



June 7, 2019

Shakopee Public Utilities Commission
c/o Mr. John Crooks
255 Sarazin Street
Shakopee, MN 55379

Dear Members of the Commission and Mr. Crooks,

Thank you for your presentation at the Joint City/SPUC meeting of March 12, 2019. It was an enlightening discussion. After reviewing the information provided by the Commission and staff at the meeting, some clarifying questions have arisen. Staff has prepared the following with Council review.

We would appreciate if you could review and respond to the following.

To start, it is important to briefly outline why the city is interested in the operations of SPUC at this point. The impetus for this discussion is essentially that every major developer currently at work in the City has complained to city staff regarding SPUC fees. Some have come before the City Council to complain and demand that the Council act. It is not City fees that are a concern. In fact, most developers will tell you our fees are in the range of others and that they appreciate working with our staff.

In the past when a developer would complain about SPUC – mostly regarding 1) WCC (Water Connection Charge)/TWC (Trunk Water Charge) Rates; 2) looping requirements; and 3) the general “this is our policy” customer service – city staff always gave the same answer. *“This is not a city issue. This is a SPUC issue. You should address SPUC issues with SPUC directly.”*

Often the response was that the City Council appointed SPUC commissioners, so yes it was a city issue and the city should do something about what has generally been recognized as charges and fees grossly out of line with other utilities and communities. We would like the opportunity to bring the rationale of some past SPUC decisions to light as we seek to address resident and developer concerns.

Current Rate Formulas for the SPUC Water Connection Charge (WCC) and Water Trunk Charge (WTC)

Is it correct that SPUC has four different sources to fund their capital improvement plan, and are they as outlined below?

- 1) Water Connection Charge (WCC) (also known as Water Access Charge or WAC) funds infrastructure such as wells, pump houses, storage tanks, booster stations, water treatment plants, and transmission lines;
- 2) Water Rates fund everyday operations including maintenance of the existing system (painting water towers, rehab of wells, etc.);
- 3) Trunk Water Charge (TWC) funds oversizing water mains;

- 4) Reconstruction Fee (billed on monthly statements starting in 2007) funds replacement of existing, older water mains, hydrants and valves in coordination with City of Shakopee street reconstruction projects.

What is the cash flow policy that SPUC has for the above funds? In our analysis of your budget, we only see two funds – water and electric. What are the current fund balances for these charges and where are they located in your budget? It appears that there are separate business units under each fund. Please provide the budget for these business units or if there are not separate business units, how the charges are segregated to prevent comingling of funds.

It is our understanding that the current rate formula was established for the WTC (Water Trunk Charge) on Jan 1, 1982 and the WCC (Water Connection Charge) on Mar 3, 1984, as part of recommendations by the engineering and surveying company Schoell & Madson, Inc. (S&M) which has been doing the financial analysis since at least 1976.

Essentially the formula was originally based off the ENR Construction Cost Index widely used by the construction industry. Initially, increases to the formula were based upon the % increase of the CCI for the previous 12 months x the original fee. This formula saw a stable level of fund growth from 1982/84 (WTC \$435 / WCC \$352) to 2002 rates (WTC \$831 / WCC \$567) over a period of approximately 18 years.

In 2003, SPUC deviated from the formula for WTC and WCC, even though a March 2003 *Water Trunk Charge and Connection Charge Analysis* Report by S&M recommended against it. That report determined that the WTC was adequate to fund future trunk watermain oversizing costs and recommended that the fee structure remain as in the past which would increase the charge from \$831 to \$854. (Attachment #1) However, SPUC did not follow the consultant's recommendation and determined that the rate should increase to \$1,213 and approved it by Resolution #714 on May 7, 2003 (backdated to January 1st, 2003). (Attachment #2). **What were the reasons for not following the advice of your consultant?**

Unlike the recommendation regarding the WTC, S&M recommended that the WCC be increased substantially from \$567 to \$2045 to fund two water treatment plants in the future. SPUC approved a \$2035 fee on July 7, 2003 by Resolution #728. (Attachment #1, Page 3) **Where are these plants in your CIP? If not present, when will they be added? Fees have been collected since 2003 for these plants with no apparent planning. Have there been any studies or other reports that outline the plan for these plants, or a timeline for their construction? It also appears that the water system is not designed and built at this point for a centralized treatment facility. Since the treatment plants have been charged for since 2003, have the system infrastructure requirements since that time facilitated one or two treatment facilities?**

Charges in both accounts were relatively stable between 2003 and 2007. However, in 2007 the fee structures were changed significantly for both the WTC and WCC rising an additional 12% over the CCI. The reason given in Resolutions #866 and #867 was SPUC, "...has observed that actual material and labor costs have escalated significantly above and beyond the amount indicated by the [CCI]... and determines an additional adjustment equal to 12% over and above the [CCI] is warranted." (Attachment #3) **What were the observations of "actual material and labor costs" based upon since the Construction Cost Index would appear to be an**

accepted and accurate reflection of the construction costs? How was the 12% increase above and beyond the Construction Cost Index calculated? Where there any studies or other reports to support the contention that the actual increase was 12%?

In 2008, the formula was again adjusted as fees increased 23% over the CCI for the WCC (Resolution #901) and 24% for the TWC (Resolution #902), after yet another S&M report of August of 2007 (and revised in January of 2008) – but not following its recommendations. The *Water Connection Fund and Trunk Water Main Fund Analysis and Report*, noted that in the short-term (until 2023) the *“analysis of water improvement projects needed to meet the projected growth in project costs for water facilities (wells, pumps houses, storage tanks, booster stations, water treatment plants, trunk water transmission lines) and trunk water main (over sizing and SPUC trunk water main projects) will exceed the estimated revenue funds at the current rates charged for water connection charge and trunk water main fee.”* (Attachment # 4, page 6 of the report).

However, the report determined that this short-term deficit would be transformed; *“[I]n the longer term the trunk water main fund trends to a 1.2 million dollar surplus balance and the water connect fund trends to an estimated 21.7 million dollar surplus.”* (Attachment #4, page 9 of the report).

The report noted that options to address this short-term deficit included *“... bonding, inter-agency fund transfers and or raising water connection charges and trunk water main charges and “accelerating” water connection charge collection.”* (Attachment #4, page 10 of the report).

The report ultimately concluded, *“[d]ue to the size of the projected deficits, planning to bond is the recommended option. Inter-agency borrowing would be viable to make up for a short term deficit not covered by bonding.”* It specifically noted that increasing fees had significant issues because *“[t]o fund the projected short-term fund deficits the current charges and fees would have to be substantially increased. Even with increased rates the long collection period could still result in fund deficits in the short term, depend on the size of the increase and a large surplus in the long term.”* (Attachment #4, page 21 of the report, underlining added).

Resolution #901 – ignoring this recommendation – states that SPUC *“...determines an upward adjustment in the trunk water charge equal to 23% is warranted at this time to provide adequate funding for the planned trunk water main facilities necessary to serve developing properties with the Commission’s standard of level “A” service.”* Resolution #902 used the same analysis to raise the WCC. (Attachment #5) **Why were the recommendations of your consultant not followed? There is a pattern of not following S&M’s advice, yet they are consistently used for the financial analysis of the WCC and WTC. Why continue to use them if their recommendations were not being used on a relatively consistent basis? The report specifically recommends the risks involved with increasing the fees. What basis was there to make such drastic increases in the fees when the report specifically noted that the short-term deficit would lead to a substantial surplus (WTC - \$1.2M and WCC \$21.7 M) in the long-term?**

In addition, a 2% kicker on top of the CCI was added in 2008 – making the “new” formula the CCI + 2%. **How was this increase above and beyond the CCI determined as correct? What justification was used to increase the fees above and beyond the CCI? What analysis or studies/reports supported this decision?**

The new CCI + 2% rate was followed for both the WTC and WCC from 2008 to 2019. The average increase from this formula was just over 5% a year for each charge. However, in 2018 SPUC adjusted the TWC yet again. At that time, SPUC levied a \$500 per acre fee on top of the CCI+2% formula. The justification was that SPUC "...determines an additional one-time adjustment in the trunk water charge equal to \$500 per acre is warranted at this time due to the continuing deficit in the trunk water fund." (Attachment #6) **How was this "one-time" upwards adjustment calculated and justified? What studies/reports supported this decision? Again, we only see two funds in your budget – water and electric. It appears that there are separate business units under each fund (such as the "trunk water fund" with a deficit balance noted above). Please provide the budget for these business units or if there are not separate business units, how the charges are segregated to prevent comingling of funds.**

In 2019, another "one-time" \$500 per acre was included due to yet again "... the continuing deficit in the trunk water fund." (Attachment #6) **How was this second "one-time" upwards adjustment calculated and justified? For two consecutive years this "one-time" adjustment was enacted. Did you recognize that this charge was going to be necessary in both 2018 and 2019 initially? What long-term analysis was conducted to justify two consecutive "one-time" charges? How can the second "one-time charge be justified as a "one-time" charge, as it was actually the second consecutive year of the \$500 charge. What studies/reports supported the enactment of two consecutive "one-time" charges and when were they conducted?**

Since 2007, the WTC has increased from \$1,628 to \$4,451 (an increase of 173%); and the WCC increased from \$2,846 to \$6039 (not including the added "one-time" \$500 per acre for 2018 and 2019) an increase of 112%.

