



City of Hastings

Utility Rate Study Update

August 17, 2020



Overview

1. What are enterprise funds
2. 2016 Utility Rate Study
3. Findings
4. Going Forward
 - Capital Projects
 - Projections and impact analysis
 - SAC & WAC options



Utility Funds

- They are Enterprise Funds
 1. Run like a business
 - ✓ Make money
 2. Should pay for
 - ✓ Capital Outlays
 - ✓ Operations
 - ✓ Replacement Reserves
 - ✓ Debt
 3. Have a **minimum** of:
 - ✓ 6 months of operating expenses including depreciation
 - ✓ Following year's bond/debt payments, if any
 - ✓ Funding for capital equipment
 - ✓ Flexibility to accommodate unforeseen repairs



2016 Utility Rate Study

1. Changes

- Assured fixed charges pay for fixed costs of system
- New **4-tier** structure for water for use and conservation
- Significant rate increases in early years to build and maintain cash balances
- Mixture of cash and bonding to pay for capital projects
- Did **25%** reduction in SAC and WAC charges
 - ✓ WAC went from **\$3,075** down to **\$2,306**
 - ✓ SAC went from **\$945** to **\$709**

2. Projections vs. Actual

- Pretty much followed the plan
- Modified due to less capital needs



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Findings

- 1. Changes made in 2017 with rates paid off
 - Funds are in good shape
 - Sewer fund nearly zero in 2016 but now positive
 - Cash balances in all funds exceed minimums
 - Less bonding needed

Fund	2020 Projected in 2016 Study	2020 Currently Projected	Difference
Water Fund	\$2.3M	\$3.7M	+\$1.4M
Sewer Fund	\$1.4M	\$2.9M	+\$1.5M
Storm Water Fund	\$526k	\$725k	+\$199k



Findings

2. Capital project costs are lower than originally anticipated

Average CIP Costs per Year			
Fund	2016 Study	2020 Study	Difference
Water Fund	\$1.6M	\$1.3M	(\$0.3M)
Sewer Fund	\$820k	\$600k	(\$220k)
Storm Water Fund	\$914K	\$365k	(\$549k)
10-Year Total (All Funds)	\$38.5M	\$24.7M	(\$13.8M)

Take Away

- 1. Average annual costs **down** for all funds
- 2. Bonding only needed for Water Fund in the future
- 3. In 2016: Bigger rate increases needed for large CIP
- 4. In 2020: Smaller CIP = Lower rates



Less Bonding Needed

Today:

Year	Water Fund	Sewer Fund	Storm Water Fund	Total All Funds
2021	\$ 2,000,000	\$ -	\$ -	\$ 2,000,000
2022	-	-	-	-
2023	-	-	-	-
2024	-	-	-	-
2025	900,000	-	-	900,000
2026	4,675,000	-	-	4,675,000
2027	-	-	-	-
2028	-	-	-	-
2029	-	-	-	-
2030	-	-	-	-
TOTAL	\$ 7,575,000	\$ -	\$ -	\$ 7,575,000

Remainder From 2016:

Year	Water Fund	Sewer Fund	Storm Water Fund	Total All Funds
2021	3,930,000	2,375,000	1,350,000	7,655,000
2022	2,030,000	1,390,000	1,075,000	4,495,000
2023	615,000	280,000	1,295,000	2,190,000
2024	-	-	1,150,000	1,150,000
2025	3,900,000	-	600,000	4,500,000
2026	-	-	830,000	830,000
TOTAL	\$ 17,285,000	\$ 6,885,000	\$ 9,660,000	\$ 33,830,000

Take Away

1. Projected Bonding - Down **70%** from 2016
2. Water Fund
 - Bonding occurred in 2018 – 2020 at lower amounts
 - 2021 – **2 years worth** of projects; save on costs



Findings

3. Reducing SAC / WAC likely didn't spur more development

WAC Revenues

Year	Annual Rate Increase	Rate	Units	Annual Revenue
2015 & Prior	0.00%	\$ 3,075	130	\$ 399,090
2016	0.00%	3,075	74	227,550
2017	0.00%	2,306	37	86,100
2018	0.00%	2,306	110	253,687
2019	0.00%	2,306	81	186,806

