



Water and Sewer Rate Study

City of Le Center

Le Center, Minnesota

Assumption Data as of December 31, 2022

Council Approved Scenarios on February 14, 2023



Edina Office

5201 Eden Avenue, Ste 250
Edina, MN 55436
P 952.835.9090

Mankato Office

100 Warren Street, Ste 600
Mankato, MN 56001
P 507.625.2727

Scottsdale Office

14500 N Northsight Blvd, Ste 233
Scottsdale, AZ 85260
P 480.864.5579

City of Le Center, Minnesota
Water and Sewer Rate Study
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INTRODUCTORY SECTION

CITY OF LE CENTER
LE CENTER, MINNESOTA

City of Le Center, Minnesota
Water and Sewer Rate Study

I. Introduction

The City of Le Center, Minnesota (the City) owns and operates Water and Sewer utilities. The tables below summarize the water and sewer services provided and average water and sewer usage by the different customer classes.

Water Accounts and Usage Averages

Number of Accounts

Account Type	Account Type Desc	2021	2022	2023	2024	2025	2026	2027
02	Commercial	82	82	82	82	82	82	82
03	Industrial	8	8	8	8	8	8	8
04	Institutional	17	17	17	17	17	17	17
05	Multi-Reside	38	38	38	38	38	38	38
01	Residential	766	766	766	766	766	766	766
Total		911	911	911	911	911	911	911

Account Type Desc	Usage - Average
Commercial	16,633.66
Industrial	12,197.78
Institutional	10,907.66
Multi-Reside	15,369.86
Residential	3,760.74

Sewer Accounts and Usage Averages

Number of Accounts

Account Type Desc	2021	2022	2023	2024	2025	2026	2027
Commercial	81	81	81	81	81	81	81
Industrial	8	8	8	8	8	8	8
Institutional	17	17	17	17	17	17	17
Multi-Reside	38	38	38	38	38	38	38
Residential	765	765	765	765	765	765	765
Total	909	909	909	909	909	909	909

Account Type Desc	Usage - Average
Commercial	5,524.61
Industrial	12,222.08
Institutional	10,835.42
Multi-Reside	11,329.47
Residential	3,705.24

The difference in commercial consumption of water compared to sewer is the sewer billing for Dianne's Fine Desserts. Sewer billings for Dianne's Fine Desserts is based on a prior year average and is billed annually but collected monthly outside of the utility billing software. The revenue can be seen as a separate line item on the sewer cash flow projection as "receipts from agreement on O & M".

This rate study analyzes the cash flows of the Water and Sewer utilities of the City. Sources and uses of cash are listed for the years ended December 31, 2019 to December 31, 2021 and projected for the years ending December 31, 2022 to December 31, 2027. The study uses the current number and type of accounts to project future revenue at a suggested rate for each of the utility funds, each year.

Annual capital costs are projected separately for each of the funds for the projection period. The City's updated capital improvement plan from 2022 to 2027 as of December 31, 2022, is listed for each fund. American Rescue Plan Act (ARPA) funds are planned to be utilized for utility capital needs in 2023 and 2024.

The financial projection is based on billings at the current rate inflated as shown below for each utility. Expense assumptions are outlined in the assumptions section on the following page and present, to the best of management's knowledge and belief, the City's expected results of cash flows for the projection period if such uses of cash occur. Accordingly, the projection reflects management's judgment, as of the date of this projection, of the expected conditions and the City's expected course of action if such usage and expense totals were attained. The presentation is designed to provide information to the City Council concerning recovery of expenses that might be achieved if rates were adjusted and should not be considered a presentation of expected future results. Accordingly, this projection may not be useful for other purposes. The assumptions disclosed herein are those that management believes are significant to the projection. Furthermore, there will usually be differences between projected and actual results because events and circumstances frequently do not occur as expected and those differences may be material.

City of Le Center, Minnesota
Water and Sewer Rate Study

II. Assumptions

Water Fund

- Rates are assumed to increase the following:
 - 2.04-35.71% for 2023 (due to rate structure going from single rate to a tiered system)
 - 5.0% for 2024
 - 4.0% for 2025
 - 3.0% for 2026
 - 2.0% for 2027
- Operating expenses are assumed to increase 5% for 2023 through 2027.
- Planned acquisition of capital assets are taken from the Capital Improvement Plan and planned use of ARPA funds for 2023 and 2024.
- It is assumed no debt or interfund loans will be needed during this projection.
- The City anticipates no new connections for the next 5 years.
- Target cash reserve will be set at 100% of following year's debt service, 50% of following years operating expenses and the average annual capital expense. Based on the current state, the cash balance will meet targeted cash reserve levels by 2027. Council may need to reevaluate rates, should a major capital project be contemplated in the next five years as rates aren't structured to cash flow capital projects not listed on the CIP listing.
- Apply the base fee consistently to all property types, and eliminate the reduced base fee program on commercial property.