It would appear that pre-2005, there was a concern regarding SPUC fees and charges compared to other cities. (see Attachment 1, page3) Being competitive is very important. As an example, Hastings lowered their WAC by 25% in 2017 "to be competitive" in the metro area. It went from \$3,075 to \$2,306. SPUC is currently \$6,039. **Do you believe it is important to have competitive fees and charges with other cities in the Metro area?**

Attachment #7 is a comparison of the SPUC WCC/WTC for our neighboring and comparable cities. Our research could find no city in the Metro Area with the WCC as high as SPUC's current charge. **Are you aware of any other utilities with a comparable WCC as currently in place with SPUC?**

Water Delivery Rates

The last water rate study conducted by SPUC was done in 2009 by Progressive Consulting Engineers, Inc. The report recommended a 10% increase per year in water rates from 2009-2015 as "[t]he operating fund capital improvements are funded by the rates and it is necessary that SPUC increase their rates to generate sufficient cash balance to fund their future capital improvement plan." SPUC chose to have an increase in only 2009.

The report further notes that "[r]evenue projections for five to seven years are considered adequate to provide a reasonable forecast of anticipated future revenue needs. Beyond this period, the projections become unreliable and an update of the rate study is normally required." (Attachment #9) No further study has been conducted. **Although the study was not followed,**

it does have a shelf life of approximately 2009-2015 – as noted by the authors. When can the residents of Shakopee expect a new rate study? Water rates should cover the cost of replacing and reconstructing existing infrastructure. Is SPUC using WCC/WTC to in any way subsidize water rates? It would appear that SPUC's Reconstruction Fund Charge which was implemented in 2007 raises about \$444,500 a year at the current \$0.25 rate. Why implement this charge as opposed to just raising the water rate?

SPUC Economic Development Efforts

As part of the joint meeting, Mr. Crooks outlined what he believed to be SPUC's economic development efforts. These appear to be essentially SPUC's marketing efforts. **What does SPUC do for economic development besides these marketing efforts?** It appears Xcel Energy has economic development specialists that work with communities and assist new customers – including looking at Xcel Energy incentives (in an effort to encourage/develop new users/customers). **Does SPUC have any similar personnel or programs? Does SPUC offer any real incentives for new users?** On numerous occasions we have heard that SPUC electrical rates are lower than the alternatives. **Aren't SPUC residential rates actually higher than Xcel Energy rates 6 months of the year?**

Overview of the SPUC City Contribution

SPUC, as do most public utilities, provides a yearly transfer to the city's general fund from both their water and electrical utility operations. SPUC, if a private utility would have to provide 3% of sales to the city under our franchise ordinance. Attachment #10 is a review of other public utilities. SPUC has the second largest sales in water and pays the second largest water contribution to a city. However, SPUC has the largest sales in electric and is behind 5 of the top 6 in city contributions – several by millions. **Based upon this information, would SPUC be amenable to reviewing their contribution in regard to its electrical revenues?**

Council Membership on SPUC

The Shakopee City Council is responsible for appointing members on the commission. It would appear that per the 2002 statutes that changed commission membership, that the City Council actually had a seat on the expanded 5-person council – not just a liaison. (Attachment #11) **Why was the city council position changed to a liaison?**

Additional Matter Regarding the Initial Assessment for the Lions Park Splash Pad

As you may know, the City of Shakopee and the Lions Club are partnering with a private business to bring an all-inclusive splash pad to the city's Lions Park. This private/public/service group project is expected to cost approximately \$80,000 to put in place – at no expense to the city.

As part of our need to provide water to the facility, our staff reached out to your staff and received the determination that the WCC for the project would be \$211,365. (Attachment #12) I fully expect that SPUC will waive that fee at some point in the future. My point in addressing it now is that I believe it is a good example as to why SPUC's fees must be looked at. We are talking about an area the size of a small putting green that will be operational only about 2.5 months of the year and in order to have the water flowing you need to operate a button – which

will allow flowage from 30 second to 2 minutes. And this under your formula equates to \$211,365. No one but SPUC believes that is appropriate.

While the fee amount and discussion are striking, probably the more alarming part of Attachment #12 is where SPUC is suggesting that we should drill our own well within the city. We believe that to be contrary to your wellhead protection plan and is of serious concern.

Thank you for reviewing the above questions and providing timely responses.

Sincerely,

A handwritten signature in blue ink, appearing to be 'W. Reynolds', with a large, stylized flourish extending to the right.

William H. Reynolds
City Administrator

WATER TRUNK CHARGE AND CONNECTION CHARGE ANALYSIS MARCH 2003

Prepared for

Public Utilities Commission

Commission Members

David L. Smith
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John Engler
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Water Superintendent
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I. SUMMARY AND CONCLUSIONS

This study estimated the future revenues from both the trunk water charges and water connection charges. It also identified the future trunk water system improvements and estimated the related costs. The projected revenue was compared with the estimated expenses to determine the adequacy of the current charge policies.

The current trunk water charge was found to be adequate to fund future trunk watermain oversizing costs. It is recommended to continue with the current policy and to continue to make the annual adjustments. On this basis, the 2003 charge would be \$854 per acre.

The current water connection charge was found not to be adequate to fund future water production and storage facilities. The charge would need to be increased from the 2002 rate of \$567 per unit to \$859 per unit to fund the water production and storage facilities. The current charge policy does not and was not intended to fund water treatment facilities, as these were not anticipated twenty years ago when the policy was developed. Providing for a 3.0 MGD nitrate removal plant (6.0 MGD total capacity) would require increasing the charge to \$1,338 per unit. Providing for a second treatment plan, consisting of a 6.0 MGD iron/manganese removal plant, would require increasing the charge to \$2,035 per unit.

Even with the increase to \$2,045 per unit, the combined Shakopee connection charge and trunk water charge is less than the current comparable charges in Chaska and Savage, and is only about six percent higher than Eden Prairie's charge.

We recommend increasing the connection to at least \$1,338 to provide for one water treatment plant. One plant would treat about one-fourth of the ultimate peak day water demand. Therefore, providing funding for a second plant by increasing the connection charge to \$2,045 per unit would not be overly conservative.

published 5/15/03

RESOLUTION #714

A RESOLUTION ADJUSTING FEES
APPLIED UNDER THE TRUNK WATER POLICY RESOLUTION

WHEREAS, the fees established in Resolution #222 which Resolution established the Trunk Water Policy are intended to be adjusted on the first day of January each year,

AND WHEREAS, the adjustment in the fees was specified as the amount equal to the original fee multiplied by the percentage increase in the Construction Cost Index for the previous 12 months as reported by the Engineering News Record,

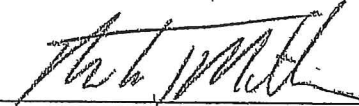
AND WHEREAS, the Construction Cost Index for the date of adoption (February 2, 1981) of Resolution #222 was 3,378.19, and the Construction Cost Index for January 2003 is 6580.54,

AND WHEREAS, the Shakopee Public Utilities Commission has recently received and accepted a report entitled "Water Trunk Charge and Connection Charge Analysis" dated March 28, 2003 by Schoell and Madson, Inc. that details the current status of the Trunk Water Charge fund and projects future revenue and expenses for future trunk water improvements.