SAC Revenues

Year	Annual Rate Increase	Current City Charge	Units	Annual Revenue
2015 & Prior	0.00%	\$ 945	1,125	\$ 1,063,086
2016	0.00%	945	101	95,873
2017	0.00%	709	56	39,771
2018	0.00%	709	118	83,849
2019	0.00%	709	98	69,534

Take Away

1. Loss in revenue for water and sewer in 2017 – 2019 was **\$175,332** and **\$64,192** respectively
2. WAC Fund unable to pay for 2013A bond payments, but could have if raters weren't lowered
 - Projected to pay for 75% of annual debt service
 - **Paid for with user rates and charges instead**



2020 Projected Cash Balances

Fund	2016 Study	2020 Projected	Difference
Water Fund	\$2.3M	\$3.7M	+\$1.4M
Sewer Fund	\$1.4M	\$2.9M	+\$1.5M
Storm Water Fund	\$526k	\$725k	+\$199k

Take Away

- 1. All funds healthy
- 2. Hard work from last study paid off
 - Sewer Fund turned around from 2016
- 3. Lower CIP costs than projected



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Capital Projects & Equipment – Next 10 Years

Year	Water	Sewer	Storm Water	Total
2020	\$ 1,352,374	\$ 723,560	\$ 53,400	\$ 2,129,334
2021	1,561,300	1,393,860	382,130	3,337,290
2022	1,292,502	588,800	314,027	2,195,328
2023	700,600	522,916	405,401	1,628,917
2024	588,665	229,604	451,329	1,269,598
2025	869,456	594,456	430,091	1,894,002
2026	4,502,993	358,216	442,994	5,304,203
2027	614,937	668,962	368,962	1,652,861
2028	718,385	380,031	380,031	1,478,447
2029	652,387	1,239,437	391,432	2,283,256
2030	756,958	403,175	403,175	1,563,308
	\$13,610,557	\$ 7,103,016	\$ 4,022,972	\$24,736,545

* Highlighted years indicate bonding

Major Projects

1. Water Fund
 - **\$2.0M** in Infrastructure Projects in 2020 & 2021
 - **\$1.6M** for Water Tower Painting in 2022 & 2025
 - **\$2.2M** for Well #9 & Elevated Storage in 2026
2. Sewer Fund
 - **\$1.0M** in Infrastructure Projects in 2021
 - **\$1.2M** for Lining, Vector Truck, & Infrastructure in 2029
3. Storm Water Fund
 - **\$365K** average for various storm water projects
 - **Does not include potential pond dredging projects**



Proposed 2021 Rates

Quarterly Water Rates		
	Existing 2020	Proposed 2021

Flat Rates Based on Meter Size

5/8"	\$ 18.13	\$ 18.76
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Usage Rates per 1,000 Gallons

Residential

Tier 1	0 to 15	\$ 1.09	\$ 1.13
Tier 2	16 to 30	1.42	1.47
Tier 3	31 to 60	2.27	2.35
Tier 4	Over 60	4.31	4.46

Quarterly Sewer Rates		
	Existing 2020	Proposed 2021

Flat Rates

All Accounts	\$ 18.66	\$ 18.85
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Usage Rates per 1,000 Gallons

All Accounts

All usage	\$ 4.23	\$ 4.27
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Quarterly Storm Water Rates		
	Existing 2020	Proposed 2021

Flat Rates

Low Density Residential	per lot	\$ 19.15	\$ 19.92
Medium Density Residential	per lot	10.53	10.95
High Density Residential	per acre	74.68	77.67

Residential

Commercial

Quarterly Water Rates		
	Existing 2020	Proposed 2021

Flat Rates Based on Meter Size

1.25" & 1.5"	90.65	93.82
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Usage Rates per 1,000 Gallons

Commercial

Tier 1	0 to 15	\$ 1.09	\$ 1.13
Tier 2	16 to 75	1.42	1.47
Tier 3	76 to 200	2.27	2.35
Tier 4	Over 200	4.31	4.46

Quarterly Sewer Rates		
	Existing 2020	Proposed 2021

Flat Rates

All Accounts	\$ 18.66	\$ 18.85
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Usage Rates per 1,000 Gallons

All Accounts

All usage	\$ 4.23	\$ 4.27
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Quarterly Storm Water Rates		
	Existing 2020	Proposed 2021

