

TO: Honorable Mayor and City Council
FROM: City Administrator Ron Johnson
SUBJECT: Public Hearing- Adopt Resolution Setting Utility Rates
DATE: June 8, 2017

BACKGROUND

Rebecca Kurtz, Ehlers Inc., presented information and a recommendation for setting utility rates for 2017, 2018 and 2019 at a May 2 City Council workshop. Further discussion followed at the May 16, 2017 City Council and a public hearing was set up for June 13 to consider adoption of a resolution approving the recommended rates as follows:

	<u>2017</u>	<u>2018</u>	<u>2019</u>
Water	5.00%	5.00%	5.00%
Sewer	5.00%	5.00%	5.00%
Storm Sewer	2.00%	2.25%	2.50%

2017 rates September 1, 2017 billing for August usage
2018 rates April 1, 2018 billing for March usage
2019 rates February 1, 2019 billing for January usage

Approval of these rates would keep our utility funds fiscally strong, provide the City for more accurate budgeting and allow our customers to budget accordingly.

Enclosed is a memo from Ms. Kurtz and Kristina Norquist, Ehlers, as a follow-up from the May 2 workshop meeting for your information.

REQUESTED COUNCIL ACTION

Approve a motion adopting the Resolution Setting Utility Rates for 2017, 2018 and 2019.

Attachment(s): Ehlers memo; Resolution



Memo

To: Ron Johnson and Council Members, City of Cannon Falls
From: Rebecca Kurtz and Kristina Norquist, Ehlers
Date: June 8, 2017
Subject: Utility Rate Analysis and Rate Increases

The following information is being provided in response to questions from the May 2, 2017, presentation recommending rate increases for the City’s three utility funds. The chart below shows the recommended increases over the next five years to ensure payment of current debt obligations, minimize future reliance on bonding and avoid sudden future rate increases.

Annual Rate Increase	Proposed				
	2017	2018	2019	2020	2021
Water	5.00%	5.00%	5.00%	1.00%	1.00%
Sewer	5.00%	5.00%	5.00%	1.00%	1.00%
Storm Sewer	2.00%	2.25%	2.50%	3.00%	3.50%

The increase in rates through 2019 is driven by the existing Public Facilities Debt (PFA) debt payments.

What are the current and projected cash reserves? What are the target cash balances?

The following chart shows the December 31 past and projected cash balances for the Water and Sewer Funds along with the annual debt payments. As of December 31, 2017, the combined cash balance is estimated to be approximately \$1.56 million. Debt service payments – due February 1 and August 1, 2018 – total approximately \$1.5 million, as highlighted.

COMBINED WATER AND SEWER					
Year	Target Cash Balance	12/31 Cash Balance	Annual Debt	2/1 Debt Payment	8/1 Debt Payment
2014	2,771,652	1,886,526	1,480,154	963,581	516,573
2015	2,772,707	1,878,181	1,506,085	1,002,852	503,233
2016	2,802,096	1,920,591	1,516,801	1,012,177	504,624
2017	2,917,861	1,561,778	1,542,776	1,024,336	518,440
2018	2,927,427	1,614,223	1,501,923	1,065,034	436,889
2019	2,964,835	1,700,432	1,503,532	1,062,488	441,043
2020	3,059,691	1,840,279	1,499,356	1,060,232	439,124
2021	2,404,401	1,506,862	1,497,506	1,055,825	441,681
2022	1,973,227	1,553,568	798,100	724,511	73,588
2023	1,983,622	2,010,902	253,565	181,768	71,796
2024	2,032,046	1,975,967	217,158	187,893	29,264
2025	2,080,741	2,455,549	217,375	190,261	27,113
2026	2,131,884	2,364,383	216,417	191,628	24,789
2027	2,187,699	2,815,310	219,556	197,222	22,334





Cash is available for all the existing debt service payments; however, after the February 1, 2018 payment, a balance of \$496,744 remains for operations, maintenance and capital improvements.

It is recommended that target cash reserves include 6 months operating costs, 100% of annual depreciation expense and 100% of the next year's debt service. This ensures that the Funds have sufficient cash for operations through periods of low or stagnant revenues, and it allows the utilities to have adequate cash to pay for current and future capital projects without substantial reliance on future debt (ie., unexpected water tower or well repairs).

What is the projected increase for the average user?

The following chart shows the monthly increase for an average residential user of 800 cubic feet of usage. For rate increases, effective August 1, 2017, the total increase for all three utilities is \$4.75.