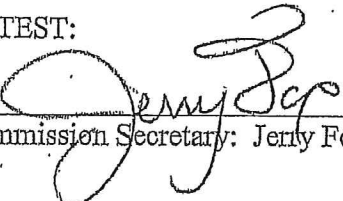
NOW THEREFORE, BE IT RESOLVED, that the fee charged under Resolution #222 be increased to \$1,213.00 effective May 7, 2003.

BE IT FURTHER RESOLVED, that all things necessary to carry out the terms and purpose of this resolution are hereby authorized and performed.

Passed in regular session of the Shakopee Public Utilities Commission, this 5th day of May, 2003.


Commission President: Mark Miller

ATTEST:


Commission Secretary: Jerry Fox

RESOLUTION #866

A RESOLUTION ADJUSTING FEES
APPLIED UNDER THE TRUNK WATER POLICY RESOLUTION

WHEREAS, the fees established in Resolution #222 which Resolution established the Trunk Water Policy are intended to be adjusted on the first day of January each year, and

WHEREAS, the adjustment in the fees was specified as the amount equal to the original fee multiplied by the percentage increase in the Construction Cost Index for the previous period as reported by the Engineering News Record, and

WHEREAS, the fees were adjusted to \$1,213.00 per acre by Resolution #714 in 2003 based on a report entitled "Water Trunk Charge and Connection Charge Analysis" dated March 28, 2003 by Schoell and Madson, Inc., and

WHEREAS, as noted in the analysis by Schoell and Madson, Inc., the "Construction Cost Index" as listed in the Engineering News Record was 6580.54, as of January 2003, and

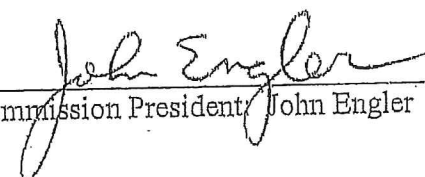
WHEREAS, this index was 7887.62 as of December 2006, and

WHEREAS, the Shakopee Public Utilities Commission has observed that actual material and labor construction costs have escalated significantly above and beyond the amount indicated by the "Construction Cost Index" as reported by the Engineering News Record and determines an additional adjustment equal to 12% over and above the "Construction Cost Index" is warranted,

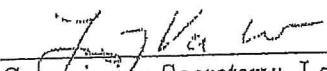
NOW THEREFORE, BE IT RESOLVED, that the fees charged under Resolution #222 be increased to \$1,628.00 per acre effective January 1, 2007.

BE IT FURTHER RESOLVED, that all things necessary to carry out the terms and purpose of this resolution are hereby authorized and performed.

Passed in regular session of the Shakopee Public Utilities Commission, this 18th day of December, 2006.


Commission President John Engler

ATTEST:


Commission Secretary: Louis Van Hout

RESOLUTION #867

A RESOLUTION ADJUSTING FEES APPLIED
UNDER THE WATER CONNECTION CHARGE POLICY RESOLUTION

WHEREAS, the Shakopee Public Utilities Commission operates and maintains the municipal water system of the City of Shakopee, such system consisting of a complex of water production, treatment, storage, and delivery facilities interconnected across multiple service districts or pressure zones via a network of trunk and lateral watermains, and

WHEREAS, the water connection charge fees are intended to fund the construction of water production, treatment and storage facilities irrespective of their service district location within the "blended" system, and

WHEREAS, the water connection charge fees are a component of water availability charges, and

WHEREAS, the fees established in Resolution #261 which Resolution established the Water Connection Policy are intended to be adjusted on the first day of January each year, and

WHEREAS, the adjustment in the fees was specified as the amount equal to the original fee multiplied by the percentage increase in the Construction Cost Index for the previous period as reported by the Engineering News Record, and

WHEREAS, the water connection charge fees were adjusted to \$2,120.00 per equivalent SAC unit for all service, plus 5.0 cents per square foot for industrial use only by Resolution #735 in 2003 based on a report entitled "Water Trunk Charges and Connection Charge Analysis" dated March 28, 2003 by Schoell and Madson, Inc., and

WHEREAS, as noted in the analysis by Schoell and Madson, Inc., the "Construction Cost Index" as listed in the Engineering News Record was 6580.54, as of January, 2003, and

WHEREAS, this index was 7887.62, as of December 2006, and

WHEREAS, the Shakopee Public Utilities Commission has observed that actual material and labor construction costs have escalated significantly above and beyond the amount indicated by the "Construction Cost Index" as reported by the Engineering News Record and determines an additional adjustment equal to 12% over and above the "Construction Cost Index" is warranted,

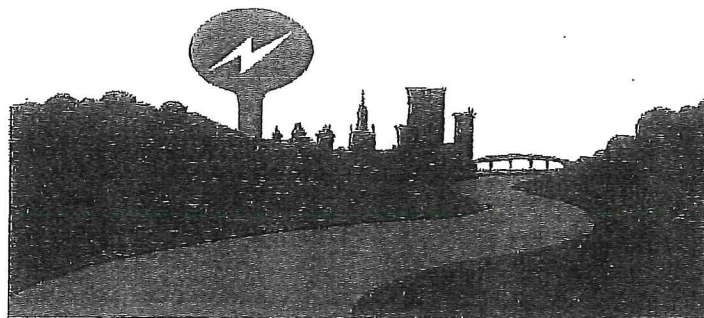
NOW THEREFORE, BE IT RESOLVED by the Shakopee Public Utilities Commission in meeting duly assembled that the charges for connection to the City of Shakopee water system are hereby adopted effective January 1, 2007 as follows:

\$2,846.00 per equivalent SAC unit for all service, plus 6.7 cents per square foot for industrial use only (equivalent SAC units to be computed according to the Metropolitan Waste Control Commission Availability Charge Criteria, but applied to all municipal water usage whether discharged to sewer or not).

BE IT FURTHER RESOLVED, that the connection charges shall be applied to all water connections made to, or newly drawing water from, the City of Shakopee water system; and that

WATER CONNECTION FUND AND TRUNK WATER MAIN FUND ANALYSIS AND REPORT

SHAKOPEE PUBLIC UTILITIES COMMISSION



Final Report
Revised January 18, 2008 *(Original August 20, 2007)*
Corrected 2007 Water Connection and Trunk Water Main Charges
(Corrections Identified with "X")

SMI Project No. 10007-292



Schoell Madson
Planning Engineering Surveying
15050 23rd Avenue North
Plymouth, Minnesota 55447

WATER CONNECTION FUND AND TRUNK WATER MAIN FUND

ANALYSIS AND REPORT

Final Report

Revised January 18, 2008

**Corrected 2007 Water Connection and Trunk Water Main Charges
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WATER MAIN PROJECTS**

**APPENDIX E: ACCUMULATIVE PROJECT COSTS AND REVENUE TABULATIONS FOR WATER
CONNECTION AND TRUNK WATER MAIN FUNDS**

III. REPORT SUMMARY

The analysis of water improvement projects needed to meet the projected growth in Shakopee indicated the project costs for water facilities (wells, pump houses, storage tanks, booster stations, water treatment plants, trunk water main transmission lines) and trunk water main (over sizing and SPUC trunk water main projects) will exceed the estimated revenue funds at the current rates charged for water connection charge and trunk water main fee. The projection for the water connection fund indicates a deficit until 2023. Then the fund balances and accumulates a surplus through 2030. The projection for the trunk water main fund indicates a deficit through the study period and a near balance in 2030. Both funds will run deficits for the next 15 years with the larger deficits occurring from 2008 to 2020. The projected project costs in the water connection fund result in the largest deficit amounts. Trunk water main fund deficits are smaller. A 2007 to 2030 tabulation of the projected accumulated revenues at the current charge rates, accumulated project costs and the difference between the accumulated costs and revenues are presented below in Tables A for the water connection fund and Table B for the trunk water main fund. A graphical illustration of the two funds is presented in Section V. This information along with the annual project cost information can be used in the preparation of funding alternatives for the time periods where the project costs exceed revenue generation. Refer to section V for tabulated CIP costs.

