

*City of Chaska
2017 Budget
Administrator's Message*



2017 Annual Budget

To the Citizens of Chaska, Honorable Mayor, and Chaska City Council:

Submitted for your review is the proposed 2017 Annual Budget for the City of Chaska, along with a review of major issues and opportunities relating to the City's general operations. The budget, as proposed, I believe meets the needs for continuing to provide excellent municipal services, while at the same time meeting the City's objectives that we have established during the budgeting process.

2017 Revenue Discussion

While we have seen increases in market values since 2014, in 2016 was the first year we saw all of the valuation lost during the "Great Recession" recovered in the community. As we go into 2017, we will see our valuations in the community be at their highest levels ever, although it took the past decade to start seeing this growth in market values again. From 2008-2013, Chaska saw an average annual decrease in property values of over 6%, before seeing a 5.24% increase in 2014, a 12.24% increase of property values in 2015, and a 8.21% increase in 2016. This full recovery of taxable market values in the community took a full decade to recover, which illustrates how deeply property values were affected during the last recession. With property taxes tied directly to housing values, this had a direct impact on the revenue we were able to generate during this time period.

As we look at 2017, we continue to see a positive trend occurring in the market, as we continue to see both commercial and industrial economic development activity occurring and planned for in the community, while also seeing our residential development continue to move forward in a positive, but measured, direction. This development activity has continued to have a positive impact on both our Electric Franchise Fee to the General Fund and Building Permit revenue. It has also helped increase new market values in the community, in which we have been able to derive additional tax resources to support our service levels, without having a negative impact on existing properties in the community.

As the 2017 budget was put together, there were five major budget environmental factors we needed to consider, as it related to revenues:

- Market Values across the community increased by an average of 3.18%. This will bring our overall property values in the community to just over \$2.6 billion, the highest level in our community's history
- With the reincorporation of our values from the decertified TIF District #4 in 2015, our Local Government Aid will go down by approximately \$250,000, from the level of just over \$500,000 in 2016
- Both residential and commercial building permit activity has continued to be stable, becoming more predictable from a budgeting perspective
- We are once again seeing an increase in population, with our population moving to just under 26,000 residents

- Our Electric Revenue has continued to increase significantly, as we have seen a significant amount of Economic Development activity occur in the last four years, including Data Center development and additions to existing industrial businesses, driving up this usage. This has had a positive impact on the Electric Franchise Fee coming back to our General Fund
- We continue to see a good mix of Commercial, Industrial and Residential Growth in the community

During the recession period from 2008-2013, in order to navigate the financial impacts to our revenue collection to support our budgeted activities, the City needed to defer many planned expenditures as a strategy to balance the budget. With growth in the economy over the past 4 years, the City was once again able to look at some of those areas we had to defer in the past, which we feel will be critical to meet our budgeting objectives over the next 5 years.

This renewed emphasis on reinvestment back into our existing infrastructure has come through the establishment of our Capital Improvement Program. The CIP focuses on how to properly maintain the assets we have already invested into, and have a responsibility to keep in good condition moving into the future. In 2014 we started investment into this program, with a 4 year plan for how to fully fund these needs. With the first three years of the program fully implemented, this document will focus on the final step we will take in 2017 to complete the implementation of our Capital Improvement Program and dedicate the resources we need to not get behind in our reinvestment needs.

This document will also discuss the continued use of our tax levy establishment policy which the Council adopted during our 2014 budgeting process. Our current policy focusses more on what the actual driving factors are in setting our tax levy, including actual new growth in our population and inflationary factors, instead of focusing solely on keeping a constant tax rate, which was a past policy direction the City utilized. In this respect we feel that any new increases in tax resources are directly tied to the increased costs we will have to support the level of services we currently provide in the community.

Staff feels that this budget document once again takes a more comprehensive look at not just our current operations, but also the future costs of properly maintaining our assets. We also think that it creates a more logical nexus between how we set our tax levy and what actual changes we see in the community that cause us to increase the resources we need to meet one of our primary objectives of keeping our service levels constant.

Budget Objectives

As with all of our budgeting processes, the first place that we start is to look at the objectives we are trying to accomplish in setting our budget for the upcoming year. Below is the list of those objectives that were used in both the 5-year financial forecast

process this year, and the goals that were used in the establishing the proposed 2017 budget you see before you now:

- 1) Support budgeting programs that help Chaska strengthen its mission of being "The Best Small Town in Minnesota"*
- 2) Maintain existing high quality service levels, funding new programs only after our existing, necessary programs are funded*
- 3) Limit tax levy growth to capture only new growth and inflation*
- 4) Fully fund scheduled maintenance and replacement of equipment/property*
- 5) Increase levy additionally only if new service levels or assets are being added*
- 6) Budget utilizing a plan that avoids draw-down of the City's General Fund reserve*
- 7) Fully levy to support our adopted Street Reconstruction Program*

Based on the objectives above, implementing the final phase of our Capital Improvement Program, and utilizing our tax levy policy adopted in 2014 for our budgeting process, Staff is recommending a 5% increase in our operational tax levy for 2017, in addition to levying the 4th year of revenue for our CIP program which is scheduled to be an addition \$250,000 tax levy in 2017. Implementing both components of our budgeting plan would have the City of Chaska increasing its General Fund Tax levy by 8.7% for 2017.

Tax Levy Establishment Policy

For nearly 30 years, the City of Chaska had a policy of establishing our annual tax levy based on keeping a constant tax rate. Based on this policy, the tax levy would go up by the amount of increase we saw annually in our tax capacity within the City, which is directly related to the amount of market value growth we saw in the City. For instance, if market values (and hence tax capacity) increased in the community by 3.18% (as it will in 2017), the levy could also increase by 3.18% and have no impact on the tax rate in the community. This would mean that if someone's property did not change in taxable market value from one year to the next, that their City taxes would not see any increase.

While this policy worked very well for several years, over the past 10 years we did start to experience some of the practical limitations of this policy. The first practical issue experienced is that not all market value increase is associated with the construction of new buildings. Some of the market value increase also occurs on existing properties as we experience inflationary growth from year to year. So while the tax rate would not change, and a resident's taxes would not change only if their values stayed the same. This often was not the practical reality, as we saw a significant amount of growth in property values in existing properties from 2000-2008.

The other issue that we experienced from 2010-2013 was the impact of decreasing market values in the community. As with increasing market values, the same can be said for decreasing market values when trying to keep a constant tax rate. If the market values go down, the tax levy also needs to decrease accordingly to keep the tax rate constant. With an objective of keeping our service levels constant, this was a significant issue the City faced when market values did start to decline, which led to the City modifying its tax levy policy to state that the tax levy would be set to keep the tax

rate constant, unless that forced the actual levy to decrease, in which case the tax levy would stay the same. This change was made based on the notion that while property values decreased, the cost for providing these services does not decrease unless a community is willing to reduce the amount of services it provides. Based on this change, and the decrease in market values in 2010-2013, the City of Chaska's tax levy saw a 0% increase during each of those 4 years, staying at an amount of \$4,880,354.

Finally, the final practical reality is that if the tax levy change is only tied to the changes in market values, and a large portion of this market value change is in existing properties, this does not really tie the tax levy increases directly to a need for additional levy. Theoretically, it does not cost the City more to provide services for a residence that is already there, except for our actual inflationary increases in costs from year to year. Our costs only increase by the amount of new growth that occurs in the community. By focusing only on new growth and our inflationary increase in costs, we are more truly representing the need we have for additional resources to support the services we already provide.

During the 2014 budget process, Staff recommended we make a permanent change to our tax levy establishment policy to learn from the issues we experienced over the past decade. The tax levy policy established in 2014 focuses specifically on looking at the two items that create pressure on our General Fund, if one of our objectives is to keep a constant level of services in the community:

- New construction in the community
- Inflationary increases in the market.

If the City desires to keep services constant, it costs more money to provide the same services to new users in the community. Also, market inflationary increases impact the cost of providing our services, regardless if we make any changes in service levels or not. In order to make sure we take these issues into account, our new tax levy policy states that we would set our increase in levy based on the percentage market value attributed to new growth, in addition to whatever the inflation rate is running in any given year. In that way, we are able to make sure that all new users are paying their fair share of service costs in the community, and that we take into account that actual costs go up on an annual basis because of inflation no matter what policy decisions we make.

The new policy goes on to state that we would only increase the levy beyond this point if we were adding new services, and that the actual cost of providing those new services would determine the amount of additional increase we would need in the tax levy. In the case of this year's budget, the new service we discuss and is in our objectives is funding the final year of our Capital Improvement Program implementation.

Key Factors in Revenue Forecast

Key factors which impact both the cost of providing services and the City's revenue resources are changes in Chaska's population and households. As the number of households in the community increases, there are increased demands for street

maintenance, snow plowing, park usage, recreation, police calls, utility bills, etc. Population and household levels also impact expected revenues from utilities, building permits and property tax levies.

A significant trend that occurred in the early part of the past decade was the increased rate of residential development in the City. In the 1990s, Chaska's residential development remained relatively stable, with an average of 200 new living units per year.

During the 1990s, Chaska's population increased from 11,339 to 17,450. From 2001 to 2005, in excess of 2400 new living units were approved within new residential subdivisions. In addition, the type of developer shifted from local developers to large national firms. As a result of both increased demand and supply of residential dwellings, a significant increase in new residential dwelling construction activity occurred in the 2003-2005 time period. This large amount of growth resulted in a 35% increase in our population from 2000-2010, with our official population being 23,770. This compares to the 8% average increase in population that was experienced across the rest of the Twin Cities Metropolitan Area during the same time period, making Chaska and the Southwest Metro Area one of the fastest growing areas in the entire Twin Cities. This growth resulted in an increase demand for services over the last decade, and hence an increase in revenue necessary to provide the same level of service in the future to our residents.

From 2008-2013 however, residential development in the metro area decreased significantly as a result of both over-building and a general downturn in the economy. At the same time, the supply of new available lots within the Chaska area decreased, resulting in a significant downturn in building activity. This resulted in a period of very stagnant residential growth from 2008-early 2012.

As was mentioned earlier, this downward trend reversed itself in late 2012, and stabilized, with a number of new residential developments approved over the past 3 years. Starting in 2013, this included the approvals for several new additions of the Chevalle and Nickel Creek developments, the addition of two multi-family projects in downtown Chaska, as well as the first three residential developments in the Southwest Chaska Development Area, with over 300 lots being platted. We also saw the addition of several C/I developments including the latest addition to the 212 Medical Center, three new data centers, the new Lakeview Medical Building, the addition of Park Dental in the Hazeltine Commons area and the additions to Lifecore Biomedical, Beckman Coulter and Exactec. We expect to see this level of development activity continue into the 2017 budget year, including the expected addition of 150 new residential properties in the community, as well as new Commercial/Industrial development, including the addition of a new Data Center in the West Creek Corporate Center, and the start of development on the Southwest Corner of Engler Boulevard and Highway 212. Below is a chart illustrating past population growth and the growth Staff anticipates over the 5-year period.

Year	# of Households	# of New	Est. Pop.
2000	6,979	445	17,449
2001	7,394	415	17,746
2002	7,909	515	18,982
2003	8,378	469	20,107
2004	8,854	476	21,250
2005	9,122	268	21,893
2006	9,323	201	22,375
2007	9,553	230	22,927
2008	9,743	190	23,383
2009	9,767	24	23,441
2010	9,832	65	23,652
2011	9,907	75	23,777
2012	10,039	132	24,094
2013	10,173	134	24,415
2014	10,373	200	25,270
2015	10,523	150	25,255
2016	10,673	150	25,652
2017	10,823	150	25,975
2018	10,973	150	26,335
2019	11,123	150	26,695
2020	11,273	150	27,055
2021	11,423	150	27,415

An analysis of General Fund revenues by major fund source:

Total revenues anticipated to fund the 2017 General Fund operating budget are \$15,049,480 which is an increase of 6.9% from the 2016 budget of \$14,074,193. The majority of the increase in revenues is coming from our growing Electric Franchise Fee, as well as additional building permit activity, both of which are driven by our economic development activities. In addition to this, our tax levy policy would have us plan to increase our operating tax levy revenues by 5%, for operational expenses based on our new policy, as well as an additional \$250,000 for the final year of implementation of our Capital Improvement Program (~3.7%). In addition to this, our other two main sources of income in our General Fund is our Gas Franchise Fee, which is approximately \$450,000, and our Local Government Aid, which for 2017 will be approximately \$250,000. As noted previously, this LGA amount is approximately half of what it was in 2016 due to the re-incorporation of market valuation into our community from the decertification of our Tax Increment District #4 decertification in late 2014. It should be noted in the chart below that while it shows a 16.6% increase in Property taxes, that is not the overall increase in our Property taxes, as our property taxes are also used for our Equipment Acquisition Fund. This is just saying that more property taxes are being utilized in our General Fund this year, as opposed to our Equipment Acquisition Fund last year. The overall increase is 8.7% as described above.

General Fund Revenues

	2015 Actual	2016 Budget	2017 Budget	Increase	%Increase
<i>Property Tax</i>	\$3,610,547	\$4,412,927	\$5,145,166	\$732,239	16.6%
<i>Elec/Gas Franchise Fees</i>	3,391,309	3,868,000	4,136,000	\$268,000	6.9%
<i>Other Franchise Fees</i>	284,886	280,000	288,401	\$8,401	3.0%
<i>License and Permits</i>	1,238,285	1,100,723	1,183,349	\$82,626	7.5%
<i>Other Revenues</i>	4,293,215	2,510,358	2,356,174	(\$154,184)	-6.1%
<i>Admin Charges to Funds</i>	1,921,084	1,902,185	1,940,390	\$38,205	2.0%
Total Revenue	\$14,739,326	\$14,074,193	\$15,049,480	\$975,287	6.9%

Capital Improvement Program

As in both 2014, 2015 and 2016, a major focus of our 2017 budget document is the continued implementation of our Capital Improvement Program. A main objective of this program is to make sure that we have the proper resources in place to fund the necessary replacement and maintenance of the assets we have already invested into.

As we build and bring on new assets into our community, a critical function we have as a local government unit is to plan for the proper maintenance and replacement of these assets, so we always keep them in good working order. Just as we would individually with our own home, the City has the responsibility to be good stewards of our resources and make sure our assets are as good for future generations as they are for us now. If we do not do this, these costs will be passed to future generations who will have to invest more to replace the assets that are lost. This is truly an issue of equity from one generation to the next, making sure we each take on our responsibilities.

As the City looked at this objective, it was determined that we were approximately \$1 million short annually in properly funding both replacement and maintenance of our existing assets, but also preparing properly for future development. This is one large reason we have been able to keep our taxes so low in the past is by not adequately funding these replacement and maintenance of these existing assets.

Recognizing this as a significant issue, the Council in 2014 decided to take on the task of funding the unmet needs of our Capital Improvement Program over a 4 year period, adding \$250,000 in revenue each year until we had filled this \$1 million deficit. This helps assure that we have the funds to do proper maintenance to our roads such as sealcoats and overlays, that we properly maintain and replace things like playgrounds in our parks, that we reinvest back into our many miles of trails, and that we reinvest properly back into our many City buildings. These are all items that have not been adequately addressed in the past, and which will cause long-term issues if not addressed in the near term.

In 2014, the first \$250,000 was raised both through the implementation of a \$50,000 tax increase and the implementation of a gas franchise fee. The Gas Franchise fee that is generated annually is approximately \$450,000. However, it was not implemented until mid-year of 2014, meaning only about \$200,000 was generated in 2014. With a full year of implementation bringing \$450,000 in 2015, and the addition of \$50,000 to our tax levy, this brought our total revenue collection at the end of 2015 to \$500,000. 2016 was the third year of our planned four-year implementation, with the City adding \$250,000 through additional tax levy. 2017 is planned to be the final year of implementing the revenues for this program, with this addition of \$250,000 being included in our tax levy in this budget document. It should be noted that while we will have increased revenues by \$1 million over a 4 year period by fully implementing this plan, Chaska will still remain one of the lowest taxed Cities in the entire Metro Area.

Property Taxes:

For 2017 the General Fund Operating fund, the budget requires a total levy of \$7,498,586, which represents an increase of 5% from the 2016 tax levy to account for new construction and inflation in the community, along with the \$250,000 addition (3.7%) for the final year of implementation of the Capital Improvement Program. This brings the total General Fund tax levy recommendation to \$7,748,586 for 2017. As mentioned above in the Revenue discussion, a portion of this total levy goes towards our General Fund Budget, with the remaining going towards our Equipment Acquisition Fund.

In addition to this, it should also be noted, that when the total levy is certified, it will show an additional amount of \$195,754. This additional amount represents the fifth year of tax abatement that was provided to the West Creek Corporate Center Development for development of infrastructure. While we are required to officially levy this assistance, the City in essence is a "pass-through" for these funds, with the same amount coming in from this particular project that goes out for the tax abatement assistance. It does not have a negative effect on other tax payers in the community.

Beyond the General Fund Levy, the Chaska Economic Development Authority also has a \$451,796 levy, of which \$300,000 goes towards the Community Building Fund, with the remaining dollars supporting the operations of our Economic Development Activity.

In summary, the total levy will include:

- Continuation of dollars added in 2010 to re-institute the Street Reconstruction Program
- \$7,498,586 being levied to support General Fund Operations and existing Equipment Acquisition Fund needs
- \$250,000 of the tax levy amount above is included to go towards the new CIP program, bringing the total amount of new revenue going towards this program raising to \$750,000 over the past three years.

- \$451,796 being levied in the Economic Development Authority Fund, with \$300,000 going to help support the newly established “Community Building Fund”
- 195,754 in tax abatement that is generated off of the new West Creek Corporate Center Development

The following table summarizes Chaska’s actual tax levies for 2014, 2015 and 2016, along with the proposed 2017 levy:

	2014	2015	2016	2017	Increase	%
General/Equipment Acquisition	\$ 5,045,410	\$ 6,444,472	\$ 7,130,307	\$ 7,748,586	\$ 618,279	8.7%
Mt Pleasant	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	0.0%
Total Operating and Special Levy	\$ 5,051,410	\$ 6,450,472	\$ 7,136,307	\$ 7,754,586	\$ 618,279	8.7%

Impact of Tax Levy on Property Owners

To understand the impact of the tax levy on individual taxpayers, four factors must be analyzed:

- Market Value Changes
- Any changes in the Tax Capacity Formulas Established by the State
- The City’s Tax Levy

Overall, Chaska’s market values, excluding tax-exempt property, increased by \$81,300,600 to \$2,640,619,000, an overall increase of 3.18%. The largest percentage increase that we saw in 2016 was in existing apartment properties, with a 15.65% overall increase. Only 2.05% of that came from new construction, indicating the high value of rental properties at this time. The other major area of increase we saw was in commercial/industrial properties, with a 3.45% increase in market values. Less than 1% came from new construction, meaning that existing C/I properties in the community are increasing in value. This indicates that there are not a lot of vacancies in these buildings, especially Industrial properties. Residential properties remained relatively stable, with any market value growth coming all from new construction. Below is a summary of the Market Values for taxes payable 2017 (assessed 2016) as established by the County Assessors office:

	Residential	Commercial/Industrial	Apartment	Other	Total
2016 EMV	\$1,967,213,300	\$424,389,400	\$146,521,400	\$102,494,900	\$2,640,619,000
2015 EMV	\$1,926,223,700	\$410,243,900	\$126,698,800	\$96,152,000	\$2,559,318,400
Total Value Change	\$40,989,600	\$14,145,500	\$19,822,600	\$6,342,900	\$81,300,600
New Construction	\$47,581,000	\$4,120,300	\$3,008,100	\$0	\$54,709,400
Market Change	(\$6,591,400)	\$10,025,200	\$16,814,500	\$6,342,900	\$26,591,200
% New Construction	2.42%	0.97%	2.05%	0.00%	2.07%
% Market Change	-0.34%	2.44%	13.27%	6.60%	1.04%
2016 Total % Increase	2.13%	3.45%	15.65%	6.60%	3.18%

Using the 2016 market values and the classification formulas established by the State, the County Auditor has calculated Chaska's 2016 (for taxes payable 2017) gross tax capacity to be \$29,671,402, an increase of 3.2%. To calculate the net tax capacity used for determining Chaska's tax rate, a reduction must be made for captured tax increment and fiscal disparity contributions. Our current captured TIF value is \$658,506 with Chaska's fiscal disparities contribution for 2017 being \$3,226,824 resulting in a net tax capacity of \$25,786,072, an increase of 2.4%.

	2016	2017	Increase	%
Gross Tax Capacity	\$ 28,760,935	\$ 29,671,402	\$ 910,467	3.2%
TIF	\$ (572,765)	\$ (658,506)	\$ (85,741)	15.0%
Fiscal Disparities	\$ (3,014,539)	\$ (3,226,824)	\$ (212,285)	7.0%
Other	\$ -	\$ -	\$ -	
Net tax capacity	\$ 25,173,631	\$ 25,786,072	\$ 612,441	2.4%

Based on these estimates, Chaska's 2017 General Fund tax rate is forecast to be 27.55%. This is an increase of 5.5% from 2016, where we had a tax rate of 26.12%. With the average value of home going down from \$278,641 to \$277,694 in the community (-0.34%), this would bring the average valued homes City taxes from \$728 in 2016 to \$765 in 2017, or an increase of \$37 for the year. It should be noted that of this amount, approximately \$18 is due to new growth and inflationary increases, with the remaining \$19 due to the final year of implementation of our CIP Program with the additional \$250,000. As always, the actual amount of impact is completely dependent on the actual market value change experienced on that property over the past year.

