



# Final Draft Report

**City of Rochester, Minnesota**

Storm Water Financing Alternatives Study - UPDATE

October 7, 2015

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### **Mission Statement**

Springsted provides high quality, independent financial and management advisory services to public and non-profit organizations, and works with them in the long-term process of building their communities on a fiscally sound and well-managed basis.

**LETTER OF TRANSMITTAL**

October 7, 2015

Mr. Richard Freese, P.E.  
Director of Public Works  
Department of Public Works  
201 Fourth Street SE, Room 108  
Rochester, Minnesota 55904-3740

Re: Storm Water Financing Alternatives Study - UPDATE

Dear Mr. Freese:

Springsted Incorporated was retained to assist the City of Rochester with updating the 2014 Storm Water Financing Alternatives Study. The overall objective of the study was to assist the City of Rochester in evaluating alternatives for financing the needed improvements to be identified by the City in the update of its Storm Water Management Plan. The financing alternatives are needed to insure the Storm Water Fund will have adequate financial resources to pay for 1) needed utility capital improvements and asset replacement; 2) anticipated future operating and maintenance expenses; 3) debt service including principal and interest; and 4) provide an adequate level of cash reserves. The enclosed Final Report contains our analysis and findings.

I want to thank you for providing us with the opportunity to assist the City with this project. Please let me know if you have any questions.

Respectfully submitted,

*Nicholas Dragisich*

Nicholas R. Dragisich, P.E.  
Executive Vice President/Manager of Consulting Services

*Patty Kettles*

Patty Kettles, CIPMA  
Vice President

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## 1. Executive Summary

The City of Rochester's storm water management system carries and treats runoff before it enters natural and constructed water bodies. To fund the cost of storm water management, the City established a Storm Water Management Plan Area Charge (SWMPAC) in 1998 and a monthly Storm Water Utility Fee (SWUF) in 2004. The City has determined that the SWUF and the SWMPAC mechanisms provide equity between various classes of customers. However, the revenues generated by these sources have been insufficient to fund both the operating expenses and the needed capital improvements.

A review of the City's most recent financial reports shows that operating revenues from SWUF grew from \$4,544,970 in 2010 to \$4,965,786 by 2014, and is budgeted to be \$5,021,685 in 2015. SWMPAC revenues have been highly variable ranging from a low of \$78,903 in 2011 to a high of \$734,727 in 2013. In 2014 SWMPAC revenues were \$335,485. Operating expenses have grown steadily from \$2,988,361 in 2010 to \$3,884,954 in 2014, and are budgeted to be \$4,156,773 in 2015. Ending cash and investments have increased from \$954,980 in 2010 to \$7,870,394 for 2014. The 2015 budget projects a 10% decrease to \$7,063,140.

SWUF rates are comprised of two components, a customer charge and an acreage charge. The customer charge has increased from \$2.00/month in 2009 to \$2.50/month in 2010 then to \$3.00/month in 2011 where it has remained. The SWU rate/acre increased from \$12.77/acre in 2009 to \$13.15/acre in 2010 then to \$13.54/acre in 2011 and has not increased since then.

The City is encouraged to formalize a reserve policy that includes a minimum cash balance in the Storm Water Utility Fund at the end of each year equal to at least three months of the following year's anticipated operating expenses and debt service requirements and an emergency reserve equal to 2% of the net assets of the Utility.

The City's Capital Improvement Program (C.I.P.) for the Storm Water Utility during the period from 2015 through 2020 includes \$20,016,498 in capital improvements. The C.I.P. identified four funding sources, which were the Storm Water Utility, SWMPAC, County Funds, and Private Funds.

In addition to the C.I.P., the Storm Water Utility Fund will incur additional capital costs each year resulting from the requirements under its new MS4 permit. These costs are estimated to be \$529,935 in 2015 and increase 3% annually over the planning period.

Financial projections of the Storm Water Utility Fund were performed for five scenarios to demonstrate the Utility's ability to fund capital improvements under different revenue and financing assumptions.



Scenario 1 was a projection of the Storm Water Utility Fund at current rates and showed there would not be sufficient revenues to fund the C.I.P. and to pay for capital outlay required by the new MS4 permit.

Scenario 2 was a financial projection of Storm Water Utility Fund to show how much of the C.I.P. could be paid for at current rates. This Scenario assumed that capital outlay required by the new MS4 permit will be funded in full to remain in compliance with the permit. The projection showed that over the planning period from 2015 through 2020, \$10,745,177 of the \$20,016,498 C.I.P. could be funded at current rates. This would leave \$9,271,321 or approximately 46.3% of the C.I.P. unfunded.

Scenario 3 was a financial projection of Storm Water Utility Fund to show how much of the C.I.P. could be paid for if storm water utility charges were increased 3% annually beginning in 2015. Like Scenario 2, it assumed that capital outlay required by the new MS4 permit will be funded in full to remain in compliance with the permit. The projection showed that over the planning period from 2015 through 2020, \$13,151,838 of the \$20,016,498 C.I.P. could be funded with the increased rates, or approximately \$2.4 million more than Scenario 2. This would leave \$6,864,660 or approximately 34.3% of the C.I.P. unfunded.