Residential Monthly Bill	Existing	Proposed				
	2016	2017	2018	2019	2020	2021
Water	\$ 29.58	\$ 31.06	\$ 32.61	\$ 34.24	\$ 34.58	\$ 34.93
Sanitary Sewer	64.40	67.62	71.00	74.55	75.30	76.05
Storm Sewer	2.57	2.62	2.68	2.75	2.83	2.93
Total Bill	\$ 96.55	\$101.30	\$106.29	\$111.54	\$112.71	\$113.91
\$ Increase		\$ 4.75	\$ 4.99	\$ 5.25	\$ 1.17	\$ 1.20

For rate increases, effective August 1, 2017, the total monthly increase for an average commercial user of 2,600 cubic feet of usage is \$16.48.

Commercial Monthly Bill	Existing	Proposed				
	2016	2017	2018	2019	2020	2021
Water	\$ 83.67	\$ 87.85	\$ 92.25	\$ 96.86	\$ 97.83	\$ 98.81
Sewer	245.06	257.31	270.18	283.69	286.52	289.39
Storm Water	2.57	2.62	2.68	2.75	2.83	2.93
Total Bill	\$331.30	\$347.78	\$365.11	\$383.30	\$387.18	\$391.13
\$ Increase		\$ 16.48	\$ 17.33	\$ 18.19	\$ 3.88	\$ 3.95

What is the projected increase in annual revenue for the Water and Sewer Funds?

With a 5 percent increase to both Water and Sewer rates effective August 1, 2017 through March 31, 2018, approximately \$68,056 in revenue will be generated over the 8-month period. With an additional 5 percent increase effective April 2018 through December 2018 the power of compounding will assist in ensuring sufficient revenues to pay ongoing debt service, operations and maintenance with an additional \$80,392 in revenue during the 9-month period.

The two increases provide the combined utilities an additional \$148,448 in revenues over the next 17 months, and annually thereafter, for a total of approximately \$1.5 million in revenue over the next 10 years.



**CITY OF CANNON FALLS
GOODHUE COUNTY, MINNESOTA**

RESOLUTION NUMBER 2283

A RESOLUTION TO ESTABLISH UTILITY RATE CHARGES

WHEREAS, the Cannon Falls City Code provides that rates for City utilities not specifically set by the Code, shall be fixed and determined by resolution of the City Council.

NOW, THEREFORE BE IT RESOLVED, that the following utility rate charges shall be effective on or after August 1, 2017.

Water User Charges

Effective with the billing for August 1, 2017 usage, the following rates shall apply for residential, multi-family, commercial and industrial users of City water:

1. Base Charges:
 - a. The base residential water charge shall be \$6.33 for the month.
 - b. The base commercial/industrial water charge shall be \$6.33 for the month.

2. Residential Usage Charges:
 - a. The water charge shall be \$2.68 per 100 cu. ft. per month for usage up to 300 cu. ft. for the month.
 - b. The water charge shall be \$3.34 per 100 cu. ft. for usage between 301 cu. ft. up to 900 cu. ft for the month.
 - c. The water charge shall be \$4.17 per 100 cu. ft. for usage between 901 cu. ft. up to 6,000 cu. ft for the month.
 - d. For usage over 6,000 cu. ft., the rate shall be \$6.24 per 100 cu. ft. per month.

3. Commercial/Industrial Usage Charges:
 - a. The water charge shall be \$2.68 per 100 cu. ft. per month for usage up to 800 cu. ft. for the month.
 - b. The water charge shall be \$3.34 per 100 cu. ft. for usage between 801 up to 2,800 cu. ft. for the month.
 - c. The water charge shall by \$4.17 per 100 cu. Ft. for usage between 2,801 up to 7,500 cu. ft. for the month.
 - d. For usage over 7,500 cu. ft., the rate shall be \$6.24 per 100 cu. ft. per month.

4. Irrigation Charges:
 - a. The charge for irrigation meters shall be \$6.24 per 100 cu. ft. per month.

Effective with the billing for March 1, 2018 usage, the following rates shall apply for residential, multi-family, commercial and industrial users of City water:

1. Base Charges:
 - a. The base residential water charge shall be \$6.65 for the month.
 - b. The base commercial/industrial water charge shall be \$6.65 for the month.