While Chaska's General Fund operational tax levy will go up in 2017, Chaska will continue to maintain one of the lowest City tax levies per capita of any City in the metropolitan area, ranking fourth lowest in the entire Metro Area. It also remains the lowest tax levy per capita of any City in Carver County as well.

A major concern of property taxpayers is the level of property taxes necessary to fund City services. In considering property taxes in Chaska, three points should be highlighted. First, property taxes account for 42% of Chaska's general fund operating revenues. Secondly, Chaska has always ranked extremely low amongst other metropolitan cities when it comes to total City property tax levels. In the latest Minnesota Citizen's League Survey looking at 2016 City tax data, out of 86 local units of government looked at in the metropolitan area, Chaska ranked 82nd lowest in City taxes per capita. In this sense, Chaska has continued to perform very well when comparing our City property tax level compared to all of communities in the metropolitan area. It has allowed the City to keep a competitive edge when it relates to other municipalities in the metropolitan area and Carver County.

Ranking	City	2016 Payable Levy	Population	Levy Per Capita
1	Oak Park Heights	5,191,593	4,706	\$1,103
2	Wayzata	4,514,345	4,564	\$989
3	Golden Valley	19,813,310	21,571	\$919
4	Minneapolis	295,151,000	412,517	\$715
5	Columbus	2,720,207	3,828	\$711
6	Tonka Bay	1,065,752	1,509	\$706
7	Monticello	8,925,000	13,029	\$685
8	Shorewood	5,079,408	7,458	\$681
9	Mendota Heights	7,406,399	11,105	\$667
10	Orono	4,954,480	7,474	\$663

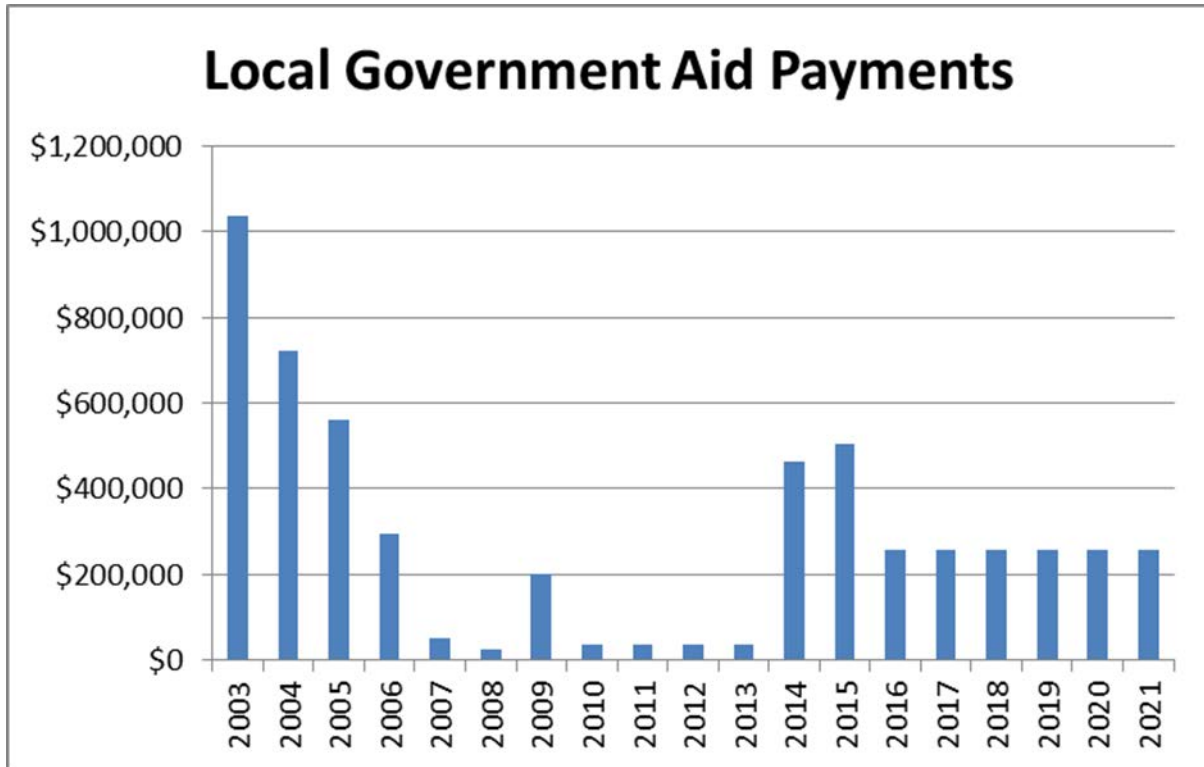
61	Chanassen	10,629,621	25,194	\$422
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77	Blaine	22,126,375	63,180	\$350
78	Mounds View	4,393,813	13,007	\$338
79	Vadnais Heights	4,131,604	12,490	\$331
80	North St. Paul	3,934,608	12,104	\$325
81	New Brighton	7,197,850	22,170	\$325
82	Chaska	7,296,004	25,607	\$285
83	Lauderdale	676,561	2,503	\$270
84	North Oaks	1,353,360	5,015	\$270
85	Falcon Heights	1,173,447	5,384	\$218
86	White Bear Lake	4,927,000	24,811	\$199

Intergovernmental Revenues:

One recent change we will see in 2017 is the reduction of Local Government Aid from the levels that we saw since 2014. In 2003, the City of Chaska received approximately \$1 million on LGA from the State on an annual basis. By 2013, that number was very

close to \$0. While this was a very significant hit to the City's revenues, representing approximately 10% of our overall revenues, we were able to spend the past several years developing a non-dependence on this State Aid, although much of this was through deferment of expenses into the future. In 2014, the City received an allocation of LGA in the amount of \$462,000, in 2015 we received just over \$500,000, with the 2016 figure being approximately \$550,000. In 2017, will actually be reduced to just under \$250,000. This is not due to any changes at the State level, but is instead the impact of having a significant amount of new taxable market value added to the community after our late 2014 decertification of TIF District #4. Below is a chart of our experience for local government aid, and what we expect to see in LGA over the next 5 year period.

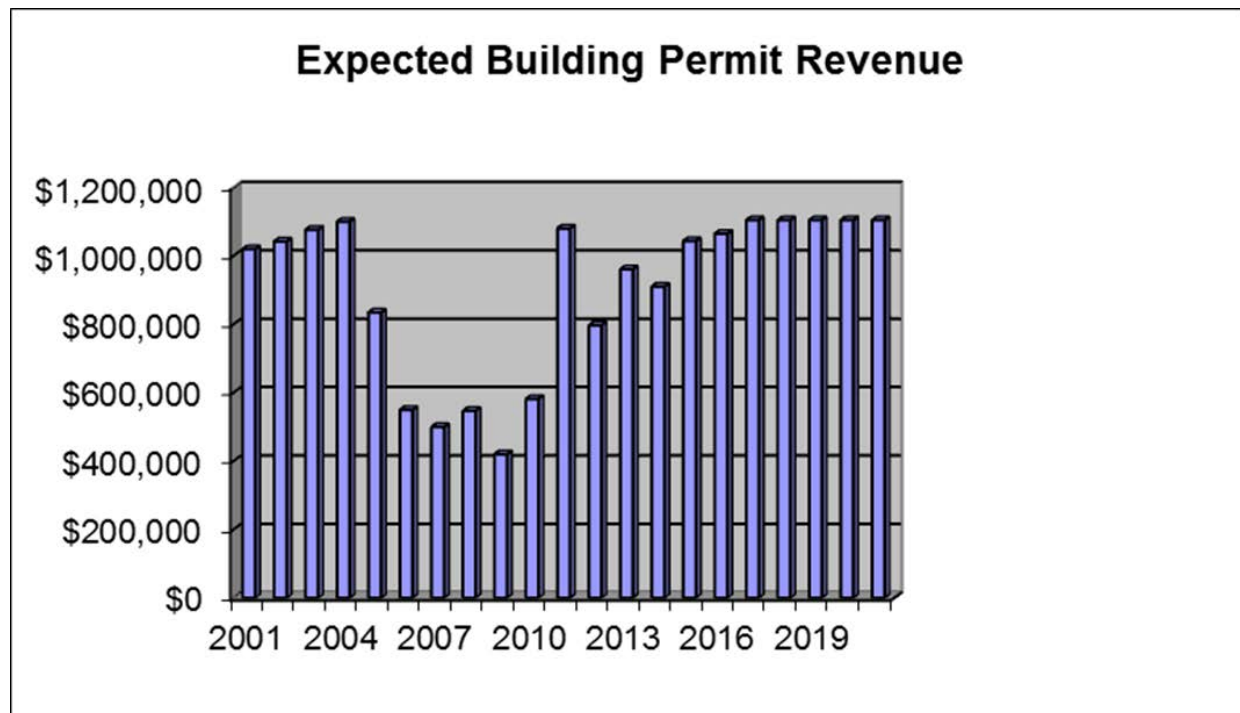


Licenses and Permits

From 2008-2011, Chaska and the rest of the metropolitan area experienced a dramatic slowdown in not only residential development, but development in all sectors of the market. As a result of the downturn, building permit revenues dropped significantly. Up through 2005, this revenue source was over \$1 million per year, and in 2010 brought in approximately \$500,000. In mid-2011, we did start to see this change as some larger Commercial/Industrial development activity did start to occur, and we ended 2011 with over \$1 million in permit revenue. While we continued to see good activity during 2012 and saw positive movement in 2013, 2014 and 2015 with our revenue currently just under \$1 million, the consistency and predictability of this revenue stream still has some volatility to it, although we do expect to continue to see significantly more activity than we did from 2008-2010.

This positive turn in the market is anticipated to continue into 2017, with Staff anticipating that we will see approximately \$1,000,000 in permits, based on the growth we can anticipate at this point. This growth will likely come through the addition of new residential sub-divisions in our SW Chaska Growth area, and through additional Economic Development activity.

Under our current building projections, our staffing levels will be sufficient to cover the anticipated workload, and be able to turn around building permits in a timely fashion, given the reintroduction of the Community Development Technician in 2013.



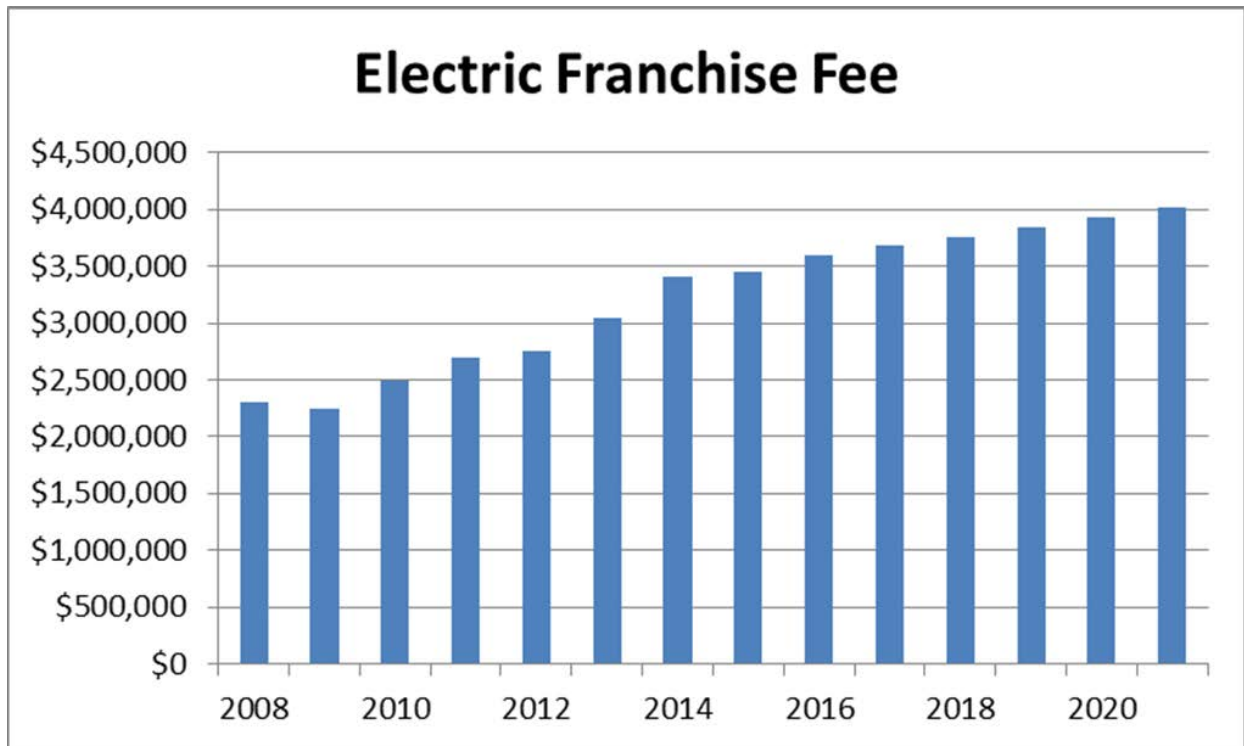
Electric Fund Transfers

The City has a formal policy of charging ourselves a per kilowatt-hour franchise fee, which is roughly equivalent to 10% of the total electric rate of our electric utility. For 2017 the franchise fee is anticipated to generate revenues to the general fund of approximately \$3,600,000. We have seen an a dramatic increase in this portion of our revenue over the past 5 years, which has represented both an increase in usage by our existing customers, but also reflects the positive impacts we are seeing through the addition of large economic development projects such as increasing usage of our Data Centers, additional commercial uses in town, and the recent expansions we have seen with existing business in our original Industrial Parks on the north end of the community. We continue to expect that to increase in 2017 as we expect to see an additional data center added to our West Creek Corporate Center by Stream Data.

It should be noted that in that total Electric Franchise Fee above, that we do program just under \$50,000 of that to come from Minnesota Valley Electric Cooperative and Xcel for their franchise fee in 2017, with development expected to start in their territory at

the Southwest corner of the intersection of 212 and Engler Boulevard within the next year. This would be the development that we expect to see of a new 45,000 square foot medical office building and a HyVee Grocery Store at the Southwest Corner of the intersection of Engler Boulevard and Highway 212.

There is a significant amount of development that will occur in the future in MVEC's territory, with most of the job growth in the Southwest Chaska Master Plan falling within their territory. Because of this, we expect this number to increase significantly as we move into the future and we see this development occur. It should be noted that as opposed to the 10% fee that we have charged by policy to our own Electric Utility, the franchise fee that will be charged to MVEC and Xcel will be based on 5% of their gross revenues for the year. This is because of the limitations State Statute allows us to charge from an outside utility, and also because this percentage matches up with the percentage that is charged to Centerpointe Energy for our recently enacted Gas Franchise Fee. Statute requires that these franchise fees to external business be equitable from one utility to the next. The total Franchise Fee revenue between Chaska, Xcel and MVEC represents around 25% of the General Fund's total revenues.



Charges for Services

Charges for services are those revenues, which support City services that are derived from charges to individual users for services, other governmental agencies, or inter-fund charges for administrative services. These would include payroll, finance, administration and Human Resources. For 2017, charges for services are programmed to be \$1,940,390 as compared to \$1,902,185 in 2016. This increase in charges for services is occurring to help us keep up with the actual cost of service the General Fund is providing to our other Enterprise Funds, and also represents a contribution to the general fund for our new Software as a Service function that we now have with our new financial system, which is housed within our General Fund. As mentioned

previously, we want to make sure that the Enterprise Funds are contributing an equitable share to the shared services the General Fund provides to ensure that the General Fund is not bearing an undue burden for these services and subsidizing our Enterprise funds for Administrative Services. The following is a breakdown of the charges to the various departments.

General Fund Expenditures:

General fund operating expenditures are forecast to be \$15,049,480 which is an increase of 6.9% over the 2016 Operating Budget. In preparing the 2017 budget the following general assumptions were used for the operating budget:

- *Utilize budgeting objectives developed*
- *Increase in the tax levy by 5% due to new growth and inflation, with an additional \$250,000 representing the final year of implementation of our CIP*
- *Move into the fourth year of implementation of Priorities 1 and 2 of Capital Improvement Program, bringing the total additional revenues in 2017 to the CIP of \$1,000,000, and start implanting \$1,000,000 of expenditures in the CIP Program*
- *Continue with the 5% Gas Franchise Fee, which will represent approximately \$450,000 in 2017 and be dedicated to the CIP Program*
- *Continuation of \$300,000 tax levy annually to the EDA Fund in 2017 and continuing into the future to support the "Community Building Fund"*
- *Operational costs up 1% in 2017*
- *Personnel salaries up 3%, with employer benefit contribution increases of 6%*
- *Assume normal continuation of our Street Reconstruction Program*
- *Additional \$140,000 between Community Development and Engineering for the work necessary to complete our 2040 Comprehensive Plan Update (some of these costs could be off-set by a planning grant the City is applying for)*
- *Addition of staff that are needed in the new Firemen's Park in 2017 for \$73,000*
- *Continue contract with City of Carver for shared recreational services, bringing in additional \$51,000 in revenue*
- *Continue with \$12,000 expense in 2017 for "Scholarships" to support large community activities utilizing our new banquet facility (\$1,000 per month)*
- *Fully fund the Equipment Replacement Schedule for 2017, which includes the replacement of Engine 312 in the Fire Department for \$550,000, and the replacement of the small bus in the Parks and Recreation Department for \$100,000 (\$50,000 of that coming from the General Fund and \$50,000 coming from the Community Center Fund). Also have normal replacement of Police Squad cars and Public Works Equipment.*
- *Assume no draw-down on General Fund reserves*

Department	2014 Actual	2015 Actual	2016 Budget	2017 Budget	Increase	%Increase
Council	\$154,859	\$173,885	\$110,850	\$113,684	\$2,834	2.56%
Administration	\$537,920	\$669,866	\$572,266	\$594,281	\$22,015	3.85%
Administrative Serv.	\$1,160,706	\$1,243,941	\$1,342,584	\$1,404,970	\$62,386	4.65%
Data Processing	\$780,425	\$978,515	\$958,798	\$994,786	\$35,988	3.75%
Legal	\$126,855	\$115,807	\$85,000	\$85,852	\$852	1.00%
Community Develop	\$817,129	\$845,281	\$922,447	\$1,272,746	\$350,299	37.97%
Engineering	\$270,338	\$374,869	\$385,911	\$422,032	\$36,121	9.36%
Elections	\$26,728	\$1,242	\$32,027	\$5,000	-\$27,027	-84.39%
Police	\$3,357,451	\$3,607,133	\$3,687,860	\$3,686,957	-\$903	-0.02%
Fire	\$1,149,933	\$1,229,799	\$1,215,521	\$1,517,628	\$302,107	24.85%
Government Bldgs	\$215,211	\$232,794	\$220,850	\$223,067	\$2,217	1.00%
Public Works	\$2,641,347	\$2,582,149	\$3,515,974	\$3,192,106	\$323,868	-9.21%
Recreation	\$506,030	\$531,247	\$810,565	\$924,147	\$113,582	14.01%
Communication	\$125,332	\$52,853	\$80,610	\$80,735	\$125	0.16%
Unallocated	\$1,174	\$40,443	\$132,930	\$122,489	-\$10,441	-7.85%
Transfers Out	\$0	\$1,509,298	\$0	\$409,000	\$409,000	100.00%
Total	\$11,307,401	\$14,189,122	\$14,074,193	\$15,049,480	\$975,287	6.93%

The two major areas of growth that you can see above in expenditures come both from the final year of implementation of our CIP Program, Equipment replacement, and the completion of the 2040 Comprehensive Plan update.

From a CIP perspective, with 2017 marking the final year of implementation of the plan, with \$1,000,000 now being dedicated to the plan, this now allows us to be able to start programming the exact projects we will be undertaking on an annual basis to support our overall Capital Improvement Program. For 2017, the following projects are planned to be undertaken:

- \$250,000: Street overlay of Deerwood Drive, Falls Curve, Tristan Trail, Falls Circle, Ridge Bluff Drive/Court
- \$50,000: Seal Coating
- \$60,000: Trail Upgrades/overlay
- \$50,000: Replacement of Sirens #2 and #4
- \$100,000: Replacement of Fire Station Flat Roof
- \$45,000: Annual maintenance of MSB Garage Doors and Hoists
- \$120,000: Rehab of Woodridge Playground
- \$75,000: Resurfacing of Lion's Park Parking lot
- \$148,000: Rehab of Hazeltine Bluff Playground
- \$35,000: Sun Lake Fountain Replacement

Based on this, and the other changes that were listed above, the level of expenditures we are recommending to budget would allow us to meet our budget and service objectives set for the 2017 budget process, while also keeping us very low from a tax perspective in the entire Twin Cities Metropolitan Area.

Specific Department 2017 Activities

Administrative Services

Budgeted staffing levels for the Administrative Services Department will remain steady in 2017. As budgeted last year, a Finance Manager position was added in 2016, which has allowed us to meet all new Government Accounting Standards put in place over the past several years. With this addition, there is nothing new planned for 2017.