TABLE A
FUTURE CONNECTION CHARGE ACCUMULATING FUND BALANCE*

YEAR	ACCUMULATIVE REVENUE	ACCUMULATIVE COSTS	ACCUMULATIVE FUND BALANCE
2007	\$1,310,362.00	906,755	\$403,607.00
2008	\$2,165,755.76	5,245,230	-(\$3,079,474.24)
2009	\$3,055,365.27	6,665,517	-(\$3,610,151.73)
2010	\$3,980,559.16	8,756,740	-(\$4,776,180.84)
2011	\$6,214,598.28	10,698,300	-(\$4,483,701.72)
2012	\$8,537,998.96	16,359,819	-(\$7,821,820.04)
2013	\$10,954,335.67	20,646,743	-(\$9,692,407.33)
2014	\$13,467,325.85	20,646,743	-(\$7,179,417.15)
2015	\$16,080,835.63	21,955,883	-(\$5,875,047.37)
2016	\$17,745,692.00	23,144,867	-(\$5,399,175.00)
2017	\$19,477,142.62	23,144,867	-(\$3,667,724.38)
2018	\$21,277,851.26	23,652,617	-(\$2,374,765.74)
2019	\$23,150,588.26	23,652,617	-(\$502,028.74)
2020	\$25,098,234.73	23,652,617	\$1,445,617.73
2021	\$26,892,154.55	23,652,617	\$3,239,537.55
2022	\$28,757,831.17	23,652,617	\$5,105,214.17
2023	\$30,698,134.86	28,777,617	\$1,920,517.86
2024	\$32,716,050.69	28,777,617	\$3,938,433.69
2025	\$34,814,683.15	28,777,617	\$6,037,066.15
2026	\$37,836,713.90	28,777,617	\$9,059,096.90
2027	\$40,979,625.88	29,412,305	\$11,567,320.88
2028	\$44,248,254.34	29,412,305	\$14,835,949.34
2029	\$47,647,627.93	29,412,305	\$18,235,322.93
2030	\$51,182,976.47	29,412,305	\$21,770,671.47

TABLE B**FUTURE TRUNK WATERMAIN ACCUMULATING FUND BALANCE***

YEAR	ACCUMULATIVE REVENUE	ACCUMULATIVE COSTS	ACCUMULATIVE FUND BALANCE
2007	\$106,349.00	\$783,407.00	-\$677,058.00)
2008	\$234,416.60	\$1,728,258.00	-\$1,493,841.40)
2009	\$367,606.90	\$2,782,268.00	-\$2,414,661.10)
2010	\$506,124.81	\$3,513,175.00	-\$3,007,050.19)
2011	\$944,052.38	\$4,858,688.00	-\$3,914,635.62)
2012	\$1,399,497.05	\$5,596,624.00	-\$4,197,126.95)
2013	\$1,873,159.50	\$5,633,584.00	-\$3,760,424.50)
2014	\$2,365,768.46	\$5,633,584.00	-\$3,267,815.54)
2015	\$2,878,081.77	\$5,932,720.00	-\$3,054,638.23)
2016	\$3,307,542.66	\$5,932,720.00	-\$2,625,177.34)
2017	\$3,754,181.98	\$6,020,170.00	-\$2,265,988.02)
2018	\$4,218,686.87	\$6,233,450.00	-\$2,014,763.13)
2019	\$4,701,771.95	\$6,358,750.00	-\$1,656,978.05)
2020	\$5,204,180.44	\$6,358,750.00	-\$1,154,569.56)
2021	\$5,858,002.18	\$6,513,950.00	-\$655,947.82)
2022	\$6,537,976.78	\$7,286,764.00	-\$748,787.22)
2023	\$7,245,150.37	\$7,616,224.00	-\$371,073.63)
2024	\$7,980,610.90	\$7,972,024.00	\$8,586.90
2025	\$8,745,489.85	\$8,677,078.00	\$68,411.85
2026	\$9,541,204.06	\$9,109,618.00	\$431,586.06
2027	\$10,368,746.83	\$9,839,645.00	\$529,101.83
2028	\$11,229,391.32	\$10,262,287.00	\$967,104.32
2029	\$12,124,461.59	\$11,173,764.00	\$950,697.59
2030	\$13,055,334.66	\$11,851,445.00	\$1,203,889.66

The projected fund deficits indicated in the analysis are driven by future growth and development. The location of future developments and the timing of development dictate the required Commission projects, the project costs, and resulting fund deficits. Projecting developments and the projects required to service them is the largest single impact on the project costs and deficits in both of the water connection and trunk water main fund. The elements having the most impact on water connection fund revenue

generation are the infrastructure expenditures and the long period between development approvals and the collection of charges from all the possible water customers in the developments. Contributing to the rate of revenue collections are the following factors:

1. The pace of house building and collection of connection charges after the initial development construction is completed.
2. Construction of service water main in the rural developments and collection of water connection charges and trunk water main fees.

The short term fund analysis indicates the fees collected revenues at the current charge rates will not keep pace with project costs incurred by the Commission. In the longer term the trunk water main fund trends to a 1.2* million dollar surplus balance and the water connection fund trends to an estimated 21.7* million dollar surplus. Trending to a study period balance or a smaller surplus condition is preferred as a long range plan.

*

The outcome for the trunk fund is slightly higher* than a balance. Financing adjustments may be considered by the Commission to raise current revenues to plan for a smaller surplus. The surplus outcome for the connection charge may seem excessive however there are different factors that influence the connection fund and a more conservative plan for current funding and a higher surplus may be considered by the Commission.

The factors include:

1. Two water treatment plants are included in the analysis. These have been identified for existing wells. Unexpected elevated levels of contaminants could occur in future wells, requiring water treatment facilities.
2. The water connection charge facilities have a higher construction cost than

trunk water main fund projects. Influences from increasing construction costs have a greater impact on the water connection fund.

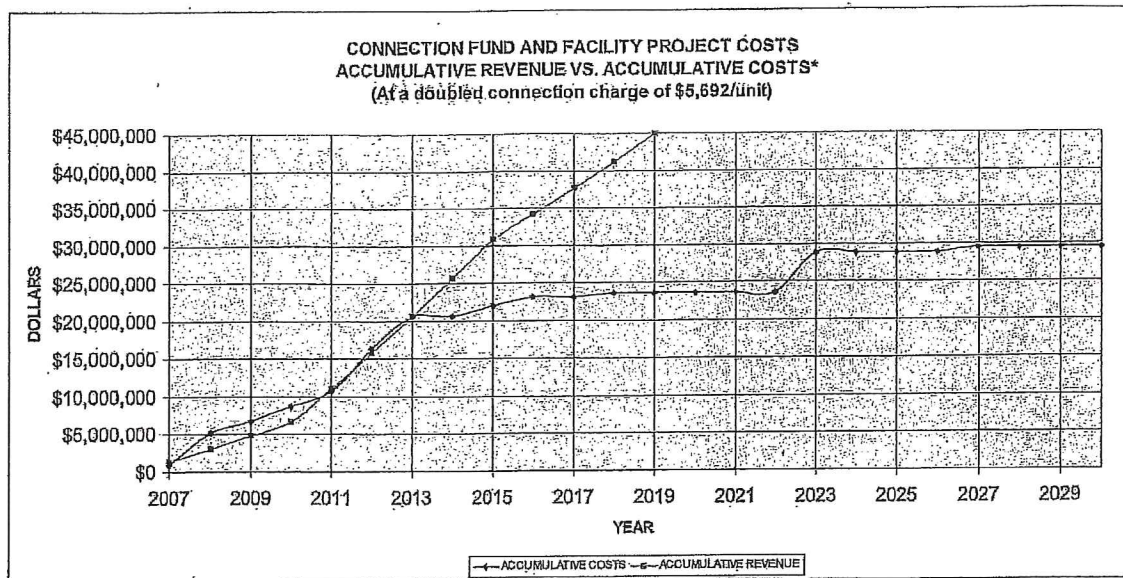
3. The trunk water main fund receives the development fees at the onset of a project rather than the long term collection period for the water connection charge. This results in the Commission either having to plan for a current fund surplus to pay for connection charge projects and/or carrying debt while connection charges are collected.
4. Both funds will be running deficits in the short term and will require additional funding source(s). A conservative policy would be to increase fees and rates as required to achieve a surplus to short term balance the funds annually or a combination of rate increases and borrowing to spread out rate increases over a longer time period.