2. Residential Usage Charges:
 - a. The water charge shall be \$2.81 per 100 cu. ft. per month for usage up to 300 cu. ft. for the month.
 - b. The water charge shall be \$3.51 per 100 cu. ft. for usage between 301 cu. ft. up to 900 cu. ft. for the month.
 - c. The water charge shall be \$4.38 per 100 cu. ft. for usage between 901 cu. ft. up to 6,000 cu. ft. for the month.
 - d. For usage over 6,000 cu. ft., the rate shall be \$6.55 per 100 cu. ft. per month.

3. Commercial/Industrial Usage Charges:
 - a. The water charge shall be \$2.81 per 100 cu. ft. per month for usage up to 800 cu. ft. for the month.
 - b. The water charge shall be \$3.51 per 100 cu. ft. for usage between 801 up to 2,800 cu. ft. for the month.
 - c. The water charge shall be \$4.38 per 100 cu. ft. for usage between 2,801 up to 7,500 cu. ft. for the month.
 - d. For usage over 7,500 cu. ft., the rate shall be \$6.55 per 100 cu. ft. per month.

4. Irrigation Charges:
 - a. The charge for irrigation meters shall be \$6.55 per 100 cu. ft. per month.

Effective with the billing for January 1, 2019 usage, the following rates shall apply for residential, multi-family, commercial and industrial users of City water:

1. Base Charges:
 - a. The base residential water charge shall be \$6.98 for the month.
 - b. The base commercial/industrial water charge shall be \$6.98 for the month.

2. Residential Usage Charges:
 - a. The water charge shall be \$2.95 per 100 cu. ft. per month for usage up to 300 cu. ft. for the month.
 - b. The water charge shall be \$3.69 per 100 cu. ft. for usage between 301 cu. ft. up to 900 cu. ft. for the month.
 - c. The water charge shall be \$4.60 per 100 cu. ft. for usage between 901 cu. ft. up to 6,000 cu. ft. for the month.

- d. For usage over 6,000 cu. ft., the rate shall be \$6.88 per 100 cu. ft. per month.
3. Commercial/Industrial Usage Charges:
 - a. The water charge shall be \$2.95 per 100 cu. ft. per month for usage up to 800 cu. ft. for the month.
 - b. The water charge shall be \$3.69 per 100 cu. ft. for usage between 801 up to 2,800 cu. ft. for the month.
 - c. The water charge shall be \$4.60 per 100 cu. ft. for usage between 2,801 up to 7,500 cu. ft. for the month.
 - d. For usage over 7,500 cu. ft., the rate shall be \$6.88 per 100 cu. ft. per month.
 4. Irrigation Charges:
 - a. The charge for irrigation meters shall be \$6.88 per 100 cu. ft. per month.
 5. Multiple Dwelling Units
The water usage for multiple dwelling units is calculated by multiplying the number of units by the tier breaks (ex: 3 units X 300 cu. ft. = 900 cu. ft. for the first tier). The base charge is the flat fee multiplied by the number of units. Such water charges for multiple dwelling units shall be based upon the number of living units per structure, whether said living units are occupied or not.

Sewer Charges

Sewer system charges are hereby imposed upon all users in a total amount sufficient to pay the costs of the treatment system. Sewer system charges shall consist of the minimum charge, the O & M User Charge for most users, and the industrial charge for users subject to regular monitoring or which have BOD5 or TSS concentrations higher than domestic waste. User rates shall be updated annually to reflect current costs and to maintain equity in user fees.

Effective with the billing for August 1, 2017 usage, the following rates shall apply for residential, multi-family, commercial and industrial users of City water:

1. Residential Usage Charge
 - a. The minimum residential sewer charge shall be \$28.22 per month and allows for usage up to 400 cu. ft. for the month.
 - b. If the total usage is over 400 cu. ft., the sewer charge for all usage, including the first 400 cu. ft., the rate shall be \$9.85 per 100 cu. ft. for the month.
2. Commercial/Industrial Usage Charge
 - a. The minimum commercial sewer charge shall be \$40.64 per month and allows for usage up to 400 cu. ft. for the month.

- b. If the total usage is over 400 cu. ft., the sewer charge for all usage, including the first 400 cu. ft., the rate shall be \$9.85 per 100 cu. ft. for the month.

Effective with the billing for March 1, 2018 usage, the following rates shall apply for residential, multi-family, commercial and industrial users of City water:

1. Residential Usage Charge
 - a. The minimum residential sewer charge shall be \$29.63 per month and allows for usage up to 400 cu. Ft. for the month.
 - b. If the total usage is over 400 cu. Ft., the sewer charge for all usage, including the first 400 cu. Ft., the rate shall be \$10.34 per 100 cu. Ft. for the month.
2. Commercial/Industrial Usage Charge
 - a. The minimum commercial sewer charge shall be \$42.67 per month and allows for usage up to 400 cu. Ft. for the month.
 - b. If the total usage is over 400 cu. ft., the sewer charge for all usage, including the first 400 cu. ft., the rate shall be \$10.34 per 100 cu. ft. for the month.