Community Development

As indicated previously, we do anticipate continuing to see an increase in the amount of building activity in the community in 2017, as we seen over the past 5 years. In 2010, we saw building permit revenue at only \$500,000 annually, which was down from our past peak of over \$1 million that we had seen each of the years through the mid-part of last decade. In 2017, we anticipate seeing just over \$1,000,000 of building permit activity, which will include both residential and Commercial/Industrial building. Staffing levels are at the proper level to be able to handle this activity now, and are not scheduled to change.

One addition that we do have for 2017 is needing to complete our 2040 Comprehensive Plan update, which is required of all municipalities. To complete this, we will need to add approximately \$100,000 in Community Development and \$40,000 in Engineering to pay for the consulting work we will need to complete this. We are seeking out Grant funds currently to help pay for a portion of this cost. However, only the expenditure and no new revenue is built into the current budget for this activity.

While no additional funding is being requested for staffing levels in the Engineering Department, with the recent retirement of our City Engineer, we are exploring whether the structure of the department should be changed some to eliminate the Assistant Engineer Role and instead of two Engineering Technician positions to be able to keep up with Storm Water and construction activities in the field. This will not increase the cost for staffing in this department.

Police

Currently the Police Department is staffed at an appropriate level for the amount of activity we see in the community, once all vacant positions are added. There is no increase proposed for staffing in the Police Department scheduled until at least 2018. We do have the replacement of some squad cars built into our Equipment Replacement Schedule for 2017.

Fire Department

Currently, the Fire Department has an authorized staffing level of 44 paid-on-call staff, although because of retirements on the department, the actual staffing level is currently at 35 firefighters, with a full-time Fire Chief and Fire Marshal. We also have one half time support staff in the Fire Department to support Administrative functions. The staffing level cap of 44 is scheduled to remain unchanged for 2017, although we do not anticipate that we will have it staffed at that level.

To preserve our volunteer base of firefighters for the long-term, the City added a Fire Chief position in 2013 both to provide continuity in leadership to our fire personnel, but to also be able to take on the growing administrative load of running a department such as this. It was the plan that making this move now would be a cost savings to the Fire Department over time, so as to avoid large staffing expenses in the future if we were unable to attract volunteers for these critical positions. This position was hired in February of 2013 and has been a very good addition to our Fire Department model.

In addition to this, in 2015 we also did add some Duty Crew shifts twice a week to both help take the burden off of all fire fighters to respond to calls, and to pilot this program for future use. At this point, no additional dollars are needed to support this pilot program, but we are planning dollars in the future to be able to support this program if the pilot test is a success as we do think that this could go a long way in preserving our volunteer base into the future.

Finally, the major expense that is programmed in 2017 is the replacement of our Engine #312, which has reached the end of its life. This new truck would represent an expense of \$550,000 in 2017, and would be supported through an Equipment Certificate.

Public Works

Chaska's Public Works activities are anticipated to increase as the community grows. Two factors that continue to place pressure on the Public Works service levels are growth in the City's street mileage and expansion of maintenance activities for parks and other City open spaces and trails. One additional factor that has become much more of a factor over the past several years is storm water maintenance. With new Federal and State requirements on storm water, the City moved in 2009 to create a separate Storm Water Utility Fund, staffed by Public Works personnel, to complete maintenance on our extensive system in the community. All Staff time from Public Works put towards Storm Water activities is charged out to the Storm Water Fund to relieve the General Fund of this liability.

Over the past five years we have been able to maintain a high level of street maintenance and snow plowing activities by better utilization of staff (using utility and

golf personnel for snow removal) and upgrades in the versatility and efficiency of our equipment. To meet the growing need, we did add a fulltime position in 2002, and added a second new maintenance worker in 2004. We have not seen the large growth in either the miles of streets maintained or parks during the recession years, but we have seen miles of road increase in the Southwest Chaska development area over the past 3 years, bring on the need to have an additional person to take this new plow route, which we did complete in 2016. We do not anticipate the addition of any more street maintenance workers during this 5-year period, with the next addition of staff likely being after we have all of the new collector infrastructure completed on the east side of Highway 212 in the Southwest Chaska development area.

The Street Reconstruction Program is scheduled to continue forward in 2017, with the full reconstruction of 2nd Street occurring between Hickory and Pine Streets in the downtown commercial core. Given the highly disruptive nature of this particular project, we are not scheduling any other projects this summer to ensure that we can get this completed in as short of a time period as possible.

Finally, with the addition of Firemen's Park, we continue to have the needs to make sure we have enough maintenance and programming staff in this park to keep up with the new needs and expectations of the park now that it is in full use. We have \$73,000 scheduled for 2017 with \$93,000 scheduled from 2018 forward to support these functions.

Recreation

Although functionally, the Recreation Department, Community Center and new Curling/Event Center are in essence combined, Recreation Administration and Programming are separate General Fund activities. The General Fund currently funds three fulltime positions; Parks and Recreation Director, Assistant Director, and Departmental Secretary. To support the new functions in Firemen's Park, we did add a new Programmer programmed in 2016 at a cost of \$65,000, with the addition of Part-Time Staff to work in the Park Shelter/Concession area. These new costs were partially off-set by the addition of new revenue coming from the Carver Recreation Agreement, and through additional concessions revenue. In 2017, we continue to recommend the addition of \$12,000 annually to support Scholarships during the year to support having large community events in our new Event Center. This scholarship program has been very popular for our non-profits in the community to be able to get in and utilize this new facility while keeping the Event Center financially whole.

Community Center Budget

For the Chaska Community Center, 2017 will be its 27th year of operation. As the Center has evolved, we are confident that it is addressing its mission *of being Chaska's community gathering place, while providing an opportunity to run into people you know*. The objectives of the Center are:

- 1. To promote community gathering and interaction.*
- 2. To provide family and individual recreation with an emphasis on fun.*
- 3. To enhance Chaska's pride and identity.*
- 4. To be operationally self-supporting with no property tax support.*
- 5. To reinvest back into the facility to keep it quality for future generations*
- 6. To build a cash-balance in the CCC Fund to be able to accommodate all of the maintenance and improvement needs on this aging facility*

The Community Center has traditionally done a very good job of accomplishing the first four objectives listed above. Not only has it served as a central gathering place in the community, providing opportunities for family and individual recreation in Chaska, but has also been able to manage the center's day-to-day operations in a financially self-supporting way. In this respect, it is one of the few community centers in the State of this size that is able to offer the services it does, and not utilize tax levy to support its operations.

It has also had the affect of keeping the General Fund Park and Recreation services that we provide through the rest of the City at very low expenditure levels compared to cities comparable in size, as the Community Center helps fund our general recreation services through sharing of staff. To put this in perspective, the Statewide average for Park and Recreation expenditures per capita supported from tax levy is just over \$92 per capita, where our tax supported portion of Parks and Recreation was \$43 per capita in the 2015 Audited year. This is a large reason we are able to have such a low overall tax levy in the City of Chaska, while at the same time providing a high level of service to our residents.

Community Center Capital Improvement Program

Until 2012, one objective that the Community Center had not been able to adequately accomplish was building up of cash-reserves in the fund to address capital replacements in the building. With the facility being over 20 years old, and many of the systems in the building being original to the building, the City needed to start taking into consideration the capital replacement costs of equipment that we had in the building, if we wanted this to continue being a quality facility.

Since 1991, when the original section of the Community Center was built, the City has invested \$22.5 million in construction of all the sections of the building. If we were to translate that into today's replacement value, it would be over \$43,000,000 in investment into this facility. With this type of investment, and the age of the facility, addressing the capital reinvestment into the Community Center was a necessity.

To address the aging of the facility, and meet our 5th objective listed above, in 2012 we did include in the budget for the first time a 10-year Capital Improvement Program. The purpose of this program was to develop a comprehensive list of the major capital replacement items we would have over the next 10 years, identify the cost for completing this work, identify funding sources to support these improvements, and to identify ways to finance the improvements that need to be made. As part of this CIP program, \$4.3 million in capital replacements were identified over a 10 year period. The major expenses identified in this program included major mechanical work in the Pool area and replacement of our entire ice system, which was mandated as part of new environmental laws dictating the type of coolant materials we can use in ice production. Other items in the plan included items such as carpet replacement, curtain replacement in the theater, major work to the entries in the building, and regular replacement of our fitness equipment. While many of the scheduled replacements identified are items un-noticed by the general public, they are essential to keeping a high-quality and functioning facility.

In 2012, the City did move forward with implementation of the first phase of the program, with complete replacement of the Pool HVAC system and deck. Since this time, we have also completed a significant amount of additional work that was identified as part of the original CIP plan. Below are the CIP items that have been completed since 2012:

- May 2012: Pool Mechanical/HVAC System Replacement, along with upgrade of pool decking system: \$755,226
- Fall 2012: New Ice Mechanical Room Addition: \$195,892
- Winter 2013: Replacement of Recreation Software-Costs offset by savings from current Safari System (also included new website for CCC)
- Summer 2013: Ice Arena Improvements, including all new mechanical and ice making systems, as well as improvements made to the CCC main entry and Ice Arena Entry: \$3,005,602
- Renovation improvements to St. Francis Addition and Breakaway Academy (supported through lease dollars-not dollars directly from CIP): \$800,000
- Fall 2015: Start on the replacement of fitness equipment in fitness center (total program will include around \$50,000 of upgrades)
 - Total of all CIP Improvements : \$3,800,000 (\$800,000 of which are tenant improvements for St. Francis and Breakaway, supported through lease payments)

In 2017, the major improvements that are needed within the building include the remodeling of our Park and Recreation Office Space to deal with space needs, and replacement of the Community Center's Play Castle area and many of the common area lighting fixtures throughout the building. The office remodeling is estimated to costs

approximately \$150,000, with the Play Caste and lighting retrofitting costing approximately \$50,000 combined. It is possible that as we change out our lighting system that we may be eligible to claim some rebates from our Electric Department as part of the Conservation Improvement Program, as we do plan to move to an energy-efficient lighting system.

To financially address the needs of this CIP program, it was determined that the Community Center would need to accommodate approximately \$275,000 of additional expenses each year to pay for the debt service that would finance each of these improvements. In 2013, we did go through the process of selling debt for these improvements, with the annual debt service payments being very close to the original \$275,000 estimate. It should be noted that the St. Francis Addition Renovation was completed and financed directly by St. Francis as the tenant of the space.

To meet this financial need, while at the same time meeting our objective of not relying on tax levy to support the operations of the Community Center facility, it was decided in 2012 that the CIP program would generate additional funds from the following sources:

- Increased contribution from the Electric Fund: \$150,000 annually
- Increase in Membership/Admissions (10.5% additional spread over 2-years): \$87,500
- Increase in Ice Rates (7% additional spread over 3 years): \$40,052 annually

As we have gone through implementation of the CIP program, we have kept a close eye on how our assumptions have played out with the generation of these dollars. In 2014, we did complete the final rate increases to Membership, Admissions and the Ice Rink Rates that support the assumptions listed above. We feel confident, especially with Memberships and Admissions, that we were able to do this while still keeping us very competitive within the market. 2017 will be the first year we have seen a rate increase in memberships and admissions not related to these CIP expenses. Just as when we increased them previously, we plan to keep a close eye on our competition, to make sure that we remain a great value to our patrons.

With our Ice Rates, we are at the top end of where we think rates can be brought at this time, and would continue to recommend in 2017 that we not go any higher with our ice rates at this time.

2014 was the first year that we had full principal and interest costs for the debt service supporting these CIP improvements, at a cost of just under \$275,000. This will continue into the 2017 budget year, and continues to be a major focus of our expenditures for the CCC in 2017.

Community Center Revenues

For 2017, we are projecting that the Community Center will generate total operating revenues of \$3,969,102 or an increase of approximately 5.1% over the budget from 2016.

As was mentioned earlier, we do plan for an increase in revenues for Membership, coming both through a recommended change in rates to our Memberships, as well as an increase to our Daily Admission Rates. The other area we would expect to continue to see growth would be through the addition of memberships through our Park and Recreation agreement with the City of Carver. We continue to watch where we fall in the market compared to other municipal community center facilities to make sure we generate sufficient resources to meet our service objectives, but to also make sure that we provide a good value to our customers.

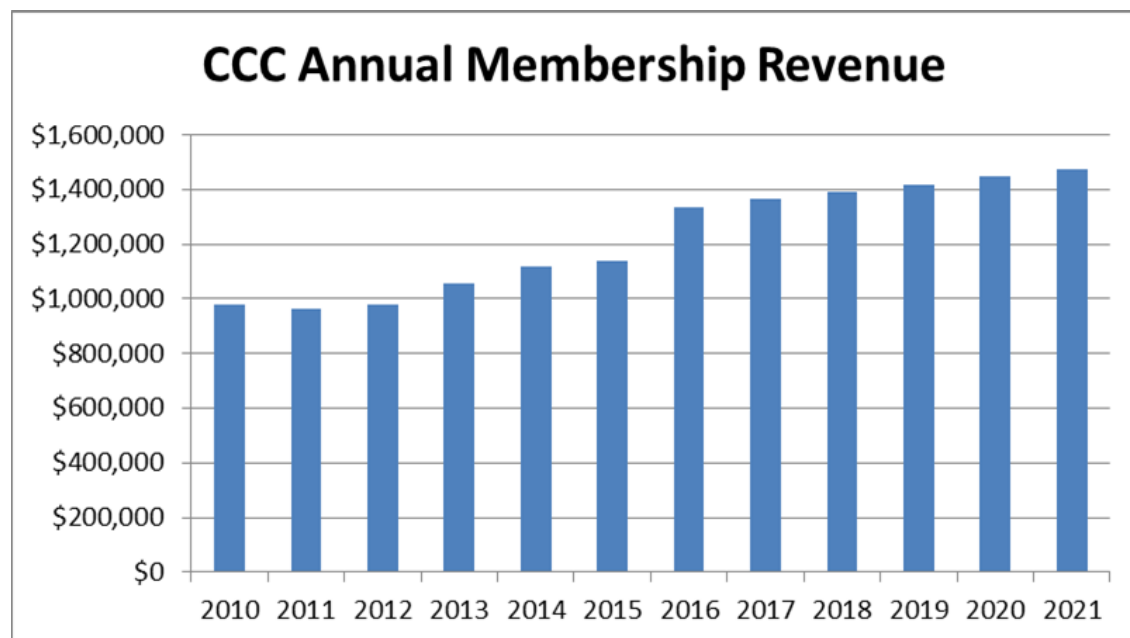
While we have seen a stabilization in the number of daily admissions that we see come into the CCC over the past several years, the number of people purchasing memberships has increased significantly over the past several years. In 2010, for the first time, the CCC achieved approximately \$1 million in annual membership sales, which is an increase of nearly \$400,000 annually since 2005. This has come both from aggressive membership campaigns, and the addition of health membership programs that help offset some of the costs to patrons to have a membership at the Community Center. This is also occurring because of growth within our community and the addition of the agreement with the City of Carver in 2016 which opened up membership for Carver Residents to resident rates.

The chart on the next page assumes both the growth in new members, in addition to the rate increase that is planned for 2017. With the new partnership with the City of Carver, we now have an expanded base of people to draw from for patrons to the Community Center, as well as our other recreational facilities. The agreement with Carver provides us with \$51,000 annually to both make up the difference in lost revenue for those that were already members and were paying non-member rates, and for any additional costs we have in providing service within the City of Carver. Overall, we feel that this is going to be a partnership that is a “win-win” between the City of Carver and Chaska, as it will help to keep our recreation program strong for both communities, while also recognizing that in the long-run, neither community is better off if we try to compete with our services, as the ability for our amenities to remain operationally self-supporting would be ultimately impacted by this. It is also the hope that it allows us to focus utilizing each of our limited resources in the future to help provide complementary services, thus providing both of our residents with a more diverse set of recreational options to choose from.

As mentioned previously, memberships have increased significantly since 2005. This significant increase has occurred we believe as a result of:

- Addition of Fitness Center
- Agreement for incentives with health insurance providers
- Increase in number of area households, and new agreement with City of Carver
- Enhanced quality marketing efforts by CCC Staff
- Addition of The Lodge with the Treks and Trails Preschool
- Continued quality programming of activities in the CCC
- A commitment to reinvest back into the facility to continue to provide a quality place to gather

In addition to this, the rate increase going into effect in 2017 has an impact on these overall revenue numbers.



Each year we conduct a survey of area community centers to help determine the appropriateness of what the Chaska Community Center charges for memberships and daily admissions.

Historically we have attempted to charge less than the average for both membership and daily admissions for both Chaska residents and non-residents. Those facilities that we survey are public facilities, including Shoreview, Maplewood, Eden Prairie, and Waconia, although much of our competition comes from Lifetime Fitness and Dakota, both of which are private health clubs and charge significantly more than our annual individual or family membership.

The charts below include not only the changes that were made as part of the Capital Improvement Program, but also include the rate increases that will be incorporated in 2017. As you will see in the charts below, although we have had to increase our rates to help make improvements through our Capital Improvement Program, we are still very competitive for both when we look at our defined market:

2016 Resident Rate Membership Survey

	Enroll Fee	Youth	Adult	AOA/Senior	Family	Dual
Chaska	\$0	\$249	\$338	\$249	\$533	
Maplewood	\$75	\$388	\$546	\$388	\$819	\$655
Shoreview	\$0	\$300	\$355	\$300	\$620	\$550
Eden Prairie	\$29	\$369	\$462	\$369	\$1,120	\$808
Waconia	\$53	\$279	\$364	\$279	\$537	
Average of Competitors	\$39	\$334	\$432	\$334	\$774	\$671
Chaska % of Average	0.00%	74.54%	78.27%	74.54%	68.87%	0.00%

For 2017, our Resident Rates would be increased so that we are 86% of average for our Adult Memberships, 81% of average for our Family Memberships and 82% of average for our Youth/AOA rates.

2016 Non-Resident Rate Membership Survey

	Enroll Fee	Youth	Adult	AOA/Senior	Family	Dual
Chaska	0	324	482	324	720	
Maplewood	\$75	\$449	\$668	\$449	\$939	\$777
Shoreview	\$0	\$365	\$460	\$365	\$780	\$685
Eden Prairie	\$29	\$544	\$544	\$544	\$1,327	
Waconia	\$53	\$343	\$429	\$343	\$602	
Average of Competitors	\$39	\$425	\$525	\$425	\$912	\$731
Chaska % of Average	0.00%	76.19%	91.78%	76.19%	78.94%	0.00%

For 2017, our Non-Resident Rates would be increased so that our Adult membership would be at the average for our market comparisons, our Family Membership would be at 93% of average, and our Youth/AOA memberships would be at 87% of average.

Beyond just the municipal community center comparisons, we are significantly lower than the private health clubs such as Lifetime Fitness and Dakota, which often ends up being a main competitor for attracting new memberships. It should be noted that since Lifetime Fitness opened in Chanhassen several years ago, our memberships have continued to increase.

The second major revenue source for the Center is daily admissions. Admission revenues have not grown as quickly in recent years while membership has revenue has increased significantly, although we have seen them start to pick back up over the past couple of years. This may be a sign that the Center is maturing with customers recognizing its ongoing value, and also because of the significant discounts that users can get from their Health Insurance Providers for use of their membership incentive programs. Below are the results of the survey showing how we compare to the same public-sector community centers listed above for both resident and non-resident daily admission rates. As you can see in both charts, we were very comparable on daily admission rates to our other public-sector market comparisons in 2016, and plan to be very competitive even with our rate changes in 2017.

2016 Resident Rate Daily Admission Survey

	Youth	Adult	AOA/Senior	Family
Chaska	\$5.75	\$7.25	\$5.75	\$20.00
Maplewood	\$7.48	\$9.62	\$7.48	\$23.51
Shoreview	\$7.45	\$8.55	\$7.45	\$29.00
Eden Prairie	\$10.00	\$10.00	\$10.00	
Waconia	\$6.50	\$7.50	\$6.50	
Dakotah Sports	\$5.00	\$10.00	\$5.00	
Average of Competitors	\$7.29	\$9.13	\$7.29	\$26.26
Chaska % of Average	78.92%	79.37%	78.92%	76.18%

Daily resident admissions for 2017 would be going up to \$6.50 for Youth, \$7.50 for Adults and \$24 for families, which is still significantly lower than our market competition.

2016 Non-Resident Daily Admission Survey

	Youth	Adult	AOA/Senior	Family
Chaska	\$7.50	\$8.75	\$7.50	
Maplewood	\$7.48	\$9.62	\$7.48	\$23.51
Shoreview	\$9.00	\$9.99	\$9.00	\$36.00
Eden Prairie	\$10.00	\$10.00	\$10.00	
Waconia	\$8.00	\$9.00	\$8.00	
Dakotah Sports	\$5.00	\$10.00	\$5.00	
Average of Competitors	\$7.90	\$9.72	\$7.90	\$29.76
Chaska % of Average	94.98%	90.00%	94.98%	0.00%

Daily non-resident admissions for 2017 would go up to \$8 for youth and \$9 for adults, still keeping our rates very competitive. In 2017, based on demand to add this rate, we are also going to be looking into adding a Family rate for our non-resident daily admission users.

