

**EDGERTON CITY COUNCIL
WORK SESSION AGENDA
CITY HALL
404 EAST NELSON STREET
June 25, 2020**

**Work Session will begin following adjournment
of regularly scheduled council meeting.**

1. Call to Order
2. Roll Call ____ Roberts ____ Longanecker ____ Conus ____ Lewis ____ Smith ____ Beem
3. Budget Work Session Regarding the Recommended 2021 Budget
4. Adjourn



July 21, 2020

To: Mayor and City Council Members

From: Beth Linn, City Administrator
Karen Kindle, Finance Director
Dan Merkh, Public Works Director

Re: 2021 Recommended Sewer Fund Budget

Staff presented the recommended 2021 Sewer Fund Budget during the June 11, 2020 Budget Work Session. At the July 9th Work Session, the Governing Body requested staff provide additional information related to the recommended 2021 Sewer Fund. Below is that additional information. Attached for your reference is the 2021 Recommended Budget for the Sewer Fund as originally presented.

Revenue Requirements

The sewer utility operations are considered an enterprise fund (i.e. business fund as defined by the Kansas Municipal Audit and Accounting Guide), and as such, the funding for operations are required to come from user charges. The user charges needed to fund the utility operations are calculated based on the operation and maintenance costs required to run the utility, the debt service payments required on outstanding debt and any costs for capital outlay such as equipment or capital improvements to the system.

For cities of the third class, Kansas Statute (K.S.A. 12-825d) requires utilities revenue derived from the sale or consumption of water be used only for the purpose of operating, renewing or extending the plant or distribution system from which the revenue was derived. Similar regulations apply to sanitary sewer.

Proposed 2021 Rates

The typical residential customer in Edgerton uses 3,000 gallons per month of water. For 2021 as proposed, the typical customer would pay an additional \$0.89 per month in sewer charges, or an additional \$10.68 per year. The proposed monthly cost is less than the cost of one cup of coffee or one candy bar.

Growth in System

Size of System

The size of the Edgerton sanitary sewer operations has grown significantly in the last 10 years.

- Prior to 2013:
 - Edgerton Wastewater Treatment Plant – 187,000 gpd
 - Sanitary Sewer Pipe – 46,500 linear feet

- 2013: Construction of Big Bull Creek Wastewater Treatment Facility and Conveyance System
 - New 500,000 gallon per day plant
 - 2 lift stations: Intermodal Facility (IMF) and Homestead Lane
 - 14,100 linear feet new pipe
- 2016-2018: Connection of LPKC Phase I (north of I-35)
 - 3 lift stations: Edgerton Lift Station, Essex Lift Station, Big Industrial Lift Station
 - 41,870 linear feet new pipe
- 2019-2020: Connection of LPKC Phase II (south of I-35)
 - Big Bull Creek Lift Station
 - 10,600 linear feet new pipe
- **TOTAL GROWTH SINCE 2013:**
 - New wastewater treatment plant (additional 313,000 gpd treated)
 - 5 lift stations
 - 66,570 linear feet of pipe (12.6 miles)

KDHE Requirements for Operation

Kansas Department of Health and Environment issues the operation permit for the Big Bull Creek Wastewater Treatment Facility. The City of Edgerton permit requires two employees with at least one holding a Class III Wastewater Operator License.

Variable Treatment Costs

One of the largest costs for the operation of the sanitary sewer utility is the purchase of electricity. This includes power needed to move and treat sanitary sewer (i.e. operate lift stations and operate of Big Bull Creek Wastewater Treatment Facility, etc.) Increases in the amount of sanitary sewer treated or system infrastructure operated increases the amount of electricity required.

Prior to 2016, Edgerton absorbed significant increases from Kansas Power & Light for cost of electricity. Today, Edgerton budgets annually for possible rate increases from outside utilities, recognizing a budget savings if rates do not increase. Failure to budget for annual increases and absorbing these significant increases in costs of operation and treatment over time led to much steeper proposed rate increases to the Edgerton utility customers.

KCP&L increases

2016: 0%
 2015: 7.4% increase
 2014: 2.2% increase
 2013: 6.7% increase
 2012: 0%
 2011: 0%
 2010: 4.6% increase
 2009: 14.4% increase
 2008: 6.5% increase
 2007: 7.4% increase

Utility Rate Study History

In October 2015, the Edgerton City Council approved the first comprehensive utility rate study with Raftelis Financial Consultants. A new utility rate structure and amount was approved in March 2016 and implemented in May 2016.

Since 2017, Edgerton has completed annual utility rate studies to develop financial plans and set rates to ensure financial sufficiency which continue the financial health of the utility funds. These studies provide staff and the Governing Body with annual projections of the financial health of the utility to better allow for incremental adjustments over time rather than large increases due to unforeseen circumstances.

