



Springsted Incorporated  
380 Jackson Street, Suite 300  
Saint Paul, MN 55101-2887  
Tel: 651-223-3000  
www.springsted.com

## EXTERNAL MEMORANDUM

TO: Sharon Payne, City Clerk/Treasurer  
Mayor Utecht and City Council Members, City of Stacy, MN

FROM: Patty Kettles, Springsted Incorporated

DATE: January 16, 2019

SUBJECT: Water & Sewer Rate Study Update

The purpose of this memo is to review the rates for the Water & Sewer Fund's based on an analysis/cash flow projections with recent financial information and provide the City with updated water and sewer rate recommendations.

Assumptions include:

- The water radium abatement project is complete with the City obtaining a \$1,873,000 USDA loan (39-year term at 3.0%) and \$959,369 in grant income
- No growth is assumed in water consumption or sewer use
- 2-3% annual growth in operating expenses
- Tax levy in the Water Fund has been reduced to \$0
- City will transfer \$30,000 into the Water Fund annually from the Liquor Store Fund
- 2018 tax levy for the Sewer Fund was \$90,000 for collection in 2019
- Included approximately \$45,000 annually in the Water Fund for repair and maintenance, capital expenditures, and the annual contribution to a short-lived asset reserve (\$15,813) as required per the loan agreement with the USDA.
- CLJSTC Capital Improvement Plan

Based on the above assumptions, the revised Water and Sewer Fund projections are shown on the following pages. The City does not need to increase sewer rates in 2019. We recommend water rates are increased 3.5% for 2019. We will need to closely monitor each fund to ensure the rates are sustainable into the future, particularly as the CLJSTC provides recommendations as to funding sources for capital expenditures. They currently utilize pay-as-you-go (cash financing), with Stacy contributing 9.9% for their portion of wastewater treated. However, they have several larger capital expenditures projected which they may pursue bonding for to lessen the impact on other member communities that carry a larger share of the costs. We have provided a scenario for this option as well.

**Water Fund – August 2017**

																3.00%			
Year		Bond Balance	Principal payment	Interest payment		Total Bond payment	Expense	Capital	New Bond Pmt	Trsf to Sewer		rev	levy rev.*	Bond Proceeds	Cash Balance YE	Recom. Cash	Over /(Under)		
2016	Actual	\$650,000	\$35,000	\$11,731		\$46,731	\$147,789	\$741,538	\$0	\$0	0.0%	\$686,199	\$40,280	\$147,518	\$598,059	88,831	509,228		
2017	Budget	\$615,000	\$35,000	\$11,414		\$46,414	\$139,928	\$1,883,000	\$0	\$0	0.0%	\$234,551	\$3,130	\$1,873,000	\$639,398	174,777	464,621		
2018	Projection	\$580,000	\$35,000	\$11,168		\$46,168	\$159,931	\$10,000	\$82,120	\$0	0.0%	\$238,445	\$0	\$0	\$579,625	191,124	388,501		
2019	Projection	\$545,000	\$35,000	\$10,870		\$45,870	\$164,930	\$10,000	\$82,120	\$0	3.0%	\$243,909	\$0	\$0	\$520,614	191,861	328,752		
2020	Projection	\$510,000	\$35,000	\$10,520		\$45,520	\$170,079	\$10,000	\$82,120	\$0	3.0%	\$249,562	\$0	\$0	\$462,457	192,581	269,876		
2021	Projection	\$475,000	\$35,000	\$10,100		\$45,100	\$175,383	\$10,000	\$82,120	\$0	3.0%	\$255,411	\$0	\$0	\$405,266	193,300	211,965		
2022	Projection	\$440,000	\$35,000	\$9,628		\$44,628	\$180,845	\$10,000	\$82,120	\$0	3.0%	\$261,463	\$0	\$0	\$349,136	210,567	138,569		
																* assumes tax levy discontinued after 2016			
																but the City will transfer in \$30,000 annually			
																from the Liquor Store Fund.			

**Water Fund – January 2019**

Year		Principal payment	Interest payment		Total Bond payment	Expense	Capital		rev	levy rev	Bond Proceeds	Cash Balance YE	Recom. Cash	Over /(Under)
2017	Actual	\$35,000	\$11,326		\$46,326	\$119,877	\$2,337,669	0.0%	\$278,247	\$347	\$2,680,851	\$1,063,867	84,229	979,638
2018	YTD	\$35,000	\$11,783		\$46,783	\$143,792	\$343,182	0.0%	\$251,313	\$0	\$0	\$781,424	170,365	611,059
2019	Projection	\$59,855	\$67,060		\$126,915	\$157,950	\$35,613	3.5%	\$248,287	\$0	\$0	\$709,233	173,587	535,646
2020	Projection	\$60,601	\$65,964		\$126,565	\$162,529	\$35,613	3.5%	\$254,697	\$0	\$0	\$639,223	174,741	464,482
2021	Projection	\$61,369	\$64,776		\$126,145	\$167,243	\$35,613	3.5%	\$261,378	\$0	\$0	\$571,601	175,883	395,717
2022	Projection	\$62,160	\$63,513		\$125,673	\$172,095	\$35,613	3.5%	\$268,342	\$0	\$0	\$506,562	177,013	329,549
2023	Projection	\$62,975	\$62,173		\$125,148	\$177,089	\$35,613	3.5%	\$275,599	\$0	\$0	\$444,312	178,709	265,603