Sewer Fund

- Rates are assumed to increase the following
 - 14.0% for 2023
 - 11.0% for 2024
 - 10.0% for 2025
 - 8.0% for 2026
 - 7.0% for 2027
- Operating expenses are assumed to increase 5% for 2023 through 2027.
- Planned acquisition of capital assets are taken from the Capital Improvement Plan and planned use of ARPA funds for 2023 and 2024.
- It is assumed no debt or interfund loans will be needed during this projection.
- The City anticipates no new connections for the next 5 years.
- Target cash reserve will be set at 100% of following year's debt service, 50% of following years operating expenses and the average annual capital expense. Based on the current state, the cash balance will be sufficient to meet the target in 2027. Council may need to reevaluate rates, should a major capital project be contemplated in the next five years as rates aren't structured to cash flow capital projects not listed on the CIP listing.
- A major user, Dianne's Fine Desserts, is currently paying for operating, maintenance, and debt service payments. The debt service payments from Dianne's will conclude in 2024. This can be seen on the Sewer Fund cash flow projections under receipts from agreement.

City of Le Center, Minnesota
Water and Sewer Rate Study

III. Rates

A summary of the current rates and proposed rates are listed below. The projected increases in rates should help the City build up adequate working capital reserves plus build reserves to fund future repair and maintenance based on the existing capital plan.

Water

	Estimated 2022	Estimated 2023	Estimated 2024	Estimated 2025	Estimated 2026	Estimated 2027
Projected Rate Increase	Range 2.04% - 35.71% Average 14.17%		5.0%	4.0%	3.0%	2.0%
Usage Rates (shown in 1,000 increments)	5.39					
0-3,000 gallons		5.50	5.78	6.01	6.19	6.31
3,001 - 6,000 gallons		5.80	6.09	6.33	6.52	6.65
6,001+ gallons		6.00	6.30	6.55	6.75	6.89
Base Charge	14.00	19.00	19.95	20.75	21.37	21.80
Average monthly bill (3700 gallons)	\$ 33.94	\$ 39.56	\$ 41.55	\$ 43.21	\$ 44.50	\$ 45.39
Average monthly dollar increase		\$ 5.62	\$ 1.99	\$ 1.66	\$ 1.29	\$ 0.89
Average annual dollar increase		\$ 67.44	\$ 23.88	\$ 19.92	\$ 15.48	\$ 10.68

