

City of Chaska 2018 Budget



2018 Annual Budget

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

Submitted for your review is the proposed 2018 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.

2018 Revenue Discussion

While we have seen increases in market values since 2014, in 2016 was the first year we saw all the valuation lost during the "Great Recession" recovered in the community. As we go into 2018, we will once again see our valuations in the community continue to rise, but at a much more sustainable level than we saw during the economic boom period in the early to mid-part of last decade. 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, an 8.21% increase in 2016, and a 3.18% increase in 2017. For taxes payable 2018, we are seeing a 7.85% increase in our community's taxable market value, which provides a very healthy increase in our community's tax capacity, with it growing by 8.4%. The 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. With Chaska, as well as the surrounding communities, now experience sustainable growth levels, we do project to see a 2% increase in market values each of the next 5-years.

As we look at 2018, 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 significant impact on existing properties in the community.

As the 2018 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 7.85%. This will bring our overall property values in the community to just over \$2.8 billion, the highest level in our community's history. 2.3% of this change came from new construction with the rest being increased values on existing properties

- Based on State formulas, the City is no longer going to receive Local Government Aid to help reduce our tax levy needed, creating a \$250,000 loss in revenue for 2018
- 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 26,500 residents
- Our Electric Revenue has continued to increase significantly, as we have seen a significant amount of Economic Development activity occur in the last five 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 5 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. This 4-year plan increased revenue in the General Fund to support a \$1 million gap, with the final \$250,000 of this being incorporated into the 2017 budget. With this program now fully funded, we have been able to move forward in making the proper reinvestment back into our existing General Fund Assets, such as road, trails and parks.

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, and captures the resources of any new development in the community to make sure all new homes are contributing their "fair share" to support our General Fund services.

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, especially since the two things that drive up these costs are new buildings and residents in the community, along with the inflationary increases in the cost of materials and labor.

Budget Objectives

As with all 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 2018 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*
- 8) Develop a budget plan that is sustainable from a resource perspective to support the service levels residents expect*

One objective that is new this year is the addition of the last objective, which is to develop a budget plan that is sustainable from a resource perspective. Over the past year, the City Council did have a retreat discussing some of the biggest financial challenges the City will face over the next several years. One of the biggest challenges will be trying to keep our service levels constant if we do not put sustainable levels of resources to support them. In the past, the City of Chaska has been very "lean" when it has come to resources used to support our high level of services in the community. As the community grows, and assets such as facilities get older, these levels of resources will not be completely sustainable. While the 2018 budget does not completely address this new objective, there are pieces of the 2018 budget that do help to start down this path of addressing this reality. In 2018, Staff will be completing a comprehensive inventory to properly define what level of resources we should be at to keep our service levels sustainable, and will be introducing a plan for how to move forward addressing this objective in the 2019 budget.

Based on the objectives above, fully implementing our Capital Improvement Program, and utilizing our tax levy policy adopted in 2014 for our budgeting process, Staff is recommending a 5.3% increase in our operational tax levy for 2018. In addition to this, Staff is also recommending recapture half of the lost Local Government Aid that we will not be receiving in 2018 and forward, which would increase the levy by an additional \$125,000, or 2.8%. With the City already running very lean, not recapturing at least half of this lost LGA would result in a reduction of service levels. Implementing both our operational tax levy, based on our tax levy policy, along with recapturing half of the

\$250,000 lost LGA would result in the City of Chaska increasing its General Fund Tax levy by 8.1% for 2018.

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 8.4% (as it will in 2018), the levy could also increase by 8.4% 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. Based on the 8.1% increase in tax levy for 2018, and the tax capacity going up 8.4%, this means that the tax rate would go down by at least 0.4% for 2018. This means that if a property saw an increase of 0.4% or less for 2018, their taxes would either stay the same or go down for 2018.

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, 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 the 2018 budget, we are recommending levying an additional \$125,000 to recapture half of the lost Local Government Aid in 2018. Staff feels that we will not be able to keep a sustainable level of services if we do not take this action.

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 4 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 four 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 212 Medical Center, four new data centers, the new Lakeview Medical Building, the addition of Park Dental in the Hazeltine Commons area, the addition of the Chaska Creek Medical Office Building, and the additions to Lifecore Biomedical, Beckman Coulter and Exactec. We expect to see this level of development activity continue into the 2018 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 new development in the Jonathan Square development, and continued 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 Housholds	# 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
2022	11,573	150	27,775

An analysis of General Fund revenues by major fund source:

Total revenues anticipated to fund the 2018 General Fund operating budget are \$16,012,480 which is an increase of 6.4% from the 2017 budget of \$15,049,480. 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 5.3%, for operational expenses based on our new policy, as well as an additional \$125,000 to replace half of the lost LGA we will not see in 2018. This would bring the total tax levy increase to 8.1%.

In addition to this, our other main source of income in our General Fund is our Gas Franchise Fee at approximately \$450,000. The chart below shows a summary of revenues for the 2018 budget year:

General Fund Revenues

	2016	2017	2018		
	Budget	Budget	Budget	Increase	%Increase
Property Tax	\$4,412,927	\$5,145,166	\$5,400,722	\$255,556	5.0%
Elec/GasFranchise Fees	3,868,000	4,136,000	4,137,000	\$1,000	0.0%
Other Franchise Fees	280,000	288,401	322,025	\$33,624	11.7%
License and Permits	1,100,723	1,183,349	1,350,184	\$166,835	14.1%
Other Revenues	2,510,358	2,356,174	1,972,379	(\$383,795)	-16.3%
Admin Charges to Funds	1,902,185	1,940,390	2,830,170	\$889,780	45.9%
Total Revenue	\$14,074,193	\$15,049,480	\$16,012,480	\$963,000	6.4%

Capital Improvement Program

With our Capital Improvement Program being fully funded after the 2017 budget, this 2018 budget document does show 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 mentioned previously, we did increase our levy by \$1,000,000 over the past 4 years to fill the gap of resources needed to fully implement this plan.

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.

With the CIP gap now being fully-funded, 2018 will bring a number of rehabilitation projects to the table, including:

- Street Overlay: \$254,000
- Street Sealcoating: \$50,000
- Trail Upgrade/Overlay: \$60,000
- Veteran's Park Rehabilitation: \$550,000
- Downtown Storage Garage Construction: \$55,000
- MSB Annual Door/Hoist Maintenance Program: \$31,000

Each of these projects will help make sure our assets stay in great shape as we move into the future, and that we treat each of our assets as a true investment into the community.

Property Taxes:

For 2018 the General Fund, the budget requires a total levy of \$8,581,604, which represents an increase of 8.1% from the 2017 tax levy. This levy is made up of 5.3%

to support the Operating levy (3% for inflation and 2.3% for new growth in the community), with the remaining amount accounting for recovering half of our total loss in Local Government Aid for 2018, which is \$125,000. 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.

It should be noted that out of this total tax levy amount, \$189,264 represents a levy for tax abatement assistance provided in the past. This additional amount represents the sixth 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 is 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 \$451,754 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
- \$8,267,340 being levied to support General Fund Operations and existing Equipment Acquisition Fund needs
- \$125,000 to recover half of the lost Local Government Aid Dollars in 2018
- Continuation of the fully implemented Capital Improvement Program
- \$451,754 being levied in the Economic Development Authority Fund, with \$300,000 going to help support the newly established “Community Building Fund”
- 189,264 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 2015, 2016 and 2017, along with the proposed 2018 levy:

	2015	2016	2017	2018	Increase	%
General/Equipment Acquisition	\$ 6,444,472	\$ 7,130,307	\$ 7,764,085	\$ 8,392,340	\$ 628,255	8.1%
Mt Pleasant	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	0.0%
Total Operating and Special Levy	\$ 6,450,472	\$ 7,136,307	\$ 7,770,085	\$ 8,398,340	\$ 628,255	8.1%

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 \$206,815,200 to \$2,839,951,900, an overall increase of 7.85%. The largest percentage increase that we saw in 2017 was in new apartment properties, with a 18.65% overall increase. 12.35% of that came from new construction of rental units in the community. The other major area of increase we saw was in commercial/industrial properties, with a 6.81% 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 also had a sizable increase, with the overall increase in this type of property being at 7.58%. New construction accounted for only 1.91% of this change, with the remainder of the change coming from increases in property values to existing homes. Below is a summary of the Market Values for taxes payable 2018 (assessed 2017) as established by the County Assessor's office:

Chaska 2017 Assessment					
	Residential	Commercial/Industrial	Apartment	Other	Total
2017 EMV	\$2,118,705,400	\$447,327,400	\$173,092,000	\$100,827,100	\$2,839,951,900
2016 EMV	\$1,969,353,400	\$418,813,700	\$145,887,000	\$99,082,600	\$2,633,136,700
Total Value Change	\$149,352,000	\$28,513,700	\$27,205,000	\$1,744,500	\$206,815,200
New Construction	\$40,465,900	\$3,419,200	\$21,376,800	\$0	\$65,261,900
Market Change	\$108,886,100	\$25,094,500	\$5,828,200	\$1,744,500	\$141,553,300
% New Construction	1.91%	0.76%	12.35%	0.00%	2.30%
% Market Change	5.53%	5.99%	4.00%	1.76%	5.38%
2017 Total % Increase	7.58%	6.81%	18.65%	1.76%	7.85%

Using the 2017 market values and the classification formulas established by the State, the County Auditor has calculated Chaska's 2017 (for taxes payable 2018) gross tax capacity to be \$32,029,346, an increase of 8.0%. 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 \$974,106 with Chaska's fiscal disparities contribution for 2018 being \$3,096,735 resulting in a net tax capacity of \$27,958,505, an increase of 8.4%.

	2017	2018	Increase	%
Gross Tax Capacity	\$ 29,669,370	\$ 32,029,346	\$ 2,359,976	8.0%
TIF	\$ (658,411)	\$ (974,106)	\$ (315,695)	47.9%
Fiscal Disparities	\$ (3,226,831)	\$ (3,096,735)	\$ 130,096	-4.0%
Other	\$ -	\$ -	\$ -	
Net tax capacity	\$ 25,784,128	\$ 27,958,505	\$ 2,174,377	8.4%

Based on these estimates, Carver County has estimated Chaska's 2017 General Fund tax rate to be 27.19%. This is a decrease of 1.33% from 2016, where we had a tax rate of 27.56%. With the average value of home going up from \$277,694 to \$293,050 in the community (5.53%), this would bring the average valued home's City taxes from \$765 in 2016 to \$797 in 2017, or an increase of \$32 for the year. 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 2018, Chaska will continue to maintain one of the lowest City tax levies per capita of any City in the metropolitan area, ranking sixth 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 just over 40% 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 2017 City tax data, out of 86 local units of government looked at in the metropolitan area, Chaska ranked 81st 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.

	City	2017 Payable Levy	Population	Levy Per Capita
1	Oak Park Heights	5,193,661	4,845	\$1,072
2	Wayzata	4,612,154	4,522	\$1,020
3	Golden Valley	21,531,403	21,376	\$1,007
4	Minneapolis	311,641,000	431,651	\$722
5	Hopkins	12,945,032	18,105	\$715
6	Mendota Heights	7,990,330	11,280	\$708
7	Tonka Bay	1,094,944	1,555	\$704
8	St. Anthony Village	6,292,985	9,007	\$699
9	Columbus	2,762,001	4,016	\$688
10	Afton	2,041,901	2,991	\$683