Flat Rates

Commercial / Office	per acre	91.90	95.58
Industrial	per acre	80.41	83.63

Take Away

1. Rate increases only to keep up with inflation
2. Recommended increases in prior years paid off



Impact Analysis - Residential

Impact Analysis on Median Rate Payers												
	Existing 2020	Proposed Quarterly Bills										
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Residential Property 5/8" Meter												
Water	16,000 Gallons	\$ 35.90	\$ 37.18	\$ 38.49	\$ 39.82	\$ 41.17	\$ 42.56	\$ 44.12	\$ 45.71	\$ 47.33	\$ 48.99	\$ 50.70
Sewer	15,000 Gallons	82.11	82.93	83.77	84.60	85.45	86.30	87.16	88.04	88.92	89.80	90.70
Storm Water		19.15	19.92	20.71	21.54	22.40	23.30	24.23	25.20	26.21	27.26	28.35
Total Utility Bill		\$ 137.16	\$ 140.02	\$ 142.97	\$ 145.96	\$ 149.02	\$ 152.16	\$ 155.51	\$ 158.95	\$ 162.45	\$ 166.04	\$ 169.75
\$ Increase		\$ 2.86	\$ 2.95	\$ 2.99	\$ 3.06	\$ 3.14	\$ 3.35	\$ 3.44	\$ 3.51	\$ 3.59	\$ 3.71	
% Increase		2.1%	2.1%	2.1%	2.1%	2.1%	2.2%	2.2%	2.2%	2.2%	2.2%	2.2%

Take Away

1. Projected annual increase in Total Utility Bill less than **\$3.00/Quarter**
2. 2021 includes current annual inflationary rate increases



Impact Analysis - Commercial

Impact Analysis on Median Rate Payers

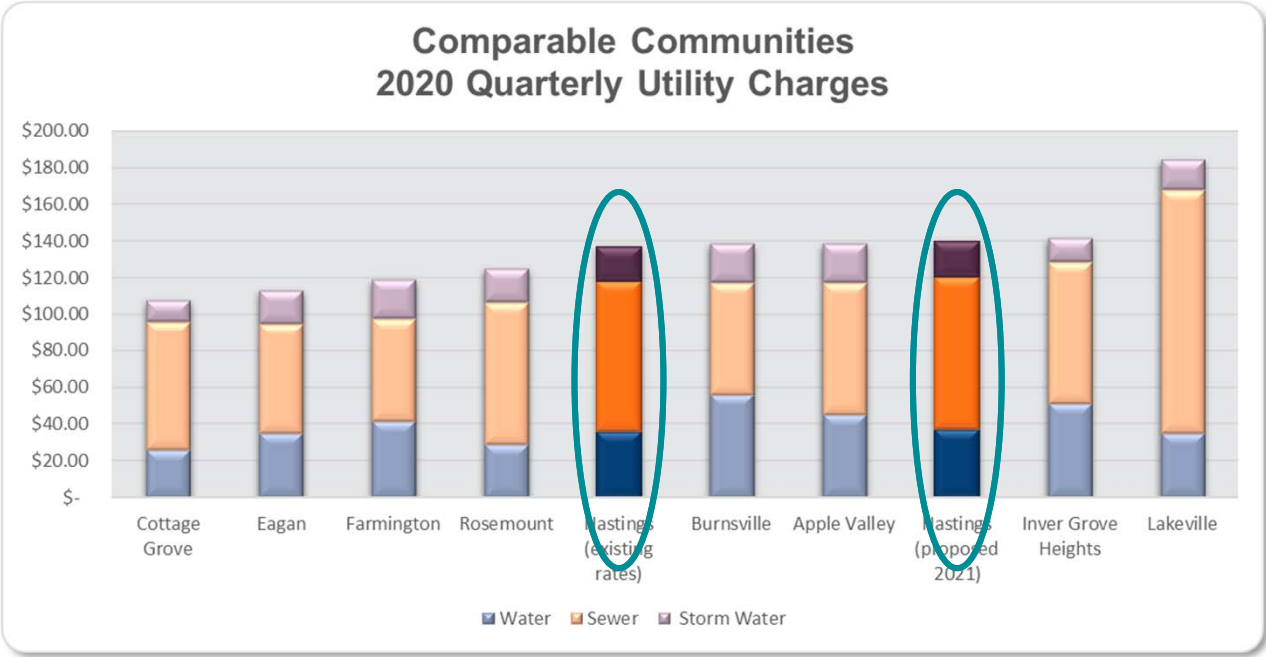
	Existing 2020	Proposed Quarterly Bills										
		2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	
Commercial Property 1.5" Meter												
Water	47 ,000 Gallons	\$ 152.44	\$ 157.81	\$ 163.29	\$ 168.89	\$ 174.61	\$ 180.77	\$ 187.21	\$ 193.78	\$ 200.49	\$ 207.66	\$ 214.92
Sewer	47 ,000 Gallons	217.47	219.65	221.85	224.06	226.30	228.56	230.85	233.16	235.49	237.85	240.22
Storm Water		434.04	451.40	469.46	488.24	507.77	528.08	549.20	571.17	594.02	617.78	642.49
Total Utility Bill		\$ 803.95	\$ 828.86	\$ 854.60	\$ 881.19	\$ 908.68	\$ 937.41	\$ 967.26	\$ 998.11	\$ 1,030.00	\$ 1,063.29	\$ 1,097.64
\$ Increase		\$ 24.91	\$ 25.74	\$ 26.59	\$ 27.49	\$ 28.73	\$ 29.85	\$ 30.85	\$ 31.89	\$ 33.29	\$ 34.35	
% Increase		3.1%	3.1%	3.1%	3.1%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%