Below is a chart showing the major sources of revenue within the Community Center:

	<i>Actual</i>	<i>Budget</i>	<i>Budget</i>		<i>%</i>
REVENUES	2015	2016	2017	Change	Change
<i>Member and Admis</i>	\$1,531,342	\$1,595,651	\$1,770,775	\$175,124	10%
<i>Community Events</i>	\$4,555	\$1,676	\$1,710	\$34	2%
<i>Community Room</i>	\$27,465	\$21,016	\$21,437	\$421	2%
<i>Craft Rooms</i>	\$35,184	\$38,323	\$39,091	\$768	2%
<i>Wellness-Water</i>	\$1,904	\$1,287	\$1,313	\$26	2%
<i>Wellness-Studio</i>	\$89,714	\$62,842	\$64,099	\$1,257	2%
<i>Rainbow Room</i>	\$2,932	\$5,109	\$5,212	\$103	2%
<i>Wellness Programs</i>	\$56,897	\$72,339	\$73,789	\$1,450	2%
<i>Gym</i>	\$26,091	\$46,955	\$47,896	\$941	2%
<i>Gym-Batting Cage</i>	\$415	\$1,273	\$1,299	\$26	2%
<i>Gym-Gymnastics</i>	\$23,335	\$19,897	\$20,295	\$398	2%
<i>Ice Arena</i>	\$631,232	\$859,982	\$864,097	\$4,115	0%
<i>Ice Arena Concess</i>	\$32,417	\$42,664	\$43,519	\$855	2%
<i>Maintenance</i>	\$19,413	\$32,414	\$33,063	\$649	2%
<i>Wellness-Cycling</i>	\$571	\$1,545	\$1,576	\$31	2%
<i>Wellness-PT</i>	\$21,930	\$7,211	\$7,356	\$145	2%
<i>Play Castle/Daycare</i>	\$24,077	\$27,189	\$27,189	\$0	0%
<i>Treks and Trails</i>	\$80,644	\$86,860	\$86,860	\$0	0%
<i>Club Extreme</i>	\$89,427	\$80,800	\$80,800	\$0	0%
<i>Raquetball</i>	\$14,226	\$14,534	\$14,826	\$292	2%
<i>Swimming Pool</i>	\$18,967	\$13,332	\$13,539	\$207	2%
<i>Swim Lessons</i>	\$116,264	\$113,322	\$115,589	\$2,267	2%
<i>Theater</i>	\$80,609	\$73,288	\$74,755	\$1,467	2%
<i>The Lodge</i>	\$45,458	\$30,092	\$30,654	\$562	2%
<i>Birthday Parties</i>	\$32,981	\$37,498	\$38,252	\$754	2%
<i>Tot Time Preschool</i>	\$11,966	\$10,539	\$10,750	\$211	2%
<i>Before/After School</i>	\$11,016	\$9,090	\$9,090	\$0	0%
<i>Vending</i>	\$46,433	\$34,779	\$35,475	\$696	2%
<i>Misc.</i>	\$169,568	\$2,759	\$2,796	\$37	1%
Total Oper Rev	\$3,247,033	\$3,344,266	\$3,537,102	\$192,836	5%
Non-operating					
<i>Equipment Acqui</i>	\$4,726	\$1,000	\$1,000	\$0	0%
<i>The Lodge Debt</i>	\$181,000	\$181,000	\$181,000	\$0	0%
<i>Electric fund</i>	\$250,000	\$250,000	\$250,000	\$0	0%
Total Non oper	\$435,726	\$432,000	\$432,000	\$0	0%
TOTAL REV	\$3,682,759	\$3,776,266	\$3,969,102	\$192,836	5%

Gym fees relate to activities directly attributable to a class paying for usage of the Community Center's gymnasium, with the revenues in this category forecast to be \$69,490. In 2016, this number was \$68,125. We did see this number drop from 2012 to 2013 by about \$10,000 with the addition of Southwest Christian High School in the community. Prior to the School being built, they did rent space in the CCC for their High School sports. We have seen this number go up as we have found uses to take their spot during the daytime hours.

Swimming pool fees, which relate to lessons offered at the Center, are projected to be \$129,128 for 2017. This is compared to the \$126,624 we budgeted for 2016, and is due mainly to the success we have seen with our Swimming Lesson programs. From 2012 to 2016, we increased our budget from \$85,000 to over \$115,589 due to the success we have seen. We expect to see this continue.

Relative to the two sheets of ice within the arena element of the facility, we are forecasting total revenues for 2017 to be \$907,616 compared with \$902,646 in 2016. As mentioned earlier, a major component of our CIP program was improvements made to our two ice arenas. This work was completed in late 2013, and was a major improvement to the facility, beyond the mechanical upgrades happening behind the scenes. This work not only helped to replace equipment that needed replacement, but also helped us meet changes in regulations that dictate what type of coolant can now utilize in ice arenas. It also helped us improve the visual aesthetics of our facility. It should be noted that we are not planning on increasing the rates again in 2017 for our ice rinks, to make sure that they don't get outside of our defined market. One component of the Ice Rink that we will be working on this upcoming year with the Chaska Hawks Hockey Program is to create a "Recognition Area" to recognize both girls and boys programs for accomplishments that they have making it through the ranks of the High School State Tournament System. This is to continue to try to make our main Ice Rink #1 reflect it being the home ice for the Chaska Hawks High School teams.

Under our agreement with the Chaska School District, the District has been paying \$42,768 for use of space in the Center. This is due mainly to Middle School East not having the proper physical education spaces within their building, and needing to use the CCC to supplement what they currently have. This daytime usage will likely decrease in 2018 due to the newly approved domed field facility that will be built behind Middle School East and was approved as part of the latest School District referendum. We would expect to see this first change in the 2018 year. It should be noted that this fee does not include the ice time that is used by the School District for extra-curricular activities.

In 1999, St. Francis began operation of their physical therapy and fitness center under lease for space at the Center. The total annual lease payments for the main facility and the lower level space used for pediatric physical therapy had been approximately \$185,000. In 2013, a change we saw was St. Francis consolidating their Capable Kids space in the basement with their physical rehab center at ground level. With this consolidation, St. Francis put in approximately \$700,000 of improvements into the CCC, and created a space that is very user friendly for customers utilizing this service. Their annual lease was renegotiated to \$147,828 per year.

One initial downfall of this consolidation was the loss of approximately \$50,000 in rent to lease the lower level space where Capable Kids was located. However, as mentioned above, Breakaway Academy leased this vacant space, rehabilitated it, and provided us with the revenue stream to offset the loss of Capable Kids in the basement space. With Breakaway Academy's annual rent being \$60,000, the net change with this new use in the building has actually been about a \$20,000 annual gain, as both leases together now make up over \$200,000 per year. At the same time, it provided us with new and continued good uses in the building, while also renovating over a quarter of the total CCC space.

The Wellness Addition was completed in 2005, and as a result the fitness programs that the City offers were expanded significantly. For 2017 these activities are anticipated to generate \$148,133. This is compared to \$145,224 budgeted in 2016. It should be noted that as part of our Capital Improvement Program, one of the changes that is being seen in the Fitness Center at this point is the replacement of our aged fitness equipment, which is now being rotated out as it is no longer able to be maintained. This started in 2016 and will continue into 2017.

Finally, with the completion of The Lodge addition, two new program areas were added to the Community Center. The Lodge is budgeted to generate \$30,654 in revenue in 2017, compared to \$30,092 in 2016. The other major component of the new addition to the Community Center was the addition of the Treks and Trails Preschool area in the lower level of this addition. The Treks and Trails program is budgeted to generate \$86,860 in revenue in 2017 as it continues to be a very popular part of our Community Center facility.

In deciding to proceed with construction of the Center, the Council committed to transferring \$100,000 annually to generate a cumulative capital for future improvements at the Center with the understanding that no property taxes would be used to support the facility. Since the Center's opening, a total of \$2.6 million has been transferred from the Electric Fund to create the ongoing cash replacement fund. This transfer is scheduled to occur again in 2017.

Expenditures

From an expenditure perspective, other than the continued programming of \$275,000 per year to go towards debt service on the CCC Capital Improvement Program, the four new items that will be focused on in the 2017 budget include:

- Remodeling of Park and Recreation Office Space: \$150,000
- Replacement of Existing Play Castle Area: \$25,000
- Retrofit of Common-Area Lighting: \$25,000
- Replacement of CCC Small Bus: \$100,000

The renovation of the Parks and Recreation Office Space is needed mainly due to the increase in staffing that we have seen due to an increase in service levels over the past several years. This is due not only to additions in the Community Center, but also with the addition of new service in Firemen's Park and our new Curling Center. We have not had adequate space to incorporate our new employees, and will continue to see this as an issue. This renovation will more efficiently utilize the space that we have within our existing office space, so that we can accommodate the increased number of employees without having to physically increase the overall size of the office area, which is the most efficient and cost-effective way to deal with this issue. This renovation will take place in early 2017 at an estimated cost of \$150,000.

Each year we include \$50,000 to go towards on-going capital replacement items within the Community Center. In 2017, we would be allocating these dollars towards the replacement of our Existing Play Castle Equipment, which is heavily utilized and in need of replacement, and the retrofit of our common-area lighting systems to be able to put more energy efficient and bright lights throughout the interior of the facility. It should be noted that we may be eligible to capture some rebate dollars from our Electric Fund's Conservation Improvement Program to help off-set the cost of these upgrades. These changes over time will also help keep our on-going utility costs lower as we go into the future.

Finally, the Community Center's existing small bus has reached the end of its life and is in need of replacement at a cost of \$100,000. This bus becomes important to be able to handle off-site programs and field trips that we have in our different service throughout both the Community Center as well as our general Parks and Recreation Services. As this is a vehicle that is utilized by both the Community Center as well as the Parks and Recreation Department for general programming, we have \$50,000 of this replacement cost budgeted in our General Fund for 2017.

Other than filling vacant positions already programmed for previously, no additional major expenditure items are anticipated in the Community Center operating costs for 2017.

With the items listed above, total budgeted expenditures in 2017 will be \$4,013,053 increasing by 4.7% from 2016.

The following is a summary of all expenses in the Community Center Fund for 2017:

EXPENSES	Actual 2015	Budget 2016	Budget 2017	Increase	%
<i>Admin</i>	\$ 639,872	\$ 679,257	\$ 715,136	\$ 35,879	5.28%
<i>Events</i>	\$ 11,472	\$ 7,820	\$ 7,896	\$ 76	0.97%
<i>Craft Rms</i>	\$ 12,672	\$ 19,338	\$ 19,458	\$ 120	0.62%
<i>Well-Water</i>	\$ 2,151	\$ 4,226	\$ 4,228	\$ 2	0.05%
<i>Well-Studio</i>	\$ 22,924	\$ 25,041	\$ 25,059	\$ 18	0.07%
<i>Front Desk</i>	\$ 111,385	\$ 108,792	\$ 109,852	\$ 1,060	0.97%
<i>Well- Prog</i>	\$ 45,126	\$ 38,546	\$ 38,722	\$ 176	0.46%
<i>Gym</i>	\$ 19,586	\$ 35,519	\$ 35,656	\$ 137	0.39%
<i>Bat Cages</i>	\$ 574	\$ 1,785	\$ 1,804	\$ 19	1.06%
<i>Gymnastics</i>	\$ 14,527	\$ 19,912	\$ 20,026	\$ 114	0.57%
<i>Ice Arena</i>	\$ 139,033	\$ 155,935	\$ 174,201	\$ 18,266	11.71%
<i>Ice Conces</i>	\$ 15,544	\$ 36,420	\$ 36,785	\$ 365	1.00%
<i>Maintenance</i>	\$ 1,080,312	\$ 1,037,150	\$ 1,061,780	\$ 24,630	2.37%
<i>Cycling</i>	\$ 1,231	\$ 1,745	\$ 1,745	\$ -	0.00%
<i>Personal Train</i>	\$ 18,374	\$ 6,029	\$ 6,043	\$ 14	0.23%
<i>Wellness Add</i>	\$ 107,081	\$ 182,679	\$ 145,375	\$ (37,304)	-20.42%
<i>Play/Daycare</i>	\$ 56,258	\$ 46,057	\$ 46,606	\$ 549	1.19%
<i>Treks& Trails</i>	\$ 64,678	\$ 81,903	\$ 98,259	\$ 16,356	19.97%
<i>Club Extreme</i>	\$ 66,284	\$ 67,591	\$ 77,339	\$ 9,748	14.42%
<i>Raquetball</i>	\$ 745	\$ 2,225	\$ 2,244	\$ 19	0.85%
<i>Swim Pool</i>	\$ 315,951	\$ 306,710	\$ 311,296	\$ 4,586	1.50%
<i>Swim Less</i>	\$ 30,518	\$ 37,833	\$ 37,870	\$ 37	0.10%
<i>Theater</i>	\$ 7,239	\$ 12,137	\$ 12,260	\$ 123	1.01%
<i>Lodge</i>	\$ 100,572	\$ 94,051	\$ 96,889	\$ 2,838	3.02%
<i>Birth Party</i>	\$ 8,484	\$ 6,838	\$ 6,879	\$ 41	0.60%
<i>Tot Time</i>	\$ 6,704	\$ 5,996	\$ 6,028	\$ 32	0.53%
<i>Gen Facility</i>	\$ 268,866	\$ 150,000	\$ 200,000	\$ 50,000	33.33%
<i>Advent Prog</i>	\$ 92,101	\$ 104,506	\$ 106,669	\$ 2,163	2.07%
<i>B/A School</i>	\$ 8,407	\$ 6,877	\$ 6,916	\$ 39	0.57%
<i>Vending</i>	\$ 22,440	\$ 13,252	\$ 13,385	\$ 133	1.00%
<i>Depreciation</i>	\$ 749,122	\$ -	\$ -	\$ -	0.00%
<i>Debt Service</i>	\$ 228,344	\$ 535,621	\$ 536,121	\$ 500	0.09%
<i>Transfer Out</i>	\$ (189,915)	\$ -	\$ 50,000	\$ 50,000	0.00%
<i>Other</i>	\$ -	\$ 510	\$ 526	\$ 16	3.14%
Expenses	\$ 4,078,662	\$ 3,832,301	\$ 4,013,053	\$ 180,752	4.72%

Based on our forecasted revenues and expenditures for 2017, we are estimating that the facility will have a slight decrease in fund balance of \$43,951. This is due mainly to the 1-time expense of office renovations that we have the need to complete in 2017.

Town Course Budget

The mission of the Chaska Town Course is to develop and operate a quality municipal golf course serving as a community recreational resource, and as a community gathering place that generates an annual profit that may be used to support other "community building" opportunities.

In developing the course's annual budget our objective is to provide adequate resources to meet this mission by maintaining a high quality golfing experience from both a maintenance and customer service perspective. An objective during our budgeting process has also been to position the Town Course in such a way that when its debt service for initial capital construction costs has expired, that we both have generated enough profit to have reserves to keep up with our necessary capital replacement program at the Town Course to keep it running as a high end course.

As we look into the future, this will be the largest single challenge of the course as it has been self-sufficient from an operational standpoint, but has had much more difficulty being able to generate a sufficient amount of reserves to cover all future depreciation costs. This has been true industry wide, as the number of U.S. golfers peaked in 2003 at 30.6 million and dropped to 25.7 million in 2011, according to the National Golf Foundation. This number has slowly increased since the end of the Recession, but has not grown as fast as it did in the early parts of the last decade. With this drop in play, and competition from a large number of golf courses in the area, it has made it more difficult over the years to meet our budgeting objectives beyond making sure that the facility is operationally self-supporting.

With that being said, the Chaska Town Course has been an extremely popular facility for the City of Chaska, and has continued to increase its number of rounds, as it did in 2016, and keep a high maintenance standard to allow it to be considered a high quality golf course facility. The Chaska Town Course has continued to be a popular destination for not only our residents, but for patrons from across the Twin Cities market. 2016 had 33,400 rounds, only 92 less starts than in 2015 even though the weather was less favorable through the 2016 season. Both of these start numbers are over 1,500 starts over what we have for our past 8-year average, which illustrates that the Chaska Town Course has continued to be a popular destination and has actually improved over the past couple of years.

With the refinancing of our TIF District #4 in 2008, we did put the Town Course in a better position to accumulate cash reserves, as it does not have to directly support the remaining years of debt service for the course any more. In 1997, resources from TIF District #4 were the main financial resource that allowed us to construct the course, and have contributed towards our debt service on the course ever since. It was planned that the refinancing of this District in 2008, and once again in 2011, would provide us with sufficient resources to pay off the initial capital construction cost debt at the Town Course from the TIF funds, thus allowing the Town Course to take any annual profits and accumulate reserves in this Enterprise Fund. As the Council is aware, TIF

District #4 did close at the end of 2014, and with that closing, all initial debt for construction and development of the Chaska Town Course was paid for.

While these resources have taken the need away from the Town Course to contribute directly towards its annual debt service, the Town Course has continued to meet the annual operational needs of the course but has struggled to generate significant reserves to go towards if future capital replacement needs. As we have done with the Community Center Fund with its Capital Improvement Program, this is an issue that Staff continues to look at to determine the best way to move forward with generating the reserves necessary to support these future capital replacement needs without having to contribute any property tax subsidy. That is not to say that a significant amount of maintenance work is not done annually to keep our existing assets in as good of shape as possible. This includes the \$150,000 complete renovation of the kitchen area before the 2016 season, which was necessary to allow new restaurant operations to start within the facility. However, as we move further into the future, we will have to start looking at assets such as our Clubhouse facility and how we rehabilitate that to address the toll that many years of service will put on a building and on the course in general.

As we look at this, we will have to be cognizant of the market of other golf courses in the area, so that our greens fees do not make it difficult to compete with these other courses. We will not be able to address this issue only through rate increases, as too large of an increase could actually have the effect of dropping rounds played and making revenues drop, as golf patrons are sensitive to prices changes and do have a number of choices in the area of where to take their business.

For 2017, we are forecasting total revenues of \$1,906,387. This compares to the budgeted revenues we had for 2016, which were \$1,845,750. For 2017, we are budgeting based on 31,900 total rounds during the season. Our past 8-year average has been 31,830, with the past two years being over 33,000 rounds. 2016, while it was a wet summer in general, saw the course stay very busy and the course conditions remain excellent. We also reaped the benefits of the Ryder Cup being in the community, seeing a very large usage at our course during the week of Ryder Cup. An added benefit was the ability to charge full rates for the course during this week, although we would typically see our fall rates at this time during the year. Through the 2016 golf season, we did see 33,400 rounds, which was only 92 rounds off of the 2015 season, which was second only to our 2012 season.

Based on our assumptions, the total revenues are derived from the following sources:

	Actual	Budget	Budget		
<i>Revenues</i>	2015	2016	2017	Change	% Change
Green fees	\$ 1,291,885	\$ 1,151,000	\$ 1,185,762	\$ 34,762	3.02%
Driving range	\$ 90,527	\$ 90,000	\$ 92,720	\$ 2,720	3.02%
Member fees	\$ 56,343	\$ 55,000	\$ 56,663	\$ 1,663	3.02%
Sale of supplies	\$ 225,237	\$ 210,000	\$ 216,344	\$ 6,344	3.02%
Concessions	\$ 27,269	\$ 30,000	\$ 35,000	\$ 5,000	16.67%
Cart rental	\$ 298,389	\$ 290,000	\$ 298,760	\$ 8,760	3.02%
Misc	\$ 105,351	\$ 19,750	\$ 21,138	\$ 1,388	7.03%
Total revenues	\$ 2,095,001	\$ 1,845,750	\$ 1,906,387	\$ 60,637	3.29%

Revenues

The major revenue source of the Golf Course is green fees paid by patrons, with this revenue source accounting for 60% of total revenues at the facility.

As mentioned previously, for 2017 we are planning for 31,900 paid rounds being played at the facility. The 5-year average for play at the CTC has been 31,830 paid rounds, with the past two years being over 33,000 rounds. In preparing the revenue estimate we are assuming that the resident/non-resident split will be 51% residents/49% non-residents, which reflects a significant increase in resident play from past budget forecasts, but a relatively steady split from the past five years. When the course first opened, we saw about 70% of play from non-residents. While this change has been great from a mission perspective in that it has been viewed as a premier community gathering location for Chaska residents, it has created revenue challenges that we continue to have to monitor closely, as resident rounds are approximately \$25 less per round than a typical non-resident round.

A key revenue assumption for the CTC is the green fees schedule, as the greens fees do generate close to 60% of our revenue. Our strategy has been to have green fees for non-residents consistent with the market for other high-end public courses, while at the same time offering a course for our residents of higher quality and challenge compared to any other area course, at a price that is at or below what these area courses may charge.

In 2016 the average metro high-end golf course green fee including cart on weekends was \$95, ranging from \$76 for Edinburgh USA to \$138 for Rush Creek. Chaska's weekend non-resident rate in 2016 of \$87, including cart, was well within this range. In 2016, we did not have an increase in either our greens fees or our cart fees. The last increase we saw was in 2015.

