notes	-	-	-	-	-	-	-	-	-	-	-	1,010,000	-	-	
Acquisition of Capital Assets	(26,992)	(43,170)	(48,200)	(40,850)	(39,820)	(40,000)	(75,000)	(77,250)	(79,568)	(81,955)	(84,413)	(6,000,000)	(90,000)	(92,700)	
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Increase in Cash	340,162	93,302	85,491	197,776	18,579	169,357	157,575	180,075	201,790	229,733	260,835	(4,726,149)	84,649	114,448	
Cash Beginning of Year	3,671,268	4,011,430	4,104,732	4,190,223	4,387,999	4,406,578	4,575,935	4,733,510	4,913,585	5,115,375	5,345,109	5,605,943	879,794	964,443	
Cash End of Year	4,011,430	4,104,732	4,190,223	4,387,999	4,406,578	4,575,935	4,733,510	4,913,585	5,115,375	5,345,109	5,605,943	879,794	964,443	1,078,891	
Quarterly Fixed Charge:		70.00	75.00	75.00	75.00	85.00	90.10	95.51	101.24	107.31	113.75	120.57	127.81	135.48	
Flow Charge per 1K over 12K:		8.82	8.82	8.82	8.82	8.82	9.35	9.91	10.50	11.14	11.80	12.51	13.26	14.06	
Connection Charge Per ERU:		3,250.00	3,250.00	3,250.00	3,250.00	3,250.00	3,445.00	3,651.70	3,870.80	4,103.05	4,349.23	4,610.19	4,886.80	5,180.01	
12,000 gal per quarter usage:	-	70.00	75.00	75.00	75.00	85.00	90.10	95.51	101.24	107.31	113.75	120.57	127.81	135.48	
30,000 gal per quarter usage:	-	228.76	233.76	233.76	233.76	243.76	258.39	273.89	290.32	307.74	326.21	345.78	366.52	388.52	

City of Breezy Point, Minnesota Sewer Fund Analysis					Exhibit 2										
Audited					Projected										
Connections/Year:	15														
Annual Inflation Rate:	4.00%														
Sales Growth Rate:	1.00%	(15 units per year)													
Rate Increase (2027-2034):	10.00%														
Interest Earned on Cash:	3.00%														
Operating Revenues					Budgeted										
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032	2033	2034	
User Charges	413,766	421,038	454,794	459,163	472,413	525,050	582,806	646,914	718,075	797,063	884,740	982,061	982,061	982,061	
Other	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Total Operating Revenue	413,766	421,038	454,794	459,163	472,413	525,050	582,806	646,914	718,075	797,063	884,740	982,061	982,061	982,061	
Operating Expenses															
Personal Services	197,171	230,934	263,551	331,378	306,151	308,850	321,204	334,052	347,414	361,311	375,763	390,794	406,426	422,683	
Employee Benefits	25,611	38,102	36,222	41,367	20,438	84,965	88,364	91,898	95,574	99,397	103,373	107,508	111,808	116,280	
Professional Services	2,919	2,348	7,007	27,724	18,022	40,000	41,600	43,264	44,995	46,794	48,666	50,613	52,637	54,743	
Utilities	22,952	26,638	27,719	32,325	32,847	35,000	36,400	37,856	39,370	40,945	42,583	44,286	46,058	47,900	
Maintenance and Supplies	23,396	43,961	106,839	90,777	283,744	45,915	47,752	49,662	51,648	53,714	55,863	58,097	60,421	62,838	
Depreciation	-	241,454	241,785	243,828	242,988	242,988	242,988	242,988	242,988	242,988	242,988	242,988	242,988	242,988	
Insurance	6,398	8,178	10,309	13,391	13,520	12,320	12,813	13,325	13,858	14,413	14,989	15,589	16,212	16,861	
Other Services and Charges	12,664	13,769	12,115	18,875	20,179	11,500	11,960	12,438	12,936	13,453	13,992	14,551	15,133	15,739	
Increase in Op Costs from Project	-	-	-	-	-	-	-	-	-	-	-	-	20,000	20,800	
Total Operating Expenses	291,111	605,384	705,547	799,665	937,889	781,538	803,080	825,484	848,784	873,015	898,216	924,426	971,683	1,000,831	
Operating Income	122,655	(184,346)	(250,753)	(340,502)	(465,476)	(256,488)	(220,275)	(178,570)	(130,709)	(75,952)	(13,477)	57,636	10,378	(18,770)	
Net Cash from Operations	122,655	70,998	(101,300)	(73,527)	(220,612)	(13,500)	22,714	64,418	112,279	167,036	229,511	300,624	253,366	224,218	
Connection Charges	111,375	36,650	29,925	47,525	29,925	48,750	53,625	58,988	64,886	71,375	78,512	86,364	86,364	86,364	
Assessments	137,190	83,891	79,199	81,030	75,289	41,910	41,910	41,910	38,475	38,475	38,475	38,177	38,177	33,868	
Intergovernmental & Other	-	33,760	(48)	5,152	800	-	-	-	-	-	-	-	-	-	
Interest Income	(4,066)	(88,827)	125,915	178,446	172,997	132,197	137,278	142,694	149,617	158,187	168,781	60,000	16,262	25,387	
Debt Service	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Issuance of Bonds/Notes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Acquisition of Capital Assets	(26,992)	(43,170)	(48,200)	(40,850)	(39,820)	(40,000)	(75,000)	(77,250)	(79,568)	(81,955)	(84,413)	(6,000,000)	(90,000)	(92,700)	
Transfers	-	-	-	-	-	-	-	-	-	-	-	-	-	-	
Net Increase in Cash	340,162	93,302	85,491	197,776	18,579	169,357	180,527	230,760	285,689	353,118	430,866	(5,514,836)	304,169	277,137	
Cash Beginning of Year	3,671,268	4,011,430	4,104,732	4,190,223	4,387,999	4,406,578	4,575,935	4,756,462	4,987,222	5,272,911	5,626,029	6,056,895	542,060	846,229	
Cash End of Year	4,011,430	4,104,732	4,190,223	4,387,999	4,406,578	4,575,935	4,756,462	4,987,222	5,272,911	5,626,029	6,056,895	542,060	846,229	1,123,366	
Quarterly Fixed Charge:		70.00	75.00	75.00	75.00	85.00	93.50	102.85	113.14	124.45	136.89	150.58	150.58	150.58	
Flow Charge per 1K over 12K:		8.82	8.82	8.82	8.82	8.82	9.70	10.67	11.74	12.91	14.20	15.63	15.63	15.63	
Connection Charge Per ERU:		3,250.00	3,250.00	3,250.00	3,250.00	3,250.00	3,575.00	3,932.50	4,325.75	4,758.33	5,234.16	5,757.57	5,757.57	5,757.57	
12,000 gal per quarter usage:	-	70.00	75.00	75.00	75.00	85.00	93.50	102.85	113.14	124.45	136.89	150.58	150.58	150.58	
30,000 gal per quarter usage:	-	228.76	233.76	233.76	233.76	243.76	268.14	294.95	324.44	356.89	392.58	431.84	431.84	431.84	