Take Away

1. Projected annual increase in Total Utility Bill less than **\$25.00/Quarter**
2. 2021 includes current annual inflationary rate increases



Comparable Communities



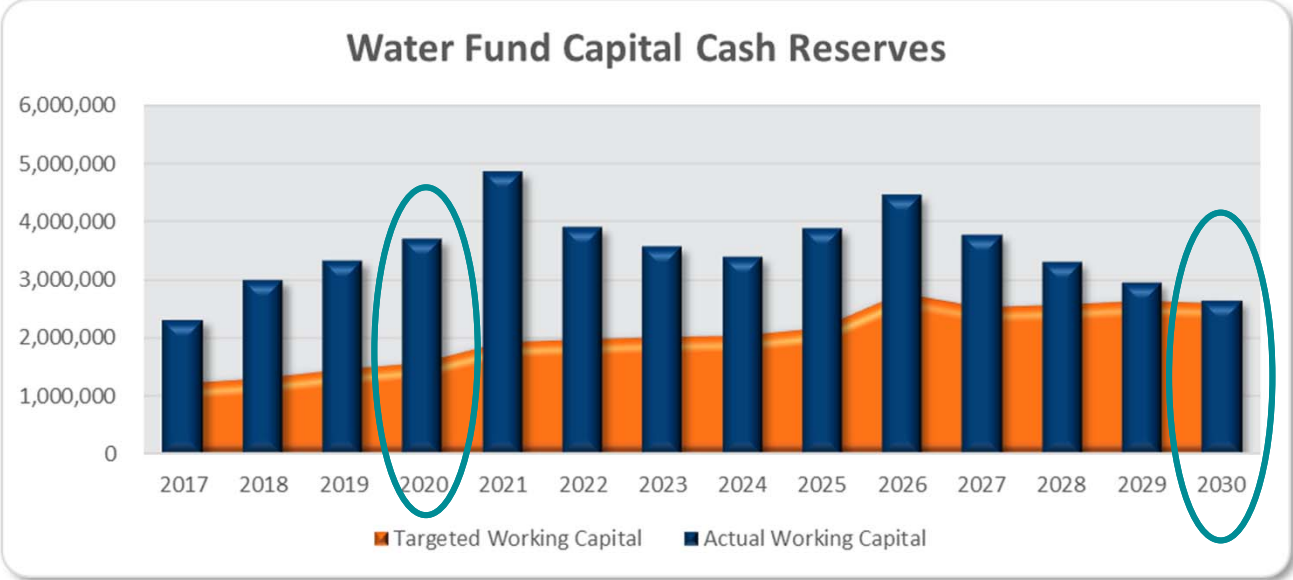
Take Away
Hastings total existing and proposed rates comparable to surrounding communities