The fund revenue and project cost analysis indicates the water connection and trunk water main funds will require using alternate sources of funding to make up for the projected projects and deficits. Funding options include bonding, inter-agency fund transfers and or raising water connection charges and trunk water main charges and "accelerating" water connection charge collection. "Accelerating" water connection charge collection is defined as developer's paying for water connection charges when developments receive municipal approvals. This is the same method used to collect the trunk water main fees. Funding options are evaluated in the "Financial Analysis of Water Connection and Water CIP Project Costs" prepared by Bill Fahey, the Commission's Financial Advisor.

V. CONCLUSIONS

As the City of Shakopee continues to develop, water projects will be required to serve the new water customers. The current water connection and trunk water main funds do not have surplus capital to provide funding for these projects and the current rate structure will not pay for projects needed in the short term period of 2007 to 2019*. The analysis indicates the water connection fund and trunk water main fund will require alternate sources of capital to keep the funds out of the projected deficits. Several options are presented below for consideration by the Commission:

- 
1. Borrowing: Borrowing in the form of bonds or inter-agency borrowing. Due to the size of the projected deficits, planning to bond is the recommended option.
Inter-agency borrowing would be viable to make up for a short term deficit not covered by bonding.
 2. Raise rates: To fund the projected short-term fund deficits the current charges and fees would have to be substantially increased. Even with increased rates the long collection period could still result in fund deficits in the short term, depending on the size of the increase and a large surplus in the long term. As an example; the impact of doubling of the current connection charge to \$5,692/unit is shown on the following graph. The graph indicates project funding with a minimum deficit for the short term and a large surplus develops over the long term. To decrease the long term surplus adjustments to the rates would be necessary. A combination of a smaller rate increase and bonding would be a viable alternative.



3. Accelerating collection of the water connection charges: This option is considered viable because the short term future development into the 2-HES will need new Commission facilities to provide water service. The new facilities will have a high up front cost and a long collection period to fully collect all the charges. To reduce the debt the Commission would have to fund the developers would pay all connection charges after the development is approved. This would offset some of the costs for new projects, however some projects cost more than the revenue from one development and other short term funding sources would be required. Over the longer term the charges from other developments would eventually pay for the projects.
4. Financing the 2-HES Capital Improvement Costs in different geographical areas of Shakopee: The projected growth and development into the 2-HES will occur in three separate areas in Shakopee. These areas can be geographically

identified as the SE Area (The SE Area Study), Central Area and West Area.

These areas are described below: (Refer to land use map in Appendix A)

- a. SE Area: The area north of County Road 16 to the Prior Lake city limits and east of the Mdewankonton Sioux lands to the Savage city limits.
- b. Central Area: The area without water service between County Road 79 and the Mdewankonton Sioux lands and south to Spring Lake Township.
- c. West Area: The area with out water service west of County Road 79 to the Minnesota River and north of County Road 78. The includes parts of Jackson Township.

Each area was evaluated for Capital Improvement Costs and the long term revenue generation for the study period of 2007 to 2030. The results of the evaluation are summarized below:

TABLE E

ESTIMATED CAPITAL IMPROVEMENT COSTS AND REVENUE GENERATION FOR THE SE AREA, CENTRAL AND WEST GEOGRAPHICAL AREAS FOR THE STUDY PERIOD OF 2007 TO 2030

GEOGRAPHICAL AREA	WATER CONNECTION FUND		TRUNK WATER MAIN FUND	
	CIP COSTS	REVENUE	CIP COSTS	REVENUE
SE AREA	\$ 4,550,000	\$ 4,930,000	\$ 1,650,000	\$ 1,470,000
CENTRAL AREA	\$ 7,900,000	\$ 17,900,000	\$ 5,430,000	\$ 5,100,000
WEST AREA	\$ 6,500,000	\$ 13,900,000	\$ 2,650,000	\$ 3,000,000

The results of the evaluation indicate the water connection fund capital improvement costs for each area will be supported by fees collected within each geographical area. The SE Area may need some revenue support from the other two areas. The trunk water fund capital improvement costs will also be supported by the fees from each area, however, the balance between costs and revenue is much closer than in the connection fund. In the long term some trunk water main revenue sharing between the geographical areas is possible or a raise in the trunk water main charge may be necessary.

In this the first part of the water connection charge fund and trunk water fee fund analysis the future project costs and revenue collection was projected out to 2030 and then evaluated. Based on the current charges and fees being levied by the Commission alternate funding sources will be needed. For the second part of the analysis the financial alternatives will be evaluated in the "Capital Improvement Plan Financial Report" prepared by Bill Fahey, the Commission's Financial Advisor.

RESOLUTION #901

A RESOLUTION ADJUSTING FEES
APPLIED UNDER THE TRUNK WATER POLICY RESOLUTION

WHEREAS, the Shakopee Public Utilities Commission operates and maintains the municipal water system of the City of Shakopee, such system consisting of a ("blended") complex of water production, treatment, storage, and delivery facilities interconnected across multiple service districts or pressure zones via a network of trunk and lateral watermain, and

WHEREAS, the trunk water charge fees are a component of water availability charges, and

WHEREAS, the fees established in Resolution #222 are intended to be adjusted on the first day of January each year, and

WHEREAS, the fees were adjusted in 2006 by Resolution #866 to \$1,628.00 per acre, and

WHEREAS, the Shakopee Public Utilities Commission has received a report by Schoell and Madson, Inc. titled "Water Connection Fund and Trunk Water Main Fund Analysis and Report" dated August 20, 2007 and a report by Northland Securities titled "Finance Analysis of Water Connection Fund and Water Trunk Fund CIP Projects for the Period 2007 through 2030" dated November 27, 2007, and

WHEREAS, the Shakopee Public Utilities Commission determines an upward adjustment in the trunk water charge equal to 23% is warranted at this time to provide adequate funding for the planned trunk water main facilities necessary to serve developing properties with the Commission's standard of level "A" service (i.e. a robust, redundant, looped water supply and distribution system capable of supplying water safe for human consumption at adequate pressure for domestic and fire protection uses).

NOW THEREFORE, BE IT RESOLVED, that the trunk water charge fees be increased to \$2,002.00 per acre effective January 1, 2008.

BE IT FURTHER RESOLVED, that future increases in the trunk water charge fees shall be based on the percentage increase in the Construction Cost Index for the previous period as reported by the Engineering News Record plus 2.0%,

BE IT FURTHER RESOLVED, that the funds collected from the trunk water charges will be set aside by the Utility and used to pay for construction of trunk water main facilities.

BE IT FURTHER RESOLVED, that water availability shall not be granted until the acceptance by the Utility of payment of all standard water fees requisite by this resolution and by compliance with all other Shakopee Public Utilities Commission resolutions applicable to new services.

BE IT FURTHER RESOLVED, that in the case of large water users, specific authorization by Shakopee Public Utilities Commission is also a prerequisite to water availability.

BE IT FURTHER RESOLVED, that all things necessary to carry out the terms and purposes of this resolution are hereby authorized and performed

RESOLUTION #902

A RESOLUTION ADJUSTING FEES APPLIED
UNDER THE WATER CONNECTION CHARGE POLICY RESOLUTION

WHEREAS, the Shakopee Public Utilities Commission operates and maintains the municipal water system of the City of Shakopee, such system consisting of a ("blended") complex of water production, treatment, storage, and delivery facilities interconnected across multiple service districts or pressure zones via a network of trunk and lateral watermains, and

WHEREAS, the water connection charge fees are a component of water availability charges, and

WHEREAS, the fees established in Resolution #261 are intended to be adjusted on the first day of January each year, and

WHEREAS, the water connection charge fees were adjusted in 2006 by Resolution #867 to \$2,846.00 per equivalent SAC unit for all service, plus 6.7 cents per square foot for industrial use only, and

WHEREAS, the Shakopee Public Utilities Commission has received a report by Schoell and Madson, Inc. titled "Water Connection Fund and Trunk Water Main Fund Analysis and Report" dated August 20, 2007 and a report by Northland Securities titled "Finance Analysis of Water Connection Fund and Water Trunk Fund CIP Projects for the Period 2007 through 2030" dated November 27, 2007, and

WHEREAS, the Shakopee Public Utilities Commission determines an upward adjustment in the water connection charge equal to 24% is warranted at this time to provide adequate funding for the planned water production, treatment and storage facilities necessary to serve developing properties with the Commission's standard of level "A" service (i.e. a robust, redundant, looped water supply and distribution system capable of supplying water safe for human consumption at adequate pressure for domestic and fire protection uses).

