

# **BEMIDJI CITY COUNCIL**

## ***Work Session Agenda***

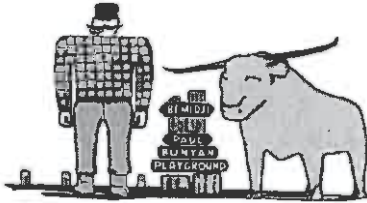
**Monday, September 14, 2015**

**City Hall  
Conference Room  
5:30 P.M.**



1. CALL TO ORDER / ROLL CALL
  
2. UTILITY CASH FLOW ANNUAL UPDATE
  
3. ADJOURNMENT

***NOTE: All cellular telephones, pagers and BlackBerry devices to be switched to a non-audible function during Council and Committee meetings.***



*City of Bemidji*

## **Finance Office**

### **Memorandum**

**To:** Honorable Mayor and City Council

**From:** Ron Eischens, Finance Director *ron*

**Reviewed By:** Nate Mathews, City Manager *nm*

**Date:** September 14, 2015

**RE:** Utility Cash Flow Annual Update

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#### **Background:**

The purpose of this work session is to review projected financial results and related assumptions for City utility funds including water, sanitary sewer, storm water and refuse. This number crunching exercise is completed annually to determine if our utility rates will support future operating and capital expenditures.

Historically the City hired the consulting firm Public Financial Management (PFM) to update this information at a cost of \$7,000. This year staff completed this project internally since the majority of the information was provided by City staff.

Over the last few years the City made significant changes to water/sewer rate structures, with minimal impact to residential consumers because they consume significantly less water. Fixed rates based on meter size were implemented in 2013. Tiered water usage rates were implemented in 2015 to comply with state water conservation requirements. The goal of these two changes was to reasonably allocate utility system costs to higher users which are commercial businesses.

Attached are the cash flow projections for City utility funds. The projections incorporate operating revenues, expenses, debt service and capital projects.

Projections include the following major assumptions:

- **Water Consumption** – at the five year average of 425 million gallons. The implementation of state mandated water conservation rates in 2015 may reduce future water consumption, but using a five year rolling average accounts for weather and usage fluctuations. Sewer consumption is 20% lower (340 million) due to sprinkling meters not contributing to sanitary sewer flow.
- **2016 Proposed Rate adjustments** – proposed rate increases are 3% for water and sewer, no storm water rate increase and an increase of \$1.20 per month for 65 gallon refuse containers.
- **Expense growth** - 3% annual increases
- **Birchmont Drive Assessments** – no City contribution is included in these projections to account for shortfalls, if any, on this project

## Projection Results

### **Sewer Fund**

Projected to generate \$2.8 million of operating revenue for 2015. Capital projects totaling \$5.6 million reduce cash to \$2.5 million by 2020. This cash balance represents 136% as a percentage of operating expenses. Despite lower reserves, staff believe operating results and reserves are appropriate.

### **Water Fund**

Projected 2015 revenue and expenses are nearly the same as 2014 at \$1.8 million. Lower debt service costs are the result of bond refinancing at lower interest rates in 2014. Capital projects total \$5.4 million through 2020. Projections indicate cash at \$2.2 million in 2020, or 306% of operating costs. This amount is adequate, especially considering lower sewer reserves above.

### **Storm Water**

Rates have been constant since 2011, but with 3% annual increases beginning in 2017, revenues gradually increase. Impacts of future annexation have not been included. Capital costs total \$3.6 million through 2020. Storm water operating profits are healthy but cash reserves are reduced to \$378,000 by 2020. Future rate increases will be reviewed annually to determine their appropriateness. Staff believe a 218% reserve level in 2020 is appropriate considering current and future storm water regulations will require increased expenditures.

Some background information is listed below and attached regarding storm water issues which may be helpful to respond to questions.

### Methodology of Storm Water Rate Charges

The City hired two consulting firms to establish the City's storm water fee structure. Freeburg and Grund (F&G) and Springsted finished this work in 1999. F&G completed the technical side, determining runoff coefficients. Springsted prepared the financial component including fee structure taking into consideration the runoff coefficients. The end result was a fee structure that considers various property types and their contribution to storm water runoff.

