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To: Michelle Hayes, Finance Director  
Sharon Payne, City Clerk/Treasurer  
Mayor Utecht and City Council Members, City of Stacy, MN

From: Patty Kettles

Date: February 24, 2022

Subject: Sewer Rate Study Update

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Assumptions include:

- Three Minnesota PFA loans through Central Lakes Joint Sewerage Treatment Commission (CLJSTC) with payments ranging from approximately \$250,000 in 2022 to \$7,000, maturing in 2029
- No growth is assumed in sewer use
- 2%-5% annual growth in operating expenses based on historical changes 2019-2021
- Tax levy for the Sewer fund has been reduced to \$5,000 (levy 2021/collected in 2022)
- Sewer Fund capital outlay is based solely on CLJSTC projected capital expenditures
- CLJSTC projects 2022-2030 are currently projected to include the following:
  - Two new wastewater treatment facilities (\$2,177,263)
  - Five new lift stations during the 2020-2028 period (\$3,869,920)
  - Collection system upgrades (\$350,000)
- Stacy's share of the debt service related to these projects is assumed to remain at the current 9.9%
- No other major capital outlay assumed to occur
- The City will strive to fund a reserve of 3 months of operating expenses and 1 year of debt service

Based on the above assumptions, the revised Sewer Fund projections are shown on the following pages. It appears that the Sewer Fund is healthy at this time and no rate increases are needed at this time. In 2026, the 2006 PFA loan, which has approximately \$232,000 annual payments, matures. This will provide relief to cash flow pressures on the Sewer Fund. Although, CLJSTC will have new debt service related to major capital improvement (see assumptions above) that the City will have to contribute their share of.

We recommend the City continue to review Sewer Fund operations to ensure operations, maintenance, capital, and debt service and recommended and required reserves are met. The City should closely monitor the Sewer fund to ensure viability now and into the future.

## Sewer Fund History

	2019	2020	2021	2022
	Actual	Actual	Budget	Budget
<b>Operating Revenues</b>				
Charges for Services	502,867	495,242	406,400	406,400
Connection Fees (SAC)			13,104	13,104
Other Revenue				
<b>Total Operating Revenue</b>	<b>502,867</b>	<b>495,242</b>	<b>419,504</b>	<b>419,504</b>
<b>Operating Expenses</b>				
Salaries & Benefits	54,293	65,611	74,605	76,843
Insurance Unallocated	6,116	6,706	4,595	4,733
Operating Supplies	48,328	26,496	45,975	37,754
Repair & Maintenance	356	157	1,500	1,545
Professional Services	154,776	123,992	31,550	32,497
Communication Expenses	3,711	3,290	6,700	6,901
Travel, Conferences and Schools	659	327	1,875	1,931
Other Miscellaneous Expenses	13,289	17,384	25,450	26,214
Utilities	991	1,207	1,600	1,648
Depreciation	113,552	114,368	114,368	114,368
<b>Total Operating Expenses</b>	<b>396,071</b>	<b>359,538</b>	<b>308,218</b>	<b>304,434</b>
<b>Operating Income (Loss)</b>	<b>106,796</b>	<b>135,704</b>	<b>111,286</b>	<b>115,071</b>
<b>Non Operating Revenues (Expenses)</b>				
State or Federal Grants				
Interest Income	7,629	6,939	7,000	7,000
Interest Expense Existing Debt	(17,018)	(15,879)	(16,497)	(11,327)
Taxes	100,123	62,693	59,500	9,500
Other	775	619		
<b>Total Non Operating Revenues (Expenses)</b>	<b>91,509</b>	<b>54,372</b>	<b>50,003</b>	<b>5,173</b>
<b>Net Income (Loss) Before Transfers</b>	<b>198,305</b>	<b>190,076</b>	<b>161,289</b>	<b>120,244</b>
<b>Operating Transfers</b>				
Transfers In	8,380			
Transfers (Out)				
<b>Total Operating Transfers</b>	<b>8,380</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income (Loss)</b>	<b>206,685</b>	<b>190,076</b>	<b>161,289</b>	<b>120,244</b>
<b>Beginning Cash &amp; Investments</b>	<b>708,541</b>	<b>868,941</b>	<b>945,689</b>	<b>967,946</b>
Net Income	206,685	190,076	161,289	120,244
Depreciation	113,552	114,368	114,368	114,368
Acquisition and Construction of Assets		(13,436)	(9,600)	(3,318)
Proceeds from New Long-Term Debt				
Payments on Long-Term Debt	(216,000)	(218,000)	(243,800)	(237,998)
Adjustment to Accruals	56,163	3,740		-
<b>Ending Cash Balance</b>	<b>868,941</b>	<b>945,689</b>	<b>967,946</b>	<b>961,242</b>