Proposed Water Fund

Take Away

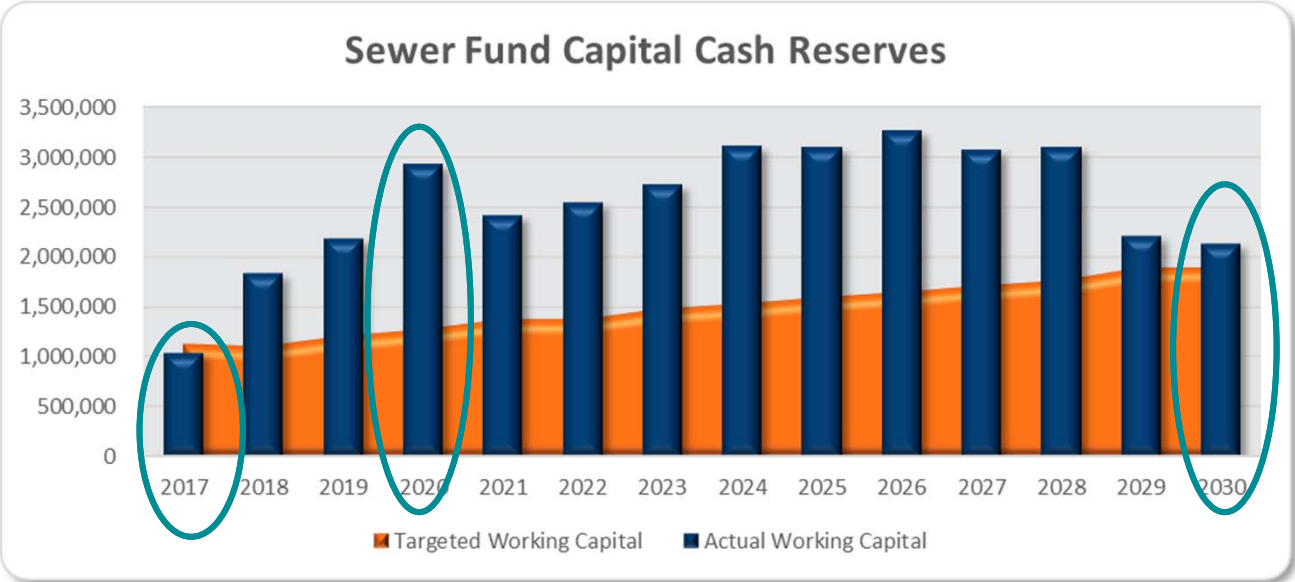
- 1. Inflationary annual increases only
- 2. Cash balance should exceed or be close to Target
- 3. Includes reduced bonding



Target working capital = 1 year of operating expenses, excluding depreciation + next year's debt service



Proposed Sewer Fund



- Take Away**
- 1. Cash reserves have improved significantly
 - 2. Minimal annual increases
 - 3. Sufficient cash on hand to pay for projects
 - 4. No bonding recommended

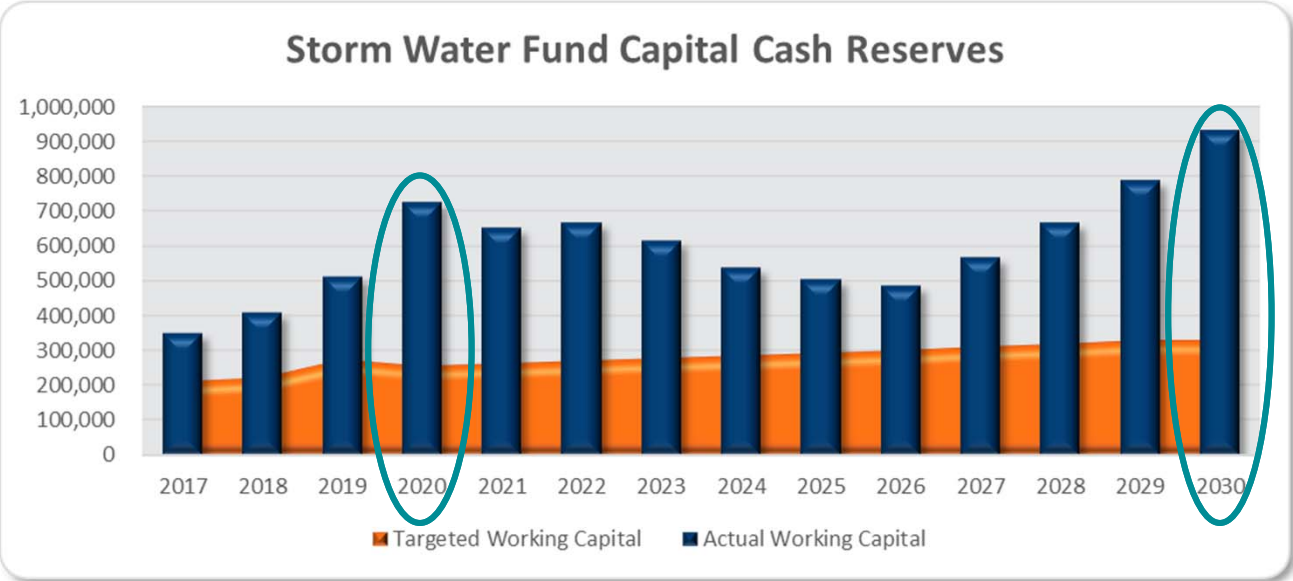
Target working capital = 1 year of operating expenses, excluding depreciation + next year's debt service