Storm water fees are based on a property's estimated discharge to the drainage system (runoff coefficient). The amount of impervious surface such as rooftops, driveways, parking lots, etc. is a common indicator of storm water runoff.

In order to obtain a reasonable billing structure, rates for various types of property were recommended by Springsted. The fee structure places a higher burden of cost on properties that contribute the greatest amount to the drainage system. No billing structure is perfect and ease of application is considered as well.

Springsted indicated the lower storm water rate for university/medical facilities was justified due to their lower runoff coefficients.

### **Refuse**

Refuse operations continue to be a profit center, similar to the liquor stores. Profits of \$104,000 are transferred to General Fund to pay for administration and other general fund activities. In July 2015 expenses include adding a full-time City utility worker to handle duties related to annexation.

Waste Management rates for 96 and 64 gallon containers are \$13.32 per month (\$10 plus \$3.32 for fuel/environmental fee). City rates are \$13.20 for 95 gallon service and \$12.00 for a 65 gallon container, slightly less than Waste Management.

In 2015, fees were reduced on 95 gallon containers and increased on 65 gallon containers to bring City fee structure more in line with Waste Management. The projections include a \$1.20 rate increase for the 65 gallon containers, meaning there will be no difference in rates based on container size. This fee structure will reduce overfilling of smaller containers which has been an issue. The cost to pick up a container is the same, regardless of size.

Refuse cash levels in 2020 are projected at \$713,000, which is adequate.

## **Summary**

The utility funds have \$6.9 million of debt with annual payments of \$797,000. This debt was used to construct or improve the City's utility infrastructure. These projections indicate cash reserves decreasing from \$7.7 million in 2014 to \$5.5 million by 2020. The primary reason for the decline are capital costs. As mentioned earlier, staff will monitor future storm water results to keep reserves at appropriate levels.

## **Recommendation:**

Rate changes effective January 1, 2016 for:

- Water and Sewer fixed and variable rates increase by 3%
- Refuse 65 gallon containers to \$13.20 per month
- No Storm water rate increase for 2016, but 3% rate increases thereafter

**EXHIBIT 2**

	Audited: FY Ending 12/31/2014	Projection: FY Ending 12/31/2015	Projection: FY Ending 12/31/2016	Projection: FY Ending 12/31/2017	Projection: FY Ending 12/31/2018	Projection: FY Ending 12/31/2019	Projection: FY Ending 12/31/2020
<b>WATER</b>							
<b>WATER RATES:</b>							
BASE RATE	\$0.00	Various	Various	Various	Various	Various	Various
METER RATE	\$0.00	\$3.35	\$3.45	\$3.55	\$3.66	\$3.77	\$3.88
WATER GALLONS SOLD	454,842,000	425,000,000	425,000,000	425,000,000	425,000,000	425,000,000	425,000,000
OPERATING REVENUES	\$1,833,894	\$1,827,750	\$1,871,580	\$1,925,162	\$1,980,340	\$2,037,163	\$2,095,680
INTEREST INCOME	26,797	25,000	20,300	18,231	14,705	17,100	20,314
SPECIAL ASSESSMENTS	33,651	57,637	54,506	51,377	20,809	20,230	19,651
TOTAL REVENUES	\$1,894,342	\$1,910,387	\$1,946,386	\$1,994,770	\$2,015,854	\$2,074,493	\$2,135,645
OPERATING EXPENSES LESS DEPR	\$606,530	\$633,620	\$652,629	\$672,207	\$692,374	\$713,145	\$734,539
NET REVENUE FOR DEBT SERVICE	\$1,287,812	\$1,276,767	\$1,293,757	\$1,322,563	\$1,323,480	\$1,361,348	\$1,401,106
TOTAL WATER DEBT SERVICE	\$231,874	\$205,048	\$193,959	\$194,971	\$195,891	\$194,442	\$199,778
NET CASHFLOW AFTER DEBT	\$1,055,938	\$1,071,719	\$1,099,798	\$1,127,592	\$1,127,589	\$1,166,906	\$1,201,328
<b>WATER DEBT SERVICE COVERAGE RATIO</b>	5.55 x	6.23 x	6.67 x	6.78 x	6.76 x	7.00 x	7.01 x
<b>CAPITAL OUTLAYS- WATER</b>	(\$633,352)	(\$1,150,000)	(\$620,000)	(\$1,318,000)	(\$665,000)	(\$283,000)	(\$1,400,000)
<b>ENDING CASH BALANCE</b>	\$2,047,238	\$1,691,307	\$1,994,437	\$1,627,361	\$1,913,282	\$2,620,520	\$2,245,180
<b>CASH AS % OF NET O&amp;M</b>	338%	267%	306%	242%	276%	367%	306%