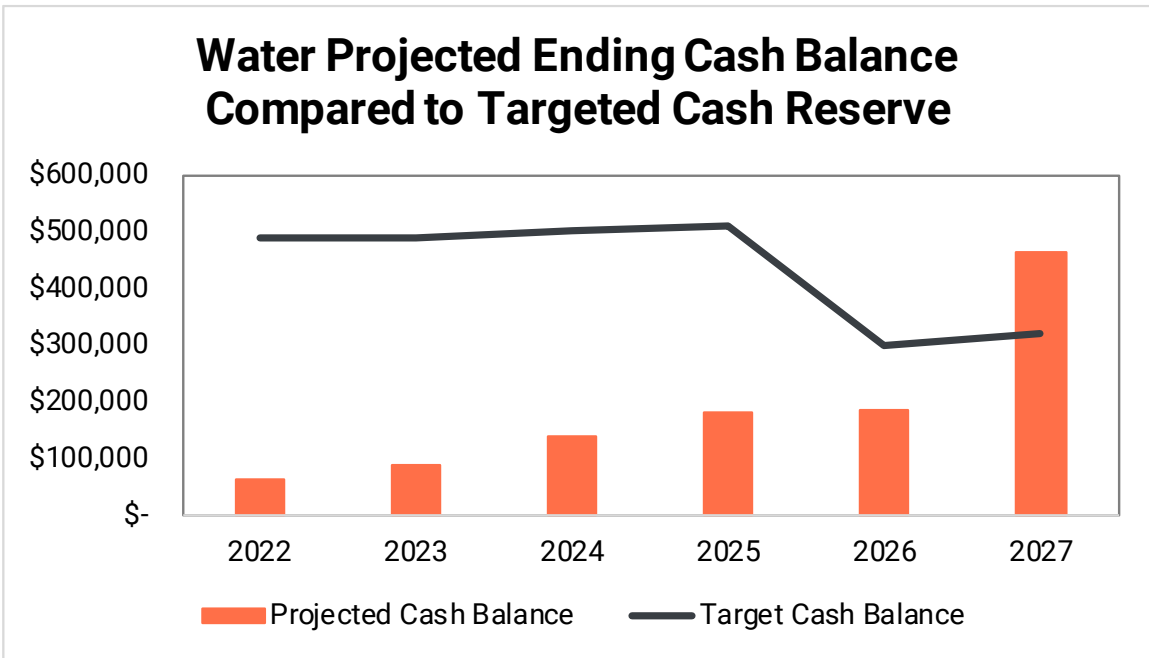
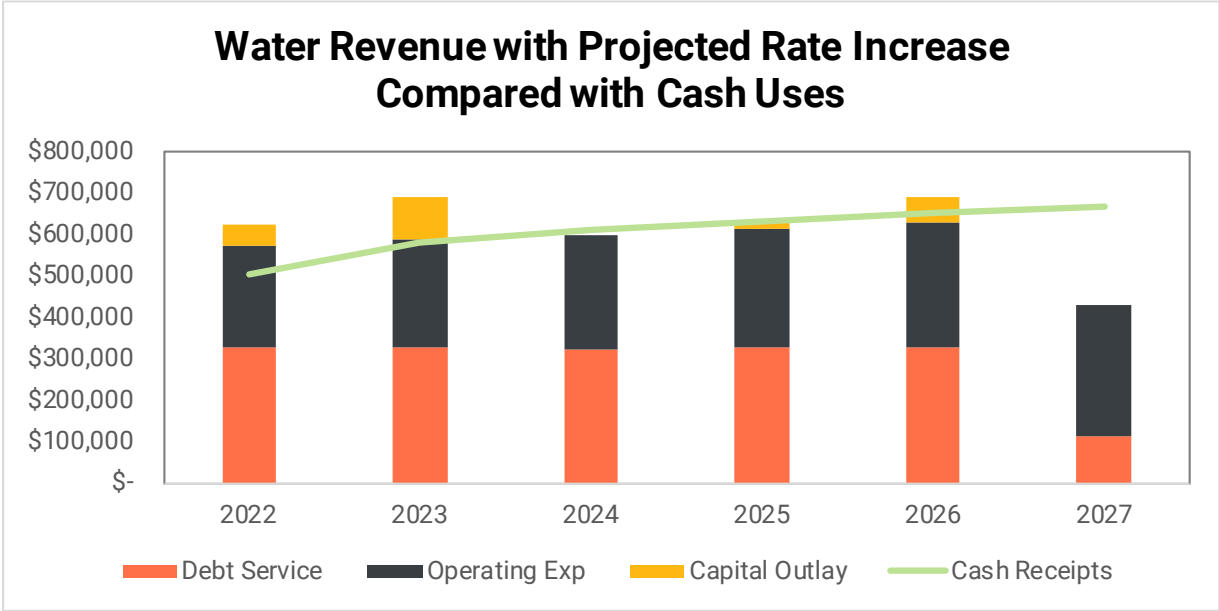
Sewer

	Estimated 2022	Estimated 2023	Estimated 2024	Estimated 2025	Estimated 2026	Estimated 2027
Projected Rate Increase	0%	14%	11%	10%	8%	7%
Usage Rates (per 1000 gallons)	4.23	4.82	5.35	5.89	6.36	6.81
Base Charge	13.25	15.11	16.77	18.45	19.93	21.33
Average monthly bill (3700 gallons)	\$ 28.90	\$ 32.94	\$ 36.57	\$ 40.24	\$ 43.46	\$ 46.53
Average monthly dollar increase	\$ 28.90	\$ 4.04	\$ 3.62	\$ 3.68	\$ 3.22	\$ 3.07
Average annual dollar increase	\$ 346.81	\$ 48.52	\$ 43.45	\$ 44.14	\$ 38.63	\$ 36.78