62	Chanhassen	10,795,121	25,469	\$424
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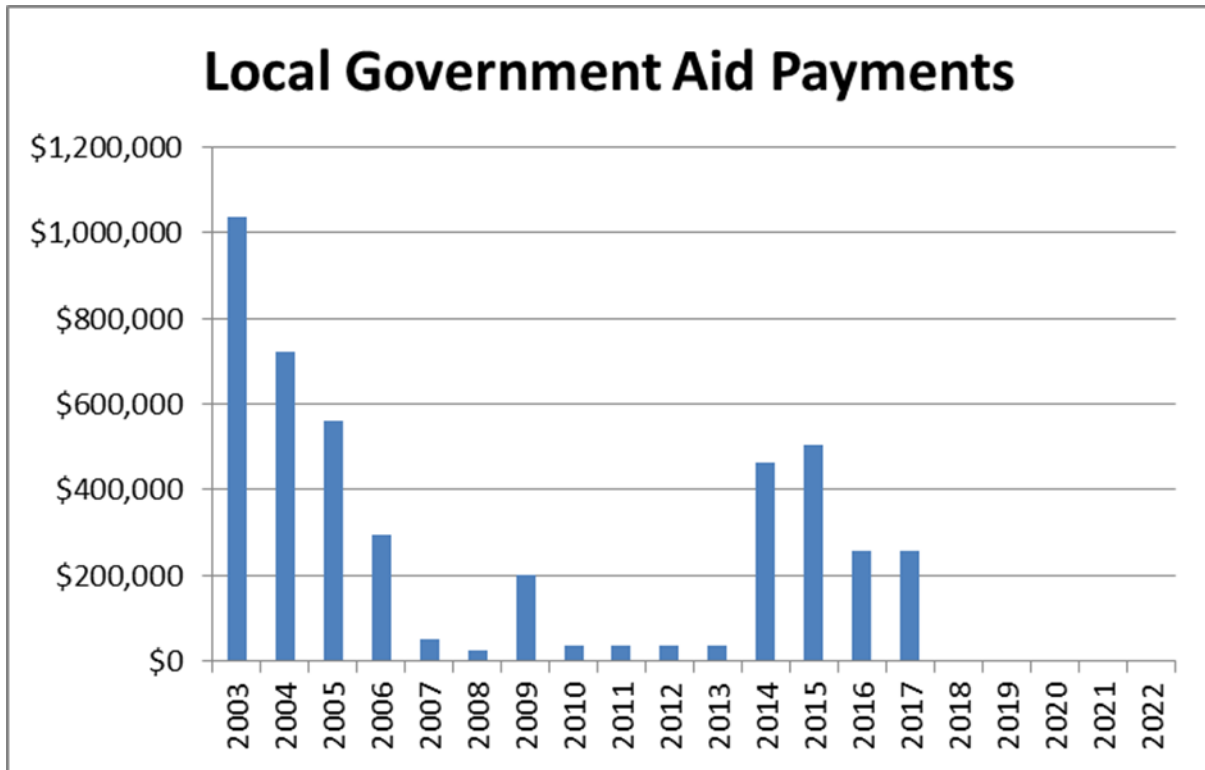
77	North St. Paul	4,484,108	12,338	\$363
78	Arden Hills	3,641,290	10,324	\$353
79	New Brighton	7,905,950	22,496	\$351
80	Mounds View	4,528,947	12,952	\$350
81	Chaska	8,581,604	26,016	\$330
82	Vadnais Heights	4,281,962	13,321	\$321
83	North Oaks	1,442,546	5,009	\$288
84	Lauderdale	708,333	2,510	\$282
85	Falcon Heights	1,278,231	5,554	\$230
86	White Bear Lake	5,173,000	25,634	\$202

Intergovernmental Revenues:

One significant change we are going to be experiencing in 2018 is the reduction of our Local Government Aid by approximately \$250,000 to approximately \$1,000. In essence it is not expected we will see any more Local Government Aid in 2018 or any future years. This is due to the State's LGA formula, the increase in market values we have seen in the community over the past couple of years, and the decertification of our large TIF District #4 in 2014, which reincorporated a large taxable market value back into the community in that following year.

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, this amount was reduced to just under \$250,000. As mentioned previously, this amount will go down to approximately \$1,000 in 2018, and is expected

to stay at this level into the future. 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.



While we were able to eliminate most of our dependence on Local Government Aid as we went from \$1 million in 2003 to nearly \$0 by 2010, the \$250,000 we received in 2017 was relied upon in the budget to meet our service levels while not having to increase the tax levy beyond its final 2017 amount. As mentioned previously, because of that, and a desire not to impact existing service levels, it was decided as part of the establishment of the 2018 tax levy that \$125,000 of the lost \$250,000 of LGA would be recouped through the levy, above and beyond our normal tax levy policy. This adds 2.8% onto our 5.53% supported by our tax levy policy, bringing the total tax levy increase up to 8.1% as mentioned previously in this report.

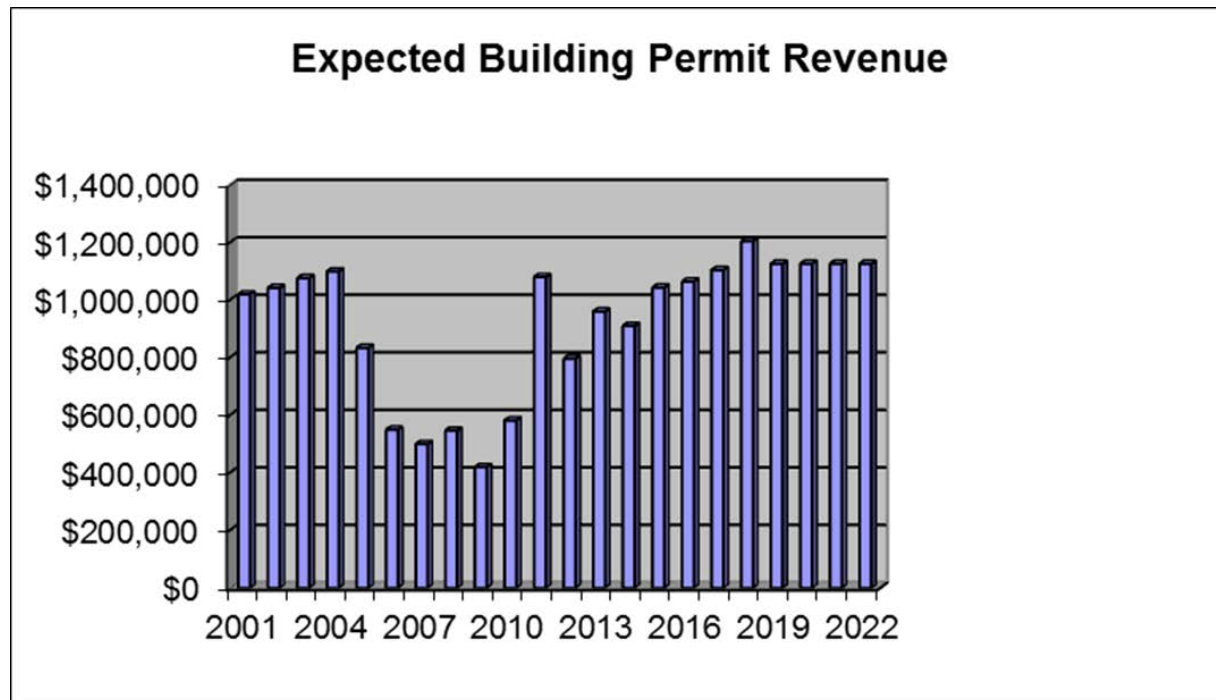
Licenses and Permits

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 since 2013, 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 2018, with Staff anticipating that we will see approximately \$1.35 million 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, through the addition of new development in the Jonathan Square Shopping Center 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.



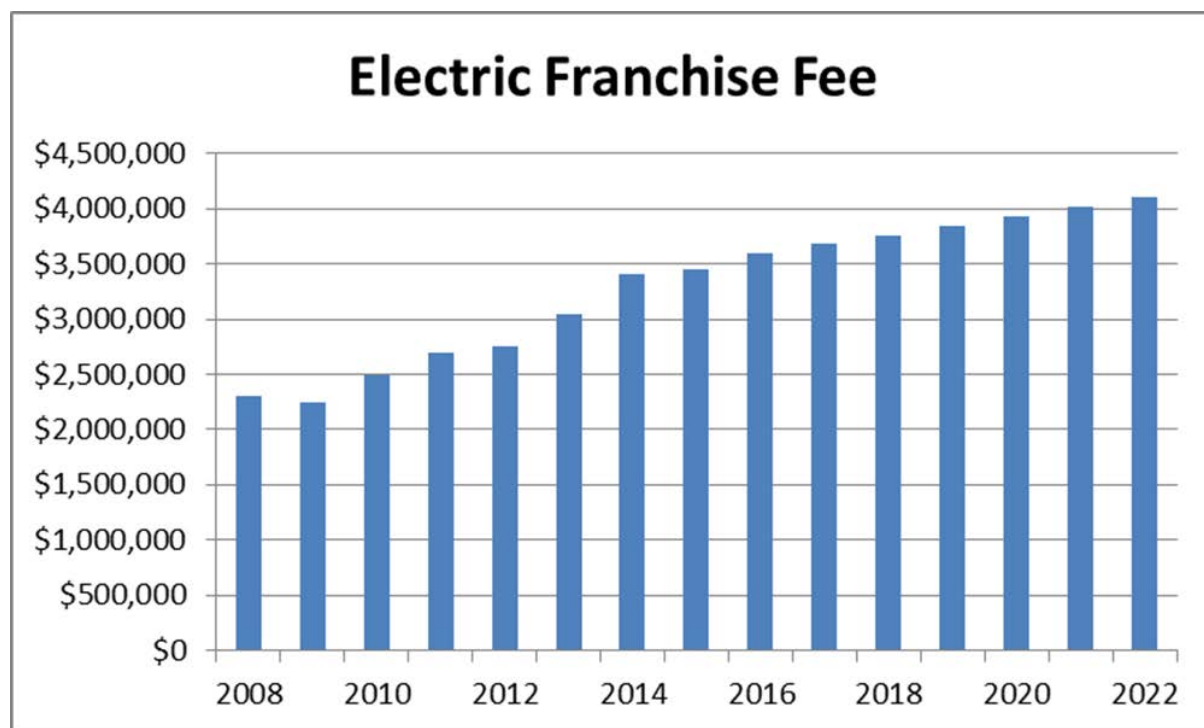
Electric Fund Transfers

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 2018 the franchise fee is anticipated to generate revenues to the general fund of approximately \$3,700,000. We have seen 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 2018 as we expect to see the additional data center added to our West Creek Corporate Center by Stream Data come on-line, and some additional growth in businesses in our North Industrial Park area.

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 2018, with development of the first building at the Southwest corner of the intersection of 212 and Engler Boulevard to be completed and come on-

line within the next 6 months. The first building we will see come on-line is the new 45,000 square foot Chaska Creek Medical Center.

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 2018, charges for services are programmed to be \$2,830,170 as compared to \$1,940,390 in 2017. 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. It should be noted that two larger increases we saw in these Administrative Fees was \$175,000 from both the Water and the Sewer Department. These funds did not contribute very much at all in the past as we were trying to build up fund balance in these accounts. Now that we

are getting a healthy fund balance in these accounts we are adding more appropriate fees to these funds to help support the internal services they are receiving. For 2018, these charges will help support the Human Resources Technician, which is scheduled to start in March of 2018. This position is necessary to support our Human Resources Manager to properly provide Human Resources services to our growing organization. It will also help support the new Communications Coordinator position that will provide services to all of our departments. 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.

General Fund Expenditures:

General fund operating expenditures are forecast to be \$16,012,479 which is an increase of 6.4% over the 2017 Operating Budget. In preparing the 2018 budget the following general assumptions were used for the operating budget:

- *Utilize budgeting objectives developed*
- *Increase in the tax levy by 5.3% due to new growth and inflation, with an additional \$125,000 representing the replacement of half of our lost Local Government Aid in 2018 (\$125,000)*
- *Continue to fully implement the fully-established Capital Improvement Program in 2018*
- *Continue with the 5% Gas Franchise Fee, which will represent approximately \$450,000 in 2018 and be dedicated to the CIP Program*
- *Continuation of \$300,000 tax levy annually to the EDA Fund in 2018 and continuing into the future to support the "Community Building Fund"*
- *Operational costs up 1% in 2018*
- *Personnel salaries up 3%, with employer benefit contribution increases of 6%*
- *Assume normal continuation of our Street Reconstruction Program*
- *New Police Officer Start in July of 2018 (needed in investigative department as to meet current investigation load)*
- *New Human Resources Technician start in March 2018 (currently only have 1 employee for 300 people-typical ratio is 1 for every 100-150 employees)*
- *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 2018. This includes the replacement of 2 Police vehicles, and installation of cameras in remaining squads, the replacement of the "Sno-Go" large snow blower to clear downtown snow piles, a replacement dump truck, pickup truck, lawn mower and Hot Mix Trailer in the Public Works Department*
- *Addition of 2 new Inspector/Fire Fighter positions in 2018 to enhance our rental inspection program, which is administered through the Fire Department, and to support our daytime response for Fire Calls. The cost of this is \$105,000, but will be offset by \$90,000 in revenue*
- *Assume no draw-down on General Fund reserves*

Department	2015	2016	2017	2018	Increase	%Increase	Notes
	Actual	Budget	Budget	Budget			
Council	\$173,885	\$110,850	\$113,684	\$112,728	-\$956	-0.84%	
Administration	\$669,866	\$572,266	\$594,281	\$725,843	\$131,562	22.14%	<i>HR Tech/Comm Cord</i>
Administrative Serv.	\$1,243,941	\$1,342,584	\$1,404,970	\$1,426,979	\$22,009	1.57%	
Data Processing	\$978,515	\$958,798	\$994,786	\$1,012,011	\$17,225	1.73%	
Legal	\$115,807	\$85,000	\$85,852	\$84,718	-\$1,134	-1.32%	
Community Develop	\$845,281	\$922,447	\$1,272,746	\$990,892	-\$281,854	-22.15%	
Engineering	\$374,869	\$385,911	\$422,032	\$384,319	-\$37,713	-8.94%	
Elections	\$1,242	\$32,027	\$5,000	\$32,433	\$27,433	548.66%	<i>Elec Year</i>
Police	\$3,607,133	\$3,687,860	\$3,686,957	\$4,001,800	\$314,843	8.54%	<i>Officer</i>
Fire	\$1,229,799	\$1,215,521	\$1,517,628	\$1,740,482	\$222,854	14.68%	<i>2 Inspectors</i>
Government Bldgs	\$232,794	\$220,850	\$223,067	\$220,123	-\$2,944	-1.32%	
Public Works	\$2,582,149	\$3,515,974	\$3,192,106	\$3,468,977	\$276,871	8.67%	
Recreation	\$531,247	\$810,565	\$924,147	\$1,023,863	\$99,716	10.79%	<i>Recreation Sup</i>
Communication	\$52,853	\$80,610	\$80,735	\$76,393	-\$4,342	-5.38%	
Unallocated	\$40,443	\$132,930	\$122,489	\$710,918.00	\$588,429	480.39%	<i>Portion of CIP/Misc.</i>
Transfers Out	\$1,509,298	\$0	\$409,000	\$0	-\$409,000	-100.00%	
Total	\$14,189,122	\$14,074,193	\$15,049,480	\$16,012,479	\$962,999	6.40%	

The major areas of growth above include two new Staff starts, with a new Police Officer and an Human Resources Technical, and with the addition of two Rental Inspectors/Firefighters in our Fire Department to help support enhancing our Rental Inspection Program, while also helping to support our Daytime Response needs in the Fire Department. The cost of this will nearly be offset by the revenue expected to be generated from our rental housing licenses. It should be noted that all of these position additions are needed to help support our levels of service, both internal and external, with the growth of our organization. The Police Officer and Rental Inspectors/Fire Fighters are right on schedule for when we would expect to bring these on. The Human Resource Technician is a position that has been needed for some time given the size of our organization from an employee perspective.