**EXHIBIT 1**

	Audited: FY Ending 12/31/2014	Projection: FY Ending 12/31/2015	Projection: FY Ending 12/31/2016	Projection: FY Ending 12/31/2017	Projection: FY Ending 12/31/2018	Projection: FY Ending 12/31/2019	Projection: FY Ending 12/31/2020
<b>SEWER</b>							
<b>SEWER RATES:</b>							
BASE RATE	\$7.87	Various	Various	Various	Various	Various	Various
METER RATE	\$5.92	\$6.10	\$6.28	\$6.47	\$6.67	\$6.87	\$7.07
SEWER GALLONS SOLD	363,873,600	340,000,000	340,000,000	340,000,000	340,000,000	340,000,000	340,000,000
OPERATING REVENUES	\$2,888,838	\$2,798,963	\$2,884,559	\$2,965,339	\$3,048,541	\$3,134,240	\$3,222,509
INTEREST INCOME	42,213	25,000	43,396	41,447	38,905	31,356	31,651
SPECIAL ASSESSMENTS	<u>53,010</u>	<u>76,399</u>	<u>72,252</u>	<u>68,105</u>	<u>27,583</u>	<u>26,816</u>	<u>26,049</u>
TOTAL REVENUES	\$2,984,061	\$2,900,362	\$3,000,207	\$3,074,891	\$3,115,029	\$3,192,412	\$3,280,209
OPERATING EXPENSES LESS DEPR	\$1,572,740	\$1,620,635	\$1,669,254	\$1,719,332	\$1,770,912	\$1,824,039	\$1,878,760
NET REVENUE FOR DEBT SERVICE	\$1,411,321	\$1,279,727	\$1,330,953	\$1,355,559	\$1,344,118	\$1,368,373	\$1,401,449
TOTAL SEWER DEBT SERVICE	<u>\$548,285</u>	<u>\$591,646</u>	<u>\$578,154</u>	<u>\$578,717</u>	<u>\$579,022</u>	<u>\$581,321</u>	<u>\$585,835</u>
NET CASHFLOW AFTER DEBT	\$863,036	\$688,081	\$752,799	\$776,842	\$765,096	\$787,052	\$815,614
<b>SEWER DEBT SERVICE COVERAGE RATIO</b>	<b>2.57 x</b>	<b>2.16 x</b>	<b>2.30 x</b>	<b>2.34 x</b>	<b>2.32 x</b>	<b>2.35 x</b>	<b>2.39 x</b>
CAPITAL OUTLAYS- SEWER	<b>(\$609,623)</b>	<b>(\$806,100)</b>	<b>(\$1,010,000)</b>	<b>(\$488,000)</b>	<b>(\$1,230,000)</b>	<b>(\$518,000)</b>	<b>(\$1,570,000)</b>
<b>ENDING CASH BALANCE</b>	<b>\$4,576,291</b>	<b>\$4,349,795</b>	<b>\$3,916,104</b>	<b>\$4,028,456</b>	<b>\$3,387,062</b>	<b>\$3,479,624</b>	<b>\$2,548,748</b>
<b>CASH AS % OF NET O&amp;M</b>	<b>291%</b>	<b>268%</b>	<b>235%</b>	<b>234%</b>	<b>191%</b>	<b>191%</b>	<b>136%</b>

