



Memorandum

To: Mayor Nelson and Members of the City Council

From: Daniel R. Buchholtz, MMC, Administrator, Clerk/Treasurer

Date: November 1, 2022

Subject: Review Proposed 2023 Public Utilities Budget

Staff has included the proposed 2023 Public Utilities Budget for City Council review and approval.

Water, Water Treatment and Sanitary Sewer

Revenues are anticipated at \$1,781,727, which is an increase of \$157,948 or 9.7%. Expenditures are also anticipated at \$1,781,727, resulting in a balanced budget. The significant increase in revenue is due primarily to the incorporation of the Treatment Plant Debt Service rate into the Water Conservation Rate scale and the offsetting transfer to the Building Maintenance Fund.

Cost drivers include increases in wages and benefits, printing & publishing, property/casualty insurance premiums, electric utilities, and transfers out.

The budget transfers \$131,784 to the Public Utilities Renewal and Replacement fund. This transfer, along with the revenues from our cell phone tower leases, pays for system improvements such as our annual sanitary sewer lining program and various treatment plant improvements. The budget transfers \$55,342 to the General Fund to help offset general government expenses that support the public utility operation. The budget transfers \$160,000 to the Building Maintenance Fund, offsetting expenditures related to the renovation of City Hall.

Staff is not proposing a utility rate increase for water and sanitary sewer for 2023. This will be the sixth consecutive year with no rate increase.

The City's water and sanitary sewer rates compare favorably with cities across the Twin Cities metropolitan area. I have included a chart with results from the 2022 North Central Utility Rate Survey. As you can see, of those who responded, we have the third lowest utility rates in the Twin Cities metropolitan area.

Water Treatment Plant Debt Service

The Water Treatment Plant Fund (602) proposed budget shows a deficit of nearly \$251,907. This is due to the elimination of the Treatment Plant Rate. The City Council asked that this rate be incorporated with the water rates to offset costs associated with the proposed City Hall renovation. There is sufficient fund balance in the Water Treatment Plant Debt Service Fund to absorb this deficit. The Water Treatment Plant PFA note will be paid off in August 2023.

Storm Water

Staff is anticipating \$98,900 in revenue from the utility, primarily collected from storm water utility fees. The storm water utility rate is proposed to remain at \$2.00/month per residential equivalency factor (REF). A single-family home is 1 REF. Commercial, Industrial and Multi-family properties will have their REF calculated in accordance with the following REF's multiplied by the acreage of the parcel:

Medium Density Residential (3-10 units/acre)	5.6 REF/acre
High Density Residential (10+ units/acre)	5.6 REF/acre
Senior Handicapped Residential	5.6 REF/acre
Commercial	7.3 REF/acre
Commercial/Industrial	6.3 REF/acre
Public/Semi Public	0.3 REF/acre

Expenditures are anticipated at \$98,900, with the largest portions spent for repairs and maintenance of the system (\$18,000), Capital Outlay (\$50,000), and Engineering Fees (\$8,000). The budget also absorbs 10% of the salary expense for the Public Works Director, offsetting expense from the General Fund. Over time, staff anticipates some additional Public Works Department salary expense will be charged to this Fund.

Outlook

The 2022 North Central Utility Rate Survey showed that 63% of respondents in the Metro area are anticipating a water rate increase and 48% of respondents are anticipating a sewer rate increase for 2023. Of those stating they are anticipating an increase, 64% anticipate a water rate increase greater than 2% and 70% anticipate a wastewater rate increase greater than 2%. Should that hold true, the City's competitive rate advantage will continue to grow in 2023.

Due to inflationary pressures the City is experiencing, staff is fully anticipating the need for a rate increase for 2024.

Recommendation

Staff recommends approval of the 2023 Public Utilities Budget. If you have any questions, please don't hesitate to contact me at 763-784-6491.