From a CIP perspective, 2018 will be the second year we will be able to fully fund our new Capital Improvement Program, with \$1,000,000 now being dedicated to the plan. This now allows us to be able to program the exact projects we will be undertaking on an annual basis to support our overall Capital Improvement Program. For 2018, the following projects are planned to be undertaken:

- \$254,297: Street Overlays
- \$50,000: Seal Coating
- \$60,000: Trail Upgrades/overlay
- \$550,000: Veteran's Park Rehab (this is in addition to the Parkland Dedication dollars that will be utilized to add the new Veteran's monument additions to the Park)
- \$55,000: Downtown Garage Addition-Storage for existing equipment
- \$45,000: Annual maintenance of MSB Garage Doors and Hoists

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 2018 budget process, while also keeping us very low from a tax perspective in the entire Twin Cities Metropolitan Area.

Specific Department 2018 Activities

Administration

As mentioned previously, one addition in the Administration Department that is needed in 2018 is the addition of a Human Resources Technician, to help support the HR Activities that are currently supported only by our Human Resources Director. Typically, the ratio of HR professionals to employees is 1 to 100-150. Currently we have about 300 employees in total with only one Human Resources Personnel. To be able to adequately handle the HR needs we have, we really need to add a HR Technician position to our Staff to help support these activities. We would plan on adding this position in March of 2018, meaning we would only have half of the year budgeted in 2018, with the position being fully budgeted for 2019. There are no new planned additions for the Administration Department.

Administrative Services

Budgeted staffing levels for the Administrative Services Department will remain steady in 2018. The last position added was a Finance Manager position 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 2018.

Community Development

As indicated previously, we do anticipate continuing to see an increase in the amount of building activity in the community in 2018, 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 2018, we anticipate seeing approximately \$1,200,000 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 in 2018.

For 2018 we will be continuing to work on the Comprehensive Plan, with the update due by the end of the year. We did budget \$140,000 in 2017 which was not completely utilized. The originally budgeted dollars will cover us completing this work.

One thing to note for the Engineering Department, we are currently working on filling the Assistant City Engineer position. This is not a new position, and was budgeted through all of 2017. With our Assistant City Engineer vacating that position last year after accepting the City Engineer position, we are now at this time moving to get that filled. This will put us in a position of having this department fully staffed.

Police

As mentioned previously, the 2018 budget does include the addition of a new Patrol Officer in 2018, budgeted to start in July. From a practical perspective, we will be

looking to move one of our existing officers up into a new Investigative Position, and backfilling their position with a new Patrol Officer. This is being done because our current shortage is in having enough staff to properly process our investigative case load. This will put us at a staffing level of 26 sworn Police Officers, including our Police Chief. In addition to this staffing, we do also have the replacement of some squad cars built into our Equipment Replacement Schedule for 2018.

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. We have been able to add to this over the last two years, bringing the total number of evenings we have this staffed to Wednesday-Saturday evenings.

As mentioned previously, the significant change we have budgeted for 2018 is the addition of two new Rental Inspectors/Fire Fighters to the Department. The primary function of these employees will be to help bolster our Rental Inspection program, as that particular area of services has been on the rise as more single family homes were converted to rentals during our last economic downturn. The cost of these employees will be \$105,000, but we do have it budgeted that the revenue to support these employees will be \$90,000 brought in from the rental license fees. An added opportunity of these employees being in the Fire Department is that they will add two additional fire fighters at the station during daytime hours to be able to respond to fire calls. Given that this is the most difficult time for the City to staff with Paid On-Call Fire Fighters, this will continue to help us maintain our volunteer based department.

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 did not see 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 4 years. That did bring on the need to have an additional person to take this new plow route, which we did complete in 2016. We do not have any new Staff additions budgeted in 2018, but there is a replacement Dump Truck/Plow, Pickup Truck, Mower and Hot Mix Trailer scheduled for replacement in 2018.

The Street Reconstruction Program is scheduled to continue forward in 2018, with the full reconstruction of 4th Street to the east of St. John's Church, and Stoughton Avenue north of the 4th/Stoughton Intersection to an area just north of the creek. It should be noted that as part of this project, we do expect to get dollars from the State of Minnesota through their bridge replacement program to help support the replacement of the bridge over this creek, which is just to the north of the Carver County Courthouse.

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 continue to see the staffing and resource levels remain constant from the 2017 budget.

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 2018, 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. Finally, while they are not a new position, we do plan on moving the Recreation Supervisor, Assistant Rec Programmer and Facility Scheduler positions into the General Fund to be under our general recreational programming functions. This is a better fit for where these

positions dedicate most of their time, and better reflect where the resources should come from to support these positions.

Community Center Budget

For the Chaska Community Center, 2018 will be its 28th 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. At the same time, it has had the effect of keeping our General Fund tax levy down, by financially taking on many of the City's recreational functions that would normally be covered by tax levy support, specifically by taking on the expense for many of our Recreation Staff members.

To put this in perspective, the Statewide average for Park and Recreation expenditures per capita supported from tax levy is just over \$94 per capita, where our tax supported portion of Parks and Recreation was \$32 per capita in the 2016 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 have been 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)
- Winter/Spring 2017: Remodeling of Park and Recreation Office space, to deal specifically with space needs issues and better utilize limited space: \$200,000
 - Total of all CIP Improvements : \$4,000,000 (\$800,000 of which are tenant improvements for St. Francis and Breakaway, supported through lease payments)

In 2018, the major initiative that is being taken on is the remodeling of the Fitness Center Space and the replacement of the fitness equipment in this space. This space is approximately 10 years old, and is in need of both remodeling and replacing equipment that is not in good shape. The entire project will be about \$200,000, and will include replacing of the carpet floor with a rubberized flooring material, re-wiring of the entire area to allow for better access to cable and Internet service by patrons of the facility, and replacing all of the fitness equipment in the facility. To handle the replacement of the equipment, we will be leasing the equipment to make sure that it is maintained by

the provider of the equipment, and so that there is a regular plan for how to keep the equipment in good shape as we move into the future. Each piece of equipment will have its own Audio/Visual equipment on it, all with access to a full array of television stations and Internet. This will allow users to be able to watch what they want while they work out, and know that the full array of channels will be available to them. To budget for this equipment leasing, we have added \$50,000 to the CCC budget this year, which will move into the future. We feel that this will be a major improvement to the Community Center, as this is an area that we currently receive many complaints from Patrons, and that it will have an impact on helping to attract new membership to the facility. Besides this project, our normal \$50,000 of Capital Improvement dollars in 2018 will be used to replace the Kids Play Castle area.

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, and that the improvements being planned for in 2018 will be paid for by cash in the CCC Fund.

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. This past year, 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. We will continue to plan to keep a close eye on our competition, to make sure that we remain a great value to our patrons. It should be noted that there are no proposed increases for Membership or Admission rates built into the 2018 budget. We plan to address the next increase in the 2019 budget.

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 2018 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 2018 budget year.

Community Center Revenues

For 2018, we are projecting that the Community Center will generate total operating revenues of \$3,718,689 or a decrease of approximately 7% over the budget from 2017. The reason for the projected decrease in revenues is that we felt that particularly on the Ice Rental numbers for 2017 that the projections were too aggressive and that we wanted to be much more conservative on our revenue projections for 2018.

For 2018, we do plan for an increase in revenues for Membership, but that this increase comes from the selling of additional memberships and increased Admissions to the CCC, and not from an increase in the actual rates. This report will discuss the reasons for this being behind a new Membership program that we will unveil in 2018 which will both provide additional benefits to regular Members, but also offer a "Work in Chaska" third tier of rates to help attract more Memberships from those working in Chaska, but not living here.

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.

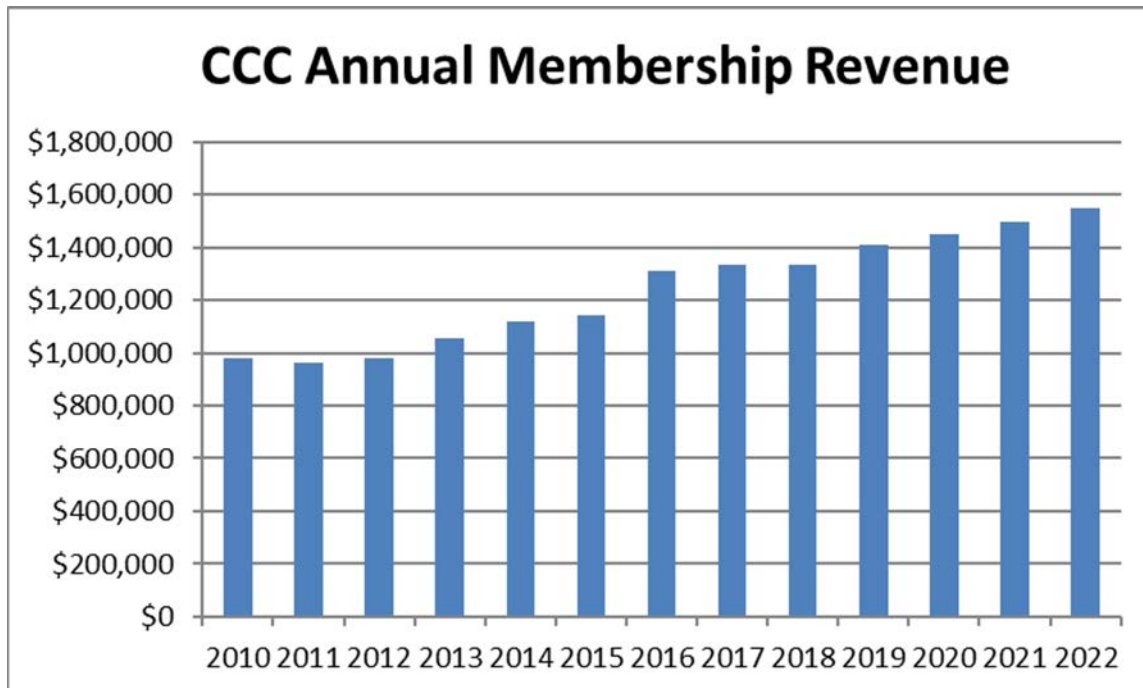
With the new partnership with the City of Carver, we now have an expanded base of people to draw from for patrons to the Community Center, as well as our other recreational facilities. The agreement with Carver provides us with \$51,000 annually to both make up the difference in lost revenue for those 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 has started as a great partnership, and that in the long-term it will be to be a "win-win" for both 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, in 2018 we will be starting out the year by unveiling our new Membership Package, which is planned to include the following:

- Free Drop-in Classes
- Free Day Care
- Guest passes to bring visitors
- Continued discount to Chaska’s Recreational Programs
- A “Work in Chaska” third tier of rate, which will allow individuals that work in Chaska, but don’t live here, the ability to sign up for a membership at a 10% discount from the regular Non-resident rate (Residents rates are about 20% below the non-resident rate)

Staff feels that these enhancements to our Membership program, in conjunction with the full renovation to our Fitness Center, are going to address many of the things that either stop people from getting a CCC Membership, or have them drop their existing membership. We also feel that by directly going after individuals that work in Chaska, but do not live here, that we are potentially attracting a very large number of people that have not been fully tapped into in the past. A large marketing campaign on these changes will start at the end of December as our Winter Program Guide gets distributed.

