



City of Blaine Anoka County, Minnesota

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Workshop Item *Alison Bong, Deputy Finance Director*

Title

Enterprise Fund Budget Preview and Introduction of Rate Study

Background

Finance staff is introducing initial high-level models of the city's Water, Sanitary, and Storm Sewer utility fund budgets and will be presenting the need for a significant overhaul of the rates charged to support the utilities' operations and systems maintenance.

The utility budgets are constructed and funds are appropriated with the goal of operating and maintaining systems that meet the level of service established by council and to meet the needs of the city's residents and commercial enterprises. Council guidance supports this endeavor: water delivered to homes is expected to meet the highest standards possible; waste water and storm drainage is to be cleared through the system with no backups, breaks, or flooding. Recent discussions during the August 8 workshop related to the city's long-term water treatment plant capacities (WS 22-095) indicated that council supported a standard service level that provides fully treated water for normal consumption periods and very low rates (10-25% max) of untreated water on the highest consumption days as the city continues to grow.

Each utility will be presented here in brief, followed by a discussion of the utility rate study that will be conducted by Baker Tilly.

Water Utility Fund

The city's Water Utility Enterprise Fund accounts for the operations of the city's water system. As an enterprise fund, the water fund is designed to recover the cost of providing clean, potable water to its customers through user fees. The system serves nearly 21,000 accounts, 95% of which are residential. Overall, Blaine provides water to more than 96% of city residents. The system has a daily pumping capacity of 18.5 million gallons, with average daily usage of 6.4 million gallons. The city's

water operation functions as a division of the city's Public Works Department with 10 full-time equivalent (FTE) staff budgeted in the division. An eleventh position, a Water Treatment Plant Foreman, is proposed to be added in 2023.

Revenues

Water service fees generate 92-95 percent of total operating revenue. Other revenue sources include penalties, permits, meter sales, and interest; water access charges (WAC) provide a revenue source for capital projects and improvements.

Water rates were adjusted in 2022 by splitting the third consumption tier in two to create four tiers. Graduated increases were imposed at each tier: 15 cents per thousand gallons on the first tier, 20 cents on the second, 25 cents on the third, and 30 cents on the fourth. These increases are maintained throughout the five years of the budget model and result in the following schedule:

Rate per thousand	2023	2024	2025	2026	2027
0-24,000 gallons	1.76	1.91	2.06	2.21	2.36
24,000-75,000 gallons	2.03	2.43	2.63	2.83	3.03
75,001-150,000 gallons	2.08	2.58	2.83	3.08	3.33
150,000+ gallons	2.80	3.40	3.70	4.00	4.30

Total revenues generated in 2023 are expected to reach \$7 million.

Expenses

2023 budgeted operating expenses, excluding depreciation, total \$4.6 million. This includes a proposal to add \$118,000 to fund a foreman position to focus on operations at the four water treatment plants. Staff are slated to receive a 3% general wage increase and an increase in cafeteria compensation like those in the General Fund. The supplies budget totals \$860,000, which includes an additional \$200,000 for treatment chemicals used in water treatment plant #4. Contractual service expenses are increased by \$220,000 due in combination to increased professional services and higher electric consumption resulting from treatment plant #4 becoming fully operational. Administrative charges paid to the General Fund will increase by \$27,000, and charges paid to the Building Maintenance internal service fund will increase \$19,000.

Capital Improvements and Debt

The capital improvements allocation is set at \$1.9 million, which represents the maximum amount the budget model can support. This amount is insufficient for the preservation needs identified by Public Works staff. In addition, the fund has a \$2.4 million debt obligation related primarily to financing the construction of Water Treatment Plant #4. Issuance of debt may become an important method of financing future capital needs and will be evaluated as part of the upcoming rate study.

5-Year Outlook

In 2023 the water fund will begin with a working capital balance of just over \$4.1 million. Revenues generated under the current plan are sufficient to fund operations over the next five years but are insufficient to fund capital projects necessary to maintain the integrity of the system. The model as presented accommodates \$5.1 million in capital investment including equipment, which will still lead to further depletion of working capital. In the meantime, Public Works staff have identified over \$16

million in projects necessary to maintain the system which will be programmed and presented as part of the 5-year CIP. Much work will continue to be done to meet the needs of the utility operation while building up capital reserves to sufficient levels. The results of Baker Tilly's rate study will be pivotal in determining the correct multi-year rate model and capital financing plans to ensure this fund's future integrity.

The initial budget model is attached.

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 almost 21,000 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 city residents. The city's sewer operation functions as a division of the Public Works with 4 FTE staff allocated to the division. The 2023 model proposes the addition of one Public Service Worker split evenly between the sanitary and storm sewer operations.

Revenues

As with the Water Utility Fund, the Sewer Utility Fund receives the bulk of its funding through fees charged to customers; 96-97 percent of total revenues will be collected in fees over the five-year model. The city charges a flat fee of \$63 per quarter per dwelling unit in 2022 and the model builds in an increase of \$3 per quarter in each of the five years. Total revenue collected in 2023 is projected to be \$8 million.