## Sewer Fund Projections

Projected Sewer Rate Adjustment	Projected Change 2022-2033	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031	2032
		BUDGET	PROJECTION	PROJECTION	PROJECTION	PROJECTION	PROJECTION	PROJECTION	PROJECTION	PROJECTION	PROJECTION	PROJECTION
<b>Revenues</b>												
Charges for Services (Growth from new customers only!)	0.00%	406,400	406,400	406,400	406,400	406,400	406,400	406,400	406,400	406,400	406,400	406,400
Connection Fees (SAC)	0.00%	13,104	13,104	13,104	13,104	13,104	13,104	13,104	13,104	13,104	13,104	13,104
Other Revenue	0.00%	-	-	-	-	-	-	-	-	-	-	-
<b>Total Revenue</b>		<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>	<b>419,504</b>
<b>Operating Expenses</b>												
Salaries & Benefits	5.00%	76,843	80,685	84,720	88,956	93,403	98,073	102,977	108,126	113,532	119,209	125,169
Insurance Unallocated	4.00%	4,733	4,922	5,119	5,324	5,537	5,758	5,989	6,228	6,477	6,736	7,006
Operating Supplies	3.50%	37,754	39,076	40,443	41,859	43,324	44,840	46,410	48,034	49,715	51,455	53,256
Repair & Maintenance	3.00%	1,545	1,591	1,639	1,688	1,739	1,791	1,845	1,900	1,957	2,016	2,076
Professional Services	2.00%	32,497	33,146	33,809	34,486	35,175	35,879	36,596	37,328	38,075	38,836	39,613
Communication Expenses	3.00%	6,901	7,108	7,321	7,541	7,767	8,000	8,240	8,487	8,742	9,004	9,274
Travel, Conferences and Schools	3.00%	1,931	1,989	2,049	2,110	2,174	2,239	2,306	2,375	2,446	2,520	2,595
Other Miscellaneous Expenses	3.00%	26,214	27,000	27,810	28,644	29,504	30,389	16,300	16,789	17,293	17,812	18,346
Utilities	3.00%	1,648	1,697	1,748	1,801	1,855	1,910	1,968	2,027	2,088	2,150	2,215
Existing Depreciation		114,368	110,937	107,609	104,381	101,249	98,212	95,265	92,407	89,635	86,946	84,338
New Depreciation		-	166	454	849	2,356	4,024	5,692	7,534	9,668	11,801	13,935
<b>Total Operating Expenses</b>		<b>304,434</b>	<b>308,318</b>	<b>312,721</b>	<b>317,638</b>	<b>324,082</b>	<b>331,115</b>	<b>323,588</b>	<b>331,237</b>	<b>339,629</b>	<b>348,486</b>	<b>357,824</b>
<b>Operating Income (Loss)</b>		<b>115,071</b>	<b>111,186</b>	<b>106,783</b>	<b>101,866</b>	<b>95,422</b>	<b>88,389</b>	<b>95,916</b>	<b>88,267</b>	<b>79,875</b>	<b>71,018</b>	<b>61,680</b>
<b>Non Operating Revenues (Expenses)</b>												
State or Federal Grants		-	-	-	-	-	-	-	-	-	-	-
Interest Income		7,000	9,612	9,431	9,151	8,966	8,700	12,183	13,880	15,448	17,013	18,499
Interest Expense Existing Debt		(11,327)	(8,690)	(6,021)	(3,322)	(808)	(586)	(356)	(240)	-	-	-
Interest Expense New Debt		-	-	-	-	-	-	-	-	-	-	-
Tax Levy		9,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500	4,500
New Special Assessments		-	-	-	-	-	-	-	-	-	-	-
Other		-	-	-	-	-	-	-	-	-	-	-
<b>Total Non Operating Revenues (Expenses)</b>		<b>5,173</b>	<b>5,422</b>	<b>7,910</b>	<b>10,329</b>	<b>12,658</b>	<b>12,614</b>	<b>16,327</b>	<b>18,140</b>	<b>19,948</b>	<b>21,513</b>	<b>22,999</b>
<b>Net Income (Loss) Before Transfers</b>		<b>120,244</b>	<b>116,608</b>	<b>114,692</b>	<b>112,195</b>	<b>108,079</b>	<b>101,003</b>	<b>112,243</b>	<b>106,407</b>	<b>99,823</b>	<b>92,530</b>	<b>84,679</b>
<b>Operating Transfers</b>												
Transfers In		-	-	-	30,139	33,358	189,197	-	-	-	-	-
Transfers (Out)		-	-	-	-	-	-	-	-	-	-	-
<b>Total Operating Transfers</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>30,139</b>	<b>33,358</b>	<b>189,197</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net Income (Loss)</b>		<b>120,244</b>	<b>116,608</b>	<b>114,692</b>	<b>142,334</b>	<b>141,437</b>	<b>290,200</b>	<b>112,243</b>	<b>106,407</b>	<b>99,823</b>	<b>92,530</b>	<b>84,679</b>
<b>Beginning Cash &amp; Investments</b>		<b>967,946</b>	<b>961,242</b>	<b>943,058</b>	<b>915,092</b>	<b>896,558</b>	<b>869,987</b>	<b>1,218,290</b>	<b>1,387,984</b>	<b>1,544,808</b>	<b>1,701,263</b>	<b>1,849,869</b>
Net Income		120,244	116,608	114,692	142,334	141,437	290,200	112,243	106,407	99,823	92,530	84,679
Depreciation		114,368	111,103	108,063	105,229	103,605	102,235	100,957	99,942	99,303	98,748	98,273
Acquisition and Construction of Assets		(3,318)	(5,756)	(7,903)	(30,139)	(33,358)	(33,358)	(36,854)	(42,672)	(42,672)	(42,672)	(42,672)
Proceeds from New Long-Term Debt		-	-	-	-	-	-	-	-	-	-	-
Payments on New Long-Term Debt		-	-	-	-	-	-	-	-	-	-	-
Payments on Existing Long-Term Debt		(237,998)	(240,138)	(242,819)	(235,958)	(238,256)	(10,774)	(6,653)	(6,852)	-	-	-
Adjustments		-	-	-	-	-	-	-	-	-	-	-
<b>Ending Cash Balance</b>		<b>961,242</b>	<b>943,058</b>	<b>915,092</b>	<b>896,558</b>	<b>869,987</b>	<b>1,218,290</b>	<b>1,387,984</b>	<b>1,544,808</b>	<b>1,701,263</b>	<b>1,849,869</b>	<b>1,990,148</b>
<b>Minimum Cash Balance</b>												
For ongoing operations		76,108	77,080	78,180	79,409	81,021	82,779	80,897	82,809	84,907	87,122	89,456
For debt service		248,828	248,840	239,280	239,064	11,360	7,009	7,092	-	-	-	-
<b>Minimum Cash Balance Required</b>		<b>324,936</b>	<b>325,920</b>	<b>317,460</b>	<b>318,473</b>	<b>92,380</b>	<b>89,788</b>	<b>87,989</b>	<b>82,809</b>	<b>84,907</b>	<b>87,122</b>	<b>89,456</b>
Amount Over (Under) Minimum		636,305	617,139	597,631	578,085	777,606	1,128,502	1,299,995	1,461,999	1,616,356	1,762,747	1,900,692