City of Le Center, Minnesota
Water and Sewer Rate Study

IV. Financial Results

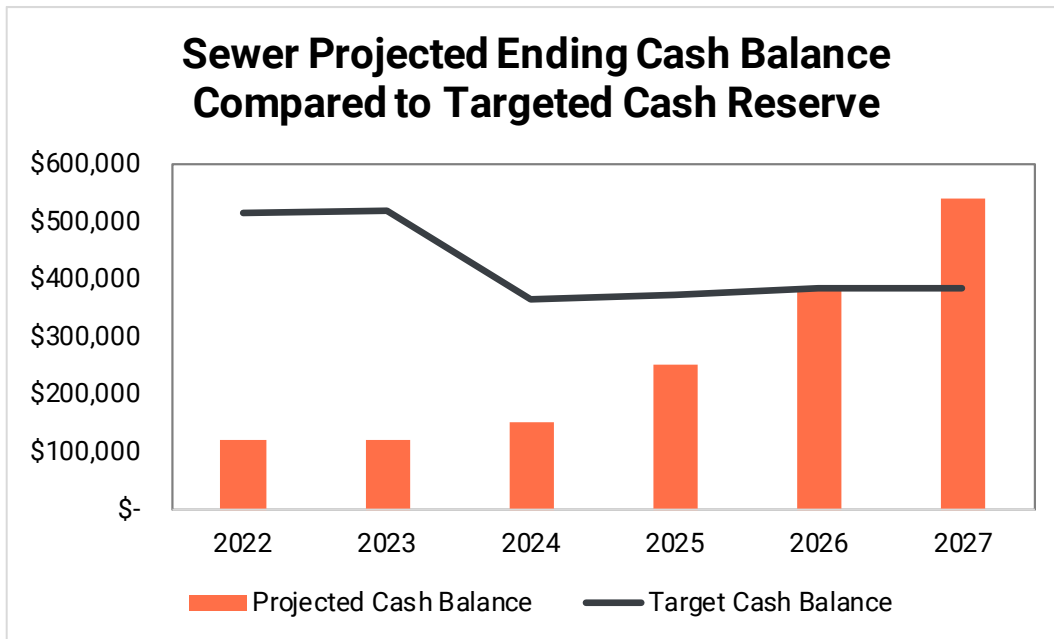
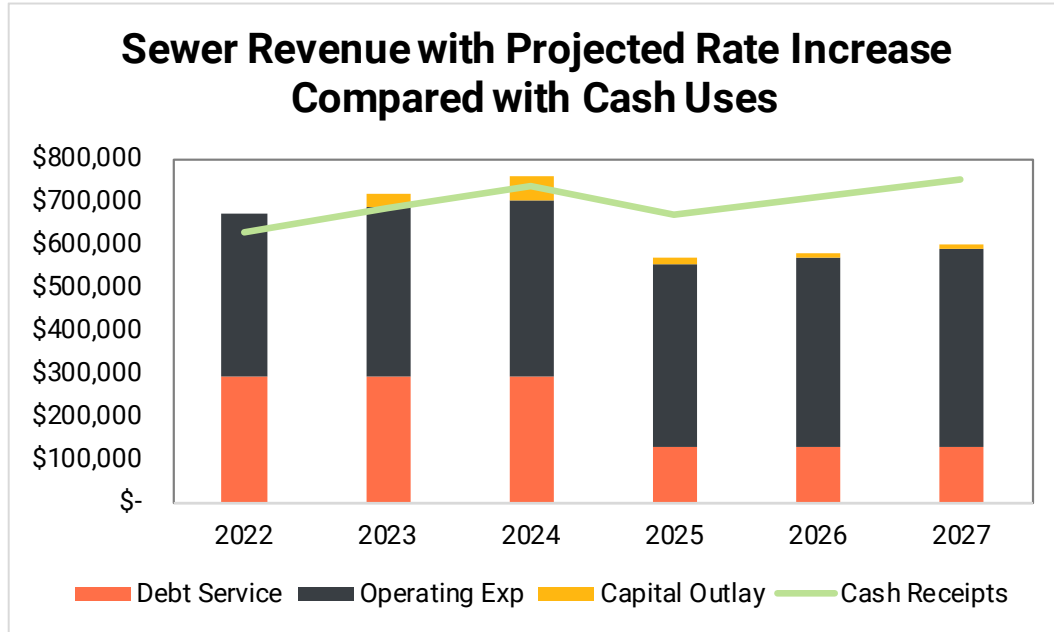
Based on the assumptions noted above the projected Water fund cash flow shows that rates will be sufficient to meet the targeted reserve balance by 2027.



City of Le Center, Minnesota
Water and Sewer Rate Study

IV. Financial Results (Continued)

Based on the assumptions noted above the projected Sewer fund cash flow shows that rates will be sufficient to meet the targeted reserve balance in 2027.