**EXHIBIT 3**

	Audited: FY Ending 12/31/2014	Projection: FY Ending 12/31/2015	Projection: FY Ending 12/31/2016	Projection: FY Ending 12/31/2017	Projection: FY Ending 12/31/2018	Projection: FY Ending 12/31/2019	Projection: FY Ending 12/31/2020
<b>STORM WATER</b>							
<b>STORM WATER RATES:</b>							
ERU UNIT RATE	\$6.44	\$6.44	\$6.44	\$6.63	\$6.83	\$7.04	\$7.25
OPERATING REVENUES	\$1,333,878	\$1,193,979	\$1,194,379	\$1,230,180	\$1,267,056	\$1,305,037	\$1,344,159
INTEREST INCOME	7,037	10,000	7,000	7,000	7,000	7,000	7,000
SPECIAL ASSESSMENTS	1,850	0	0	0	0	0	0
TOTAL REVENUES	\$1,342,765	\$1,203,979	\$1,201,379	\$1,237,180	\$1,274,056	\$1,312,037	\$1,351,159
OPERATING EXPENSES LESS DEPR	\$142,615	\$149,715	\$154,206	\$158,833	\$163,598	\$168,506	\$173,561
NET REVENUE FOR DEBT SERVICE	\$1,200,150	\$1,054,264	\$1,047,173	\$1,078,348	\$1,110,458	\$1,143,532	\$1,177,598
TOTAL STORM WTR DEBT SERVIC.	\$120,008	\$119,840	\$120,219	\$120,421	\$119,873	\$119,873	\$119,873
NET CASHFLOW AFTER DEBT	\$1,080,142	\$934,424	\$926,954	\$957,927	\$990,585	\$1,023,659	\$1,057,725
<b>STORM DEBT SERVICE COVERAGE RATIO</b>	10.00 x	8.80 x	8.71 x	8.95 x	9.26 x	9.54 x	9.82 x
<b>CAPITAL OUTLAYS- STORM WTR</b>	(\$105,400)	(\$500,000)	(\$785,000)	(\$545,000)	(\$525,000)	(\$525,000)	(\$725,000)
<b>ENDING CASH BALANCE</b>	\$506,937	\$314,425	\$98,789	\$154,125	\$262,120	\$403,189	\$378,324
<b>CASH AS % OF NET O&amp;M</b>	355%	210%	64%	97%	160%	239%	218%



**EXHIBIT 4**

	Audited: FY Ending 12/31/2014	Projection: FY Ending 12/31/2015	Projection: FY Ending 12/31/2016	Projection: FY Ending 12/31/2017	Projection: FY Ending 12/31/2018	Projection: FY Ending 12/31/2019	Projection: FY Ending 12/31/2020
<b>REFUSE</b>							
OPERATING REVENUES	\$411,869	\$387,500	\$405,154	\$417,309	\$429,828	\$442,723	\$456,004
INTEREST INCOME	5,588	4,200	6,987	7,415	7,740	4,990	5,134
SPECIAL ASSESSMENTS	368	0	0	0	0	0	0
<b>TOTAL REVENUES</b>	<b>\$417,825</b>	<b>\$391,700</b>	<b>\$412,141</b>	<b>\$424,724</b>	<b>\$437,568</b>	<b>\$447,713</b>	<b>\$461,138</b>
OPERATING EXPENSES LESS DEPR	\$175,204	\$223,671	\$230,381	\$237,293	\$244,411	\$251,744	\$259,296
NET CASHFLOW	\$242,621	\$168,029	\$181,760	\$187,431	\$193,157	\$195,969	\$201,842
<b>REFUSE DEBT SERVICE COVERAGE RATIO</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>	<b>n/a</b>
CAPITAL OUTLAYS- REFUSE OTHER ADJUSTMENTS	\$0	\$0	(\$45,000)	(\$305,000)	\$0	(\$30,000)	\$0
<b>ENDING CASH BALANCE</b>	<b>\$615,393</b>	<b>\$651,857</b>	<b>\$652,861</b>	<b>\$399,536</b>	<b>\$456,936</b>	<b>\$487,149</b>	<b>\$553,236</b>
<b>CASH AS % OF NET O&amp;M</b>	<b>351%</b>	<b>291%</b>	<b>283%</b>	<b>168%</b>	<b>187%</b>	<b>194%</b>	<b>213%</b>