Below is a chart illustrating what our membership numbers have been, the approximate \$1.3 million we expect for membership revenue in 2018, and what we expect from Membership revenue as we move into the next 5-years:



Membership and Admission Survey

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. 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:

2017 Resident Rate Membership Survey

	Enroll Fee	Youth	Adult	AOA/Senior	Family	Dual
Chaska	\$0	\$273	\$371	\$273	\$586	
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%	81.72%	85.92%	81.72%	75.72%	0.00%

For 2017, our Resident Rates were 86% of average for our Adult Memberships, 76% of average for our Family Memberships and 82% of average for our Youth/AOA rates.

2017 Non-Resident Rate Membership Survey

	Enroll Fee	Youth	Adult	AOA/Senior	Family	Dual
Chaska	0	373	530	373	851	
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%	87.71%	100.92%	87.71%	93.30%	0.00%

For 2017, our Adult membership were at the average for our market comparisons, our Family Membership were at 93% of average, and our Youth/AOA memberships were at 88% 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. Our Fitness Center improvements and new Membership Program scheduled for 2018 do help us better compete with even this private health club competition.

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 2017, even with the rate changes we made this past year.

2017 Resident Rate Daily Admission Survey

	Youth	Adult	AOA/Senior	Family
Chaska	\$6.50	\$7.50	\$5.75	\$24.00
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	89.21%	82.11%	78.92%	91.41%

Daily resident admissions for 2017 were all very competitive compared to those in our market analysis.

2017 Non-Resident Daily Admission Survey

	Youth	Adult	AOA/Senior	Family
Chaska	\$8.00	\$9.00	\$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	101.32%	92.57%	94.98%	0.00%

Even in our non-resident comparison, we are still at or below the rates for our competition.

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

REVENUES	Budget 2016	Budget 2017	Budget 2018	Change	% Change
<i>Member and Admis</i>	\$1,034,730	\$1,770,775	\$1,627,188	(\$143,587)	-9%
<i>Community Events</i>	\$4,446	\$1,710	\$7,745	\$6,035	78%
<i>Community Room</i>	\$24,727	\$21,437	\$36,866	\$15,429	42%
<i>Craft Rooms</i>	\$32,449	\$39,091	\$39,874	\$783	2%
<i>Wellness-Water</i>	\$1,148	\$1,313	\$1,340	\$27	2%
<i>Wellness-Studio</i>	\$90,884	\$64,099	\$130,831	\$66,732	51%
<i>Rainbow Room</i>	\$3,179	\$5,212	\$5,317	\$105	2%
<i>Wellness Programs</i>	\$55,942	\$73,789	\$75,267	\$1,478	2%
<i>Gym</i>	\$29,905	\$47,896	\$48,856	\$960	2%
<i>Gym-Batting Cage</i>	\$349	\$1,299	\$1,325	\$26	2%
<i>Gym-Gymnastics</i>	\$22,756	\$20,295	\$20,701	\$406	2%
<i>Ice Arena</i>	\$644,375	\$864,097	\$655,000	(\$209,097)	-32%
<i>Maintenance</i>	\$19,624	\$33,063	\$33,725	\$662	2%
<i>Wellness-Cycling</i>	\$416	\$1,576	\$1,608	\$32	2%
<i>Wellness-PT</i>	\$17,750	\$7,356	\$7,504	\$148	2%
<i>Play Castle/Daycare</i>	\$24,206	\$27,189	\$27,189	\$0	0%
<i>Treks and Trails</i>	\$89,435	\$86,860	\$86,860	\$0	0%
<i>Club Extreme</i>	\$104,226	\$80,800	\$105,800	\$25,000	24%
<i>Raquetball</i>	\$12,775	\$14,826	\$15,126	\$300	2%
<i>Swimming Pool</i>	\$13,473	\$13,539	\$13,750	\$211	2%
<i>Swim Lessons</i>	\$111,466	\$115,589	\$117,901	\$2,312	2%
<i>Theater</i>	\$79,375	\$74,755	\$75,064	\$309	0%
<i>The Lodge</i>	\$47,910	\$30,654	\$54,208	\$23,554	43%
<i>Birthday Parties</i>	\$35,075	\$38,252	\$39,020	\$768	2%
<i>Tot Time Preschool</i>	\$6,529	\$10,750	\$10,966	\$216	2%
<i>Before/After School</i>	\$10,175	\$9,090	\$9,090	\$0	0%
<i>Vending</i>	\$49,809	\$35,475	\$36,185	\$710	2%
<i>Misc.</i>	\$777,133	\$46,315	\$1,383	(\$44,932)	-3249%
Total Oper Rev	\$3,344,266	\$3,537,102	\$3,285,689	(\$251,413)	-8%
Non-operating					
<i>Equipment Acqui</i>	\$1,000	\$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	\$251,000	\$1,000	0%
Total Non oper	\$432,000	\$432,000	\$433,000	\$1,000	0%
TOTAL REV	\$3,776,266	\$3,969,102	\$3,718,689	(\$250,413)	-7%

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 \$48,856. In 2017, this number was budgeted to be at 47,896. 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 \$117,901 for 2018. This is compared to the \$115,589 we budgeted for 2017, and is due mainly to the success we have seen with our Swimming Lesson programs. From 2012 to 2017, we increased our budget from \$85,000 to over \$117,000 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 2018 to be \$655,000, which is very close to our historical average. 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 2018 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 Trophy Case 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. In this past, this has been used by School District #112 to help compensate for the lack of adequate Gym space in Middle School East. 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 currently are working on partnerships with the School on how to now shift this utilization to match up more with after school recreational activities, especially with Middle Schoolers and through Community Education. We hope to have this replace the daytime usage we previously had, but which is no longer needed now that the dome facility is completed. 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. It should be noted that all ice time space from Breakaway Academy gets included in their lease. However, they are utilizing Ice Time we typically do not see used, and renting space for their classrooms that would otherwise be very difficult to generate rent off of.

The Wellness Addition was completed in 2005, and as a result the fitness programs that the City offers were expanded significantly. For 2018 these activities are anticipated to generate \$130,831. This is compared to \$64,099 budgeted in 2017. It should be noted that as part of our Capital Improvement Program, one of the changes that will be seen in the Fitness Center in 2018 is the replacement of our aged fitness equipment, which is now being rotated out as it is no longer able to be maintained. This will include renovation of the actual space and technological capabilities in this facility. We think this, along with new Membership offerings in the Wellness Addition will lead to increases in usage.

Finally, with the completion of The Lodge addition, two new program areas were added to the Community Center. The Lodge is budgeted to generate \$54,208 in revenue in 2018, compared to \$30,654 in 2017. 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 2018 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 \$2.7 million has been transferred from the Electric Fund to help support the expense of upkeeping this facility in a quality manner. This transfer is scheduled to occur again in 2018.

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 three new items that will be focused on in the 2018 budget include:

- Remodeling of Wellness Center Space/A and V Wiring: \$200,000
- Replacement of Existing Play Castle Area: \$25,000
- Replacement of all Fitness Equipment: \$50,000 (on-going annual lease payment)

As mentioned previously, the renovation of the Fitness Center Space and replacement of all of the Fitness Equipment is greatly needed, with no significant improvements being made in the facility since opening around 10 years ago. Besides replacing the carpet in the facility with a rubberized surface, and wiring the facility to allow for better access to Television and Internet at each of the machines, we will also be replacing all of our Fitness Equipment, leasing the equipment for \$50,000 per year. This will help ensure that we continue to get new and replacement equipment as we need it, and so we place all maintenance responsibilities on the company that leases the City this equipment.

Each year we include \$50,000 to go towards on-going capital replacement items within the Community Center. In 2018, 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, it should be noted that as part of this budget, one of the reasons we are seeing a 4.01% decrease in our overall expenditures is because we are shifting a few of the Recreational Positions into the General Fund, where they likely fit better. In the long-term, we think that this will make sure that all residents that have access to Recreational programs are contributing towards them, and that we reduce the amount of financial burden the Community Center has to take to provide our City's Park and Recreation Services. In the long term, we think this will help us keep more resources in the Community Center to help keep the facility in as good of a condition as possible. The only new position in the budget for this year is the addition of a Community Center Manager position, which will be in charge of all the day-to-day operations of the Community Center, and report directly to the Parks and Recreation Director.

With the items listed above, total budgeted expenditures in 2018 will be \$3,852,269 which decreases the budget by 4.01% from 2017.

The following is a summary of all expenses in the Community Center Fund for 2018:

EXPENSES	Actual 2016	Budget 2017	Budget 2018	Increase	%
<i>Admin</i>	\$ 879,196	\$ 715,136	\$ 691,981	\$ (23,155)	-3.24%
<i>Events</i>	\$ 8,132	\$ 7,896	\$ 33,142	\$ 25,246	319.73%
<i>Craft Rms</i>	\$ 13,988	\$ 19,458	\$ 12,423	\$ (7,035)	-36.15%
<i>Well-Water</i>	\$ 1,866	\$ 4,228	\$ 4,230	\$ 2	0.05%
<i>Well-Studio</i>	\$ 21,622	\$ 25,059	\$ 25,077	\$ 18	0.07%
<i>Front Desk</i>	\$ 115,279	\$ 109,852	\$ 107,327	\$ (2,525)	-2.30%
<i>Well- Prog</i>	\$ 42,228	\$ 38,722	\$ 31,399	\$ (7,323)	-18.91%
<i>Gym</i>	\$ 19,247	\$ 35,656	\$ 20,801	\$ (14,855)	-41.66%
<i>Bat Cages</i>	\$ 547	\$ 1,804	\$ 1,823	\$ 19	1.05%
<i>Gymnastics</i>	\$ 14,385	\$ 20,026	\$ 16,179	\$ (3,847)	-19.21%
<i>Ice Arena</i>	\$ 240,699	\$ 174,201	\$ 205,416	\$ 31,215	17.92%
<i>Maintenance</i>	\$1,102,716	\$1,061,780	\$1,098,549	\$ 36,769	3.46%
<i>Cycling</i>	\$ 1,137	\$ 1,745	\$ 1,680	\$ (65)	-3.72%
<i>Personal Train</i>	\$ 17,548	\$ 6,043	\$ 6,079	\$ 36	0.60%
<i>Wellness Add</i>	\$ 131,525	\$ 145,375	\$ 182,144	\$ 36,769	25.29%
<i>Play/Daycare</i>	\$ 53,153	\$ 46,606	\$ 52,874	\$ 6,268	13.45%
<i>Treks& Trails</i>	\$ 78,586	\$ 98,259	\$ 93,240	\$ (5,019)	-5.11%
<i>Club Extreme</i>	\$ 80,412	\$ 77,339	\$ 78,085	\$ 746	0.96%
<i>Raquetball</i>	\$ 1,098	\$ 2,244	\$ 2,354	\$ 110	4.90%
<i>Swim Pool</i>	\$ 325,323	\$ 311,296	\$ 316,829	\$ 5,533	1.78%
<i>Swim Less</i>	\$ 32,651	\$ 37,870	\$ 31,731	\$ (6,139)	-16.21%
<i>Theater</i>	\$ 7,109	\$ 12,260	\$ 7,884	\$ (4,376)	-35.69%
<i>Lodge</i>	\$ 111,984	\$ 96,889	\$ 99,123	\$ 2,234	2.31%
<i>Birth Party</i>	\$ 8,771	\$ 6,879	\$ 6,996	\$ 117	1.70%
<i>Tot Time</i>	\$ 5,868	\$ 6,028	\$ 6,155	\$ 127	2.11%
<i>Gen Facility</i>	\$ 268,866	\$ 200,000	\$ 50,000	\$ (150,000)	-75.00%
<i>Advent Prog</i>	\$ 102,823	\$ 106,669	\$ 111,381	\$ 4,712	4.42%
<i>B/A School</i>	\$ 9,888	\$ 6,916	\$ 7,005	\$ 89	1.29%
<i>Vending</i>	\$ 19,867	\$ 13,385	\$ 13,519	\$ 134	1.00%
<i>Depreciation</i>	\$ 725,578	\$ -	\$ -	\$ -	#DIV/0!
<i>Debt Service</i>	\$ 218,211	\$ 536,121	\$ 536,321	\$ 200	0.04%
<i>Transfer Out</i>	\$ -	\$ 50,000	\$ -	\$ (50,000)	-100.00%
<i>Other</i>	\$ (227,187)	\$ 37,311	\$ 522	\$ (36,789)	-98.60%
Expenses	\$4,433,116	\$4,013,053	\$3,852,269	\$ (160,784)	-4.01%

Based on our forecasted revenues and expenditures for 2018, we are estimating that the facility will have a decrease in fund balance of \$133,580. This is due mainly to the expense of the Fitness Center renovations that we have the need to complete in 2018. We do expect that balance to turn in a positive direction in 2019 and throughout the upcoming 5-year forecast.