To avoid rate fatigue, we have restricted any consideration for increases in fees to every-other year, meaning that in 2017, Staff is recommending we have a \$2 increase for non-resident rates. We are recommending no increase for cart rental fees. These rate increases are periodically necessary both so that we stay within our defined market for rates compared to other courses, but more importantly to make sure that we are generating sufficient income to be able to keep this course in a great conditions, which is critical to its success. Even with the greens fee increases in 2017, we feel that the

Town Course will still stay very competitive and meet its pricing objectives, while at the same time being cognizant of the financial needs we will have for the Town Course over the next 5-years to keep it a quality facility. The chart below compares our rates to the other high-end public golfing facilities in the Twin Cities, both looking at our 2016 rates and our proposed 2017 rates:

Course	Greens Fees	
	Weekday 18 holes	Weekend 18 holes
Edinburgh USA	\$76	\$76
Stoneridge	\$79	\$92
Rush Creek	\$138	\$138
The Legends	\$94	\$94
Troy Burne	\$107	\$107
Meadows at Mystic Lake	\$89	\$89
The Wilds	\$93	\$93
Average	\$92.40	\$95.00
Chaska-Current	\$81.00	\$87.00
Chaska 2014 Proposed	\$83.00	\$89.00
Chaska Resident Proposed	\$59.00	\$64.00

As part of Chaska’s mission, our goal is to have the facility both accessible and affordable to Chaska residents. Over the past several years one of the positive trends relative to this element of the mission, was the percent play from resident golfers increasing from 28% in 2003 to 49% in 2016. Although the higher resident participation is positive from a mission standpoint, a negative impact in this trend is the reduction in total revenues, given the significant differential between resident and non-resident rates.

Just as with non-resident rates, in 2017 we are proposing a \$1 increase in Greens Fee Rates for residents, with no increase in Cart Rental Fees.

This change would result in our rates in 2017 continuing to be very competitive to all of the area courses, as it was in past years. Based on these assumptions, 2017 green fee revenue is projected to be \$1,185,762.

Course	Greens Fees	
	Weekday	Weekend
	18 Hole	18 Hole
Dalgreen	\$54.00	\$57.50
Bluff Creek	\$54.00	\$59.00
Ridges at Sand Creek	\$55.00	\$60
Deer Run	\$57	\$69
Stonebrook	\$66.00	\$74.00
Average	\$55.30	\$62.70
Town Course Resident Current	\$58.00	\$63.00
Town Course 2017	\$59.00	\$64.00

It should be noted with our pricing structure that residents are able to play a top-tier golf course at the Chaska Town Course, while paying a fee that is comparable or less than the area courses that are not ranked in the top-tier. In this respect, Chaska residents are getting a great value for the golf that they play at the CTC.

For the first several years the Town Course was open, we averaged cart rental revenues in the range of \$150,000 to \$175,000, with 22% to 24% of golfers renting carts. In 2006 we modified our cart policy to permit carts off the cart path. Also at that time, we purchased a new set of carts equipped with a GPS system. The system was implemented in 2006 and increased cart revenues to \$212,000.

In 2012, we purchased a replacement fleet of carts, and included enhanced GIS features, including larger screens and remote ordering of food from the clubhouse, to help keep up with our demand for services on the carts. For 2017 we are once again anticipating that 40% of patrons will continue to utilize a cart, as we have seen over the past several years, bringing in total revenue of \$298,760. It should be noted that in 2018, we will have to replace our entire fleet of carts at a cost of \$195,000. It is large on-going expenses such as these that force us to make sure that we are setting our rates correctly both to maximize rates while not negatively impacting play.

Through our nineteen years of operation, the driving range has been a popular element of the facility. One particular attraction to our driving range is the size of the practice facility, being one of the larger driving ranges on golf courses in the area. For projection purposes, we have assumed that 20% of golfers will use the range before playing and an additional 40 persons per day would come to the facility solely to use the practice complex. Range revenues were budgeted for \$90,000 in 2016. For 2017 the range is estimated to generate \$92,720 as we expect little change in its use.

Pro Shop sales were \$139,303 in 2008, \$141,676 in 2009, and \$143,926 in 2010. In 2012 we had this budgeted \$152,691, and came in at \$176,538. Our pro-shop sales have continued to be very popular and outperform our budget objectives by focusing on

selling items that our patrons request. The budget for 2017 assumes merchandise sales of \$216,344 as we have had very strong sales the past few years.

A key service element of the facility is the provision of a quality food and beverage operation, while at the same time assuring that this element does not become a financial drain on the operation. In 2016, we changed vendors, as Charlie's Grill had its final year of operation in 2015. Charlie's set a new bar for expectation of our food service at the Chaska Town Course, which was important for us to keep or improve with the new vendor coming into the facility.

After completing an RFP Process, the City Council did choose to go with the new vendor, Oak 19 Grill. While the Town Course did have to undergo approximately 150,000 in upgrades to the kitchen to be able to handle a new vendor come into the facility, and to increase offerings to our Patrons, Oak 19 has been a very positive addition to the Chaska Town Course, as we illustrated through their record-breaking first year of service. In 2016, Oak 19 had over \$650,000 in sales, making it the highest grossing year for food service in the Town Course's history. Staff heard very positive comments on this change as it offered more menu variety for patrons, and weekend meal options that have brought non-golfers to the clubhouse for dinner, while not having a negative impact on serving our golf patrons. With the lease agreement set up as a revenue share agreement, the Chaska Town Course does receive 5.5% of all food sales and 10.5% of all alcohol sales for rent payments on this facility. In 2017, we are anticipating that this will generate \$35,000 in income for the Chaska Town Course. It should be noted that in addition to providing options for patrons during the golf season, Oak 19 will also be looking to increase offerings for patrons during the off-season. This will hopefully provide more opportunities to utilize our Clubhouse facility, while at the same time have the opportunity of increasing our revenue to this facility.

Beyond the changes in the food service vendor and the proposed rate increase, we do not anticipate there will be any large changes in revenue from the 2016 budget.

Operating Expenses

For the Chaska Town Course to be considered a high-end public facility, the turf maintenance needs to be a very high priority. During the past 4 Golf Seasons, we had some of the best turf conditions since our course opened. This has been confirmed in feedback we've received from golfers over the years, and helped continue to drive patrons to our course during the summer of 2016 at near record levels.

To accomplish the objective of having high-quality turf we have attempted to establish a maintenance budget that will permit adequate resources for above-average maintenance. The key, though, to achieving this objective is attracting and retaining high quality dedicated personnel. It is imperative that our full-time personnel not only have the technical capabilities to maintain a high-level facility, but also (and possibly more important), have a true ownership in the course and a commitment to the facility's quality.

The maintenance staffing anticipates staffing levels similar to 2017, with five full-time Greenskeepers, plus a Superintendent who is responsible for the maintenance of the Chaska Town Course facility as well as the Par 30.

As in the past these full-time positions will be supplemented by eight, six month and six four-month seasonal employees. The following is a summary our estimated costs for each of these categories:

	Actual	Budget	Budget		
	2015	2016	2017	Change	% Change
Course Maintenance	\$949,512	\$910,000	\$969,116	\$59,116	6.50%
Course Admin/Clubhouse	\$839,836	\$760,240	\$780,245	\$20,005	2.63%
Merchandise	\$168,869	\$168,000	\$169,681	\$1,681	1.00%
Debt Service (Carts)	\$9,076	\$59,800	\$59,200	-\$600	-1.00%
Transfers Out/Debt Service	\$0	\$0	\$0	\$0	0.00%
Depreciation	\$487,154	\$0	\$0	\$0	0.00%
Total Expenses	\$2,311,858	\$1,898,040	\$1,978,242	\$80,202	4.23%

The second cost component of the golf course operation is the Clubhouse and its related activities. Our objective is to differentiate the Town Course and Clubhouse operation from other courses through a noticeable difference in its commitment to customer service. Achieving this objective will be significantly affected by the quality, skill and personality of personnel hired to staff the complex. The overall responsibility of the Clubhouse operation is the responsibility of the Club Pro. For 2016, the total Clubhouse expenses were budgeted to be \$760,240. In 2017, we are budgeting this number to go to \$780,245. It should be noted that as we did during the 2016 season, we are continuing to plan on sharing of the Town Course's 9-month golf pro position with the Chaska Curling Center during their busier late fall and winter months. In this way we can help retain a good employee during the off-season, and also meet staffing needs we have for this type of position at the Curling Center. This helps keep our overall costs down for both, while utilizing some of the same skill sets we need in a front-desk personnel at the Curling Center.

The final cost component that is critical to maintaining a high quality course is continuing to invest in timely replacement of our maintenance equipment. In 2013, we sold Equipment Certificate Bonds to purchase of the equipment needing replacement on our Equipment Acquisition schedule. The proceeds from that sale went to purchasing our needed equipment replacement for both 2013 and 2014. In 2013, before we sold these Equipment Certificates, we did extend out the life of our equipment at the Town Course, both because the equipment is better quality than in the past, but also to help reduce the long-term costs of paying for maintenance of equipment over the years. This is one of the strategies we have employed to try to get more dollars accumulated in our Town Course Fund balance for future major capital expenses at the Town Course. At the same time, we have made sure that we replace this equipment in a timely manner, as quality of the course is a key to our success at the CTC. For 2015, we once again employed a strategy of using equipment certificates to purchase approximately \$227,000, which includes both 2015 and 2016 expenses. Because of

this, all major equipment purchases in 2016 were already planned for in the 2015 budget and financing package. In 2017, we do have the planned equipment replacement in the amount of \$84,500, which includes a Carry-All cart, Top Dresser, Spray Vehicle and Beverage Cart replacement. These are planned to be paid for by cash out of the fund. As mentioned previously, we will have the large cost of replacing our Power Cart fleet in 2018 for \$195,000, which we would plan to finance.

Besides these changes, we still budget \$15,000 for course improvements in 2017, and \$12,000 to our cart-path replacement program. However, one thing that we are planning on doing differently with these dollars in 2017 is to focus on taking these dollars to help fund the \$30,000 needed replacement of the bridge on Hole #14. This work would be done in lieu of doing any cart path resurfacing in 2017. We would then plan on getting back on schedule for cart path resurfacing in 2018, with bridge replacement coming every other year until all aging bridges at the Town Course are replaced.

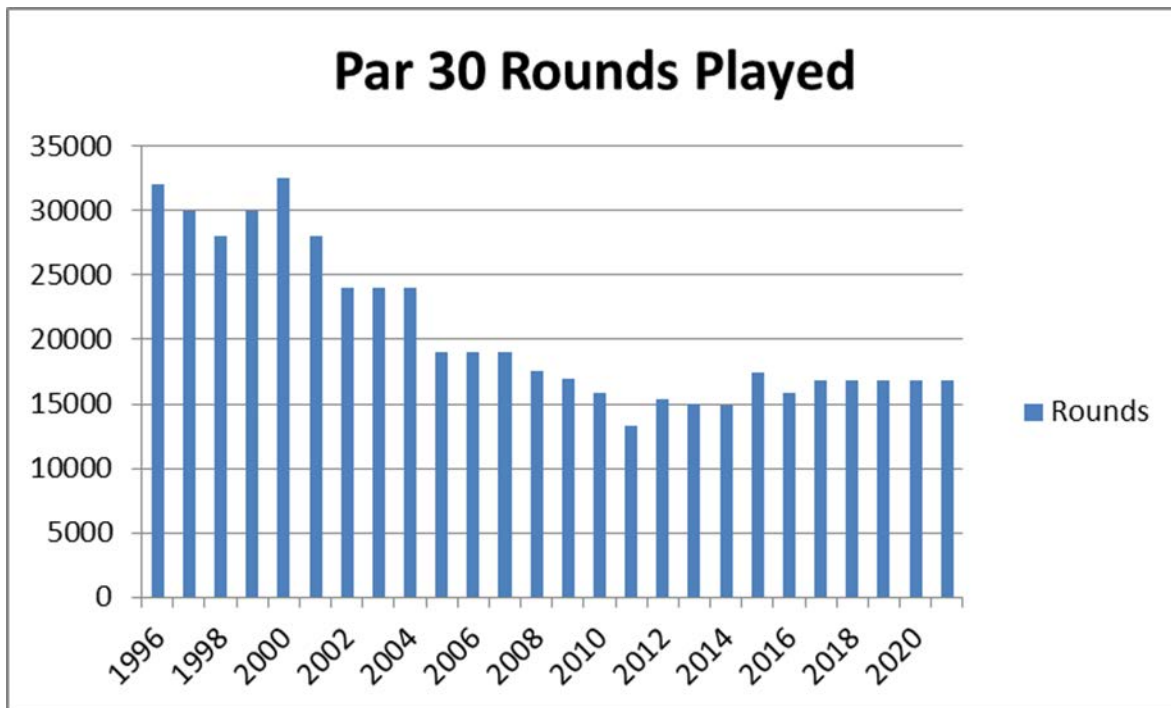
Total budgeted expenses for the golf course operation in 2017 are \$1,978,242. This would result in a decrease of fund balance at the Chaska Town Course in 2017 of \$71,885. However, it should be noted that the cost of the golf carts is shown as a cash purchase in this budget. We would be financing these, with the debt service being right around \$60,000. With this approach, we would have just a slight gain in the Town Course Operation Budget for 2017.

Par 30 Budget

In establishing the 2017 Par 30 Budget, the following objectives were used:

- ◆ *Provide the necessary resources for the Par 30 to ensure continuation of quality course maintenance and upkeep.*
- ◆ *Maintain rates competitive with other comparable executive courses in the Twin Cities.*
- ◆ *Minimize drastic changes in rates while at the same time maintaining adequate cash reserves for emergencies.*
- ◆ *Allow the Par 30 to be a Self-Supporting Recreational Program*

In determining golf course revenues, two factors directly impact green fees: the number of rounds and rate per round. The following graph depicts the number of annual rounds played at the Par 30 over the past several years.



Over the past several years we have seen a decrease in the number of total rounds at the Par 30. While rounds of play averaged around 25,000 rounds per year in the beginning part of last decade, over the last 10 years, we have seen that drop to approximately 15,000 rounds per year. We believe this has been due both to the increase of competition with the addition of other executive courses such as Halla Greens in the area, and with some shift to the Town Course we have seen with allowing carts on the Fairways, thus making it easier for seniors to play the longer course.

One thing to note on the chart above is the increase we saw in rounds being played in 2015 and 2016. While, just like the Town Course, weather did play a factor in this, the main factor increasing rounds was the addition of Foot Golf. Foot golf helped us not only generate additional rounds of play at the Par 30, without negatively impacting golf play, but it also created another use that allows our residents who are non-golfers to get out and enjoy this public resource. This is especially true for families, which foot golf is able to cater to. We do expect to see Foot Golf continue to add about 1,000 additional rounds annually to the Par 30, with the potential to add more if we are able to successfully add league play or attract groups (such as youth soccer teams) for foot golf usage in the year. Because of the addition of foot golf, we continue to have our planned rounds at 16,800 in 2017. We do see Foot Golf as being a long-term addition to the Course that not only opens it to more people, but also helps to stabilize this asset financially.

The second factor in determining green fee revenues is the actual rate charged per round. In 2011, we changed our rate structure based on trying to be much more conscientious of the pricing structures at area Executive Courses, structuring our pricing to be more competitive than our main competitors such as Halla Greens. We structured our pricing to be very attractive for our main users, who are our Seniors and Juniors, while at the same time providing a true price differentiation from our main competitors for our Adult golfers who may be most likely to go to another competitor's course out of town. You will see below in the proposed rate structure for 2017, that we are once again trying to cater to our largest users by actually decreasing the cost for Seniors and Youth to play at the course. The only areas that we are recommending rate increases is in our Adult rates and Foot Golf rates, as we think this will still keep them very competitive.

Based on this recommendation, the following would be the comparison of the Par 30 for 2017 rates compared to the 2016 rates of the other Executive Courses in the area:

Course (9)	Junior (9)	Senior (9)	Adult (9)
Halla Greens	\$15.00	\$16.00	\$16.00
Braemar Executive	\$10.00	\$16.00	\$16.00
Waters Edge	\$10.00	\$10.00	\$14.00
Orono	\$10.00	\$10.00	\$14.00
Glen Lake	\$11.00	\$12.00	\$16.00
Average	\$11.20	\$12.80	\$15.20
Par 30 Rate	\$11.00	\$11.00	\$15.00
Par 30 vs Halla	-\$4.00	-\$5.00	-\$1.00

It should be noted in the chart above, that while we compare to all of the Executive Courses, our main competition for the Chaska Par 30 is Halla Greens, as it is located just off Chaska's eastern border with Chanhassen. As you will see, we are significantly cheaper than Halla Greens for Juniors and Seniors, and \$1 lower on Adult rates, although they do offer a driving range, which we do not have at the Par 30.

Based on this rate structure, we are forecasting green fee revenues for 2017 of \$160,681 compared to the 2016 budget of \$156,000. Staff is expecting that we will see a slight increase in greens fee revenues both because of our new Carver Recreation Agreement, and also because we will do more programming of leagues for Foot Golf in 2017.

Staffing levels are anticipated to remain unchanged for the coming year, continuing with keeping the number of part-time staff at lower levels to keep costs as low as possible. The staffing for both maintenance and clubhouse activities is provided through the hiring of part-time summer employees.

The budget anticipates that operating expenses in 2017 will be \$179,117. It should be noted that one item that we are still working on to reduce the overall expenditures to the Par 30 Course, is in eliminating the current fee of \$12,000 we have annually to rent parking spaces from the Hazeltine Gates Office Building. Storm water improvements were made to the pond on the Par 30 in 2013 to accommodate a future addition for the Hazeltine Gates project when it moves forward, at the cost of Hazeltine Gates (which is owned by Goodman Group). We will continue to be in discussions with the Goodman Group to explore seeing whether fees could be waived or reduced in exchange for keeping their right to utilize this pond through an easement extend until a point they are ready to develop this site. However, we will also be looking if we should move forward in the future to build a parking lot on the east side of our existing #2 Tee Box, as the cost over time would be much cheaper to develop our own lot than to continue to pay these lease fees for the 30 spaces we currently have access to.

As we have done in past years, we are also continuing to budget \$6,000 toward the course to deal with any course improvements that need to be made over the course of 2017. The main improvement we continue to make is to our irrigation system, maintaining the clock system that runs the irrigation, which is very old and out-dated. To replace the irrigation system is estimated to be approximately \$350,000, which is an expense the Par 30 Fund would not be able to afford, although this may become necessary in the future if the system were to fail.

Based on our forecast of revenues and expenses, we are anticipating that the Par 30 operations will have a small decrease in fund balance of \$1,566. Below is a summary of the 2017 revenues/ expenditures:

	Actual 2014	Actual 2015	Budget 2016	Budget 2017	Change	%Change
Green Fees	\$136,148	\$171,153	\$156,000	\$160,681	\$4,681	3.00%
Other Fees	\$15,306	\$21,011	\$16,700	\$16,870	\$170	1.02%
Total Revenue	\$151,454	\$192,164	\$172,700	\$177,551	\$4,851	2.81%
Personnel	\$100,597	\$113,061	\$103,300	\$111,519	\$8,219	7.96%
Operating	\$5,511	\$5,413	\$5,100	\$6,668	\$1,568	30.75%
Merchandise	\$3,584	\$5,257	\$4,500	\$4,546	\$46	1.02%
Other	\$54,366	\$59,542	\$52,396	\$56,384	\$3,988	7.61%
Transfers Out	\$0	\$0	\$0	\$0	\$0	0.00%
Total Expenses	\$164,058	\$183,273	\$165,296	\$179,117	\$13,821	8.36%
Net Income (loss)	-\$12,604	\$8,891	\$7,404	-\$1,566	-\$8,970	-121.15%

Utility Fund Overview

The Utility Fund Budgets are broken down into separate categories for the City's four utilities: water, sewer, electric and storm sewer. The total proposed budgets for these four utilities have been developed based on the following objectives:

- *Providing the necessary resources for each utility to assure continuation of quality services to our customers.*
- *Maintaining water/sewer/storm sewer rates competitive with comparable cities.*
- *Maintaining residential electric rates less than comparable rates charged by Xcel.*
- *Maintaining competitive industrial and commercial electric rates compared with Xcel, while also making sure we maintain a system that provides reliability to our customers.*
- *Minimizing drastic changes in utility rates while at the same time maintaining adequate cash reserves for each enterprise.*

As will be discussed in more detail in the breakdown of the Water Fund budget, the City of Chaska did move forward with making some significant changes to the Water Utility rates starting in 2010, as it was found through a comprehensive Water Rate Analysis that was completed in 2009 that the City's water rates were set significantly lower than what was needed both to fund the future maintenance activities of our existing system, and to fund a portion of the debt service on the new Water Treatment Plant. The study found that over the 10-year planning period, that our Water Fund would be \$7 million in debt if changes were not made to our rate structure in the short term. Over the course of 2010 and 2011 our rates were significantly changed to get the base closer to where it should be. However, because our rates were so low to begin with, these changes were able to be made while still keeping our rates very competitive to our neighboring communities.

As you will see in this year's budget for the Water Fund for 2017, we are recommending that we increase our retail rates go up by 3% for the average users of water to make sure that we keep up with inflationary pressures, and do not loose ground on the changes we have been implementing since 2010 and 2011.. However, at the same time, we are cognizant of the continued pressure we are receiving from the State of Minnesota to focus more on water conservation, especially with issues some Metropolitan Communities have had with their water supplies. As we started in 2016, we are going to continue to recommend having a much larger separation between our categories in our rate structure, to not punish those residents who utilize a typical amount of water for a residence, but at the same time create much higher rate increases the higher an end-user goes in water consumption. The theory is to get higher water users to think more about their water usage through economically incenting them to use less. We do feel that we can implement this fee structure, meet the needs of our Water Department, while at the same time stay very competitive to other surrounding Cities from a rate perspective as many Metropolitan Cities have

moved in this direction for water pricing to demonstrate that municipalities are taking the issue of water resources seriously.