Sewer Fund														
Year		Total bond payment	expense	Capital	New Bond Pmts	Total Expenses	Rate Inc.	rev	levy rev.	Bond Proceeds	Total Revenues	Cash Balance YE	Recom. Cash	Over /(Under)
2022	Budget	\$249,325	\$190,066	\$3,318	\$0	\$442,708	0.0%	\$426,504	\$9,500	\$0	\$436,004	\$961,242	324,936	636,305
2023	Projection	\$248,828	\$197,215	\$5,756	\$0	\$451,800	0.0%	\$429,116	\$4,500	\$0	\$433,616	\$943,058	325,920	617,139
2024	Projection	\$248,840	\$204,659	\$7,903	\$0	\$461,401	0.0%	\$428,935	\$4,500	\$0	\$433,435	\$915,092	317,460	597,631
2025	Projection	\$239,280	\$212,408	\$30,139	\$0	\$481,827	0.0%	\$458,794	\$4,500	\$0	\$463,294	\$896,558	318,473	578,085
2026	Projection	\$239,064	\$220,477	\$33,358	\$0	\$492,899	0.0%	\$461,827	\$4,500	\$0	\$466,327	\$869,987	92,380	777,606
2027	Projection	\$11,360	\$228,880	\$33,358	\$0	\$273,597	0.0%	\$617,401	\$4,500	\$0	\$621,901	\$1,218,290	89,788	1,128,502
2028	Projection	\$7,009	\$222,631	\$36,854	\$0	\$266,493	0.0%	\$431,687	\$4,500	\$0	\$436,187	\$1,387,984	87,989	1,299,995
2029	Projection	\$7,092	\$231,295	\$42,672	\$0	\$281,059	0.0%	\$433,384	\$4,500	\$0	\$437,884	\$1,544,808	82,809	1,461,999
2030	Projection	\$0	\$240,326	\$42,672	\$0	\$282,998	0.0%	\$434,952	\$4,500	\$0	\$439,452	\$1,701,263	84,907	1,616,356
2031	Projection	\$0	\$249,739	\$42,672	\$0	\$292,411	0.0%	\$436,517	\$4,500	\$0	\$441,017	\$1,849,869	87,122	1,762,747
2032	Projection	\$0	\$259,551	\$42,672	\$0	\$302,223	0.0%	\$438,003	\$4,500	\$0	\$442,503	\$1,990,148	89,456	1,900,692