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 have a high number of rounds, as it did in 2017, 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. 2017 had 32,800 rounds of golf, which is about 600 rounds less than 2016. However, 2016 did see a high number of rounds during the Ryder Cup event, which is a time of year we would not typically see this high of a number of golf outings. 2017 was 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 did 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.

To illustrate this, each year the Chaska Town Course has approximately \$500,000 of annual depreciation cost, which is what we should target to build in cash reserves each year to support future reinvestment/improvements into the course. In 2016, the Chaska Town Course showed that with including Depreciation as a cost, the Course's net Cash Position was (\$347,000). With Depreciation in that year being \$480,571, this means that from an operational standpoint, we ended the year in a positive position, with the Town Course accumulating \$133,571 in cash. While that is positive, in that we the course is operationally self-sufficient, over time this will be an issue if we don't have enough money built in the fund for future improvements. That is one reason we have to make sure that we keep on top of monitoring our rates going into the future, so that we do not slip too far behind market and make it difficult to reinvest back into the course.

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. Also, in the 2018 budget, we will be including dollars to replace the sand and drainage system in our bunkers to help improve the play on the course. 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 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 2018, we are forecasting total revenues of \$2,034,000. This compares to the budgeted revenues we had for 2017, which were \$1,906,387. For 2018, we are budgeting based on 32,600 total rounds during the season. Our past 4-year average has been 32,707.

2017, while the beginning of the spring and early summer saw cold conditions, saw the course stay very busy and the course conditions remain excellent. The total number of rounds at the end of the season totaled 32,642. The biggest issue that we saw in 2017 was the weather turning very cool for an extended period in the spring immediately after we aerated our greens. Because of the cold conditions, the greens did not heal quickly, and forced us to keep our Spring/Early Season discounted rates in place for almost 6 weeks. This did not impact the number of rounds we saw played, but did impact the revenue generated per round with having to discount for so long. Once the greens did heal, however, the course conditions were excellent for the rest of the summer and we saw great play at course.

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

	Actual	Budget	Budget		
Revenues	2016	2017	2018	Change	% Change
Green fees	\$ 1,326,046	\$ 1,185,762	\$ 1,296,000	\$ 110,238	9.30%
Driving range	\$ 91,774	\$ 92,720	\$ 100,000	\$ 7,280	7.85%
Member fees	\$ 62,251	\$ 56,663	\$ 65,000	\$ 8,337	14.71%
Sale of supplies	\$ 263,756	\$ 216,344	\$ 229,000	\$ 12,656	5.85%
Concessions	\$ 53,593	\$ 35,000	\$ 45,000	\$ 10,000	28.57%
Cart rental	\$ 310,206	\$ 298,760	\$ 280,000	\$ (18,760)	-6.28%
Misc	\$ (261,876)	\$ 21,138	\$ 19,000	\$ (2,138)	-10.11%
Total revenues	\$ 1,845,750	\$ 1,906,387	\$ 2,034,000	\$ 127,613	6.69%

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 2018 we are planning for 32,600 paid rounds being played at the facility. The past 4-year average for play at the CTC has been 32,707 paid 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 2017 the average metro high-end golf course green fee including cart on weekends was \$95, ranging from \$76 for Edinburgh USA to \$119 for Rush Creek. Chaska's

weekend non-resident rate in 2017 of \$89, including cart, was well within this range. In 2017, we did have an increase in our greens fees. The last increase we saw previous to that was in 2015.

To avoid rate fatigue, we have restricted any consideration for increases in fees to every-other year, meaning that in 2018, Staff is recommending no increase for non-resident rates. We are also recommending no increase for cart rental fees. 2019 would be the next time that we would consider any type of adjustment to our rate schedule. 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. With rates not proposed to increase in 2018, we will continue to be very competitive with our rate structure. The chart below compares our rates to the other high-end public golfing facilities in the Twin Cities:

Course	Greens Fees	
	Weekday 18 holes	Weekend 18 holes
Edinburgh USA	\$76	\$76
Stoneridge	\$79	\$92
Rush Creek	\$119	\$119
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	\$83.00	\$89.00
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 2017. 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 2018 we are proposing no increase in Greens Fee Rates for residents, as well as no increase in Cart Rental Fees.

This would result in our rates in 2018 continuing to be very competitive to all of the area courses, as it was in past years. Based on these assumptions, 2018 green fee revenue is projected to be \$1,296,000.

Course	Greens Fees	
	Weekday	Weekend
	18 Hole	18 Hole
Dalgreen	\$54.00	\$57.50
Bluff Creek	\$56.00	\$56.00
Ridges at Sand Creek	\$56.00	\$61.00
Deer Run	\$57.00	\$69.00
Stonebrook	\$72.00	\$80.00
Average	\$59.00	\$64.70
Town Course Resident Current	\$59.00	\$64.00
Town Course 2018	\$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, to help keep up with our demand for services on the carts. For 2018 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 \$280,000. It should be noted that in 2018, we will be replacing 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. It should be noted that we will be going to a different color scheme on golf carts for this replacement fleet, meaning that patrons will definitely notice that this fleet change has occurred.

Through our twenty 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 \$92,720 in 2017. For 2018 the range is estimated to generate \$100,000 in revenue based on the usage we saw in 2017.

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 2018 assumes merchandise sales of \$229,000 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 prior to the 2016 season 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 and second years 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. We saw very similar sales occurring during the 2017 season. Staff have 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 2018, we are anticipating that this will generate \$45,000 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 2017 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 2017.

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 2018, 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		
	2016	2017	2018	Change	% Change
Course Maintenance	\$938,709	\$969,116	\$1,166,953	\$197,837	20.41%
Course Admin/Clubhouse	\$1,127,325	\$780,245	\$871,599	\$91,354	11.71%
Merchandise	\$188,437	\$169,681	\$170,000	\$319	0.19%
Debt Service (Carts)	\$10,140	\$59,200	\$70,184	\$10,984	18.55%
Transfers Out/Debt Service	\$0	\$0	\$0	\$0	
Depreciation	\$480,571	\$0	\$0	\$0	
Total Expenses	\$2,745,182	\$1,978,242	\$2,278,736	\$300,494	15.19%

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 2017, the total Clubhouse expenses were budgeted to be \$780,240. In 2018, we are budgeting this number to go to \$871,599. It should be noted that most of this increase has to do with work we are doing within the Clubhouse in the off season both to replace carpet, and patio furniture that is out on the deck and is in need of replacement. It should be noted that as we did during the 2017 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. In 2017, we once again sold equipment certificates to help support a purchase we are doing in 2018, which is the replacement of our electric golf cart fleet. The cost for replacing this fleet is \$195,000 and was included in the 2017 Equipment Certificate Bonding that was completed. It should be noted that because we received the bond proceeds in 2017, that season ended up with an annual gain for cash of \$265,000. Approximately \$249,000 of that is bond proceeds meant to go into supporting the cart replacement and other equipment we have on the schedule for 2018. So while our expenditures in 2018 are \$271,000 over our revenues, \$249,000 of that is meant to be supported from bond revenue that was recognized in our financial system in 2017.

The other major change that is budgeted in 2018 and will be again in 2019 is the replacement of all of our sand and drainage system in our bunkers throughout the course. Besides the sand being in need of replacement, our drainage has never been good in these bunkers and contributes to less than ideal conditions in our bunkers after a rain storm. With the Chaska Town Course co-hosting the 2020 USGA Junior Championship, this is an maintenance item we need to address now. The cost is \$100,000 total. We have budgeted \$50,000 in 2018, and will budget another \$50,000 in 2019, although all of the work will likely occur in 2018. This will not only help us to prepare for the Championship, but will also be a significant enhancement to our patrons.

Besides these changes, we still budget \$15,000 for course improvements in 2018, and \$12,000 to our cart-path replacement program. However, one thing that we are planning on doing differently with these dollars in 2018 it to focus on taking these dollars to help fund the \$30,000 needed replacement of the bridge on Hole 4. Our bridges throughout the course we have been converting to culvert systems to help alleviate issues with bridge deterioration in the future.

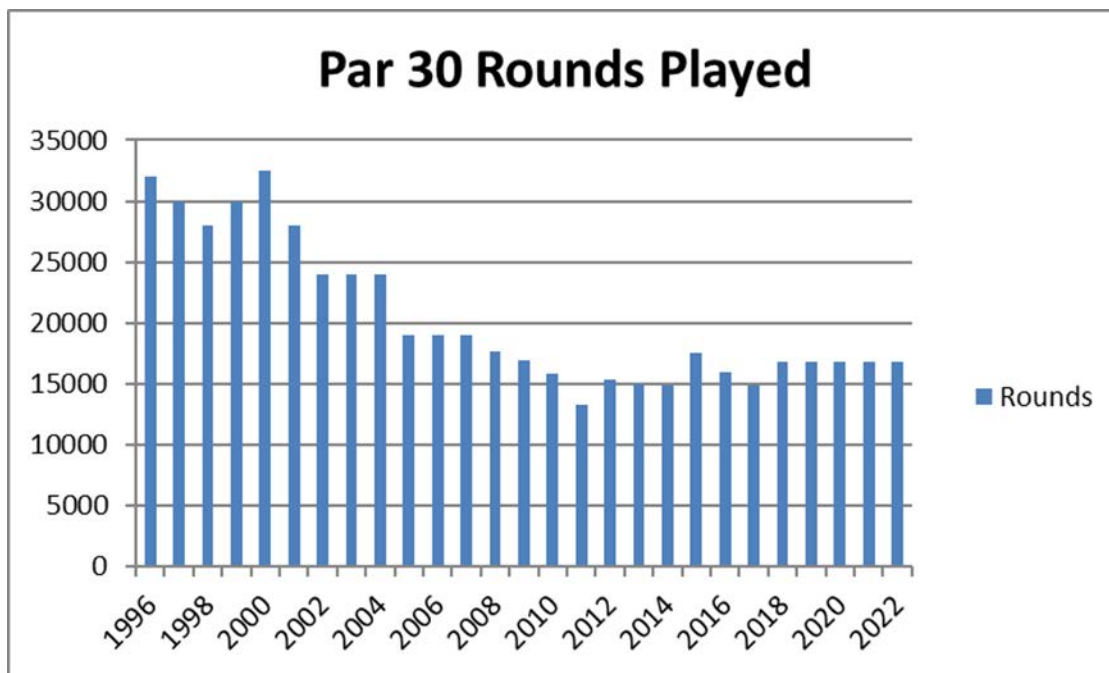
Total budgeted expenses for the golf course operation in 2018 are \$2,278,736. This would result in a decrease of fund balance at the Chaska Town Course in 2018 of \$271,000. However, as mentioned before, this is offset mostly by the bond proceeds that came into the fund in 2017 in an amount of \$249,000, meaning that our actual annual loss would be budgeted at \$22,000.

Par 30 Budget

In establishing the 2018 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. In 2017, while Foot Golf did remain at the Course, we did not see any growth in this offering. To help address that in 2018, one thing the Chaska Par 30 Course will be doing is partnering with our Parks and Recreation Department both to program leagues and events at the Par 30, both around Foot Golf and regular Golf, but to also schedule activities such as birthday parties at the Par 30. We believe that if we are able to take the expertise of the Parks and Recreation Department to actively program this space, that we will be able to see a growth in the amount of usage this facility sees. We are budgeting for 15,200 rounds in 2018, which is less than the 16,800 rounds we budgeted in 2017, but we hope that by adding this programming options, that we can get closer back up to that 2017 amount.

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. For 2018, just like at the Chaska Town Course, we are recommending no rate increase be considered, with the next rate increase to be considered in 2019.

Based on this recommendation, the following would be the comparison of the Par 30 for 2018 rates compared to the 2017 rates of the other Executive Courses in the area:

Course (9)	Junior (9)	Senior (9)	Adult (9)
Halla Greens	\$13.00	\$13.00	\$16.00
Braemar Executive	\$11.00	\$17.00	\$17.00
Waters Edge	\$11.00	\$11.00	\$15.00
Orono	\$12.00	\$15.00	\$18.00
Glen Lake	\$11.00	\$12.00	\$16.00
Average	\$11.60	\$13.60	\$16.40
Par 30 Rate	\$12.25	\$12.25	\$14.25
Par 30 vs Halla	-\$0.75	-\$0.75	-\$1.75

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 Chanhasen. As you will see, we are \$0.75

cheaper than Halla Greens for Juniors and Seniors, and \$1.75 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 2018 of \$146,000 compared to the 2017 budget of \$160,681. While we are budgeting for a reduction in greens fees to match up with the history we have seen in revenue for the past couple of years, we do hope that we are able to bring this number up in 2018 due to more programming of the facility by the Parks and Recreation Department for Leagues, Classes and Birthday Parties, both for Foot Golf and Regular Golf.

