

Sanitary Sewer Utility Fund

The City's Sewer Utility Enterprise Fund accounts for the operations of the City's sanitary sewer system. As an enterprise fund, the Sewer Utility is designed to recover the cost of collecting, treating and disposing of the wastewater of its customers through user fees. The system serves about 19,400 accounts, 95% of which are residential. Those properties that maintain a private septic system and those not in the Metropolitan Urban Service Area (MUSA) are not required to subscribe to the City's sewer service. Overall, Blaine provides sanitary sewer service to over 96% of the citizens of Blaine. The City's sewer operation functions as a division of the City's Public Services Department under the direction of the Public Works Director, with 3.75 FTE staff allocated to the division. No additional staffing requests are included in the 2018 Proposed Budget.

Revenues

As with the Water Utility Fund, the Sewer Utility Fund receives the bulk of its funding through fees charged to customers. The utility's fee schedule is designed to provide sufficient revenue to recover all operating costs, as well as to provide for the replacement of major capital components of the system. Based upon current projections of the fund operating at a deficit, staff is recommending a \$3 per quarter rate increase in each of the next five years in order to meet its financial goals over the coming five-year period. Keep in mind, however, that approval of this budget authorizes only the rate increase - from \$51.00 to \$54.00 - for FY 2018.

Expenses

The largest single expense in the Sewer Fund is the monthly charge from Metropolitan Council Environmental Services (MCES). MCES collects, treats, and disposes of wastewater generated from Blaine properties. Overall this cost accounts for 60% of the fund's operating costs excluding depreciation. Based on information from MCES, charges for collection, treatment and disposal of wastewater will increase by \$77,000 (2.1%) in 2018. Personnel costs include a 2.75% general wage increase, but the overall increase is 3.6% due to step increases earned, and higher cafeteria expenses. Supplies and all other operating expenses (excluding depreciation) are increased by \$16,000.

Capital Improvements

Sewer Utility capital improvements are primarily funded through current fees, of which there is a component to provide for the replacement of capital assets once they are placed into service, and assessments to property owners for improvements to the system that enhance the value of the property benefiting from the improvement. The proposed 2017 Sewer Utility capital budget contains \$4 million in improvements, including \$2 million for sewer-main slip-lining; \$1.6 million for SCADA system replacement; \$275,000 in lift station improvements; and \$125,000 for facility security improvements.

5-Year Projections

In addition to the 2018 budget, 5-year projections for the Sewer Utility operations and capital improvement plan have been prepared. Both 5-year plans are monitored closely and updated annually to ensure that the fund maintains its financial stability and that rates and fees are properly adjusted. Since depreciation is included in operating costs, the replacement of existing capital assets is funded with current operating revenues. If sewer rates are not increased, operating losses are projected to reach \$500,000 in 2017, and are expected to increase toward \$1.6 million by 2022. By recommending a \$3.00 per quarter increase in each of the next five years, it is staff's goal to increase fund reserves to targeted levels by the end of 2022.