NOW THEREFORE, BE IT RESOLVED that the water connection charge fees be increased effective January 1, 2008 as follows:

\$3,529.00 per equivalent SAC unit for all service, plus 8.3 cents per square foot for industrial use only (equivalent SAC units to be computed according to the Metropolitan Waste Control Commission Availability Charge Criteria, but applied to all municipal water usage whether discharged to sewer or not).

BE IT FURTHER RESOLVED, that future increases in the water connection charge fees shall be based on the percentage increase in the Construction Cost Index for the previous period as reported by the Engineering News Record plus 2.0%.

BE IT FURTHER RESOLVED, that the water connection charges shall be applied to all water connections made to, or newly drawing water from, the City of Shakopee water system; and that the connection charges shall also be applied to all instances where increased water usage is indicated by an increase in SAC units or by other means.

BE IT FURTHER RESOLVED, that the funds collected from the water connection charges will be set aside by the Utility and used to pay for construction of water production,

RESOLUTION #1179

A RESOLUTION ADJUSTING FEES
APPLIED UNDER THE TRUNK WATER CHARGE POLICY RESOLUTION

WHEREAS, the fees established in Resolution #222, which Resolution established the Trunk Water Charge Policy, and Resolution #901, which Resolution adjusted said fees, are intended to be adjusted on the first day of January each year, and

WHEREAS, the fees were adjusted in 2015 by Resolution #1107 to \$2,911.00 per acre, and

WHEREAS, per Resolution #901 designated that future increases in the trunk water charge fees shall be based on the percentage increase in the Construction Cost Index for the previous period as reported by the Engineering News Record, plus 2%, multiplied by the present trunk water charge, and

WHEREAS, the "Construction Cost Index" as listed in the Engineering News Record was 10,442.61, as of November, 2016, and

WHEREAS, this index was 10,817.11 as of October, 2017, and

WHEREAS, the Shakopee Public Utilities Commission determines an upward adjustment in the trunk water charge equal to 5.8% is warranted at this time to provide adequate funding for the planned trunk water main facilities necessary to serve developing properties with the Commission's standard of level "A" service (i.e. a robust, redundant, looped water supply and distribution system capable of supplying water safe for human consumption at adequate pressure for domestic and fire protection uses), and

WHEREAS, the Shakopee Public Utilities Commission also determines an additional ~~one~~ ^{3x} time upward adjustment in the trunk water charge equal to \$500.00 per acre is warranted at this time due to the continuing deficit in the trunk water fund.

NOW THEREFORE, BE IT RESOLVED, that the fees charged under Resolution #222 and #901 be increased to \$3,749.00 per acre effective January 1, 2018.

BE IT FURTHER RESOLVED, that the funds collected from the trunk water charges will be set aside by the Utility and used to pay for construction of trunk water main facilities.

BE IT FURTHER RESOLVED, that water availability shall not be granted until the acceptance by the Utility of payment of all standard water fees requisite by this resolution and by compliance with all other Shakopee Public Utilities Commission resolutions applicable to new services.

BE IT FURTHER RESOLVED, that in the case of large water users, specific authorization by Shakopee Public Utilities Commission is also a prerequisite to water availability.

BE IT FURTHER RESOLVED, that all things necessary to carry out the purpose of this resolution are hereby authorized and performed.

RESOLUTION #1219

A RESOLUTION ADJUSTING FEES
APPLIED UNDER THE TRUNK WATER CHARGE POLICY RESOLUTION

WHEREAS, the fees established in Resolution #222, which Resolution established the Trunk Water Charge Policy, and Resolution #901, which Resolution adjusted said fees, are intended to be adjusted on the first day of January each year, and

WHEREAS, the fees were adjusted in 2015 by Resolution #1107 to \$2,911.00 per acre, and

WHEREAS, per Resolution #901 designated that future increases in the trunk water charge fees shall be based on the percentage increase in the Construction Cost Index for the previous period as reported by the Engineering News Record, plus 2%, multiplied by the present trunk water charge, and

WHEREAS, the "Construction Cost Index" as listed in the Engineering News Record was 10,817.11, as of October, 2017, and

WHEREAS, this index was 11,183.28.11 as of October, 2018, and

WHEREAS, the Shakopee Public Utilities Commission determines an upward adjustment in the trunk water charge equal to 5.4% is warranted at this time to provide adequate funding for the planned trunk water main facilities necessary to serve developing properties with the Commission's standard of level "A" service (i.e. a robust, redundant, looped water supply and distribution system capable of supplying water safe for human consumption at adequate pressure for domestic and fire protection uses), and

WHEREAS, the Shakopee Public Utilities Commission also determines an additional one time upward adjustment in the trunk water charge equal to \$500.00 per acre is warranted at this time due to the continuing deficit in the trunk water fund. } x

NOW THEREFORE, BE IT RESOLVED, that the fees charged under Resolution #222 and #901 be increased to \$4,451.00 per acre effective January 1, 2019.

BE IT FURTHER RESOLVED, that the funds collected from the trunk water charges will be set aside by the Utility and used to pay for construction of trunk water main facilities.

BE IT FURTHER RESOLVED, that water availability shall not be granted until the acceptance by the Utility of payment of all standard water fees requisite by this resolution and by compliance with all other Shakopee Public Utilities Commission resolutions applicable to new services.

BE IT FURTHER RESOLVED, that in the case of large water users, specific authorization by Shakopee Public Utilities Commission is also a prerequisite to water availability.

BE IT FURTHER RESOLVED, that all things necessary to carry out the terms and purpose of this resolution are hereby authorized and performed.



SHAKOPEE

To: Mayor and Councilmembers
From: Darin Nelson, Finance Director
cc: Bill Reynolds, City Administrator
Date: February 27, 2019
Re: Water Rate and Connection Charge Comparisons

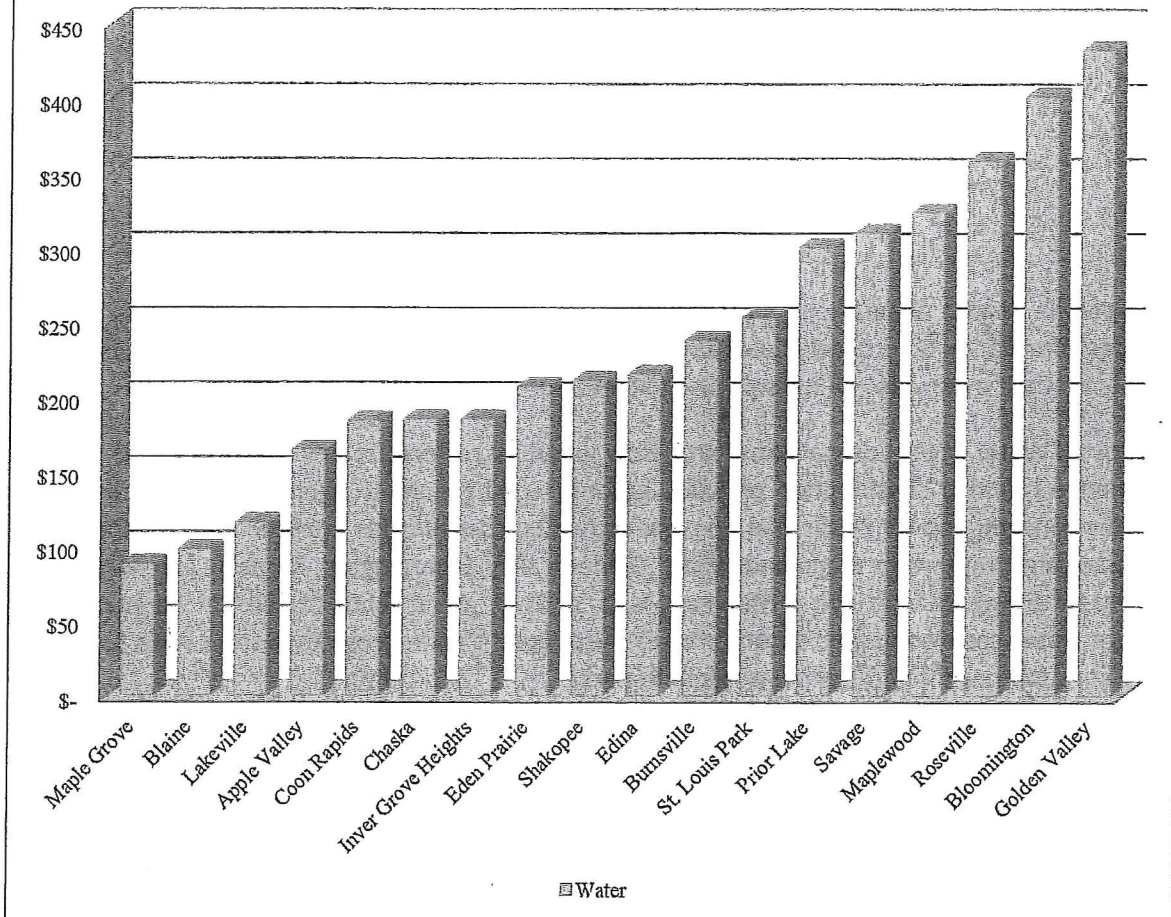
Annually the finance department gathers data on our comparable and surrounding cities. This data includes information on property taxes and utility rates. Since our comparable and surrounding cities all operate their own water utility, staff also gathers water rate information.

