



City of Blaine Anoka County, Minnesota

Blaine City Hall
10801 Town Sq Dr NE
Blaine MN 55449

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Sponsors: Joe Huss
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WORKSHOP ITEM: - *Joe Huss, Finance Director*

PROPOSED 2021 SEWER UTILITY FUND BUDGET

As part of the City's comprehensive budgeting process, staff will be presenting preliminary budgets for the 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 utility is designed to recover the cost of collecting, treating and disposing of wastewater of its customers through user fees. The system serves about 20,775 accounts, 95% of which are residential. 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 city residents. The city's sewer operation functions as a division of the Public Works Department under the direction of the Public Works Director, with 3.75 FTE staff currently allocated to the division. For 2021 a request to add the position of Assistant Public Works Director (APWD) has been discussed with the council. The proposal is to charge 25% of that position to the General Fund and each of the three utility funds. If approved, that would bring to 4.00 the number of FTE in the Sewer Fund.

Revenues

As with the Water Fund, the Sewer Utility Fund receives the bulk of its funding from 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. Staff has reviewed the need to increase sewer rates pursuant to the plan that has been in place over the last several years. With the nearly 7% reduction in treatment fees from Met Council Environmental Services (MCES), staff is

recommending that the planned \$3/quarter rate increase in each of the next five years be dropped to no increase in 2021 and reduced by 50%, to \$1.50/quarter over the remainder (2022-25) of the five-year plan. Keep in mind, however, that approval of this budget authorizes only the rate for 2021.

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 70% of the fund's operating costs in 2021, excluding depreciation. Based on information from MCES, charges for collection, treatment and disposal of wastewater will decrease by \$292,400 (7%) in 2021. Total personnel costs increase \$66,000 as a result of a 3% general wage increase, the incorporation of a step increase for five years of service, adjustments to employee benefits, and the addition of 25% of the APWD position. Supplies and all other operating expenses (excluding depreciation) are increased by \$130,000; \$68,000 of this is in payments to the general and facilities management funds, with the remainder resulting from increasing maintenance expenses at the city's lift stations.

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 2021 sewer utility capital budget totals just over \$1.7 million in improvements, including \$1,275,000 for lift station improvements; \$400,000 for sanitary sewer lining; and \$36,000 to replace a back-up generator at LS21.

5-Year Projections

In addition to the 2021 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. The current 5-year outlook indicates smaller than expected rate increases will still provide a safe operating margin and maintain adequate reserve levels in the sanitary sewer fund through 2025.

Upon discussion of the attached budget and the programs supported by the proposed budget, staff is seeking Council input regarding adoption of the budget and the setting sewer utility fees for 2021.