From a sewer and electric perspective, our rates have remained very competitive over 2016, compared with other municipalities and with Xcel. From an electric fund perspective, our total rates in 2016, including the Energy Adjustment Clause, averaged 8.94% lower than Xcel for residential customers, compared to 6% lower in 2015. Compared to Mn Valley Electric Cooperative, we were approximately 5.73% lower in 2016, compared to approximately 3.2% lower in 2015. Xcel and Minnesota Valley are our main competitor.

We do not see this relationship changing very much in 2017, as Xcel has continued to need to request rate increases from the Public Utilities Commission to address major work they have needed to complete on aging infrastructure, and to address the renewable energy requirements imposed by the State, which are even more stringent than the requirements put on municipal and Co-op Electric Utilities. For 2017, the wholesale rate increase from MMPA, the Cities Power Agency, is programmed to increase by between by about 2%, with much of this change coming in demand rates to the MMPA's members. Because of this, you will see that our budget recommends a 2% increase to our Retail rates both to accommodate the wholesale rate increase but also our increasing costs associated with replacing aging infrastructure, and to also be able to accommodate large capital costs we will have in 2017 including the addition of a necessary sub station in our north industrial park, and a switch gear addition at West Creek Substation. Both of these improvements will range in cost between \$4.5-\$5 million. With this rate increase, we feel that we will still be very competitive with Xcel and Minnesota Valley.

From a sewer perspective, we do know that our overall bill will go up by 8% for sewage treatment at the Met Council's Blue Lake Facility. To address this, as well as our internal costs of providing service, we do recommend having our retail rates go up by 8.23% in 2017. This is following a 6.14% increase in 2016. As Metro Waste provides treatment services for most surrounding cities, and that is the major cost of sewer service, our rates tend to be very similar from City to City, thus keeping us competitive with our surrounding communities.

Finally, with the Storm Sewer Utility now being fully implemented, we are now better able to see what our base rates for residential should be set at to meet the needs of this utility, while also being competitive with other surrounding cities. As this is a rapidly growing area for the City and other agencies to be able to address because of increasing regulations, it is one that we have to keep close tabs on to make sure we are properly charging for the amount of services we need to provide in this utility. With the increasing costs we have had, especially following the 2014 flooding events, we have seen that if we do not continue to increase our fee at a faster rate, we will not keep up with the needs in this funds. We are recommending a rate increase from our current fee of \$5.68 per unit in 2016 to \$6.35 in 2017. With the average rate of surrounding cities being \$6.51 per month, we are still below the area average of cities.

Based on the changes that are being recommended, which will be discussed in more detail in following sections, below is a breakdown of what a typical resident can expect for rate increases in 2017:

	2014	2015	2016	2016	% Increase	Increase
Water	\$16.76	\$17.26	\$17.78	\$18.31	3.00%	\$0.53
Sewer	\$24.72	\$25.09	\$26.34	\$28.45	8.00%	\$2.11
Electric	\$87.63	\$90.26	\$92.07	\$93.91	2.00%	\$1.84
Storm Sewer	\$5.03	\$5.35	\$5.67	\$6.34	11.80%	\$0.67
Total	\$134.14	\$134.14	\$141.86	\$147.01		\$5.15

Water Fund Budget

As was mentioned above, in 2009, the City of Chaska completed a comprehensive water rate analysis to look at the financial health of this fund. This water rate analysis was needed due to significant issues that were identified in our 5-year financial forecast and our CIP that indicated that the Water Fund would not be able to remain financially self-supporting if changes were not made. The objectives of this Water Rate Analysis included:

- Develop an inclining block rate that meets all of the DNR water conservation requirements that are required to be implemented by January 1, 2010
- Develop a base rate that meets all of our current operational and debt obligations, especially considering the significant decrease in development experienced at the time
- Develop a rate structure that is competitive with surrounding communities
- Develop an ongoing rate strategy that helps the City maintain a sustainable water system into the future to make sure our existing assets are not being consumed at a higher rate than we are financially replenishing our system

The results of this Water Rate Analysis quantified the issue our Water Fund would face if we continued with our strategy of implementing a 5% rate increase annually for the next 10-years without adjusting our base rate. What the study found was that if we continued with this strategy, that over a 10-year period, the Water Fund would be in deficit \$7 million, not allowing us to have any dollars built up to help support our existing system, nor being able to meet our current operational needs. This was mainly due to both the fact that our water rates were extremely low compared to other municipalities, and because the development slowdown would not allow the City to generate enough resources in Water Access Charges to pay for the debt service of our new Water Treatment Plant.

Based on the results of this study, in August of 2009, the City Council did move forward to implement an increase in Water Rate, which was completed in January of 2011. At the same time, the Council did implement the required DNR inclining block rate to promote water conservation, implemented a service charge of \$2.27 per month, and did refinance a portion of the Water Treatment Plant Debt to match up debt service payments more closely with when we feel development will restart. As was recommended in the Water Rate Study the City did implement a 1% increase in rates in 2012 to keep our rates current with inflationary increases in cost so we would not start to fall behind right after we made these significant changes. The Study showed that we should continue to have a 1% increase for each 2013 and 2014, to keep up with inflationary increases in costs, and then do a re-study again following this to test the assumptions of the first study, see how the implemented changes were meeting the original objectives of the changes we initially made, and to give some direction for how to move with rates over the next 5-year period. In 2014, we did see this initial 5-year

rate change plan get fully completed, with the final 1% rate increase being implemented.

As mentioned above, while Staff feels that we still need to complete a re-study of our Water system in order to get a complete understanding of what assumptions in our 2009 study have been realized, and which have not, and to make sure we have another 5-year strategy for rates, Staff does not feel this should be completed until after both our AMI program is completed, and our new Utility Billing Software is implemented to be able to extract and utilize this data, as this data will provide us with very useful and accurate information on which to draw for this analysis. With the Automated Meter Program completed in the summer of 2015, and us currently now going through the process of implementing our new Utility Billing software, which we expect to be ready for live billing in the Spring of 2017. Staff feels it is prudent to hold off on this re-study until all of this information is able to be extracted. For this reason, we would propose doing a re-study in early 2018. At the same time, we also do not want to see the Water Fund lose ground from the changes that were implemented over the past 5-years, and to see us keep up with our cost of providing services. We also have capital expenditures in 2017 with the drilling of new test wells required by the DNR needing to be completed in 2017 at a cost of \$170,000.

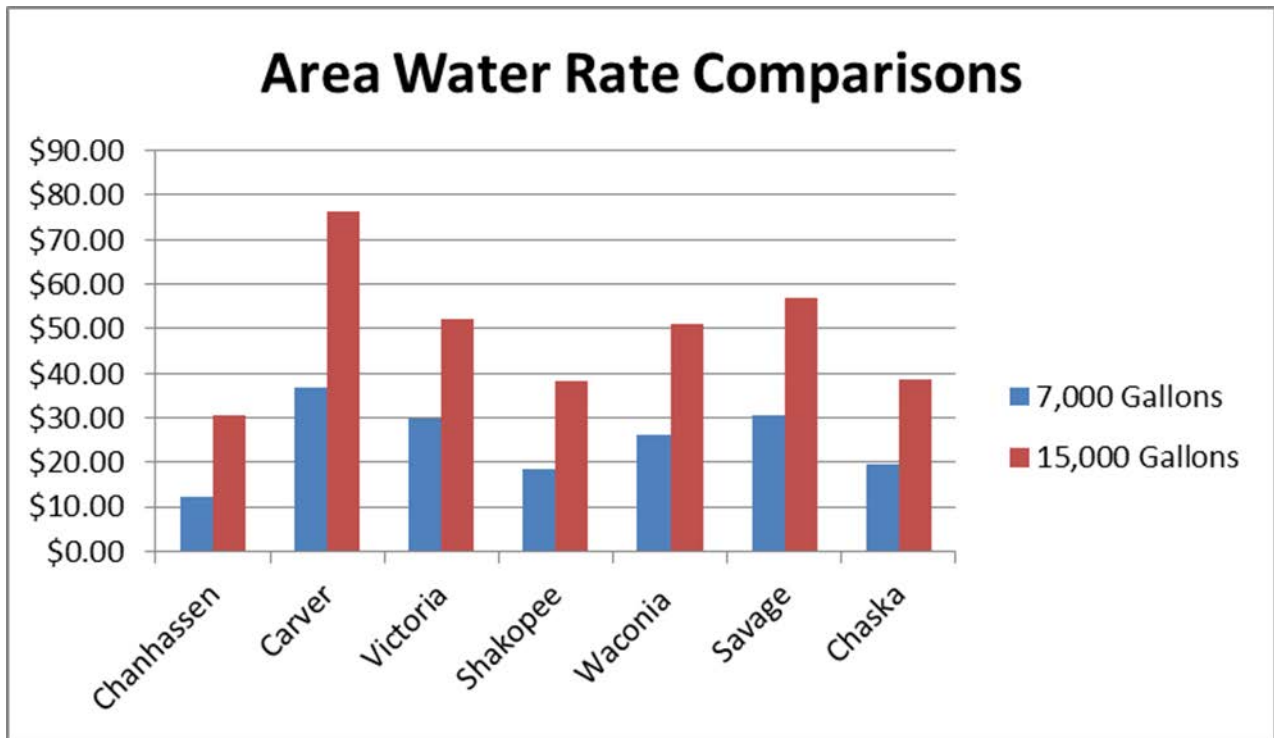
For that reason, we are recommending a 3% increase in retail rates in 2017 for all average users of water. To keep up with the increasing pressure from the State to address decreasing water supply issues in the Twin Cities, we are recommending that we continue with the rate structure we created in 2016 that does create more economic incentive for our customers to conserve water than those using more than the average amount of water. This is something many municipalities are doing to help address the issue of water conservation, and is one we think is going to be increasingly important to address if we want to continue as municipalities to manage our own local water collection and distribution systems.

Specifically, Staff would recommend creating the following separation between rate categories to help economically encourage this change in usage behaviors:

- 0-7,000 gallons: \$2.34/1,000 gallons (3% increase)
- 7,001-20,000 gallons: \$2.48/1,000 gallons (3.5% increase)
- 20,001-30,000 gallons: \$2.73/1,000 gallons (5.5% increase)
- 30,001-40,000 gallons: \$3.12/1,000 gallons (7.5% increase)
- Above 40,001 gallons: \$3.78/1,000 gallons (10% increase)

As we looked at other surrounding cities, this type of spread between categories was very typical.

The chart below shows how Chaska would compare both in the Winter, where the average usage is 7,000 gallons per month for residential uses, and the average summer use is 15,000 gallons per month with the addition of lawn sprinkling. This chart illustrates Chaska's 3% increase and compares it to the other City's 2016 rates without taking into account any rate changes they may make:



2016 Budget

Based on the changes described above, Water Fund Revenues for 2017 are estimated to be \$3,394,577 compared to the 2016 budget of \$3,223,577. 2014 and 2015 ended up having a relatively low usage of water due to very well-timed rains, as well as temperatures not getting above 90 degrees very often during both summers. This significantly impacts the amount of water usage we see in a given year, with our usage peaking in the summer with lawn irrigation. 2016, while there were parts of the summer that were wet, did end up being a better year for water sales. We are projecting a little over 3% increase in water usage for 2017. This projection in increase in water usage is due to looking at averages we have seen over the past couple of year, but also from some trends we are seeing that the overall usage of water is not as fast as it has in the past, perhaps because of our incentivized rate structure.

The major categories of revenues and expenses in the Water Fund as compared to past years are presented below:

Water	Actual	Budget	Budget		
	2015	2016	2017	Change	% Change
Revenues					
Metered	\$2,548,937	\$2,589,429	\$2,758,429	\$169,000	6.53%
Other	\$50,582	\$33,000	\$33,000	\$0	0.00%
Transfers In	\$600,948	\$601,148	\$603,148	\$2,000	0.33%
Total	\$3,200,467	\$3,223,577	\$3,394,577	\$171,000	5.30%
Expenses					
Pumping	\$570,254	\$320,554	\$506,564	\$186,010	58.03%
Treatment	\$271,393	\$282,061	\$264,146	-\$17,915	-6.35%
Distribution	\$648,000	\$742,434	\$783,409	\$40,975	5.52%
Administration	\$512,047	\$508,027	\$530,185	\$22,158	4.36%
Depreciation	\$720,897	\$0	\$0	\$0	0.00%
Debt Service	\$366,485	\$1,202,000	\$1,206,296	\$4,296	0.36%
Capital	\$0	\$232,491	\$232,491	\$0	0.00%
Tranfers Out	\$184,544	\$55,400	\$61,000	\$5,600	10.11%
Other	\$0	\$0	\$0	\$0	0.00%
Total	\$3,273,620	\$3,342,967	\$3,584,091	\$241,124	7.21%

For 2016, we are projecting that we will generate \$2,395,131 in metered sales. This is up 7.5% from the metered sales we budgeted in 2016 of \$2,228,000 due to looking at weather normalized averages of usage, but also because of the rate increase we are proposing, which has the average user going up by 3% in 2017. We do expect to see some additional economic development activity in 2017, along with a continued increase in residential activity, with the new housing starts in our Southwest Chaska Growth area.

Total water expenses for 2017 are programmed to be \$3,584,091. This compares with \$3,342,967 budgeted in 2016. This is a 7.2% increase in expenditures.

In addition to this, our normal maintenance activities are being funded for 2017, the large increase in costs for 2017 is a one-time expenditure of drilling three new test wells, which are required by the DNR. These three test wells are being drilled to plan for the addition of new permanent wells we will need at the Southwest Chaska Development Area continues to move forward. In order to be prepared for this future need, the DNR does require us to drill test wells to see what impact these future wells will have on the aquifer system when they are needed. Anticipating that we will need these new permanent wells within the 5-year period, we really need to complete this work now to be able to be prepared for this future well need.

In addition to this work, we also will have \$60,000 allocated, as we did in 2016, to do normal maintenance on our pressure reduction stations and work on our pipe corrosion program. Both of these programs help proactively address issues in our system before they become a large issue.

We will have a \$15,000 service fee added annually to implement a Software as a System (SAS) solution to our data server storage for our new AMI system, and will have \$73,000 allocated toward the addition of a skid loader and trailer, which we hope will allow us to do more repair work in-house and avoid contracting fees. This is 50% of the overall cost of this equipment, as the other 50% is paid for out of the Sewer Fund.

Finally, in 2011 the full cost of the Water Treatment Plant Debt service was accounted for through the Water Operating fund at a cost of \$1,263,445. 50% of this comes through our rate revenue with the other 50% coming through a transfer from our Water Trunk Funds, which are supported through development. This continues in 2017.

Personnel Services:

Currently the Water and Sewer staffing consists of the Superintendent, Foreman and seven maintenance employees. The staffing level is recommended to remain unchanged for 2017, with an additional maintenance position not programmed until the 2020 budget year, depending on how quickly growth occurs in the community.

Based on this budget we are planning to see a \$189,000 decrease in our Fund Balance, mainly because of the one-time expense of drilling test wells for \$170,000. However, over the 5-year planning horizon, we do see this fund starting to replenish its cash reserves again, with it growing to almost \$1.5 million by 2021.

Sewer Fund

Sewer Fund revenues for 2017 are anticipated to be \$3,755,372, a 5.4% increase over the budget in 2016. This increase in revenue is due mainly to the increase in the number of large sewer customers we have added in our system over the past 3 years, such as Michael's Foods, the 212 Medical Center and its addition, as well as additions to existing Industrial businesses in our Industrial Park such as Beckman Coulter. The following table is a summary of anticipated revenues and expenses for 2017 relative to past years.

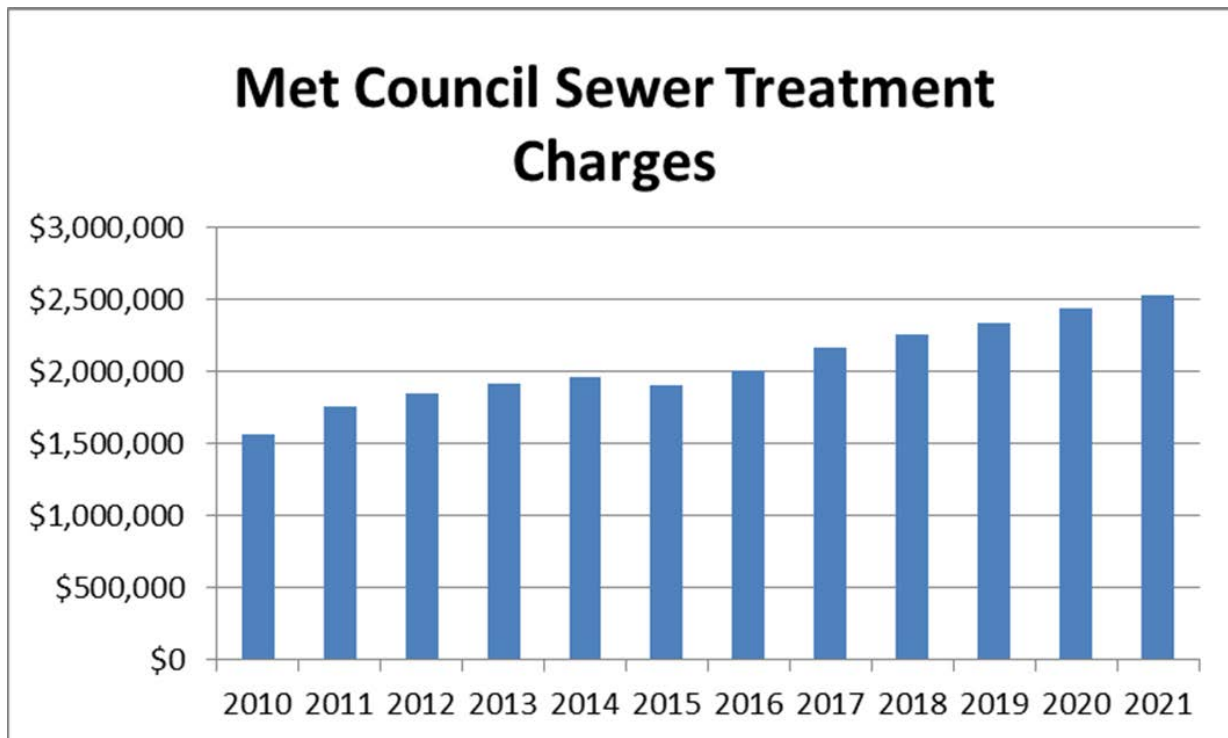
Sewer	Actual	Budget	Budget	Change	% Change
	2015	2016	2017		
Revenues					
Metered Sales	\$3,261,476	\$3,562,191	\$3,755,372	\$193,181	5%
Other Revenues	\$17,149	\$0	\$0	\$0	0%
Total	\$3,278,625	\$3,562,191	\$3,755,372	\$193,181	5%
Expenses					
Pumping	\$12,819	\$23,560	\$47,609	\$24,049	102%
Treatment	\$1,908,248	\$2,025,368	\$2,181,823	\$156,455	8%
Collection	\$627,194	\$746,255	\$736,335	-\$9,920	-1%
Administration	\$547,447	\$507,093	\$529,445	\$22,352	4%
Transfers Out	\$2,617,767	\$115,400	\$115,600	\$200	0%
Capital	\$68,746	\$232,491	\$232,491	\$0	0%
Depreciation	\$53,799	\$0	\$0	\$0	0%
Other	\$32,033	\$0	\$0	\$0	0%
Total	\$5,868,053	\$3,650,167	\$3,843,303	\$193,136	5%

Sales revenue is based on seeing a 8.23% increase in retail rates for 2017. Unlike other utility services we provide, we do not know at the beginning of the year exactly what we will be charged by Metro Waste next year for treatment of our sewer, as it is a fixed cost based on past usage of the system. The amount Met Council will charge for 2017 is \$2,181,823, which is approximately an 8% increase from 2016.

As in other years, any rate determination is based on looking at both our actual cost of treatment service from Metro Waste, and the increase we need in our own internal operations to meet our current and future operational needs. For 2017, we will see approximately a 8% increase in our actual treatment costs with Met Council and we do have increased cost pressures on our internal system, including the major investment we have just completed with the Automated Meter Reading Program. When recommending the rate change for 2017, we have to be cognizant not only of our costs for providing service, but also of how we build and keep a health cash balance in this

fund to pay for future improvements needed in our system. For that reason, Staff is recommending an 8.23% increase in our retail rates for 2017.

Metro Waste treats all of the sewage for not only Chaska, but each of the Cities in the Twin Cities Metropolitan Service Area. It should be noted that in 2010, we saw Metro Waste rates increasing by 12.91% to Chaska to accommodate for increases they needed to consider for reduced growth in the Metro Area, and the need for Metro Waste to cover existing debt service costs for infrastructure built within the last decade. In 2010, they increased our retail rates by 7.93%. 2011 rate increases from Metro Waste were much less, requiring a 1.61% increase in rates to accommodate the increase in costs we saw from Metro Waste. In 2012, we were able to keep a 0% increase in our Sewer Rates and still meet the financial obligations for the fund. For 2013 and 2014, we saw approximately a 5.4% increase annually to meet the changes in Met Council. In 2015, we experienced a 1.5% rate increase to accommodate the changes from Met Council. And finally, we saw a 5% increase in our retail rates for 2016 will accommodate both the changes we were seeing with our treatment costs at the Met Council, and the increased costs we have experienced at the City level in collecting this sewage. The increase of 8.23% in 2017 is directly attributable to the increased amount of sewer usage we have seen over the past 12 months. Below is a chart showing how our Metro Waste Charges have changed over time, and how we are planning for them to change over our planning horizon.