Sanitary Sewer Service	2023	2024	2025	2026	2027
Quarterly flat fee	66.00	69.00	72.00	75.00	78.00

Expenses

The largest single expense in this fund is the monthly charge from Metropolitan Council Environmental Services (MCES). MCES collects, treats, and disposes of wastewater across the metro area. Overall MCES accounts for over 72% of the fund's operating costs, excluding depreciation. For 2022, MCES fees for collection, treatment and disposal of wastewater will increase by \$691,000 (16%). The total expense for the proposed .5 FTE addition will not exceed \$49,000. Supplies appropriations are increased \$6,000; contractual services are increased \$63,000 to address increases in electric utility costs and contractual expenses; and \$43,000 is added to cover increases in administrative and facilities maintenance fees paid to other funds.

Capital Improvements

The capital improvements allocation is set at \$1.4 million, which represents the maximum amount the budget model can support. This amount is insufficient for the preservation needs identified by Public Works staff.

5-Year Outlook

In 2023 the sanitary fund will begin with a working capital balance of just over \$2.6 million. Revenues generated under the current plan are sufficient to fund operations over the next five years but are insufficient to fund capital projects necessary to maintain the integrity of the system. The model as

presented accommodates \$3.6 million in capital investment annually. The current projection of capital reserves trends over time does not provide sufficient funding to address an emergency or large asset reconstruction, which introduces moderate risk to funding the ongoing needs of the utility. Public Works staff has identified over \$32 million in projects necessary to maintain the system which will be programmed and presented as part of the 5-year CIP; including reconstruction of a substantial number of lift stations. Much work will continue to be done to meet the needs of the utility operation while building up capital reserves to sufficient levels.

The initial model is attached.

Storm Sewer Utility Fund

The City's Storm Sewer Utility Enterprise Fund accounts for the operations of the City's storm drainage system. The fund was created in 2006 as staff began separately accounting for storm drainage activity. Prior to that, storm sewer operations were accounted for in the Sanitary Sewer budget. A storm water utility fee was approved by Council in 2007 and implemented in January 2008.

As an enterprise fund, the utility is designed to recover the cost of maintaining the City's storm drainage system, which includes over 185 miles of storm sewer pipes, and almost 111 miles of ditches as well as numerous catch basins, outfalls, manholes, weirs, culverts, and ponds. The system serves roughly 23,000 parcels throughout Blaine. The storm sewer operation functions as a division of the City's Public Works Department with 7.5 fulltime equivalent (FTE) positions, which in addition to the Surface Water Manager includes ½ FTE for supervision, ½ Foreman, ½ Project Engineer and 5 Public Service Workers. The proposed budget also includes the other half of the Public Service Worker referenced in the sanitary sewer section.

Revenues

Like the other utilities, service charges generate the largest amount of revenue for this operation, nearly 98 percent of the total. The basic unit of charge is \$10.50 per dwelling unit per quarter (\$42 annually) and charges to other types of properties are derived from this unit. The budget model under consideration includes a 25 cent per quarter increase throughout the five-year model.

Storm Drainage Service	2023	2024	2025	2026	2027
Annual flat fee	43.00	44.00	45.00	46.00	47.00

Expenditures

Budgeted operating expenses (less depreciation) in 2022 will increase by \$110,000 over 2022 appropriations. Personal services include a 3% COLA and \$50 per month cafeteria adjustment, along with the \$49,000 appropriation for ½ of the Public Service Worker shared with sanitary sewers. Other increases include \$9,000 for heavy equipment operator training and an \$18,000 increase in facilities maintenance charges.

Capital Improvements

The capital improvements allocation is set at \$650,000, which represents the maximum amount the budget model can support, but which is insufficient for the needs as identified by Public Works staff.

5-year Outlook

In 2023 the storm sewer fund will begin with a working capital balance of just over \$1.4 million. Revenues generated under the current plan are sufficient to fund operations over the next five years but are not sufficient to fund capital projects necessary to maintain the integrity of the system. The

model as presented accommodates \$4.2 million in capital investment, which results in a gradual depletion of capital reserves. Public Works staff have identified nearly \$6.5 million in projects necessary to maintain the system which will be programmed and presented as part of the 5-year CIP. Much work will continue to be done to meet the needs of the utility operation while building up capital reserves to sufficient levels. The results of Baker Tilly's rate study will be pivotal in determining the correct multi-year rate model and capital financing plans to ensure this fund's future integrity.

The initial model is attached.

Water, Sanitary and Storm Sewer Rate Study

The city has recently engaged Baker Tilly US, LLP to assist with a utility rate study. The study will provide a financial plan for these operations over the next five years.

Baker Tilly will analyze the relevant data provide by the city and will develop preliminary revenue requirements. In addition to developing recommended rates for each utility, other deliverables include:

- Recommendations for the financing of anticipated capital improvements
- Evaluate financing alternatives and structures to minimize rate impacts
- Develop recommendations for cash reserve balances
- Identify overall change in revenue required to fund major capital improvement programs, meet all recurring operating and capital expenditures, and to cover all debt service requirements.

Baker Tilly will also compare proposed fees and charges to current rates, fees and charges and will demonstrate effect of the proposed rates on typical utility customers.

This is just a summary of the scope of services detailed in the engagement letter. The city is confident that this study is necessary to correct the structure of the utility funds and to restore the health of the funds. Upon completion of the study, council will be asked to consider and adopt the recommended rate model that will support the established service levels.

Staff Recommendation

Staff requests input and comment on the initial information provided about the three utility budgets. These budgets will be brought forward individually for further discussion at future workshops.

Attachment List

Water budget model
Sanitary Sewer budget model
Storm Drainage budget model
PowerPoint presentation