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 2018 will be \$186,126. 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 \$13,000 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 2018. 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 outdated. 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 decrease in fund balance of \$22,100, although we hope this to be smaller given the new programming work that will be done through Parks and Recreation. Below is a summary of the 2018 revenues/ expenditures:

	Actual 2015	Actual 2016	Budget 2017	Budget 2018	Change	%Change
Green Fees	\$171,153	\$152,254	\$160,681	\$146,000	-\$14,681	-9.14%
Other Fees	\$21,011	\$18,885	\$16,870	\$18,026	\$1,156	6.85%
Total Revenue	\$192,164	\$171,139	\$177,551	\$164,026	-\$13,525	-7.62%
Maintenance	\$92,604	\$130,184	\$107,583	\$105,910	-\$1,673	-1.56%
Administration	\$81,471	\$97,370	\$66,988	\$76,216	\$9,228	13.78%
Merchandise	\$5,257	\$4,928	\$4,546	\$4,000	-\$546	-12.01%
Other	\$3,941	\$3,939	\$0	\$0	\$0	
Transfers Out	\$0	\$0	\$0	\$0	\$0	
Total Expenses	\$183,273	\$236,421	\$179,117	\$186,126	\$7,009	3.91%
Net Income (loss)	\$8,891	-\$65,282	-\$1,566	-\$22,100	-\$20,534	1311.24%

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 2018, we are recommending that we increase our retail rates go up by 4% 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 2017, compared with other municipalities and with Xcel. From an electric fund perspective, our total rates in 2017, including the Energy Adjustment Clause, averaged 9.4% lower than Xcel for residential customers, compared to 8.94% lower in 2016. Compared to Mn Valley Electric Cooperative, we were approximately 5.6% lower in 2017. This is almost identical to 2016 when we were 5.7% lower. Xcel and Minnesota Valley are our main competitor.

We do not see this relationship changing very much in 2018, 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 2018, 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, and the need to cover all of our operational costs, you will see that our budget recommends a 3.6% 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 had in 2017 including the addition of a necessary substation in our north industrial park, and a switch gear addition at West Creek Substation. The total cost of both of these facilities was approximately \$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 5.9% 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 2.2% in 2018. This is following a 8.23% increase in 2017. In addition to the increase of our retail rate, we will also be implementing the second phase of our service fee, which is meant to cover fixed internal costs. In 2018, the service fee will go from \$1 to \$2 per month for a residential user. 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. 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 had 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 also feel that in the

past, we have been comparing ourselves and the services we provide to cities that do not have to provide the same service we do with Storm Water because we are a River Community with several ravine systems. Looking at where our actual costs for providing necessary service are coming in, and looking at cities we feel are more comparable to the type of service we need to provide in Chaska, Staff is recommending a rate increase from our current fee of \$6.35 per unit in 2017 to \$9.50 per unit/month in 2018. While this is a large percentage increase, we can see that if we do not make these changes, our Storm Water Utility Fund will not be able to financially keep up. With the average rate of comparable cities being \$8.70 per month, with river cities/bluff cities being as high as \$11.50 per month, we feel we are still in the range of comparable 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 2018:

	2017	2018		Increase
Water	\$19.56	\$20.08		\$0.52
Sewer	\$29.49	\$31.12		\$1.63
Electric	\$93.91	\$97.29		\$3.38
Storm	\$6.35	\$9.50		\$3.15
Total	\$149.31	\$157.99		\$8.68

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 fully 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 going through the process of implementing our new Utility Billing software, Staff feels it is prudent to hold off on this re-study until all of this information is able to be extracted. We also feel it would be useful to look at all of our utilities from a rate perspective at that time. We hope to be moving to the point in 2018 of starting this study to have for future budget cycles. 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 had 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, and we have \$145,000 in work scheduled for 2018, which includes \$60,000 for normal maintenance on pressure reduction stations and work on our pipe corrosion program, as well as \$75,000 going towards Well#4 maintenance and \$10,000 going towards building maintenance. At the same time, we have a very expensive piece of equipment that is due to be replaced in 2018, which is our Jetter/Vactor vehicle, which has its \$435,000 cost split with the Sewer Department.

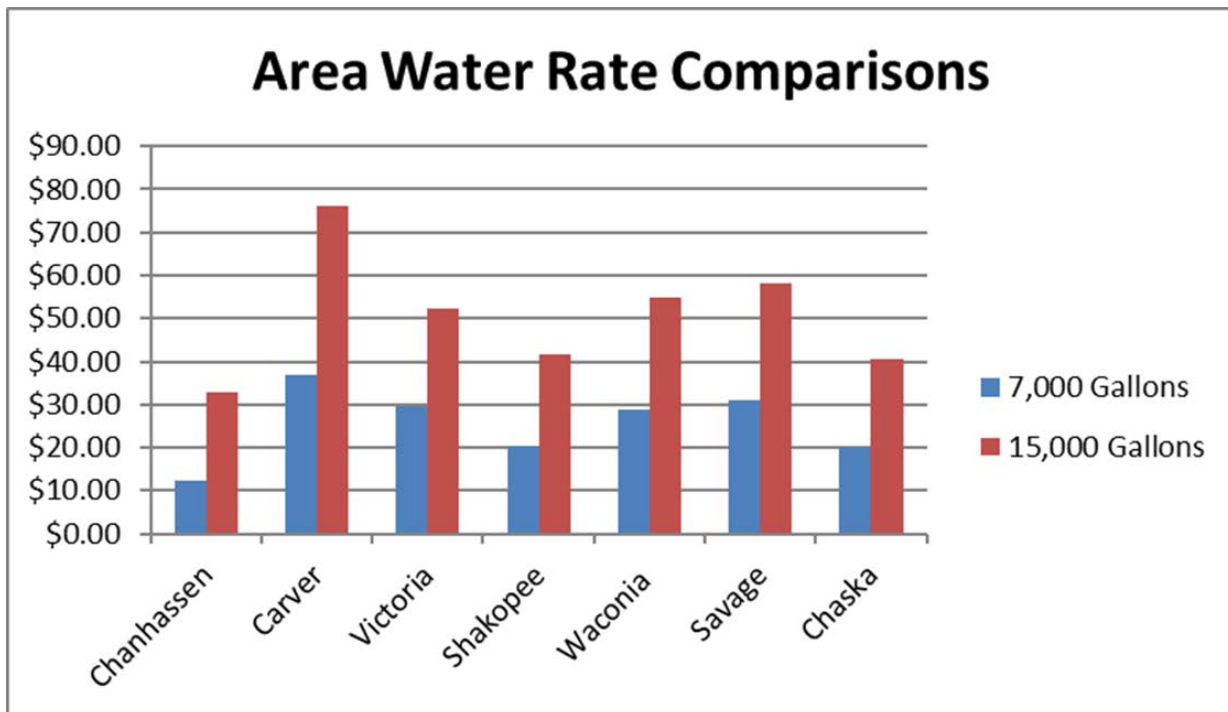
For that reason, we are recommending a 4% increase in retail rates in 2018 for all average users of water. To keep up with the increasing pressure from the State to address decreasing water supply issues in the Twin Cities, we are recommending that we continue with the rate structure we created in 2016 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 most municipalities are now 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: \$2.46/1,000 gallons (4% increase)
7,001-20,000 gallons: \$2.58/1,000 gallons (3.5% increase)
20,001-30,000 gallons: \$2.84/1,000 gallons (5.5% increase)
30,001-40,000 gallons: \$3.24/1,000 gallons (7.5% increase)
Above 40,001 gallons: \$3.93/1,000 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 4% increase and compares it to the other City's 2016 rates without taking into account any rate changes they may make:



2018 Budget

Based on the changes described above, Water Fund Revenues for 2018 are budgeted to be \$3,550,646 compared to the 2017 budget of \$3,394,577, or a 4.6% increase. 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. 2017 had usage very similar to 2016, even though we saw growth in the community. This is a trend we have been seeing recently, indicating that our Water Conservation efforts may be having an affect on usage. We are projecting a 1.7% increase in water usage for 2018. 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	
	2016	2017	2018	% Change
Revenues				
Metered	\$2,324,515	\$2,440,000	\$2,524,000	3.44%
Other	\$463,932	\$351,429	\$422,298	20.17%
Transfers In	\$641,148	\$603,148	\$604,348	0.20%
Total	\$3,429,595	\$3,394,577	\$3,550,646	4.60%
Expenses				
Pumping	\$278,278	\$506,564	\$313,936	-38.03%
Treatment	\$267,771	\$264,146	\$266,795	1.00%
Distribution	\$868,516	\$783,409	\$956,821	22.14%
Administration	\$565,318	\$530,185	\$547,584	3.28%
Depreciation	\$734,817	\$0	\$0	0.00%
Debt Service	\$367,616	\$1,206,296	\$1,317,964	9.26%
Capital	\$232,491	\$232,491	\$230,000	-1.07%
Transfers Out	-\$343,088	\$61,000	\$55,800	-8.52%
Other	\$0	\$0	\$0	0.00%
Total	\$2,971,719	\$3,584,091	\$3,688,900	2.92%

For 2018, we are projecting that we will generate \$2,524,000 in metered sales. This is up 3.44% from the metered sales we budgeted in 2017 of \$2,440,000 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 4% in 2018. We do expect to see some additional economic development activity in 2018, along with a continued increase in residential activity, with the new housing starts in our Southwest Chaska Growth area.

Total water expenses for 2018 are programmed to be \$3,688,900. This compares with \$3,584,091 budgeted in 2017. This is a 2.92% increase in expenditures.

In addition to this, our normal maintenance activities are being funded for 2018, we also will have \$60,000 allocated, as we did in 2017, 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 subscribe to a Software as a System (SAS) solution to our data server storage for our new AMI system. Our big expenditure for 2018 will be the replacement of our Vector/Jetter vehicle, which is shared with our Sewer Department both in cost and in function. The total cost of this is \$435,000, with half being budgeted in the Water Department. This represents the \$230,000 number shown above in the Capital line-item. It should be noted that our existing Vector/Jetter vehicle will be kept to use in our Storm Water utility. Because they use this in much less frequency than the Water and Sewer Utilities, we do feel that we can extend the life of this equipment by 7 years. This will help to decrease costs in the Storm Water Utility they currently have leasing this needed equipment.

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 2018.

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 2018, with an additional maintenance position not programmed until the 2020 budget year, depending on how quickly growth occurs in the community. It should be noted as the Fund Balance has become healthier in the Water Fund, that we are now starting the transfer of \$175,000 annually over to the General Fund to support Administrative Functions. This fund has not generally contributed to this in the past, which it should to make sure it is paying its fair share of overhead costs.

Based on this budget we are planning to see a \$138,254 decrease in our Fund Balance. This will bring the projected cash balance in the Water Fund to just under \$1,800,000 in 2018, which is a healthy balance in this Fund. We project going into 2019 and into the future, we will see a growth in this Fund Balance Amount.

Sewer Fund

Sewer Fund revenues for 2018 are anticipated to be \$3,879,573, a 3% increase over the budget in 2017. 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 2018 relative to past years.