Expenses:

Sewer expenses are anticipated to be \$3,843,303 for 2017, an increase of 5.3% from 2016. While we did see the completion of the AMR System installation in 2015, which was funded out of Sewer Fund Reserves, and we continue to see the near completion of our new Utility Billing Software service, there will continue to be capital

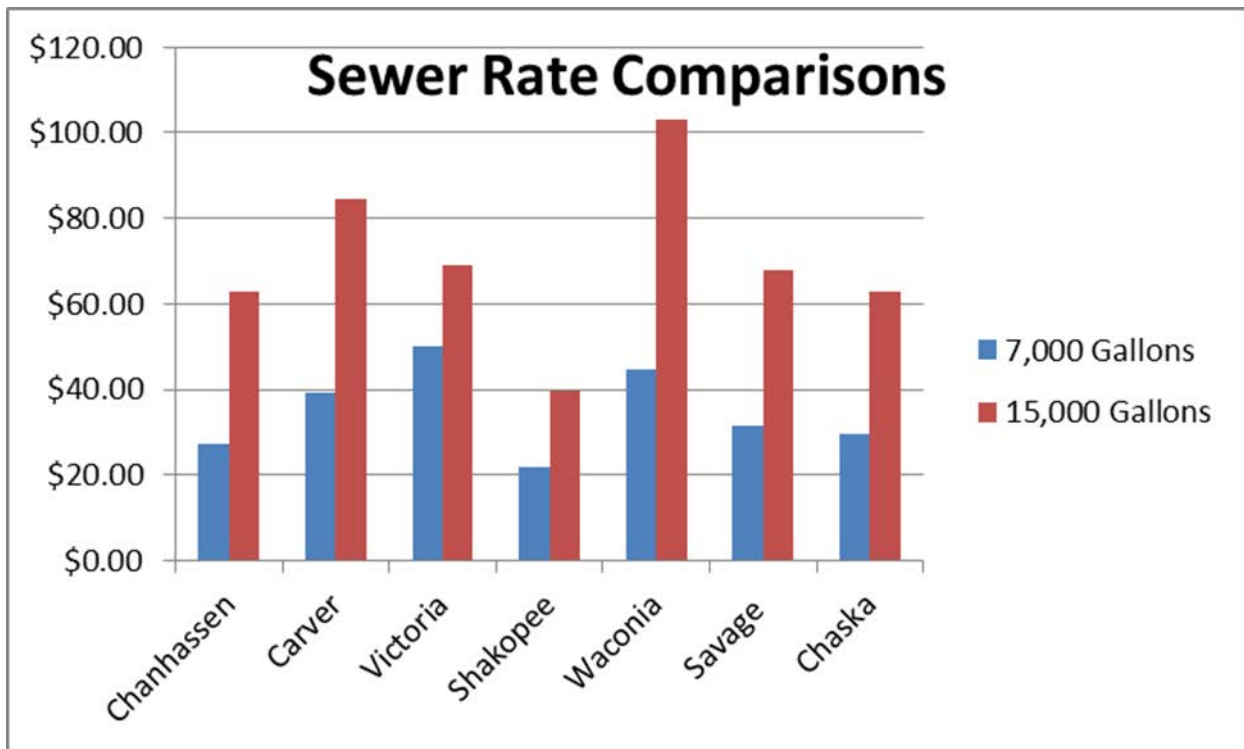
improvements planned for in 2017 that will require continuing to make sure we fund our Sewer utility at the proper level to make sure that these improvements continue to occur on a timely basis.

The Capital Improvements for 2017 will revolve around our regular maintenance activities for Inflow and Infiltration (I and I) and Lift Station schedule maintenance. Our allocation towards improvements in our I and I program are \$180,000 annually, with \$25,000 annually going towards our Lift Station annual maintenance program. As in our Water Utility, we will also be continuing to budget annual payments of \$15,000 to purchase into a Software as a System (SAS) server to back up the data from our new AMI system.

As we discussed in the Water Fund, the Sewer Fund will also be paying 50% of the total cost of purchasing a new Skid Steer and trailer in 2017, at a cost of \$73,000. Our hope with this is that it will reduce the amount of contractual service we currently have to use without having this equipment.

Finally, in 2017, the Sewer Fund will continue to contribute \$110,000 annually to go towards our Street Reconstruction Program in Downtown Chaska.

Currently, Chaska's sanitary sewer rates are very comparable to other cities in the metropolitan area, and in the southwest metro area in particular. Metro City sewer rates tend to be very similar from City to City since a significant portion of the monthly bill is based on the Metro Council sewer charges, which are based on the same costs from City to City. Below is a comparison of Chaska sewer rates to other surrounding cities for both winter and summer usage averages:



Personnel Services:

Currently, the Water and Sewer staff consists of the Superintendent, Foreman, and seven maintenance employees. These Staff members are the same as the Water Department, as they are utilized for both Water and Sewer functions. For 2017 it is recommended that the staffing levels remain unchanged. It should be noted that 50% of these personnel costs get charged to the water department, with the other 50% going to the sewer fund. We do not anticipate any additional staff in the Water or Sewer Departments until 2020. This change will be based on needs arising from new development in the Southwest Chaska Area.

Equipment:

As mentioned previously, our major initiative with the Automated Meter Reader Installation Program came to an end in 2015. The total contribution to this program over the past 3 years was \$880,000, as it was in the Water Fund. Programs like this are one of the reasons that we try to carry the proper amount of cash balance forward in our Utility Funds to be able to handle these capital reinvestment projects needed to keep our system functional into the future. The final piece of this project is now being completed, which is the implementation of our new Utility Billing Software program, which we expect to have bills going live in early 2017.

In 2017, we would continue to have \$110,000 contribution to our Street Reconstruction Program to address necessary sewer replacement in our system, which will include the reconstruction of roads going into our downtown commercial district on both sides of Highway 41. The programmed street in 2017 is 2nd Street between Pine and Walnut Streets. The Sewer Department would continue in 2017 with its normal maintenance programs such as lining our Sewer Lines that are in bad shape, working to reduce Inflow and Infiltration of Storm Water in our system, and with maintaining our lift stations on a regular basis. We currently allocate \$180,000 towards these I and I improvements during the budget year. All of this work is done to be proactive on dealing with Sewer Maintenance before any one spot becomes an issue.

From an equipment standpoint, we would have the \$73,000 allocation from the Sewer Fund to support the addition of the Skid Steer and Trailer, which is shared with the Water Department. This will help us reduce our contractual services, which have become expensive in this particular area.

Based on our total expenditures and revenues, we are budgeting that there is a decrease of \$87,931 in the Sewer Fund for 2017. We do expect to see this increase after 2018, with the fund balance over the 5 year period estimated to be approximately \$1,200,000 by the end of 2021.

Electric Fund Budget

For 2017, Electric Fund revenues are anticipated to be \$34,402,000. This compares to the \$32,862,140 we had budgeted for revenue in 2016, an increase of 4.7%. As part of the 2017 budget process, as we have done the past couple of years, one of the items that Staff continued to look at is the affect that the new large users in our system will have on our overall electric sales, not only for 2017, but for the years included in our 5-year forecast. We will continue to see significant new growth in our commercial/industrial sales in 2017, as we see the new additions to existing Industrial businesses come on-line, and we continue to see the existing data centers increase in capacity. At the same time, we are also seeing residential development increase, which will also increase our usage, and we expect to see more Commercial/Industrial development, including a new data center, build in 2017. Below is a chart looking at our anticipated revenue for 2017.

	Actual	Budget	Budget		
	2015	2016	2017	Change	% Change
Electric Sales	\$36,028,101	\$32,850,140	\$34,390,000	\$1,539,860	4.69%
Other Revenue	\$16,356	\$12,000	\$12,000	\$0	0.00%
Total Revenue	\$36,044,457	\$32,862,140	\$34,402,000	\$1,539,860	4.69%

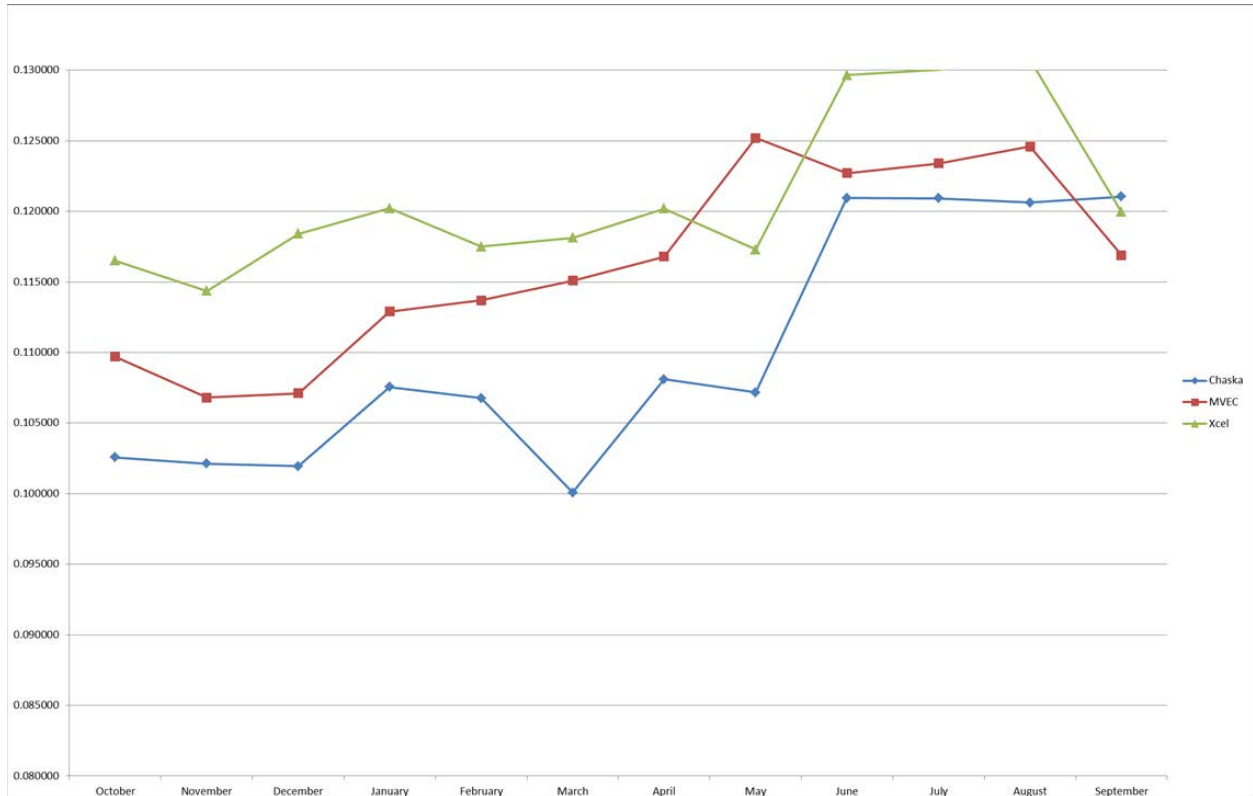
To develop our 2017 revenue budget, we did utilize the following assumptions:

- Total retail rate increase increases of 2% in 2017 to accommodate for the wholesale power cost increase and capital improvements needed on our aging infrastructure
- Sales increases in 2017 of 4.7%
- A total of 150 residential units added in the community over the year
- Continued Economic Development activity will drive our overall sales up
- Normal weather
- Increase in wholesale power cost of approximately 2%, with much of that rate increase coming on the demand charge, which is anticipated to be a 3.3% increase

The City's objective is to maintain electric rates that are competitive to Xcel Energy. As we have seen over the past 12 months, Chaska's residential rates have faired well compared to the market. Looking at 2016, we did see total bills for residential users that averaged 8.94% lower than Xcel, and just over 5.7% lower than Minnesota Valley Electrical Cooperative. This compares to Chaska being 6% lower than Xcel and 3.2% lower than MN Valley in 2015.

Much of this can be attributed to a more stable Natural Gas market over the past few years, than what we saw in 2008, when our total bills were averaging very close to Xcel's overall bill. Our Power Agency, MMPA, currently has most of their assets that are Natural Gas burning, which has resulted in lower costs, and has been able to attain grant financing to support our required renewable energy projects such as Oak Glen

Wind Farm and the Hometown Bioenergy Project in Le Sueur, which has the energy from these sources priced very competitively. Xcel has continued to have to seek rate increases to support both their capital improvement projects due to aging facilities, and new renewable energy projects. Below is a graph showing our total residential bill compared to Xcel and Minnesota Valley in 2015:



As mentioned previously, we continue to expect that our overall bills will continue to be lower than Xcel, especially for our residential customers. This is based on the fact that Xcel not only received rate increases over the past few years, but will continue to experience upward pressures on costs due to having to improve aging infrastructure, and having to invest into renewable energy resources. This will have the effect of keeping our rates very competitive as we look at our main market competition.

Electric Fund expenses for 2017 are projected to be \$34,103,565 compared to \$32,486,944 in 2016, for a total increase of 5%. There are two primary factors driving expenses for 2017.

The first primary cost factor in our electric utility is the purchase of wholesale power from the Minnesota Municipal Power Agency. For 2017 we are anticipating that the Agency's wholesale will effectively go up by about 2%, with much of this coming on the demand charge, which is expected to go up by 3.3%. Based on projected wholesale power rates, but also the usage we project, we are anticipating that our total wholesale power costs for 2017 will be \$22,781,000 compared to the budget of \$22,061,000 in 2016. The decrease in projected purchase power is based on looking at the weather

normalized average over the past few years, looking at what we have actually used compared to what we have programmed for use.

The other major factor is a significant amount of capital improvements scheduled to be completed in 2017, including development and building of our next needed substation which will be located in our North Industrial Park. Costing about \$3.5-4 million, this is scheduled to be building in 2017, with the station planning to be operational by the fall of 2017. This is needed to meet the increased load demands in our North Industrial Parks that we have seen as businesses have expanded in this area. The other major capital improvement will be in adding a switch station at the West Creek Substation, for approximately \$1.3 million. This is needed to serve the load for the new data center coming into West Creek Corporate Center, and to increase reliability to the west side of our community. Both of these will be financed, adding about \$260,000 in debt service payments annually.

In addition to this work, there is \$390,000 programmed for System Improvement work in 2017. With the completion of our AMR System installation in 2015, just like in our Water and Sewer utilities, we will need to add a Software as a Service (SAS) server solution to be able to store all new data available off of our new system. This will have a \$15,000 annual cost to the Electric Utility. From an equipment standpoint, we do have \$522,000 of equipment scheduled to be replaced, including \$300,000 for the replacement of our 20 year old Digger/Derrick Truck, \$130,000 for replacement of our 10 year old 40 foot bucket truck, and \$85,000 for replacement of a trailer.

It should be noted that we have no planned additions to our Staff over the next 5 year period.

As the electric industry becomes more competitive, it is imperative that the City works closely with the power agency to assure that we are purchasing wholesale power at competitive rates. As we are seeing with the need for Xcel to raise their base rates again, and with their aging infrastructure that will need to be replaced in the future, it does appear that the agency will be well positioned to meet the needs of the City in the foreseeable future, while at the same time maintaining competitive rates.

At the same time, the Agency is positioning itself well to address the State's Renewable Energy Requirements initiatives, which will require us to have 25% of our energy generated from renewable sources by 2025. The Agency opened its Oak Glen Wind Farm in November of 2011, in South Central Minnesota, helping us to meet these initial requirements. This is a 42 MW generation facility, and helped us meet the 2012 requirements of the State mandates in renewable energy. The Agency has also now commissioned its Hometown Bioenergy Park in Le Sueur, MN, with this facility generating 8 MW of electricity using silage decomposition to support the generation of electricity. The Agency is also now looking at purchasing into another Wind Farm facility in the State.

The projects that were developed by the Agency were assisted through Federal Grants, helping keep the price of electricity generated from these plants competitive in the market. Work is continuing with the Agency to look at how we most cost-effectively

meet our renewable requirements while continuing to keep our wholesale prices competitive. As the Agency works on this, they are also looking at how we continue to diversify our assets to make sure we have our renewable energy coming from a number of different sources.

Personnel:

Currently we have ten line workers, along with our Electric Director, Foreman, and Technical Support Staff serving this division. As mentioned previously, for 2017, we are not planning the addition of any full time staff.

A transfer of \$100,000 is programmed from the Electric Fund to the Community Center as we have done in the past. This transfer is consistent with the funding program for the Community Center and is reflected in the Electric Fund. In addition to this, there will be an additional \$150,000 transfer to the CCC, which will help fund a portion of the new Community Center CIP program, and a \$180,000 contribution going towards the debt service of The Lodge Addition at the CCC.

Finally, as we discussed as part of the Firemen’s Park Redevelopment and future large-scale community projects such as the City Square West Redevelopment, a “Community Building Fund” was created to help support development of large-scale community building projects in Chaska once every decade, while also considering the depreciation costs of these projects within this “Community Building Fund”. While there are multiple sources of funding for this Fund, it is being recommended that \$800,000 continue to be budgeted annually from the Electric Fund to support this fund, to support the debt service for these projects being developed. In addition to this, in 1997 the City adopted a financing plan for the new Fire Station, including an annual transfer of \$300,000 from the Electric Fund to the Fire Station debt service. This debt service ended after 2015. It is being recommended that we continue to budget these dollars, but move them into the “Community Building Fund” now that the Fire Department Debt Service is fully paid. The hope with this fund is to utilize the Electric Fund like we have in the past to help support significant projects in our community, but to put some limitations around this so that it is limited to the funds we dedicate to this “Community Building Fund” and not just addressed on a project by project basis. This will help make sure that we are also not taking our focus off of the most significant responsibility of the Electric Fund, which is to provide reliable electric power to our customers across the City.

Debt Service:

In 2001 the City developed the new Minnesota River substation jointly with the gas turbine project. The Electric Fund share of the substation was \$2,281,000, which converts to annual debt payment of \$98,419. This will continue in 2017.

In addition to this debt, the Electric Fund will also have debt service of approximately \$260,000 annually to support the construction of the West Creek Substation, which was completed in the summer of 2012.

Finally, as discussed before, the fund has an additional \$260,000 that is allocated to address the debt service for the new substation, as well as the addition of the switching gear onto West Creek Substation.

Based on this, the following would be the expenditures for 2017:

	Actual	Budget	Budget		
	2015	2016	2017	Change	% Change
Purchased Power	\$24,864,417	\$22,061,000	\$22,781,000	\$720,000	3.26%
Franchise Fee	\$3,339,440	\$3,364,310	\$3,547,000	\$182,690	5.43%
Operating Costs	\$5,325,450	\$4,450,114	\$5,084,654	\$634,540	14.26%
Capital	\$230,503	\$881,320	\$571,320	-\$310,000	-35.17%
Debt	\$148,272	\$459,401	\$739,591	\$280,190	60.99%
Depreciation	\$828,815	\$0	\$0	\$0	0.00%
Transfer	\$3,878,532	\$1,270,800	\$1,380,000	\$109,200	8.59%
Total	\$37,786,614	\$32,486,945	\$34,103,565	\$1,616,620	4.98%

Based on the budget as proposed, the Electric Fund would increase its overall fund balance for 2017 by approximately \$300,000, putting our fund balance at approximately \$5 million by the end of 2017. It should be noted that based on projections, we would see this cash balance grow to over \$8.5 million by 2021.

Storm Water Fund Budget

In 2008, the City of Chaska created, by ordinance, a Storm Water Utility Fund to address the growing requirements of managing surface water runoff throughout the community. With the implementation of new MS4 Storm Water Management requirements at both the State and Federal level, the City of Chaska, along with other communities across the country, needed to look at their surface water management practices differently, and generate the resources necessary to complete all requirements of the new laws. Up until the point of creating a separate Storm Water Utility Fund, any activities that the City of Chaska completed with Storm Water Management were completed by the Public Works department utilizing General Fund resources. With the new statutory requirements, it was apparent that these resources would not be sufficient to complete all necessary activities.