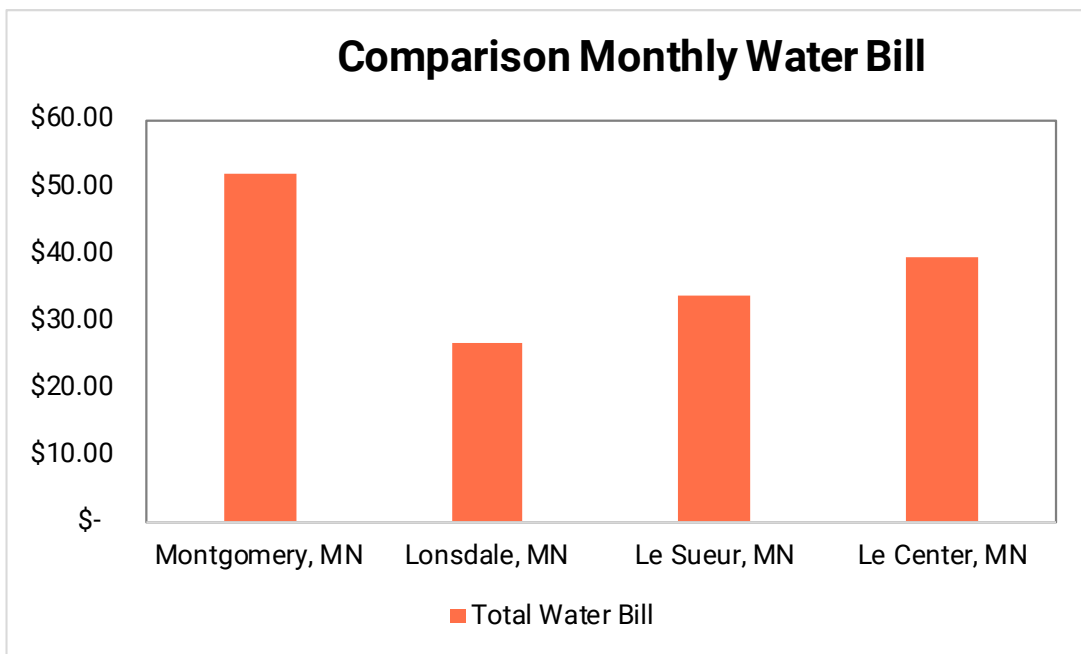
City of Le Center, Minnesota
Water and Sewer Rate Study

V. Comparable Communities

The table below compares an average utility bill in the City of Le Center to other communities.

The City of Le Center’s average monthly residential water bill is at the median of comparable communities.

City	Water (3,700 Average User) Residential		
	Water Base Charge	Variable Charge	Total Water Bill
Montgomery, MN	\$ 35.00	\$ 16.90	\$ 51.90
Lonsdale, MN	14.00	12.73	26.73
Le Sueur, MN	21.11	12.73	33.84
Le Center, MN	19.00	20.56	39.56



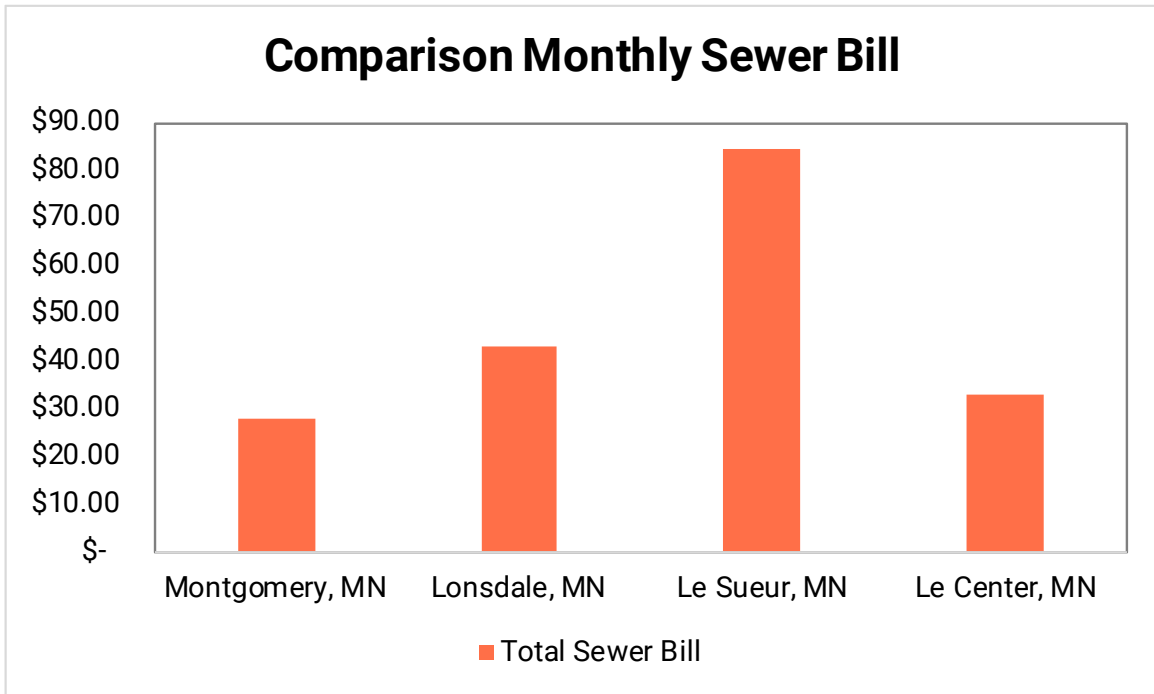
City of Le Center, Minnesota
Water and Sewer Rate Study

V. Comparable Communities (Continued)

The table below compares an average utility bill in the City of Le Center to other communities.