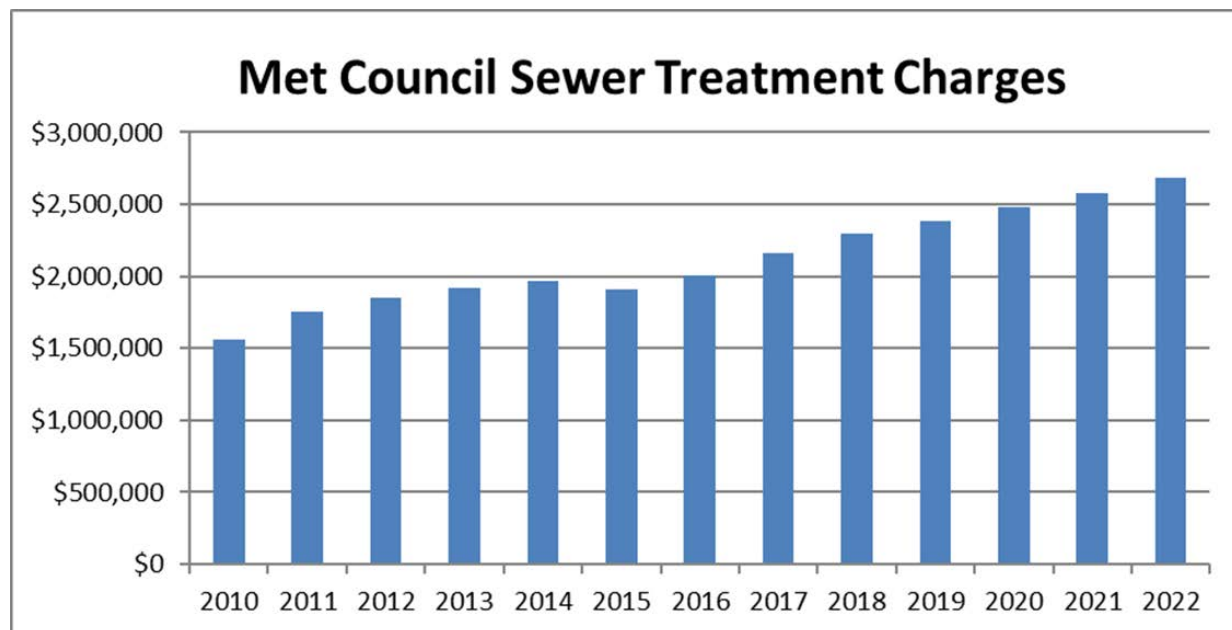
Sewer	Actual	Budget	Budget	
	2016	2017	2018	% Change
Revenues				
Metered Sales	\$3,444,421	\$3,755,372	\$3,879,573	3%
Other Revenues	\$188,000	\$0	\$0	0%
Total	\$3,632,421	\$3,755,372	\$3,879,573	3%
Expenses				
Pumping	\$77,676	\$47,609	\$48,091	1%
Treatment	\$2,025,367	\$2,181,823	\$2,308,938	6%
Collection	\$477,400	\$703,723	\$831,817	18%
Administration	\$570,313	\$529,445	\$547,035	3%
Transfers Out	\$96,762	\$115,600	\$115,800	0%
Capital	\$59,605	\$32,612	\$230,000	605%
Depreciation	\$73,155	\$0	\$0	0%
Other	\$76,101	\$0	\$163,451	
Total	\$3,456,379	\$3,610,812	\$4,245,132	18%

Sales revenue is based on seeing a 2.2% increase in retail rates for 2018, along with implementing the second year of our service fee, which goes from the \$1 per month that was charged per residential customer in 2017, the \$2 in 2018. Unlike other utility services we provide, we do 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 2018 is \$2,290,000 which is approximately an 5.9% increase from 2017.

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 2018, we will see approximately a 5.9% 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. As we are in the second year of implementing our monthly service fee, and because usage in

the community has increased significantly, meaning that the Met Council increase is also reflective of growth in the community, the percentage of growth in our retail rate does not have to match the percentage increase from Metro Waste. For that reason, Staff is recommending an 2.2% increase in our retail rates for 2018, along with implementing the second phase of our service fee plan, bringing it from \$1 to \$2 per month, per residential customer, in 2018.

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 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 and a 8.23% increase in 2017 accommodated 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 5.9% increase in Metro Waste rates for 2018 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:

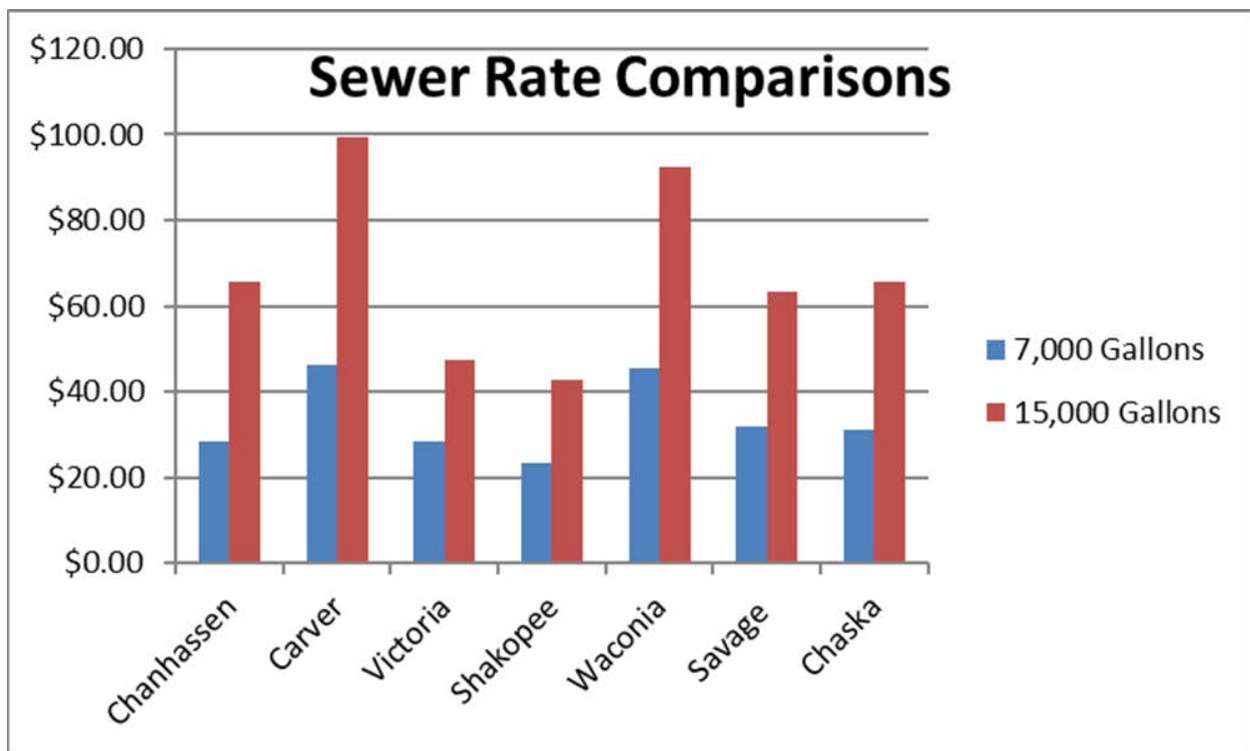
Sewer expenses are anticipated to be \$4,245,132 for 2018, an increase of 18% from 2017. The majority of this expenditure increase is attributable to the Sewer Funds 50% share of the new Vactor/Jetter Truck which is shared with the Water Department.

With a total cost of \$435,000 for this replacement vehicle, the majority of the \$230,000 budgeted in Capital for 2018 is in relation to the Sewer Fund's share of this equipment purchase. It should be noted that it is likely that we will finance the purchase of this vehicle with Equipment Certificates, instead of paying cash, meaning that the final expenditures at the end of 2018 should be lower than what is budgeted since we will only have the actual cost of Debt Service in 2018 instead of the cash purchase of this equipment.

The Capital Improvements for 2018 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 \$140,000 annually, with \$35,000 annually going towards our Lift Station annual maintenance program, \$100,000 going toward our Inflow and Infiltration Program and Sewer Lining 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.

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 2018 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. As with the Water Fund, it should also be noted that we have added \$175,000 annually to this fund to help support Administrative functions provided through the General Fund. This fund was unable to afford to do this in the past, but now that it has become healthier now should be contributing to this overall organizational cost.

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, expected to be completed by mid-2018.

In 2018, 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 2018 is 4th Street east of St. John's Church/Elementary School, as well as the north/south streets connecting with this one block on either side of 4th Street. The Sewer Department would continue in 2018 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 \$140,000 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.

As mentioned previously, from an equipment standpoint, we would have the \$230,000 allocation from the Sewer Fund to support 50% of the replacement cost for the Vactor/Jetter Vehicle, which costs \$435,000 in total. This position is shared with the Water Department who will pay the other 50%.

Based on our total expenditures and revenues, we are budgeting that there is a decrease of \$365,559 in the Sewer Fund for 2018. To help ease the conversion into having a Sewer Service Charge on our Utility Bills to help cover fixed costs, we have

deliberately spread the implementation of this charge over multiple years so as to not have too large of an increase for anyone all at once. 2019 would be the last planned year of implementation. To do this, we did need to dip into our reserves for 2017 and 2018, however we still will have a \$1 million cash reserve in the Fund budgeted for 2018, with this growing to about \$1.5 million through the 5-year period, which is considered a health Fund Balance.

Electric Fund Budget

For 2018, Electric Fund revenues are anticipated to be \$35,415,000. This compares to the \$34,402,000 we had budgeted for revenue in 2017, an increase of 2.94%. As part of the 2018 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 2018, but for the years included in our 5-year forecast. We will continue to see significant new growth in our commercial/industrial sales in 2018, 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 coming on line, a new apartment building and commercial users build in 2018. Below is a chart looking at our anticipated revenue for 2018.

	Actual	Budget	Budget		
	2016	2017	2018	Change	% Change
Electric Sales	\$37,931,553	\$34,390,000	\$35,403,000	\$1,013,000	2.95%
Other Revenue	\$55,752	\$12,000	\$12,000	\$0	0.00%
Total Revenue	\$37,987,305	\$34,402,000	\$35,415,000	\$1,013,000	2.94%

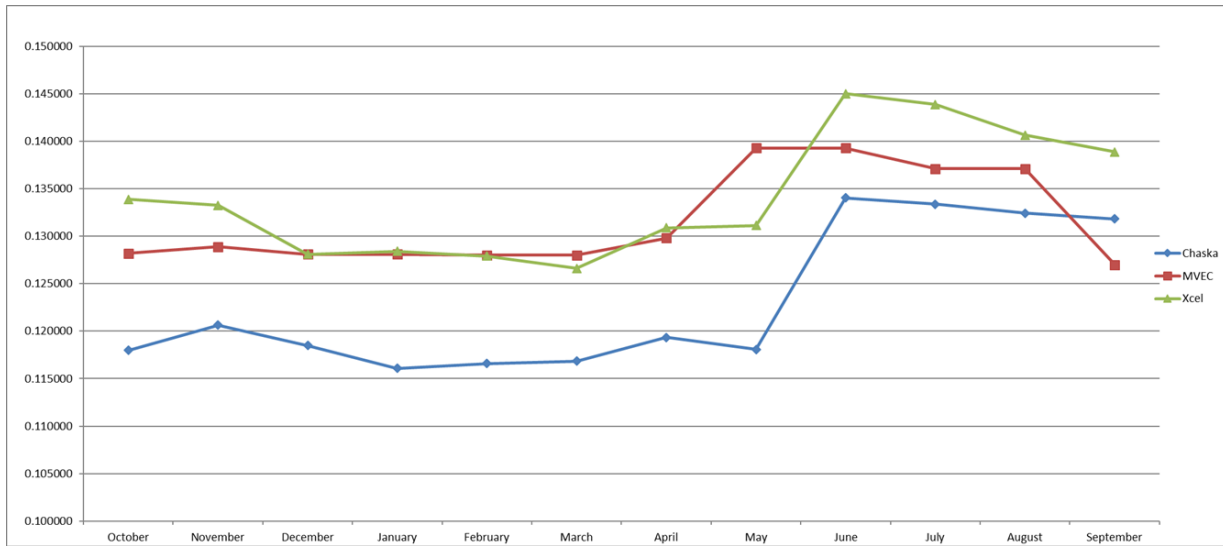
To develop our 2018 revenue budget, we did utilize the following assumptions:

- Total retail rate increase increases of 3.6% in 2018 to accommodate for the wholesale power cost increase and capital improvements needed on our aging infrastructure
- Sales increases in 2018 of 2.95%
- 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 2.1%, with much of that rate increase coming on the demand charge

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 2017, we did see total bills for residential users that averaged 9.4% lower than Xcel, and 5.6% lower than Minnesota Valley Electrical Cooperative. This compares to Chaska being 8.94% lower than Xcel and 5.7% lower than MN Valley in 2016.

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 2017:



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 just received a 12.93% rate increases, 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 2018 are projected to be \$35,064,678 compared to \$33,922,245 in 2017, for a total increase of 3.37%. There are two primary factors driving expenses for 2018.

The first primary cost factor in our electric utility is the purchase of wholesale power from the Minnesota Municipal Power Agency. For 2018 we are anticipating that the Agency's wholesale will effectively go up by about 2.1%, with much of this coming on the demand charge. Based on projected wholesale power rates, but also the usage we project, we are anticipating that our total wholesale power costs for 2018 will be \$23,517,000 compared to the budget of \$22,781,000 in 2017, or a total increase of 3.23%.

The other major factor is a significant amount of capital improvements scheduled to be completed in 2018, 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 has been built over the course of the summer of 2017, with the station planning to be operational by the Spring of 2018. 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 annual debt service payments. Along with previously financed projects, our total debt service in 2018 will be \$884,004.

In addition to this work, there is \$750,000 programmed for System Improvement work in 2018. With the completion of our AMR System installation in 2015, just like in our Water and Sewer utilities, we have added a Software as a Service (SAS) server solution to be able to store all new data available off of our new system. This has a \$15,000 annual cost to the Electric Utility. From an equipment standpoint, we do have \$155,000 of equipment scheduled to be replaced, including \$50,000 for the replacement of a Flatbed Truck, \$50,000 for replacement of a service truck, \$20,000 for replacement of a forklift, and \$30,000 for replacement of our Bobcat and Attachments.

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, Assistant Electric Director, a Foreman, and Technical Support Staff serving this division. As mentioned previously, for 2018, 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 \$600,000 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, making our total contribution to the Community Building Fund be \$900,000 annually. 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 2018.