The Cost of Water Utility Comparison chart below compares residential annual cost of water based on an average monthly consumption of 5,000 gallons. 5,000 gallons is often considered an average monthly consumption for residential household. Annual costs include applicable variable and fixed fees associated with water usage and billing. Golden Valley, Bloomington, Roseville and Maplewood purchase their water from either Minneapolis or St. Paul, which tends to account for higher than average water costs compared to other cities. Also, Eden Prairie provides system-wide soft water eliminating the need for household water softeners.

The second chart provides a comparison of water and local sewer connection charges. The sewer connection charge (SAC) does not include the Met Council Environmental Services SAC charge. These SAC charges are strictly local charges. This chart only compares connection charges and does not include any trunk charges associated with installing necessary infrastructure to a specific area.

The information for both charges was gathered by reviewing fee schedules and/or contacting cities directly to confirm 2019 rate and connection charges.

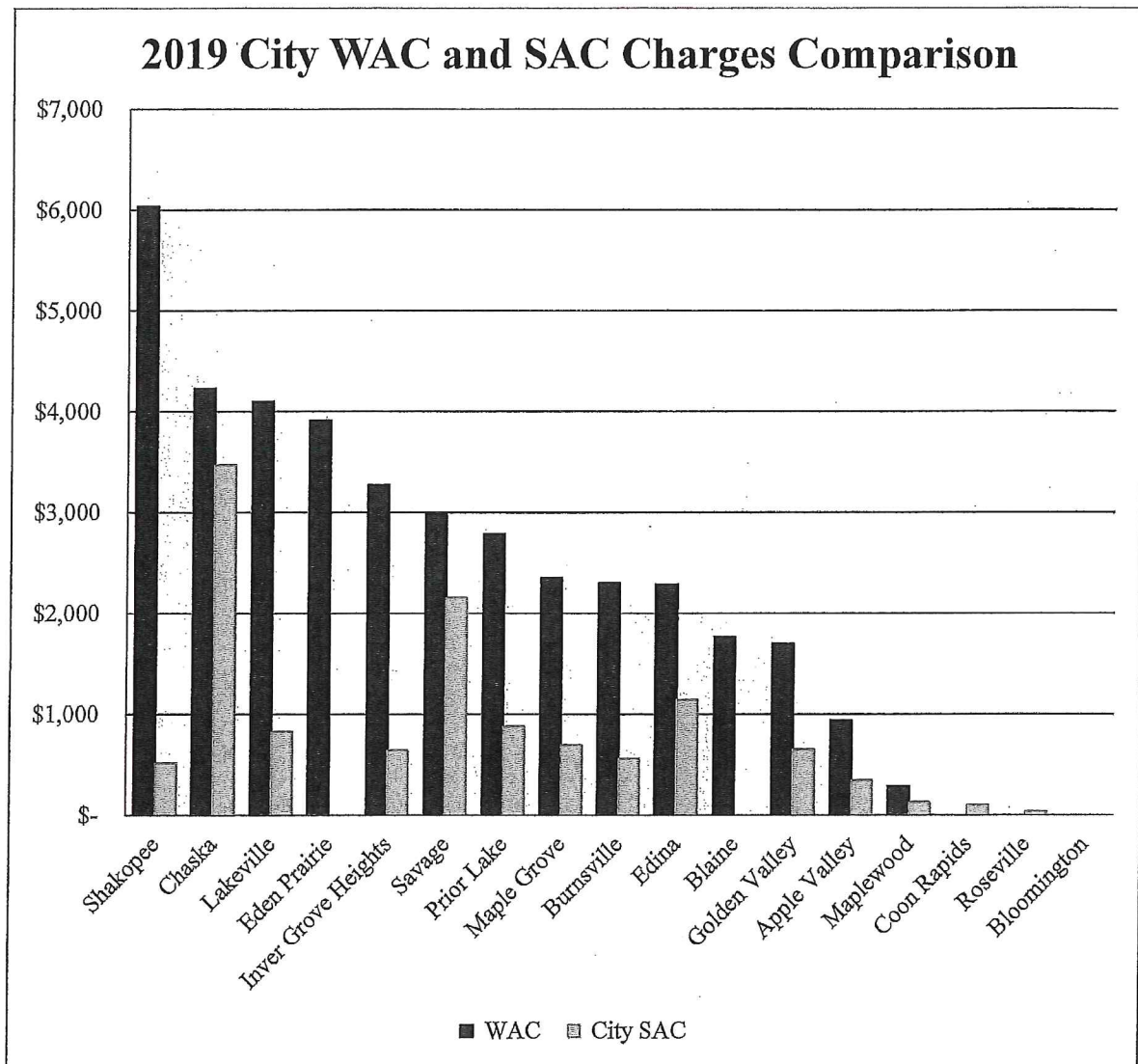
2019 Residential Annual Cost of Water Utility Comparison



COMMUNITY PRIDE SINCE 1857

City of Shakopee | 485 Gorman St., Shakopee MN 55379 | Phone: 952-233-9300 | Fax: 952-233-3801 | www.ShakopeeMN.gov

2019 City WAC and SAC Charges Comparison

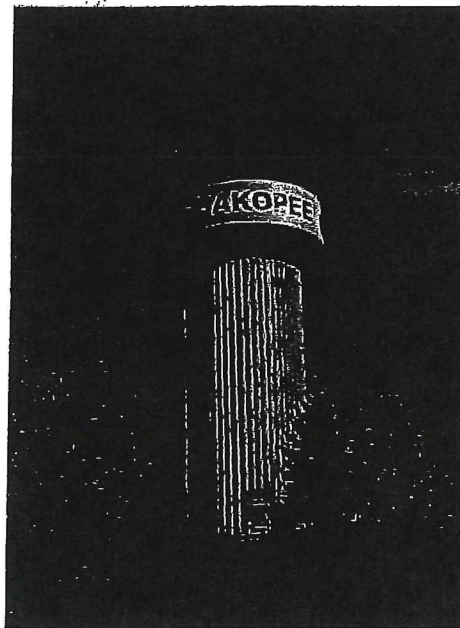
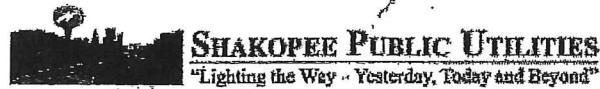


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WATER RATE STUDY SHAKOPEE PUBLIC UTILITIES

Prepared For



July 2009



Progressive Consulting Engineers, Inc.



Progressive Consulting Engineers Inc.