Effective with the billing for January 1, 2019 usage, the following rates shall apply for residential, multi-family, commercial and industrial users of City water:

1. Residential Usage Charge
 - a. The minimum residential sewer charge shall be \$31.11 per month and allows for usage up to 400 cu. Ft. for the month.
 - b. If the total usage is over 400 cu. ft., the sewer charge for all usage, including the first 400 cu. ft., the rate shall be \$10.86 per 100 cu. ft. for the month.
2. Commercial/Industrial Usage Charge
 - a. The minimum commercial sewer charge shall be \$44.80 per month and allows for usage up to 400 cu. Ft. for the month.
 - b. If the total usage is over 400 cu. ft., the sewer charge for all usage, including the first 400 cu. ft., the rate shall be \$10.86 per 100 cu. ft. for the month.
3. The Industrial Charge

The industrial charge shall be applicable to industrial discharges subject to regular wastewater monitoring for biochemical oxygen demand (BOD5) and suspended solids (SS). The unit rates for the industrial charges are as follows:

O & M UNIT RATES FOR BOD5 & SUSPENDED SOLIDS EXCEEDING DOMESTIC STRENGTH

	BOD \$ per 100 lb.	TSS \$ per 100 lb.	Phosphorus \$ per 100 lb.	Nickel & Zinc \$ per 100 lb.
Effective 1/1/14	\$65.00	\$63.00	\$107.00	\$62.00

4. Surcharge

If the character of any user's waste discharge is such that special laboratory testing, monitoring, pretreatment or other extraordinary costs are incurred by the City, then such extra costs shall be added to said user's bill and paid in the same manner as other user charges.

Sewer Only Users

1. All commercial, industrial and apartment dwelling of five (5) families or more that are not using City water shall be required to purchase and install a water meter at user's expense. Sewer charges shall be at current rates based upon water meter readings.
2. Dwellings of 4 or less units not using City water but connected to City sewer may either purchase a meter and be charged at the ongoing sewer rates or pay a resident charge per unit per monthly billing period for sewer usage in lieu thereof.

Effective with the billing for August 1, 2017 usage, the resident charge shall be \$94.13 per unit per monthly period.

Effective with the billing for March 1, 2018 usage, the resident charge shall be \$98.84 per unit per monthly period.

Effective with the billing for January 1, 2019 usage, the resident charge shall be \$103.78 per unit per monthly period.

Subd. C. Sewer Usage Credit (Sprinkling Credit)

Since water used on lawns, gardens, trees and the like, does not go into the sanitary sewer, the City will give a credit for said use. The credit shall be the difference between the actual metered use and an amount equal to 150% of the average use from November 1 to March 31. The sewer credit shall be applied to billings for May through September usage (June through October billings).

Storm Water Charges

Effective with the billing for August 1, 2017 usage, the following unit rates shall apply for residential, multi-family, commercial and industrial accounts:

Residential:	\$ 6.90
Multi-Family:	\$18.77
Institutional:	\$22.78
Industrial:	\$22.78
Commercial:	\$29.19

The unit rate is the rate charged per acre. For example, a residential unit is based upon 0.38 acres that would result in a \$2.62 monthly charge.

Effective with the billing for March 1, 2018 usage, the following unit rates shall apply for residential, multi-family, commercial and industrial accounts:

Residential:	\$ 7.06
Multi-Family:	\$19.19
Institutional:	\$23.29
Industrial:	\$23.29
Commercial:	\$29.85

The unit rate is the rate charged per acre. For example, a residential unit is based upon 0.38 acres that would result in a \$2.68 monthly charge.

Effective with the billing for January 1, 2019 usage, the following unit rates shall apply for residential, multi-family, commercial and industrial accounts:

Residential:	\$ 7.24
Multi-Family:	\$19.67
Institutional:	\$23.87
Industrial:	\$23.87
Commercial:	\$30.60

The unit rate is the rate charged per acre. For example, a residential unit is based upon 0.38 acres that would result in a \$2.75 monthly charge.

Adopted by the City Council of the City of Cannon Falls on this 13th day of June, 2017.

Lyman M. Robinson, Mayor

ATTEST:

Ronald S. Johnson, City Administrator