The City of Le Center’s average monthly residential sewer bill is at the median of comparable communities.

City	Sewer (3,700 Average User) Residential		Total Sewer Bill
	Sewer Base Charge	Variable Charge	
Montgomery, MN	\$ 18.54	\$ 9.27	\$ 27.81
Lonsdale, MN	20.00	22.94	42.94
Le Sueur, MN	29.05	55.24	84.29
Le Center, MN	15.11	17.83	32.94

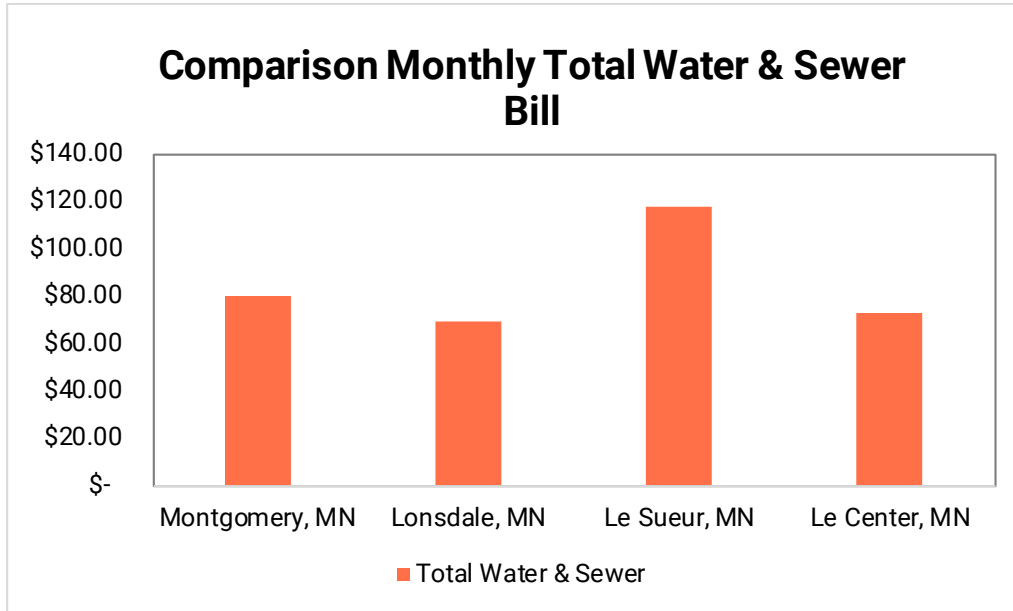


City of Le Center, Minnesota
Water and Sewer Water Rate Study

V. Comparable Communities (Continued)

The total monthly bill for all cities is listed below.

City	Total Water & Sewer
Montgomery, MN	\$79.71
Lonsdale, MN	69.67
Le Sueur, MN	118.13
Le Center, MN	72.50



VI. Recommendations

Based on the information provided above it is recommended that the City increase rates over the next five years for both the water and sewer funds to help build a reserve fund to meet the targeted reserve balance. In the sewer fund, a major commercial user, Dianne’s Fine Desserts, currently is making a large contribution towards maintenance and debt, per their industrial wastewater agreement. The Council and management may need to reevaluate rates if there are changes in the agreement or demand placed on the system by significant industrial users.

In the water fund, the City will be transitioning from a single usage rate to a tiered rate structure based on consumption. This recommendation is a mandate from the Department of Natural Resources. Due to the change in structure, the percentage increase a user may experience will vary based on their consumption, which is why we have presented a range for the percentage increase and average bill amounts.

The City currently has a commercial reduction base fee program for water and sewer in place that reduces the base fee for commercial property that have multiple units (ex. apartment buildings). Our recommendation is to discontinue this program and apply a consistent base fee for all property types. This will improve the administration of billing for water and sewer and provide a more practical basis for billing.

Currently there aren’t any major capital projects planned and the recommended rates do not anticipate new debt being issued. Rate increases should be reviewed annually based on actual results and predicted future need.