Scenario 4 was a financial projection to show what level of annual rate increases are needed to fund only the items in the C.I.P. related to the maintenance of the City's existing storm water utility. This Scenario showed that annual increases of 6.50% in the storm water utility charge beginning in 2016 would enable the City to fund projects to maintain the existing storm water system.

Scenario 5 was a financial projection to show what level of annual rate increases are needed to fund all items in the C.I.P., both maintenance-related capital items and the creation of new storm water ponds. This Scenario showed that annual increases of 10.75% in the storm water utility charge beginning in 2016 would enable the City to fund projects to both maintain the existing storm water system and construct new ponds. However, it is projected the City would not meet projected reserve levels in 2018 and 2019. In order to fund the entire C.I.P. and meet recommended reserves in each year, 12.50% annual increases from 2016 through 2020 would be needed.

The impact of various increases included in Scenarios 3, 4, and 5 are shown in the table on the following page. Depending on the level of annual increases, the customer charge would increase between \$0.50 and \$2.00 per month over the planning period. The SWUF charge per acre would increase between \$2.16 and \$9.02 per acre per month.

<b>Residential Customer Charge</b>						
Annual Rate Increases	2015	2016	2017	2018	2019	2020
<b>3.00%</b>	\$ 3.00	\$ 3.10	\$ 3.20	\$ 3.30	\$ 3.40	\$ 3.50
<b>6.50%</b>	\$ 3.00	\$ 3.20	\$ 3.40	\$ 3.60	\$ 3.85	\$ 4.10
<b>10.75%</b>	\$ 3.00	\$ 3.30	\$ 3.65	\$ 4.05	\$ 4.50	\$ 5.00

  

<b>Residential SWUF Charge</b>						
Annual Rate Increases	2015	2016	2017	2018	2019	2020
<b>3.00%</b>	\$ 13.54	\$ 13.95	\$ 14.36	\$ 14.80	\$ 15.24	\$ 15.70
<b>6.50%</b>	\$ 13.54	\$ 14.42	\$ 15.36	\$ 16.36	\$ 17.42	\$ 18.55
<b>10.75%</b>	\$ 13.54	\$ 15.00	\$ 16.61	\$ 18.39	\$ 20.37	\$ 22.56

Residential monthly bills would increase from \$6.18/month in 2015 to between \$7.17/month and \$10.30/month in 2020. The Storm Water Utility bill for an average non-residential property with 2.58 acres would increase between \$10.01/month and \$41.88/month over the planning period. These increases are shown in the table below.

<b>Average Residential Monthly Bill</b>							
Annual Rate Increases	2015	2016	2017	2018	2019	2020	Monthly Increase (2020 vs. 2015)
<b>3.00%</b>	\$ 6.18	\$ 6.37	\$ 6.56	\$ 6.76	\$ 6.96	\$ 7.17	\$ 0.98
<b>6.50%</b>	\$ 6.18	\$ 6.58	\$ 7.01	\$ 7.47	\$ 7.95	\$ 8.47	\$ 2.29
<b>10.75%</b>	\$ 6.18	\$ 6.85	\$ 7.58	\$ 8.40	\$ 9.30	\$ 10.30	\$ 4.12

  

<b>Average Non-Residential Monthly Bill</b>							
Annual Rate Increases	2015	2016	2017	2018	2019	2020	Monthly Increase (2020 vs. 2015)
<b>3.00%</b>	\$ 62.86	\$ 64.75	\$ 66.69	\$ 68.69	\$ 70.75	\$ 72.87	\$ 10.01
<b>6.50%</b>	\$ 62.86	\$ 66.95	\$ 71.30	\$ 75.93	\$ 80.87	\$ 86.13	\$ 23.26
<b>10.75%</b>	\$ 62.86	\$ 69.62	\$ 77.10	\$ 85.39	\$ 94.57	\$ 104.74	\$ 41.88

Rochester's storm water development charges were compared with those of the five cities in the Twin Cities metropolitan area projected to have the fastest growth rates between 2010 and 2030 identified by the Metropolitan Council in their January 2014 Revised Forecast. These cities included: Blaine, Lakeville, Cottage Grove, Woodbury, and Shakopee. This comparison showed that Rochester's residential fee of \$3,383/acre is the lowest of the group.

A cash flow analysis of SWMPAC funds show that historical cash flow up to 2015 has resulted in a negative balance of \$1.82 million from past projects. Projected cash flow shows a further decline to negative \$2.43 million by the end of 2020 as expenditures for regional ponds that should be paid for with SWMPAC funds are projected to be \$609,698 greater than projected revenues.

This report is based on information provided to us by the City. The City will need to monitor the performance of the Storm Water Utility Fund make necessary adjustments based on the actual operating and capital expenses going forward.