Similar to the 2020 utility rate study, the 2015 study included proposed/projected revenue adjustments needed for the next five years and a five-year forecast of rates. Below is that 2015 data and how it compares to actual.

	2017		2018		2019		2020	
	Forecast	Actual	Forecast	Actual	Forecast	Actual	Forecast	Actual
Monthly Sewer Bill (3,000 gal)	\$27.63	\$26.12	\$32.39	\$27.74	\$36.23	\$28.83	\$38.07	\$29.29

	Forecasted 2020	Actual 2020	Recommended 2021
Customer Service Charge	\$8.34	\$7.58	\$7.81
Volumetric Rate (per 1,000 gallons)	\$9.91	\$6.55	\$6.75

Both the ACTUAL 2020 and the PROPOSED 2021 are significantly below the forecasted rates for 2020.

Investment Driven by Governing Body

Over the last several years of preparation of annual sewer operating budget, the Edgerton City Council directed staff to work towards the allocation of funding from the operating budget for one-time expenditures deemed a priority for the system. These include an allocation to fund future Vehicle and Equipment Purchases and future Capital Improvement Projects.

- **Vehicle and Equipment:** Without the scheduled transfer to Equipment Reserve in 2021 the Sewer Equipment Reserve Fund will have a negative balance at the end of 2025. Below are items that are schedule for replacement in the next five years. The Sewer Fund shares in the cost of two of these items with the Water Fund.
 - Sewer Jetter
 - Uniloaders
 - Chevy 2WD Truck

- **Capital Improvement Projects:** The most significant type of capital improvement project discussed for the sanitary sewer fund is the systematic identification and replacement of gravity sewer mains that allow for stormwater to enter into the sanitary sewer system (inflow and infiltration (I&I)).

Unnecessarily treating stormwater results in higher costs for electricity and chemicals. Removing stormwater from the system results in less flow at the EWWLS and less flow to treat at Big Bull Creek Wastewater Treatment Plant reducing these same variable costs of electricity and chemicals. Reducing the flow also prolongs the equipment by reducing the wear and tear on the lift stations and plant. It also postpones the need to expand the plant's capacity.

City of Edgerton Sewer Fund

	2018 Actual	2019 Actual	2020 Estimate	2021 Recommended
Balance 1/1	\$ 256,291	\$ 434,960	\$ 508,001	\$ 413,698
Revenues:				
Charges for Services	777,944	692,635	651,494	682,408
Reimbursements	-	564	-	-
Bond Proceeds	-	-	-	-
Investment Income	4,770	10,588	3,500	3,500
Total Revenue	\$ 782,714	\$ 703,787	\$ 654,994	\$ 685,908
Transfers from Other funds:				
Transfer from Sewer Reserve Fund	-	-	16,330	-
Transfer from Capital Projects Fund	35,741	-	-	-
Total	\$ 35,741	\$ -	\$ 16,330	\$ -
Total Sources	\$ 818,455	\$ 703,787	\$ 671,324	\$ 685,908
Expenditures:				
Fleet Maintenance	-	-	4,700	5,700
Information Technology	19,289	24,671	33,326	25,499
Treatment Plant	150,972	111,722	204,945	198,330
Sewer Line Maintenance	2,141	7,409	7,100	10,700
Lift Stations/Vaults	10,247	20,445	21,114	29,967
Administrative - Sewer	195,193	297,871	193,811	214,858
Employee Benefits	37,506	44,190	56,193	61,513
Debt Service	94,438	94,438	94,438	94,438
Total Expenditures	\$ 509,786	\$ 600,746	\$ 615,627	\$ 641,005
Sources Over(Under) Expenditures	\$ 308,669	\$ 103,041	\$ 55,697	\$ 44,903
Transfers to Other Funds:				
Transfer to Equipment Reserve Fund-Sewer	30,000	30,000	50,000	50,000
Transfer to Capital Projects Fund	100,000	-	100,000	118,000
Total	\$ 130,000	\$ 30,000	\$ 150,000	\$ 168,000
Total Uses	\$ 639,786	\$ 630,746	\$ 765,627	\$ 809,005
Sources Over(Under) Uses	\$ 178,669	\$ 73,041	\$ (94,303)	\$ (123,097)
Prior Period Adjustment	-	-	-	-
Balance 12/31	\$ 434,960	\$ 508,001	\$ 413,698	\$ 290,601
<i>Reserve Per Policy - 17% of Budgeted Expenditures:</i>	\$		109,757	\$ 108,971
<i>Unencumbered Cash Over(Under) Requirement:</i>	\$		303,941	\$ 181,630
<i>Reserve Per Policy - 25% of Budgeted Expenditures:</i>	\$		161,407	\$ 160,251
<i>Unencumbered Cash Over(Under) Requirement:</i>	\$		252,291	\$ 130,350

Funding Sources: Charges to users of the City's sewer system

Expenditures: Sewer system operation and maintenance