As the City of Chaska established our Storm Water Utility Fund, the City identified a number of objectives to complete in this newest Enterprise Fund, including:

- Provide the necessary resources for the Storm Sewer Fund to assure continuation of quality services to customers
- Maintain rates comparable to other cities, while at the same time generating adequate cash reserves for replacement of existing capital, necessary maintenance on our system, and for emergencies
- Meet all of the new MS4 requirements for Storm Water Management, addressing changes in the requirements as they occur
- Assume that major capital additions to the collection system are not financed from rate revenue (these are financed through Trunk Funds paid through development)
- Move all Storm Water Management activities out of our General Fund, treating the management of our Storm Water System the same financially as our other Utility Enterprise Funds (i.e. Water/Sewer and Electric)

In 2008 when the Storm Water Utility Fund was created, the City identified all of the work that needed to be completed as part of the Storm Water management activities, to develop an estimate on what all of the work would cost on an annual basis, and what future costs would likely be for replacement of infrastructure in our system as it became deteriorated. From this estimate of present and future costs in our Storm Water system, the City developed a rate structure in 2008, charging residential property owners \$3 per month based on each residential parcel that they owned, and attributed a per acre fee to those Commercial/Industrial and undeveloped properties in the City, based on what each of these parcels was contributing for surface water to our overall system. Some of the major operations that these fees helped to fund included:

- Completing certification and maintenance of Chaska's Flood Control System
- Completing maintenance of our Storm Water treatment ponds across the City
- Completing Street Cleaning to keep surface water runoff as clean as possible
- Maintaining our ravine systems throughout the City
- Completing our MS4 reporting and maintenance requirements

- Monitoring development activities to ensure Storm Water runoff and treatment requirement both during construction and after development completed

With the Minnesota River Flood Control system, and the many ravine systems around the community, Chaska's Storm Water Management activities are often more complex than non-river communities. This especially became apparent during the early summer of 2014, as we experienced significant rains in a short period of time. While we did experience some localized issues in our Storm water system, which the 2015 budget addressed, our system in general worked very well, demonstrating the need to have a well maintained and properly functioning system.

2017 Revenues

When the initial fee was established in 2008, this fee was based on estimates that were developed to help complete each of the activities listed above. It was the intent that once we had the Storm Water Utility Fund fully up and running that we would come back and review our fee structure to determine if it had been set at the proper level. In 2012 it became clear that not only was our rate set too low to accommodate all of the activities that needed to be completed in this Fund and with future maintenance expenses, but that we were also very low compared to many of the surrounding cities who also have a Storm Water Utility Fund.

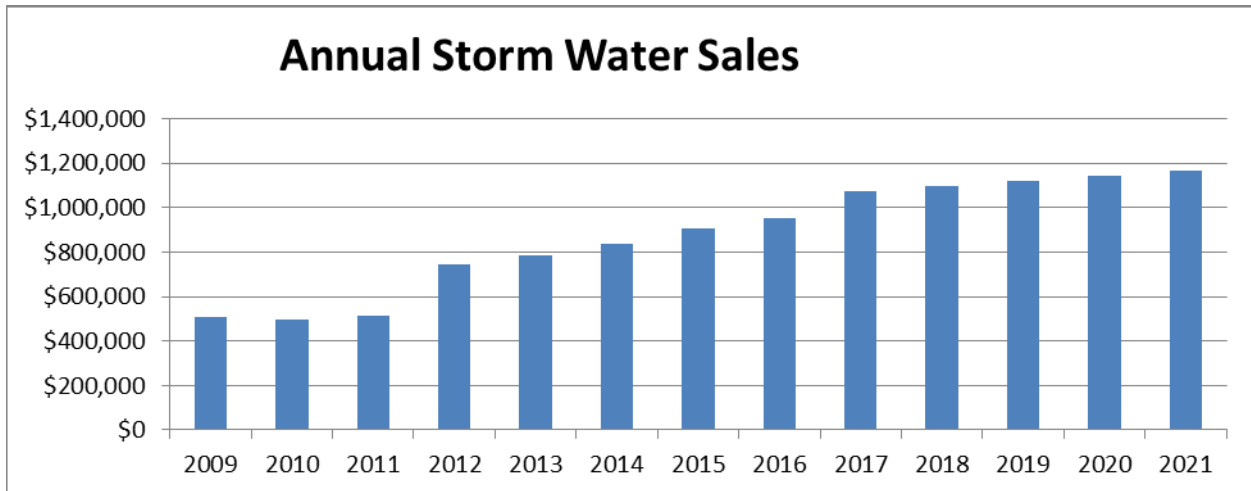
Based on what our actual costs are for Storm Water Management activities, and based on our low position in the cost of our Storm Water Fee, in 2012 it was approved to go up by \$1.50 per month, bringing it to \$4.50 per month, still below the area average. In 2013, this rate went up by \$0.25 to a total of \$4.75 per month. In 2014, this rate went up an additional 6%, which brought the total fee up to \$5.04 per residential lot, and in 2015 this rate went up by 6% to a total of \$5.35/month. Finally, in 2016 it was brought up to \$5.68 per month, even though the average for similar communities around the area was \$6.35 per month.

Based on continuing increases in the amount of Storm Water Work that municipalities are now required to take on, and especially because of large projects we will need to continue to undertake to deal with the storm water issues we did experience during the large rains of 2014, we are recommending that the rate increase up to the average we saw in 2016 for area rates, which would bring it up to \$6.35 per month. While this rate is still lower than the current average, and while we do not think that it addresses all of the financial issues within the fund, it does bring it \$0.67 per month, which brings it closer to covering each of our annual costs. This would be a 11.8% increase for the rates from 2016. Below is a survey of the other area cities monthly Storm Water fees for 2016 compared to Chaska's proposed 2017 residential rate:

Stormwater Utility Rates

Shakopee	\$7.80
Eden Prairie	\$10.20
Carver	\$8.52
Plymouth	\$5.62
Minnetonka	\$6.48
Chanhassen	\$3.42
Victoria	\$4.33
Chaska	\$5.68
Average	\$6.51

As can be seen in the survey above, Chaska's rate at \$6.35 would still be lower than the average of \$6.51 per month in the area cities, with this being a representation of the rates in these cities during the last budget year. It is also important to point out that our rate stays competitive, even though we are a "River community", which often creates additional work required to be completed compared to communities not located on a major water body. Based on this change to our rate structure, the following chart depicts what we can expect to see in revenue for not only 2017, but through the next 5-year period if we saw approximately a 6% increase in rates over each of the next 3 years after 2017:



2017 Expenditures

Within the Storm Water system, there are really two distinct types of activities that occur. There is the day-to-day maintenance of our Storm Water system, and there is the inspection and reporting work that is required as part of the MS4 changes. In 2015, we also added one other category to this work, which is system improvements that need to be completed to address issues that became apparent during the 2014 heavy rain and flooding event.

From a maintenance perspective, the City of Chaska does utilize our Public Works crew to support the maintenance activities of the fund. The time that they put into Storm Water maintenance functions is charged directly back to the Storm Water Fund. One change that we first saw in 2013, and will continue to see in 2017, is the addition of significant work to maintenance of our Flood Control Levy system. In 2012, the Army Corp of Engineers went through an inspection process to re-certify our levy. This inspection included new standards for levy maintenance that were not in affect at the time our Flood Control System was completed in the mid-1990s. One component of the work identified is the annual Rock Channel Weed/Brush control program. This is a program we will have to complete each year, and adds approximately \$10,000 annually to expenditures in our budget.

The other major maintenance work needed will be the regular maintenance schedule of the storm water ponds we have scattered throughout the community. For this, we have \$50,000 allocated annually. This was a change we first implemented in 2015, and will be an on-going program, just as the Rock Channel Weed/Brush control program.

Another maintenance activity comes through the maintenance of our Storm Water system as part of our Street Reconstruction Program. To support these activities, the Storm Water Fund contributes \$200,000 annually to the Street Reconstruction program.

To be able to address the ever-increasing areas that we need to address through our Storm Water system, Staff is also recommending we keep the \$280,000 allocation toward storm water system improvements. As we look at the necessary activities coming up over the next several years, it will include the replacement of the 6th Street and Beech Street bridges, as well as additional bridge replacements in future years.

The functions of inspections and reporting are mainly completed through our Engineering Department and through contract Engineering services. For 2017, \$80,000 of the Storm Water Fund budget is dedicated to these activities, and is planned to be carried forward in each of the 5-year planning horizon. These activities help us to meet our MS4 requirements, as well as identify the priorities for what maintenance work we will have to complete over the next several years. It should be noted that the Engineering Department did have one additional Staff resource budgeted for 2016 to address increased work load. This is an Engineering Technician position. While this position is budgeted within the General Fund, 25% of the funding for this position is scheduled to come from the Storm Water Fund to recognize the storm water work this position will be doing as part of their job requirements.

Finally, for equipment, the Storm Water fund would have the purchase of two new 6 inch pumps to be used with the new berm at Athletic Park. While these can be rented, it is risky not to have these in inventory, as the time period when we need these, is often the same time other communities need these pumps, therefore creating the possibility of them not be accessible when we need them. The total cost for these pumps is budgeted to be \$64,000.

Based on the changes to our rate structure and our budget to fund necessary activities in the Storm Water Management activities, below is a breakdown of the revenues and expenditures for 2017:

	2015	2016	2017		
Revenues	Actual	Budget	Budget	Change	% Change
Residential Sales	\$908,191	\$951,000	\$1,076,000	\$125,000	11.62%
Other	\$368,193	\$100,000	\$100,000	\$0	0.00%
Total	\$1,276,384	\$1,051,000	\$1,176,000	\$125,000	10.63%
Expenditures					
Transfer Out	-\$939,344	\$200,000	\$200,000	\$0	0.00%
Transmission/Distribution	\$760,540	\$673,339	\$498,718	-\$174,621	-35.01%
Administration	\$229,119	\$320,652	\$243,958	-\$76,694	-31.44%
Utility Billing	\$18,389	\$22,500	\$22,728	\$228	1.00%
Capital Outlay	\$1,377,541	\$0	\$0	\$0	0.00%
Depreciation	\$21,236	\$0	\$0	\$0	0.00%
Other	\$55,038	\$59,458	\$63,608	\$4,150	6.52%
Total	\$1,522,519	\$1,275,949	\$1,029,012	-\$246,937	-24.00%

This fund has been a work in progress as different requirements have been implemented, and services have been changed from being charged to the General Fund to being charged to the Storm Water Utility. This budget does start to represent where the expenses and revenues in this Fund should be. While we do see our Fund Balance in 2017 go up by \$146,988, over the 5-year period, we do show that this fund goes into deficit by approximately \$600,000 by 2021, which means that we will likely have additional rate changes needed to accommodate the needs of this Fund, which have increased greatly over the past decade as both regulations and flooding activities have demonstrated our needs in this area.

Curling and Event Center Fund Budget

In 2015, the City of Chaska completed the redevelopment of Firemen's Park, and the Block 6 corner at the northwest intersection of Highways 212 and 61. This project was first identified in the Downtown Master Plan as a catalyst site, with the main objective of the redevelopment to create a destination in Downtown Chaska to drive more resident and visitor traffic into our downtown commercial district.

While the redevelopment included the entire renovation of Firemen's Park on the south side of Firemen's Lake, and Veteran's Park on the north side of the lake, and the addition of the Curling and Event Center building, the Curling and Event Center were set up as a separate Enterprise Fund activity separate operationally from the Park, and run very similar to our other recreational Enterprise Funds including the Community Center, Town Course and Par 30. While the Curling and Event Center (CEC) and Firemen's/Veteran's Park function as one project, the CEC runs as a separate Enterprise Business with its own operational budget.

While the overall goal of the CEC and the Firemen's/Veteran's Park redevelopment was to help attract more people and activity into our historic downtown commercial district, the Curling and Event Center did identify key objectives to determine the success of this fund, including:

- Provide the necessary resources for the CED Fund to assure continuation of quality service to our customers, including providing a world-class curling facility
- Utilize the facility's amenities and newly-renovated Firemen's Park, to attract people into downtown Chaska as a destination location
- Promote community gathering and interaction, with an emphasis on creating a variety of programs and services to draw people to this location throughout the year
- Be operationally self-supporting with no property tax support
- Reinvest back into the facility to keep it in good condition for future generations
- Work to build a cash reserve in the CEC Fund to support future maintenance and improvements

As a facility, the Chaska Curling and Event Center has three main components in the building, including the 300 seat Event Center and catering kitchen, the facility restaurant/bar, and the 6-sheet Curling Facility. All three of these components are tied together Great Hallway, which contains displays to help orient visitors to the history of Chaska and the businesses and organizations that currently make up the community. From an operational standpoint, the City of Chaska owns the entire facility, operating both the Event Center and the Curling Facility. The City of Chaska leases out the restaurant space to Crooked Pint, a restaurant that was chosen through an RFP process as the facility was being planned. The relationship with the restaurant in the CEC is very similar to the structure and relationship we have between the Chaska Town Course

and the restaurant operator in the Clubhouse, who leases this space from the City based on a revenue sharing agreement.

2017 Revenues

As indicated previously, one of the main goals of the CEC Fund is to make this fund an operationally self-supporting entity. While the Debt service for the construction of the facility itself is supported by a newly-created "Community Building Fund", which derives its revenues from multiple sources including the Chaska Electric Fund, the Economic Development Authority and our expiring TIF District #4, the CEC is mean to support all of its own operations including Staffing, maintenance, utilities and programming.

There are four main sources of revenue for the CEC, including:

- Restaurant Lease Revenue
- Curling Membership and League Fees
- Event Center Rental/Event Center Food Alcohol Sales
- Corporate Curling Events
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I will spend some time discussing each of these revenue sources in detail below.

Currently, the CEC has a lease with Crooked Pint Restaurant to operate the restaurant within the building. Crooked Pint was chosen as the vendor for the restaurant service after going through an RFP process while the facility was being developed. As part of our lease, the Crooked Pint is responsible for providing all food service within the facility, Staff, inventory, Point of Sales system and liquor license. While the Crooked Pint is not the exclusive provider of food service within our Event Center, they are the sole liquor license holder for the entire CEC building, and are the only vendor allowed for alcohol sales in the entire building. We structured it this way to make sure that we dealt with any potential liability issues relating to alcohol sales. The Crooked Pint lease is currently structured so that lease payments are made based on a percentage of all gross sales in the building. Specifically, their lease is based on 7.5% of all food sales, and 10.5% of all alcohol sales. In 2016, the amount generated from this lease was close to \$435,000. To be conservative for the 2nd year of operations, we are budgeting this number to \$407,500 to recognize that restaurants typically see a large bump the first year of operations because of the newness of the facility. We do not want to count on this going into the 2nd year as our expenditure budget is built around this number as well.

The second major source of revenue is Curling Membership and League fees. Currently the CEC has over 1,200 members of the facility, and is considered the largest curling facility in the Country by membership. Of our members, over 900 currently participate in League play, which occurs Sunday-Friday evening, with between 2-3 leagues per evening. These leagues have all levels of players involved from the beginners and mixed leagues to both men's and women's leagues. The annual membership cost for a patron is \$105 for adults, \$35 for Youth and \$65 for seniors. This provides members access into the facility to play throughout the year. Leagues cost \$400 per team, which breaks down to between \$80-\$100 per team, depending on how many players a team rosters. In 2016, the Curling memberships and leagues generated approximately

\$432,221 in revenue. For 2017 we are budgeting this to be \$382,100. We do not expect to see a drop in participation, but do want to be conservative on our budget estimates.

The third major source of revenue in the CEC is from the Event Center itself. For the event center, we generate revenue off of both the rental of the room for events, as well as from the sale of food and alcohol in the facility. For the room rental, we have groups renting the facility for anything as big as weddings, class reunions and Senior Proms, to renting it for non-profit fundraisers. Depending on the day, fees can be as low as \$125 for 2 hours on a Sunday-Thursday block, all the way to \$1,100 for an 8 hour block on a Saturday. It should be noted that the City Council did set up a Scholarship Fund with \$12,000 annually to help support non-profits with their fee for the use of the facility. As mentioned previously, all alcohol sales for the Event Center are required to go through the Crooked Pint restaurant, as they are the liquor license holder for the entire facility. We receive 10.5% of all alcohol sales in the event center as we would in the restaurant. Users of the facility are able to utilize whatever caterer they want to for their event, with the caterer's fee being equal to 12% of their gross sales for outside vendors and the normal food fee for Crooked Pint. The reason for this difference is because outside caterers are provided with the full caterers kitchen as part of their package, and also it takes more staff resources to be able to manage the outside vendor. Our total revenue for 2016 in the Event Center was just over \$79,000. For 2017 we are budgeting \$137,000 for this as the Event Center did not fully open until approximately May in 2016, thus not bringing in a full year of revenue.

Finally, our last source of revenue for the Curling facility is through Corporate Events in our Curling Facility. Our Corporate Events are booked on weekday afternoons within the Curling Center, and include the use of the Curler's Lounge in the front of the rink for business meetings and lunch, with a Learn to Curl session, complete with instructors, provided for the participants as a team building event. These Corporate Events have been very popular, with every day being currently booked through February, and most weekday afternoons booked in 2016. The fee for these Corporate Events is \$40 per person for the first 10 people, and \$35 per person for every person over this. Food is something that is provided separately from Crooked Pint, but they are able to order and be served directly in the Curler's Lounge Space. The total revenue generated for this service in 2016 was \$142,500. We are budgeting a number of \$137,900 for 2017 to budget somewhat more conservatively.

The total revenue for the Curling Center for 2017 is budgeted to be \$1,064,387, which is a 3.16% increase over 2016 for just operational revenues. Below is a chart reflecting the revenue number for both 2016 and the 2017 budget year. One thing that you will note is that we do have the transfer coming in from the Community Building Fund for debt service on the project. This is reflected in this fund as this is where we pay the debt from. Because the debt service does not start to get paid back until 2017, that is why we see the large increase in overall revenues so that we can reflect this transfer.

Revenues	Actual 2016	Budget 2017	Change	%Change
Event Center Rental	\$79,502	\$137,000	\$57,498	72.32%
Curling Center Leagues/Memberships	\$432,221	\$382,100	-\$50,121	-11.60%
Corporate Curling Events	\$142,500	\$137,900	-\$4,600	-3.23%
Restaurant Lease	\$435,382	\$407,500	-\$27,882	-6.40%
Community Fund Transfer (Debt)	\$0	\$1,483,762	\$1,483,762	0.00%
Other Revenue	\$1,122	\$117	-\$1,005	-89.57%
Total Operating Revenues	\$1,090,727	\$2,548,379	\$1,457,652	133.64%

2017 Expenditures

From an expenditure standpoint, there are two main types of expenses that we have within the Curling and Event Center. The first expense that we have is with Staffing as it relates both to scheduling and programming of the facility, as well as on-going and daily maintenance of the facility. The second major expense is with the day-to-day operational costs such as cleaning, utilities and on-going maintenance of mechanical systems within the building.

From a staffing standpoint, we currently have 3 full-time employees within the CEC facility, as well as some part-time help to staff the front desk and to put up and tear down equipment for different events happening within the CEC. At this time we currently contract out all daily cleaning within the facility, but we are planning as part of the 2017 budget to bring this function into a full-time staff member as we do think that we will be able to more cost-effectively provide this service, and do it to the unique service standards we have for the building and the different functions we have hosted within the building.

Our full time staff consists of our Curling Manager, our Curling Ice Maker and our Event Center Manager. Each are responsible for the day-to-day leadership of their individual areas, although we do see cross-over between the positions because of the interrelation of many things within the facility. Because this facility falls under the general Parks and Recreation Department, we do get the benefits of efficiency being able to provide some shared staff both with the Park and Recreation Department out of the General Fund, and the Community Center staff through this Enterprise Fund. In particular, the Park and Recreation Director and Assistant Director, provide leadership for the overall CEC Enterprise Fund, providing us with some cost-efficiencies compared to if we simply ran this as a stand-alone entity. These are similar efficiencies we see with other Enterprise Funds, and with the General Fund, thus allowing us to keep our Administrative costs as low as possible in each of these funds.

From a day-to-day operational standpoint, the biggest expenses we have in the CEC is the cost of Utilities, general custodial duties within the facility, and the cost of maintaining our mechanical systems within the building. From a utility perspective, we

break down the cost of Utilities based on the area of the building based on the City versus leasable portions of the building. The utilities include sewer, water, electric, gas and garbage. Within the Event Center, Curling Center and general common areas of the facility, our Utility costs are approximately \$155,000 per year, with the costs within the restaurant area being approximately \$48,000 per year. For cleaning services, we currently had approximately \$40,000 spent in 2016 to contract for our cleaning services. This is one that we feel we can more effectively and efficiently staff internally, and thus this cleaning expense would get minimized in 2017 to only those hours we cannot accommodate by going to an internal employee.

The only other thing to mention as part of the CEC budget is that all debt service is included in the overall budget for the entire project, including the Firemen’s Park redevelopment components. Because this debt service is covered through dollars accumulated in our “Community Building Fund”, we do see a transfer of dollars coming into the CEC Fund, with those then going back out to support this debt service. This is not expenses related to day-to-day operations. It should be noted that from an operational standpoint, the CEC Fund does generate approximately \$104,000 of revenue in excess of our operational expenses. The fund does show that it has a net profit of only \$3,883 because we have taken those excess dollars and put them towards debt service to relieve the Community Building Fund of some expenses and preserve some more dollars towards future projects. Below is a summary of the operational expenditures in the fund:

Expenditures	Actual 2016	Budget 2017	Change	% Change
Event Center-Staffing/Utilities/General	\$92,086	\$125,048	\$32,962	35.79%
Curling Center-Staffing/Utilities/General	\$368,093	\$432,857	\$64,764	17.59%
Crooked Pint-Utilities	\$45,360	\$49,998	\$4,638	10.22%
General Facility Admin Utilities/Cleaning	\$256,057	\$352,714	\$96,657	37.75%
Debt Service	\$316,480	\$1,583,762	\$1,267,282	400.43%