**Sewer Fund – August 2017**

																3.00%			
Year		Bond Balance	principal payment	Interest payment	Total bond payment	expense	Capital	New Bond Pmts		rev	levy rev.**	Tsf from Water	Bond Proceeds	Cash Balance YE	Recom. Cash	Over /(Under)			
2016	Actual	\$2,145,660	\$210,000	\$26,625	\$236,625	\$198,899	\$52,247	\$0	0.0%	\$420,245	\$122,305	\$0	\$0	\$464,440	330,490	133,950			
2017	Budget	\$1,917,638	\$228,022	\$24,105	\$252,127	\$216,467	\$28,651	\$0	0.0%	\$381,940	\$119,253	\$0	\$0	\$468,388	331,725	136,663			
2018	Projection	\$1,688,788	\$228,850	\$21,552	\$250,402	\$224,007	\$10,000	\$0	0.0%	\$384,424	\$112,500	\$0	\$0	\$480,903	331,028	149,875			
2019	Projection	\$1,458,996	\$229,792	\$19,030	\$248,822	\$231,826	\$10,000	\$0	0.0%	\$384,549	\$101,250	\$0	\$0	\$476,055	331,679	144,375			
2020	Projection	\$1,226,807	\$232,189	\$16,497	\$248,686	\$239,934	\$10,000	\$0	0.0%	\$384,501	\$91,125	\$0	\$0	\$453,061	333,437	119,624			
2021	Projection	\$991,221	\$235,586	\$13,933	\$249,519	\$248,342	\$10,000	\$0	0.0%	\$384,271	\$82,013	\$0	\$0	\$411,482	334,303	77,180			
2022	Projection	\$753,224	\$237,997	\$11,327	\$249,324	\$257,064	\$10,000	\$0	0.0%	\$383,855	\$73,811	\$0	\$0	\$352,760	328,184	24,576			

**Sewer Fund – January 2019 – Pay-as-you-Go financing to CLJSTC**

Year		Total bond payment	expense	Capital	New Bond Pmts		rev	levy rev.**	Bond Proceeds	Cash Balance YE	Recom. Cash	Over /(Under)
2017	Actual	\$236,903	\$151,176	\$0	\$0	0.0%	\$445,491	\$110,415	\$0	\$640,874	333,241	307,633
2018	YTD	\$250,306	\$174,959	\$11,368	\$0	0.0%	\$415,594	\$114,745	\$0	\$734,579	324,314	410,265
2019	Projection	\$248,822	\$212,091	\$23,562	\$0	0.0%	\$420,379	\$106,300	\$0	\$776,783	325,058	451,725
2020	Projection	\$248,686	\$218,492	\$111,821	\$0	0.0%	\$420,801	\$106,300	\$0	\$724,885	327,000	397,885
2021	Projection	\$249,519	\$225,109	\$85,635	\$0	0.0%	\$420,282	\$106,300	\$0	\$691,204	329,094	362,109
2022	Projection	\$249,324	\$231,949	\$47,223	\$0	0.0%	\$419,945	\$106,300	\$0	\$688,953	330,909	358,043
2023	Projection	\$249,098	\$239,021	\$95,931	\$0	0.0%	\$419,923	\$106,300	\$0	\$631,126	332,550	298,576

**Sewer Fund – January 2019 – CLJSTC Debt Financing of CIP**

Year		Total bond payment	expense	Capital	New Bond Pmts		rev	levy rev. **	Bond Proceeds		Cash Balance YE	Recom. Cash	Over /(Under)
2017	Actual	\$236,903	\$151,176	\$0	\$0	0.0%	\$445,491	\$110,415	\$0		<b>\$640,874</b>	<b>333,241</b>	<b>307,633</b>
2018	YTD	\$250,306	\$174,959	\$11,368	\$0	0.0%	\$415,594	\$114,745	\$0		<b>\$734,579</b>	<b>324,314</b>	<b>410,265</b>
2019	Projection	\$248,822	\$212,091	\$23,562	\$0	0.0%	\$420,379	\$106,300	\$0		<b>\$776,783</b>	<b>325,058</b>	<b>451,725</b>
2020	Projection	\$248,686	\$218,492	\$3,762	\$0	0.0%	\$420,801	\$96,300	\$0		<b>\$822,944</b>	<b>327,000</b>	<b>495,944</b>
2021	Projection	\$249,519	\$225,109	\$2,916	\$0	0.0%	\$421,263	\$86,300	\$0		<b>\$852,962</b>	<b>327,744</b>	<b>525,218</b>
2022	Projection	\$249,324	\$231,949	\$3,017	\$0	0.0%	\$421,563	\$76,300	\$0		<b>\$866,534</b>	<b>328,525</b>	<b>538,010</b>
2023	Projection	\$249,098	\$239,021	\$5,806	\$0	0.0%	\$421,698	\$66,300	\$0		<b>\$860,608</b>	<b>329,613</b>	<b>530,996</b>

If the CLJSTC decides to issue debt to finance the CIP, the annual expense to Stacy will most-likely be reduced in the short-term as minimal bond payments are projected. Stacy's portion of the projected bond payments would then increase to \$40,000 annually beginning in 2025 and to \$45,000 annually in 2030. The above scenario reflects the lower capital cost as well as a \$10,000 annual reduction in the Sewer Levy. Ending cash in either scenario is projected to be healthy, allowing for 0% rate increases in the Sewer Utility.

We appreciate being of service to the City of Stacy!