SUPPLEMENTARY SECTION

CITY OF LE CENTER
LE CENTER, MINNESOTA

City of Le Center, Minnesota
 Capital Improvement Plan - Utility Funds
 Schedule of Planned Capital Outlay 2022 to 2028

Department	Year to Replace	Item	Cost	2023	2024	2025	2026	2027	2028
				Estimated Amounts	Estimated Amounts	Estimated Amounts	Estimated Amounts	Estimated Amounts	Estimated Amounts
Water	2023	Paint Rehab Interior Water Treatment Facility	\$101,200	101,200	-	-	-	-	-
Water	2025	Mapping GIS	\$13,333	-	-	13,333	-	-	-
Water	2026	Purchase lot on North Lexington Ave for future well	\$60,000	-	-	-	60,000	-	-
Water	2028	Reverse Osmosis Membrane Replacement	\$78,450	-	-	-	-	-	78,450
				<u>101,200</u>	<u>-</u>	<u>13,333</u>	<u>60,000</u>	<u>-</u>	<u>78,450</u>
Sewer	2023	Blacktop Wastewater Treatment Facility	\$33,210	33,210	-	-	-	-	-
Sewer	2024	12 " Hydrogritter waste water pre treatment	\$55,725	-	55,725	-	-	-	-
Sewer	2025	Mapping GIS	\$13,333	-	-	13,333	-	-	-
Sewer	2026	Aeration Diffusers 20 year old 1 basen + install	\$8,320	-	-	-	8,320	-	-
Sewer	2027	Aeration Diffusers 20 Year old 2nd basen + install	\$8,320	-	-	-	-	8,320	-
				<u>\$ 33,210</u>	<u>\$ 55,725</u>	<u>\$ 13,333</u>	<u>\$ 8,320</u>	<u>\$ 8,320</u>	<u>\$ -</u>

City of Le Center, Minnesota
Water Fund
Cash Flow Projections
For the Years Ending December 31, 2022 Through 2027

Water	Actual results			RATE STUDY PROJECTIONS						
	2019	2020	2021	Estimated 2022	Estimated 2023	Estimated 2024	Estimated 2025	Estimated 2026	Estimated 2027	
Projected Rate Increase				Range 2.04% - 35.71% Average 14.17%		5.0%	4.0%	3.0%	2.0%	
Usage Rates (shown in 1,000 increments)				5.39						
0-3,000 gallons					5.50	5.78	6.01	6.19	6.31	
3,001 - 6,000 gallons					5.80	6.09	6.33	6.52	6.65	
6,001+ gallons					6.00	6.30	6.55	6.75	6.89	
Base Charge				14.00	19.00	19.95	20.75	21.37	21.80	
Cash Flows from Operating Activities										
Receipts from customers and users	\$ 484,812	\$ 496,935	\$ 501,089	\$ 507,276	\$ 581,748	\$ 610,835	\$ 635,269	\$ 654,327	\$ 667,414	
(1) Other operating receipts	43,047	42,142	46,392	36,430	37,158	37,902	38,660	39,433	40,221	
(2) Payments to suppliers	(270,272)	(199,975)	(207,466)	(194,500)	(204,225)	(214,436)	(225,158)	(236,416)	(248,237)	
(3) Payments to employees	(51,701)	(46,401)	(45,963)	(55,200)	(57,960)	(60,858)	(63,901)	(67,096)	(70,451)	
Net Cash from Operating Activities	205,886	292,701	294,052	294,006	356,722	373,443	384,870	390,248	388,947	
Cash Flows from Capital and Related Financing Activities										
Acquisition of capital assets	(68,660)	(27,356)	(16,195)	(50,000)	(101,200)	-	(13,333)	(60,000)	-	
ARPA funds for capital	-	-	-	-	101,200	-	-	-	-	
Interest paid on long-term debt	(64,222)	(59,995)	(54,777)	(50,001)	(45,045)	(39,943)	(34,687)	(29,225)	(23,592)	
Principal paid on long-term debt	(225,000)	(268,000)	(272,000)	(276,000)	(285,000)	(284,000)	(293,000)	(298,000)	(88,000)	
Net Cash from Capital and Related Financir	(357,882)	(355,351)	(342,972)	(376,001)	(330,045)	(323,943)	(341,020)	(387,225)	(111,592)	
Net Increase (Decrease) in Cash and Cash Equivalents	(151,996)	(62,650)	(48,920)	(81,995)	26,676	49,500	43,850	3,023	277,355	
Cash and Cash Equivalents, January 1	409,329	257,333	194,683	145,763	63,768	90,444	139,944	183,794	186,817	
Cash and Cash Equivalents, December 31	\$ 257,333	\$ 194,683	\$ 145,763	\$ 63,768	\$ 90,444	\$ 139,944	\$ 183,794	\$ 186,817	\$ 464,172	
Target Cash Reserve	\$ 481,540	\$ 483,849	\$ 481,208	\$ 491,495	\$ 491,947	\$ 502,573	\$ 509,338	\$ 301,293	\$ 321,533	
Cash in Excess of Reserve	\$ (224,207)	\$ (289,166)	\$ (335,445)	\$ (427,727)	\$ (401,503)	\$ (362,629)	\$ (325,544)	\$ (114,476)	\$ 142,640	
Average monthly bill (3700 gallons)				\$ -	\$ 33.94	\$ 39.56	\$ 41.55	\$ 43.21	\$ 44.50	\$ 45.39
Average monthly dollar increase				\$ -	\$ -	\$ 5.62	\$ 1.99	\$ 1.66	\$ 1.29	\$ 0.89
Average annual dollar increase				\$ -	\$ -	\$ 67.44	\$ 23.88	\$ 19.92	\$ 15.48	\$ 10.68
Five year average capital expenses		30,357								