6120 Earle Brown Drive, Suite 629, Minneapolis, MN 55430-2581 (763) 560-9133 FAX (763) 560-0333

July 27, 2009

John Crooks
Water Superintendent
Shakopee Public Utilities
255 Sarazin Street,
P. O. Box 470
Shakopee, MN 55379-0470

Dear Mr. Crooks:

Progressive Consulting Engineers, Inc. (PCE) is pleased to submit herein the final report for the Water Rate Study for the Shakopee Public Utilities Commission (SPUC). The report includes the development of inclining block water rates as required by the Department of Natural Resources (DNR). The rates are developed using the cost of service analysis by Base-Extra Capacity method. As per your discussion with the DNR personnel, the inclining block is used only for the residential customers whereas the flat rate with separate irrigation meter rate is used for the commercial/institutional and industrial customers.

The proposed fixed and commodity water rates for 2010 as calculated from the study are:

Fixed Charge (5/8" meter size)	\$3.06 per month
Residential	
0-5,000 gallons	\$1.86 per 1,000 gallons
Above 5,000 gallons	\$2.23 per 1,000 gallons
Commercial/Institutional	\$1.71 per 1,000 gallons
Industrial	\$1.49 per 1,000 gallons
Irrigation Meter	\$2.23 per 1,000 gallons

It is recommended that the proposed calculated fixed rate and the commodity rates should be increased 10% every year until 2015 to generate the targeted cash balance of SPUC's one year of operating and maintenance costs. The reconstruction rate development was out of the scope of the study and hence not derived in this study. For the cash flow projections, it is assumed that SPUC will increase their current reconstruction rate by 10% every year.

This report is the product of a cooperative effort between SPUC and PCE staffs. The cooperation and assistance of SPUC staff is greatly appreciated, especially the assistance of Renee Schmid and yourself.

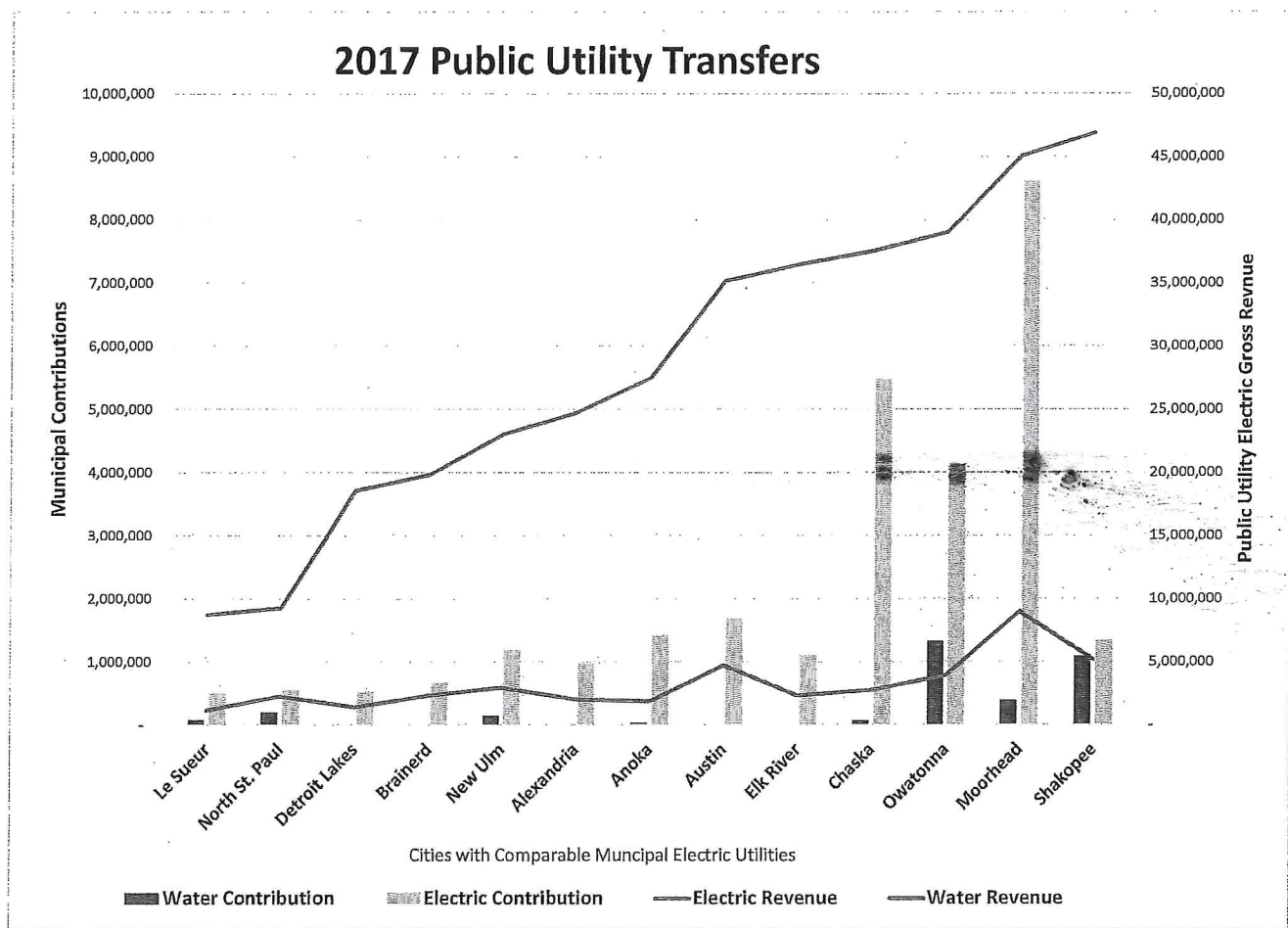
We will be available to discuss the report or any aspects of the study at your convenience.

Sincerely,

Nacem Qureshi
Nacem Qureshi
NQ/Js

City of Shakopee
2017 Public Utility Transfers to Parent City
2/22/2019

	Water Contribution	Electric Contribution	Electric Revenue	Water Revenue	Source	Notes
Le Sueur	81,650	504,250	8,732,046	1,166,465	2017 CAFR	
North St. Paul	205,000	556,800	9,267,958	2,266,961	2017 CAFR	
Detroit Lakes	-	525,000	18,561,949	1,393,886	2017 CAFR	
Brainerd	-	672,823	19,826,394	2,335,002	2017 CAFR	
New Ulm	150,141	1,189,277	22,995,808	2,954,116	2017 CAFR	
Alexandria	-	980,825	24,724,008	2,028,338	2017 CAFR	
Anoka	40,000	1,425,000	27,487,642	1,873,597	2017 CAFR	
Austin	-	1,690,000	35,151,081	4,738,228	2017 CAFR	
Elk River	-	1,113,264	36,458,061	2,326,245	2017 CAFR	
Chaska	77,082	5,472,000	37,542,385	2,768,225	2017 CAFR	Add'l admin charges to Ent. Funds of \$3.1 million Contributions are accounted for as admin costs
Owatonna	1,328,912	4,135,713	39,025,342	3,948,324	2017 CAFR	
Moorhead	396,000	8,618,696	45,049,837	8,981,120	2017 CAFR	
Shakopee	1,092,000	1,344,000	46,887,042	5,184,201	2017 CAFR	



Office of the Revisor of Statutes

Minnesota Session Laws - 2002, Regular Session

Authenticate  PDFKey: (1) ~~language to be deleted~~ (2) new language

CHAPTER 226-H.F.No. 2624

An act relating to the city of Shakopee; increasing its public utilities commission from three to five members.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF MINNESOTA:

Section 1. [SHAKOPEE UTILITIES COMMISSION INCREASED TO FIVE MEMBERS.]

(a) Notwithstanding Minnesota Statutes, sections 412.331 and 412.341, subdivision 1:

(1) the public utilities commission of the city of Shakopee is increased from three to five members;

(2) the additional members have three-year terms except that the first appointee to the fourth seat has an initial term expiring April 1, 2004, and the first appointee to the fifth seat has an initial term expiring April 1, 2005; and

(3) no more than one city council member may serve on the commission at any time.

(b) The provisions of sections 412.331 to 412.391 that do not conflict with paragraph (a) apply to the additional members to the same extent that they apply to the other members of the commission.

Sec. 2. [EFFECTIVE DATE; LOCAL APPROVAL.]

Section 1 is effective the day after the governing body of the city of Shakopee and its chief clerical officer timely complete their compliance with Minnesota Statutes, section 645.021, subdivisions 2 and 3.

Presented to the governor March 6, 2002

Signed by the governor March 7, 2002, 2:26 p.m.

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