Storm Sewer Fund

Take Away

- 1. Inflationary annual increases only
- 2. Sufficient cash on hand to pay for capital projects
- 3. **Build reserves to pay for future pond dredging**
- 4. **No bonding recommended**



Target working capital = 1 year of operating expenses, excluding depreciation + next year's debt service (if applicable)



SAC & WAC

- Charges authorized by statute to pay for **construction, reconstruction, enlargement, and maintenance of facilities and infrastructure** to provide for the availability and additional capacity of water and sewer service to future customers
- Usually paid for at time of platting or permitting
- Number of SAC units are determined by Met Council
- WAC previously used to pay for 75% of 2013A bond payments
 - ✓ Those bonds paid for water treatment plant construction, new well and pumphouse



SAC & WAC Rates

1. New development can and is used to paying SAC and WAC fees within Metro Area
2. City has loan program for businesses to pay SAC/WAC fee over 10 years if there is a need
3. City can do additional program/policy for business expansion or targeted business if you deem appropriate



SAC & WAC Rates

1. Less capital needs in sewer fund so opportunity to reduce SAC fee significantly
2. More capital needs in water fund so need to increase WAC fee



SAC & WAC Rate Options

Current Rates

WAC = **\$2,306** / Unit

SAC = **\$709** / Unit

TOTAL = **\$3,015** / Unit

Recommended Rates

WAC = **\$3,075** / Unit

SAC = **\$100** / Unit

TOTAL = **\$3,175** / Unit

Option 1 – Keep Current Rates

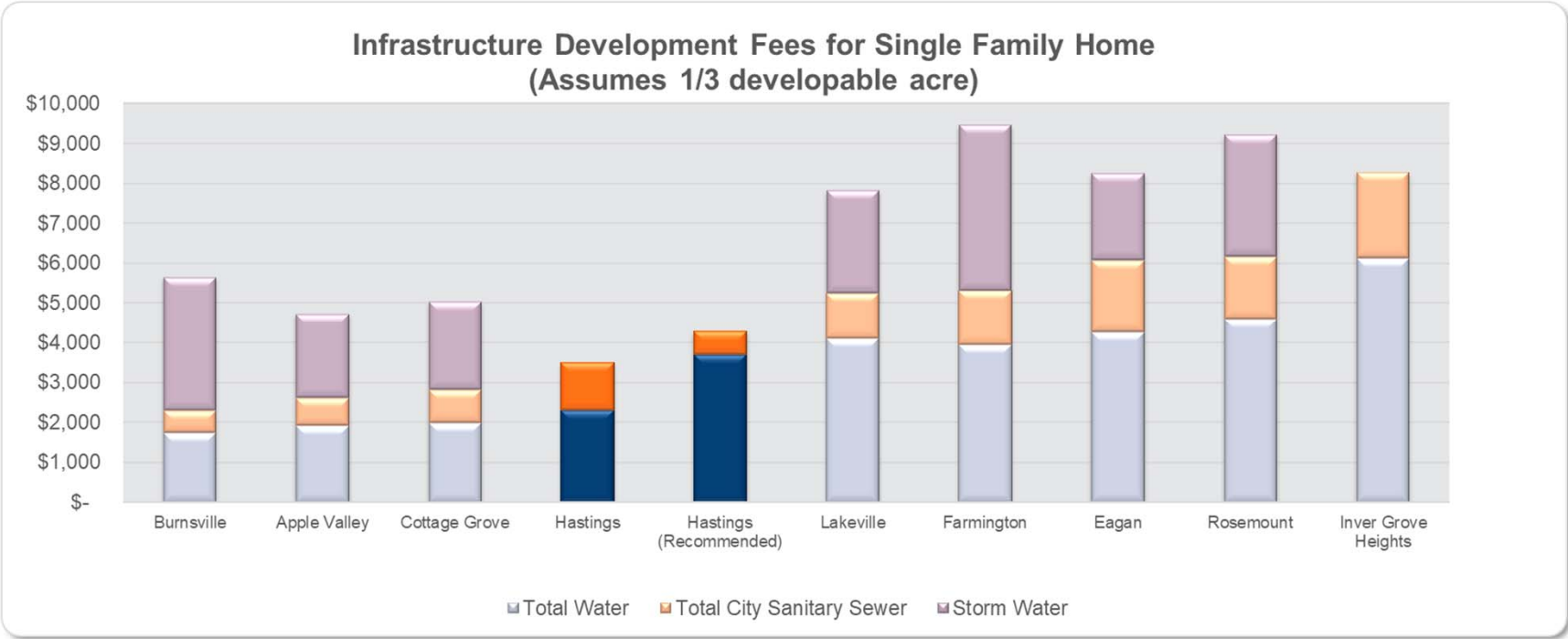
- Increase water rates slightly
 - ✓ **+\$0.11** / Qtr impact on Residential User
 - ✓ **+\$0.78** / Qtr impact on Commercial User