Assumptions Used	Rate of Growth Used
(1) Other operating receipts	2%
(2) Payments to suppliers	5%
(3) Payments to employees	5%

City of Le Center, Minnesota
Sewer Fund
Cash Flow Projections
For the Years Ending December 31, 2022 Through 2027

	RATE STUDY PROJECTIONS								
	Actual results			Estimated	Estimated	Estimated	Estimated	Estimated	Estimated
	2019	2020	2021	2022	2023	2024	2025	2026	2027
Projected Rate Increase				0%	14%	11%	10%	8%	7%
Usage Rates (per 1000 gallons)				4.23	4.82	5.35	5.89	6.36	6.81
Base Charge				13.25	15.11	16.77	18.45	19.93	21.33
Cash Flows from Operating Activities									
Receipts from customers and users	\$ 576,297	\$ 603,231	\$ 554,477	\$ 395,301	\$ 450,643	\$ 500,214	\$ 550,236	\$ 594,254	\$ 635,967
Receipts from agreement on O & M	-	-	-	120,000	120,000	120,000	120,000	120,000	120,000
Receipts from agreement on debt service	-	-	-	115,000	116,069	115,464	-	-	-
(1) Other operating receipts	15,770	265	155	158	161	164	168	171	175
(2) Payments to suppliers	(185,924)	(189,386)	(198,231)	(208,143)	(218,550)	(229,477)	(240,951)	(252,999)	(265,648)
(3) Payments to employees	(145,784)	(169,474)	(164,141)	(169,065)	(174,137)	(179,361)	(184,742)	(190,284)	(195,993)
Net Cash from Operating Activities	260,359	244,636	192,260	253,251	294,186	327,004	244,711	271,142	294,500
Cash Flows from Capital and Related Financing Activities									
Acquisition of capital assets	(7,882)	(38,924)	(110,567)	-	(33,210)	(55,725)	(13,333)	(8,320)	(8,320)
ARPA funds for capital	-	-	-	-	33,210	55,725	-	-	-
Interest paid on long-term debt	(67,966)	(62,994)	(57,907)	(52,732)	(47,440)	(42,010)	(36,477)	(34,078)	(31,617)
Principal paid on long-term debt	(227,335)	(232,396)	(236,510)	(241,678)	(247,902)	(252,469)	(93,523)	(95,922)	(98,383)
Net Cash from Capital and Related Financing Activities	(303,183)	(334,314)	(404,984)	(294,411)	(295,342)	(294,479)	(143,333)	(138,320)	(138,320)
Net Increase (Decrease) in Cash and Cash Equivalents	(42,824)	(89,678)	(212,724)	(41,159)	(1,155)	32,525	101,378	132,822	156,180
Cash and Cash Equivalents, January 1	508,239	465,415	375,737	163,013	121,854	120,698	153,223	254,601	387,423
Cash and Cash Equivalents, December 31	\$ 465,415	\$ 375,737	\$ 163,013	\$ 121,854	\$ 120,698	\$ 153,223	\$ 254,601	\$ 387,423	\$ 543,603
Target Cash Reserve	\$ 498,602	\$ 499,385	\$ 506,796	\$ 515,467	\$ 522,680	\$ 366,628	\$ 375,423	\$ 384,602	\$ 384,602
Cash in Excess of Reserve	\$ (33,187)	\$ (123,648)	\$ (343,783)	\$ (393,613)	\$ (401,982)	\$ (213,405)	\$ (120,822)	\$ 2,821	\$ 159,001
Average monthly bill (3700 gallons)				\$ -	\$ 28.90	\$ 32.94	\$ 36.57	\$ 40.24	\$ 43.46
Average monthly dollar increase				\$ -	\$ 28.90	\$ 4.04	\$ 3.62	\$ 3.68	\$ 3.22
Average annual dollar increase				\$ -	\$ 346.81	\$ 48.52	\$ 43.45	\$ 44.14	\$ 38.63
Five year average capital expenses			23,782						

Assumptions Used
(1) Other operating receipts
(2) Payments to suppliers
(3) Payments to employees

Rate of Growth Used
2%
5%
5%