2018 FUND SUMMARY
SEWER UTILITY FUND - 602

	2015 Actual	2016 Actual	2017 Budget	2017 Projected	2018 Proposed Budget
BEGINNING FUND RESERVE	\$ 6,822,156	\$ 6,551,565	\$ 6,252,962	\$ 6,252,962	\$ 7,274,566
<u>REVENUES</u>					
Operating Revenues	\$ 4,943,994	\$ 5,354,922	\$ 5,770,400	\$ 5,653,550	\$ 6,039,600
Capital Financing					
Sewer Connection Charges	26,139	25,704	20,000	25,000	25,000
TOTAL REVENUES	\$ 4,970,133	\$ 5,380,626	\$ 5,790,400	\$ 5,678,550	\$ 6,064,600
<u>EXPENDITURES</u>					
Operating					
Personal Services	\$ 325,847	\$ 359,477	\$ 363,570	\$ 320,140	\$ 376,530
Supplies	9,698	27,242	25,200	25,200	31,100
Contractual Services	210,236	455,856	366,850	366,850	358,350
MCES Disposal Charges	3,120,398	3,383,244	3,666,300	3,666,300	3,743,440
Other	589,667	555,848	537,650	537,650	556,150
Depreciation	1,101,179	1,108,265	1,150,000	1,130,000	1,175,000
	\$ 5,357,025	\$ 5,889,932	\$ 6,109,570	\$ 6,046,140	\$ 6,240,570
Capital & Infrastructure					
Capital Projects	984,878	897,562	2,993,500	310,000	4,000,000
TOTAL EXPENDITURES	\$ 6,341,903	\$ 6,787,494	\$ 9,103,070	\$ 6,356,140	\$ 10,240,570
Net Addition Fund Balance	\$ (1,371,770)	\$ (1,406,868)	\$ (3,312,670)	\$ (677,590)	\$ (4,175,970)
<u>FUND BALANCE RESERVE</u>					
Beginning	\$ 6,822,156	\$ 6,551,565	\$ 6,822,156	\$ 6,822,156	\$ 7,274,566
Add Net Income	(1,371,770)	(1,406,868)	(3,312,670)	(677,590)	(4,175,970)
Add Depreciation	1,101,179	1,108,265	1,150,000	1,130,000	1,175,000
Y/E Fund Balance Reserve	6,551,565	6,252,962	4,659,486	7,274,566	4,273,596
Required Reserve:					
Cash Flow	\$ 1,310,000	\$ 1,420,000	\$ 1,988,000	\$ 1,307,000	\$ 2,266,000
Capital Reserve	3,601,000	3,608,000	3,650,000	3,630,000	3,675,000
	\$ 4,911,000	\$ 5,028,000	\$ 5,638,000	\$ 4,937,000	\$ 5,941,000
Fund Reserve	\$ 1,640,565	\$ 1,224,962	\$ (978,514)	\$ 2,337,566	\$ (1,667,404)

2018 FUND SUMMARY
SEWER UTILITY FUND - 602

	2018 Proposed Budget	2019 Estimate	2020 Estimate	2021 Estimate	2022 Estimate
BEGINNING FUND RESERVE	\$ 7,274,566	\$ 4,273,596	\$ 2,216,436	\$ 2,341,596	\$ 3,423,246
REVENUES					
Operating Revenues	\$ 6,039,600	\$ 6,391,800	\$ 6,767,200	\$ 7,196,500	\$ 7,637,800
Capital Financing					
Sewer Connection Charges	25,000	15,000	15,000	15,000	15,000
TOTAL REVENUES	\$ 6,064,600	\$ 6,406,800	\$ 6,782,200	\$ 7,211,500	\$ 7,652,800
EXPENDITURES					
Operating					
Personal Services	\$ 376,530	\$ 384,170	\$ 395,430	\$ 407,330	\$ 420,070
Supplies	31,100	29,100	29,600	30,100	30,600
Contractual Services	358,350	320,340	323,460	326,670	329,900
MCES Disposal Charges	3,743,440	3,968,000	4,206,100	4,458,500	4,726,000
Other	556,150	556,350	576,450	597,250	618,850
Depreciation	1,175,000	1,220,000	1,270,000	1,320,000	1,370,000
	\$ 6,240,570	\$ 6,477,960	\$ 6,801,040	\$ 7,139,850	\$ 7,495,420
Capital & Infrastructure					
Capital Projects	4,000,000	3,206,000	1,126,000	310,000	310,000
TOTAL EXPENDITURES	\$ 10,240,570	\$ 9,683,960	\$ 7,927,040	\$ 7,449,850	\$ 7,805,420
Net Addition Fund Balance	\$ (4,175,970)	\$ (3,277,160)	\$ (1,144,840)	\$ (238,350)	\$ (152,620)
FUND BALANCE RESERVE					
Beginning	\$ 7,274,566	\$ 4,273,596	\$ 2,216,436	\$ 2,341,596	\$ 3,423,246
Add Net Income	(4,175,970)	(3,277,160)	(1,144,840)	(238,350)	(152,620)
Add Depreciation	1,175,000	1,220,000	1,270,000	1,320,000	1,370,000
Y/E Fund Balance Reserve	4,273,596	2,216,436	2,341,596	3,423,246	4,640,626
Required Reserve:					
Cash Flow	\$ 2,266,000	\$ 2,116,000	\$ 1,664,000	\$ 1,532,000	\$ 1,609,000
Capital Reserve	3,675,000	3,720,000	3,770,000	3,820,000	3,870,000
	\$ 5,941,000	\$ 5,836,000	\$ 5,434,000	\$ 5,352,000	\$ 5,479,000
Fund Reserve	\$ (1,667,404)	\$ (3,619,564)	\$ (3,092,404)	\$ (1,928,754)	\$ (838,374)