Option 2 – Shift Rates (Recommended)

- WAC rate back to 2016 levels
 - ✓ Replenish fund to help pay for current and future capital and debt
- SAC rate reduced
 - ✓ Future infrastructure needs dependent on development
- **\$160** more per “unit”

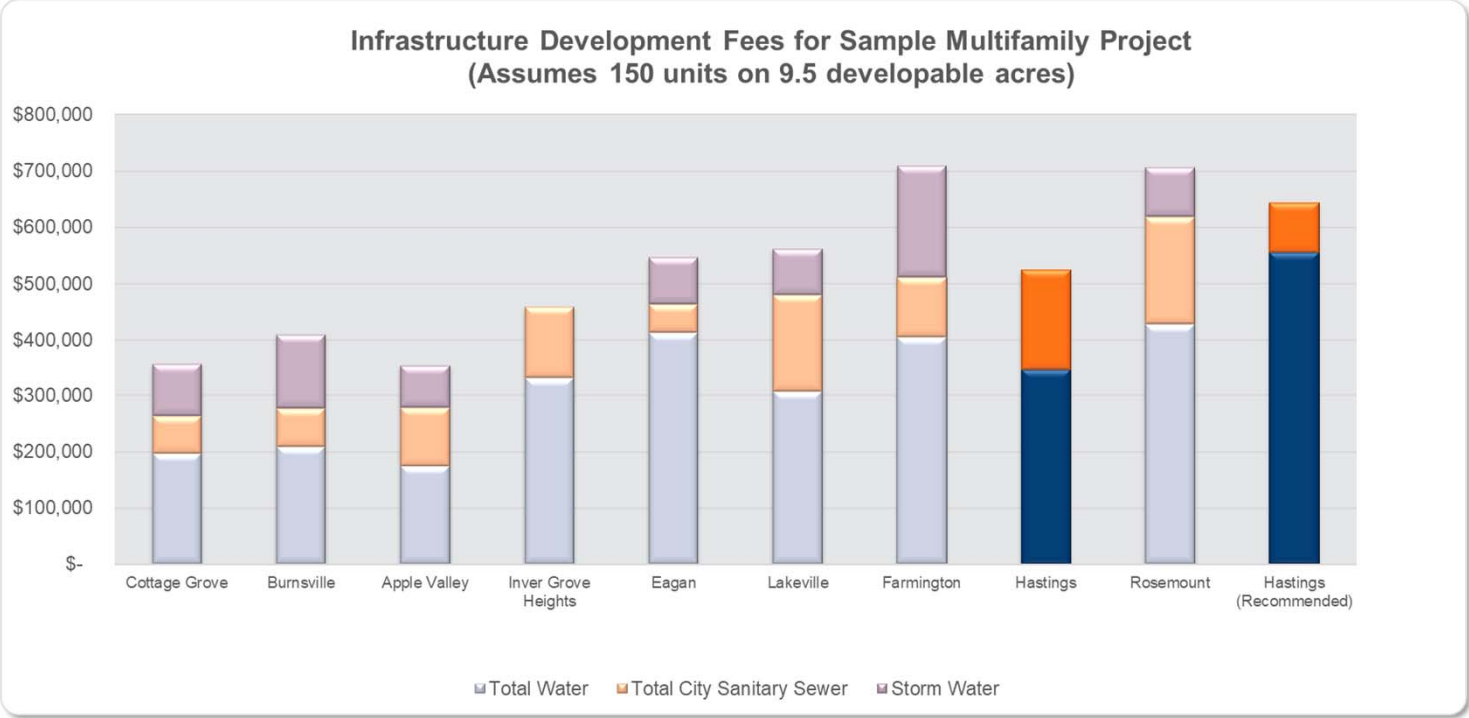


Comparable Communities



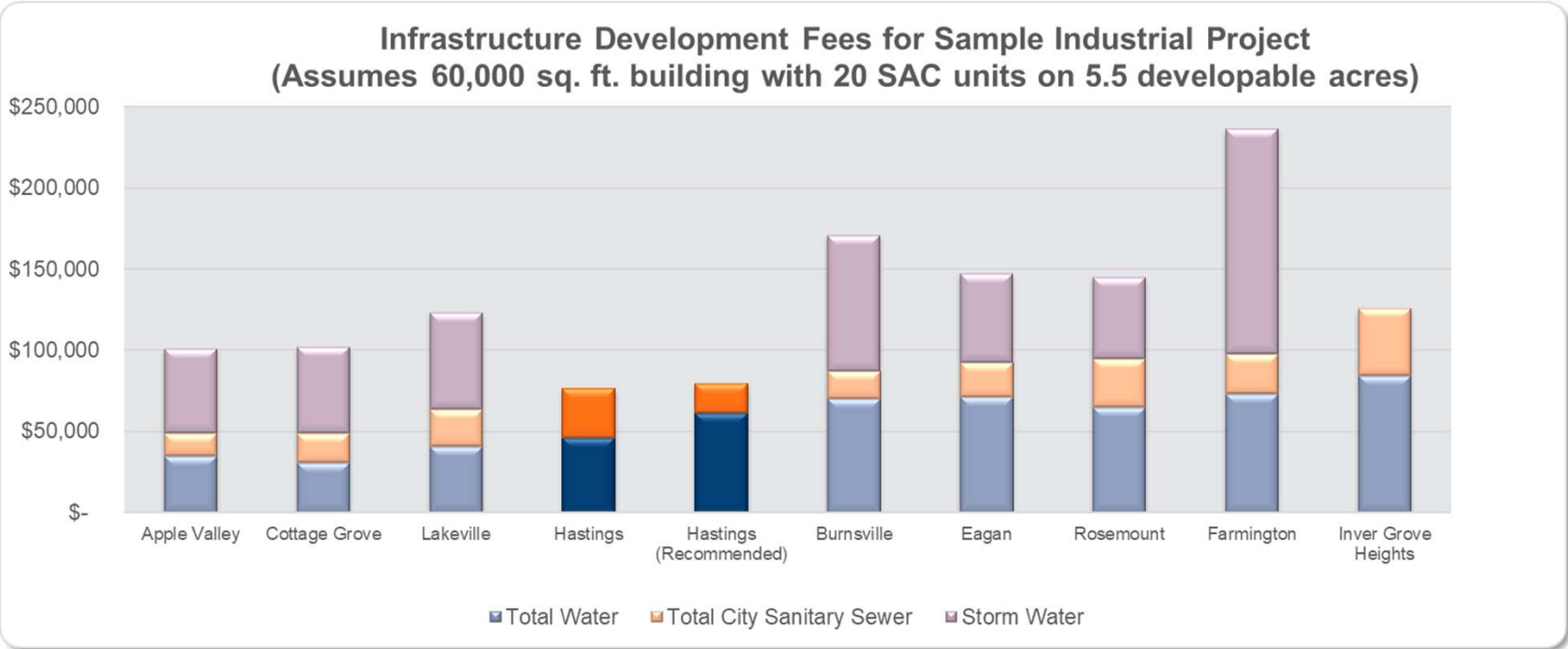


Comparable Communities





Comparable Communities





Conclusion

Developing utility rates is complex

1. Tough decisions already made in 2016

Rate increases necessary

1. Keep up with inflation
2. Pay for future projects
3. Still competitive

Enterprise Funds are healthy

1. City has long term plan to maintain fund balances and pay for future capital