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 2018:

	Actual	Budget	Budget		
	2016	2017	2018	Change	% Change
Purchased Power	\$26,053,783	\$22,781,000	\$23,517,000	\$736,000	3.23%
Trans/Distribution	\$1,854,368	\$2,745,966	\$2,554,768	-\$191,198	-6.96%
Load Conservation	\$551,033	\$668,005	\$674,688	\$6,683	1.00%
Admin System	\$1,914,664	\$1,700,570	\$2,132,149	\$431,579	25.38%
Admin Billing	\$463,117	\$360,113	\$379,469	\$19,356	5.37%
Franchise Fee	\$3,458,900	\$3,547,000	\$3,649,000	\$102,000	2.88%
Depreciation	\$979,637	\$0	\$0	\$0	0.00%
Debt Service	\$142,959	\$739,591	\$884,004	\$144,413	19.53%
Transfer	\$1,340,175	\$1,380,000	\$1,273,600	-\$106,400	-7.71%
Total	\$36,758,636	\$33,922,245	\$35,064,678	\$1,142,433	3.37%

Based on the budget as proposed, the Electric Fund would increase its overall fund balance for 2018 by approximately \$350,322, putting our fund balance at approximately \$4.5 million by the end of 2018. It should be noted that based on projections, we would see this cash balance grow to over \$7.8 million by 2022.

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.

2018 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. In 2017, we did bring the monthly residential rate up to the area average, which 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 continuing to realize that the activities that we thought were one-time activities to address the issues coming out of the summer of 2014, we are now realizing are activities that we will likely never see go away, as there are significantly more issues to deal with in the area of Storm Water being a river community with a flood control system, and many bluffs running down to the River. We also began to realize that as we compared our rates to other cities, that we were likely not comparing ourselves to the right communities to truly give an "apples to apples" comparison of the work we actually needed to undertake. While we always had looked at the surrounding communities as a comparison, we realized it was probably more important to compare ourselves to other Cities with similar types of Storm Water services that needed to be provided if we were to truly set our rates at the right amount

Below is a survey of the cities around the State that we feel our service requirements compare more accurately to, which have similar circumstances, and similar types of systems to maintain:

Eden Prairie	\$11.40
Moorhead	\$10.21
Shakopee	\$7.80
Carver	\$8.99
Stillwater	\$3.99
Edina	\$9.48
Waconia	\$9.50
Eagan	\$8.80
Red Wing	\$11.50
Winona	\$5.81
Chaska	\$6.35
Average (minus high/low)	\$8.70

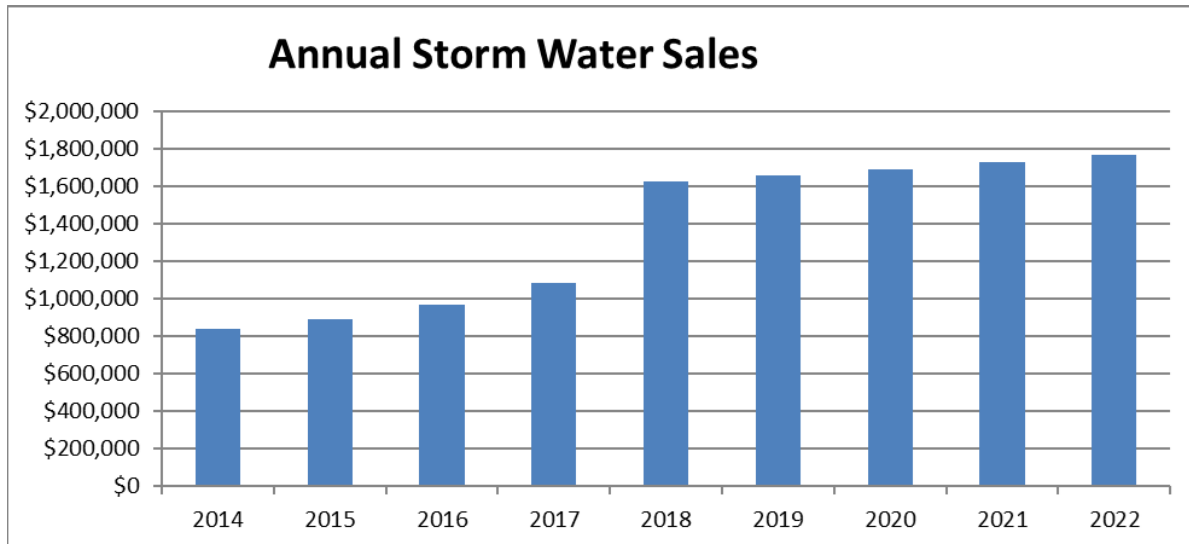
As can be seen above, the average of these communities is at \$8.70 per month per residential unit, compared to the average of surrounding cities which was closer to \$7 per month. In this chart you can see that not only is the average significantly higher, but that many of the rates are over \$10 per month.

Looking at this survey comparison of Cities, and realizing that if we kept our base rate right around \$6.35 per month that we would be almost \$900,000 in the hole during this 5-year period with no sign of taking a positive turn in this financial position, we realized that to keep the fund self-supporting, and meet all of our service requirements.

Based on this analysis and survey, Staff does feel that the base rate needs to go to \$9.50 per residential unit per month to be able to become sustainable. While that still has our Fund Balance being negative in 2018, by setting this new rate structure now, we are able to turn around things by 2019 and have a Fund that starts to build a cash reserve to be able to take care of those unforeseen circumstance.

While going from \$6.35 per month in 2017 to \$9.50 per month in 2018 does represent a large percentage increase, Staff does feel it is important to take this step now to make sure we are dedicating the right amount of resources to our Storm Water activity. While this rate is also above the \$8.70 average for similar communities, it is still set at a number that keeps it within the range of communities needing to provide similar Storm Water services.

Based on this new rate, the following chart illustrates what would happen during the 5-year period with anticipated Storm Water Sales:



2018 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 2018, is the addition of significant work for 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. Other activities budgeted for 2018 include:

- Addition of Salt Storage She at the MSB for \$175,000. (50% support from the General Fund, 50% from the Storm Water Fund)-This is to ensure that the wetlands surrounding the building are protected from stored salt getting into these areas
- Contribution of \$25,000 towards the purchase of a mini-excavator with all MSB Departments
- Addition of the old Vactor/Jetter Truck from the Water and Sewer Department to utilize for Storm Water Maintenance activities-this will help reduce contracting for this service we currently have to undertake.

The functions of inspections and reporting are mainly completed through our Engineering Department and through contract Engineering services. For 2017, \$66,000 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 does have one additional Staff resource continuing to be budgeted for in 2018 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.

It should be noted that in 2018 there are no planned personnel additions, with no new positions being budgeted during the entire 5-year planning horizon.

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 2018:

	2016	2017	2018		
Revenues	Actual	Budget	Budget	Change	% Change
Storm Water Fees	\$959,067	\$1,076,000	\$1,627,000	\$551,000	33.87%
Other	\$345,263	\$100,000	\$100,000	\$0	0.00%
Total	\$1,304,330	\$1,176,000	\$1,727,000	\$551,000	31.91%
Expenditures					
Transfer Out	-\$466,690	\$200,000	\$200,000	\$0	0.00%
Transmission/Distribution	\$516,812	\$731,086	\$953,350	\$222,264	23.31%
Administration	\$254,755	\$264,483	\$331,514	\$67,031	20.22%
Utility Billing	\$26,043	\$22,728	\$22,957	\$229	1.00%
Capital Outlay	\$0	\$0	\$87,500	\$87,500	100.00%
Depreciation	\$134,218	\$0	\$0	\$0	0.00%
Debt Service Support	\$61,715	\$63,608	\$190,549	\$126,941	66.62%
Other	\$140,947	\$63,608	\$220,549	\$156,941	71.16%
Total	\$606,085	\$1,281,905	\$1,815,870	\$533,965	29.41%

While this fund will have a deficit in 2018 of \$89,000, by making the larger rate changes now and having the rates grow modestly over the 5-year period, this does allow us to move into 2019 and beyond generating between \$50,000 to \$150,000 per year to add to the bottom line of the Storm Water Utility Fund. This is a positive direction for the Fund to be going and one that is necessary for its financial health.

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, 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 functioned 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 facility, 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 by the 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.

2018 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

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 2017, the amount generated from this lease is on track to be \$435,000, with it being budgeted at \$407,500. While it is slightly slower than our first season, it has continued to perform at a much higher level than we had initially projected, which helps us meet both our goal for attracting more people and revenue to the facility. For 2018 operations, we are budgeting this number to be \$428,000 to be conservative. We do not want to count on this performing at a level higher than this going into the 3rd year as our expenditure budget is built around this number as well.

The second major source of revenue is Curling Membership and League fees. In the 2016-2017 season, the CEC had over 1,200 members of the facility, and was considered the largest curling facility in the Country by membership. For the 2017-2018 season, the facility is currently at approximately 950 members, and is on track on membership to where we were last year at this time. New members are typically also captured in the Spring as we have some different curlers during the Summer Sessions.

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 resident is \$90 for adults, \$35 for Youth and \$75 for seniors. Our non-resident fee is \$118 for Adults, \$35 for Youth and \$98 for Seniors. Approximately 75% of our membership is non-resident, which again is helping bring more new people into downtown Chaska. This fee 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 2017, the Curling memberships and leagues is on track to generate approximately \$401,000 in revenue, with it being budgeted at \$382,100. For 2018 we are budgeting this to be \$412,200.

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 for residents. 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. Having completed a survey of similar facilities in the area, we do think that this fee is lower than it should be, but would not recommend making any changes to rates until 2019, as many events are already booked at the current rates in 2018.

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 2017 in the Event Center is on track to be \$110,000, with its budget being \$137,000. The facility in prime time is booked to capacity, with there being areas for growth in non-primetime hours. We do feel that given the amount of events that are booked there that our revenue could be close to budget if our fees were set closer to market. That is why we are recommending in 2019 that we adjust our fees slightly to meet this market. For 2018, we are budgeting \$136,000 as we do expect to continue to see the use of this facility increase.

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 several afternoons a week booked for these events. 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 2017 is on track to be \$158,000, with it being budgeted at \$137,900. We are budgeting a number of \$147,800 for 2018 to be conservative.

The final revenue source we have coming in is \$1,594,230 from the Community Building Fund to support the debt service on the construction of this project.

Based on this, the total revenue for the Curling Center for 2018 is budgeted to be \$2,718,230, which is a 6.67% increase from 2017.

Below is a chart reflecting the revenue number for both 2017 and the 2018 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 for this project.

Revenues	Actual 2016	Budget 2017	Budget 2018	Change	%Change
Event Center Rental	\$83,677	\$137,000	\$136,000	-\$1,000	-0.73%
Curling Center Leagues/Memberships	\$415,802	\$382,100	\$412,200	\$30,100	7.88%
Corporate Curling Events	\$160,940	\$137,900	\$147,800	\$9,900	7.18%
Restaurant Lease	\$513,361	\$407,500	\$428,000	\$20,500	5.03%
Community Fund Transfer (Debt)	\$485,825	\$1,483,762	\$1,594,230	\$110,468	7.45%
Other Revenue	\$2,177	\$0	\$0	\$0	
Total Operating Revenues	\$1,661,782	\$2,548,262	\$2,718,230	\$169,968	6.67%

2018 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 office, 1 full-time employee for custodial care of the building, 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. It should be noted that as part of the 2017 budget, we did bring the function of custodial care in-house with the addition of a full-time staff member, as opposed to the contracted service that was provided when the facility was first opened. By adding this position we have been 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. As with the Community Center, 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. These are similar efficiencies we see between other Enterprise Funds, and 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 other than staffing 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 \$50,000 per year. We see this number staying relatively constant in 2018, budgeting \$156,048, or a 1% increase from 2017 budgeted number.

The only significant change that we have incorporated into the 2018 budget is \$35,000 for dues and subscriptions. For the first 2 seasons of operation, we have not been a member of the United States Curling Association (USCA) as a way to keep costs down and get ourselves established as a new operation. However, as we move into 2018, we do think it is a benefit to our facility to be a member of the USCA, as this will open up opportunities for us to be able to be used as a training facility for future Olympic hopefuls, and to have access to hosting events we would not be able to host but for being a USCA member.

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. Based on the total Revenue and Expense budget for 2018, the CEC Fund does generate a small surplus, but we hope this to be larger since we have been conservative on our Revenue numbers based to experience we have seen to date. Below is a summary of the total expenditures in the fund:

Expenditures	Actual 2016	Budget 2017	Budget 2018	Change	% Change
Administration/General Facilities	\$363,563	\$352,714	\$454,834	\$102,120	28.95%
Event Center	\$105,653	\$125,048	\$140,609	\$15,561	12.44%
Curling Center	\$406,766	\$402,857	\$477,637	\$74,780	18.56%
Crooked Pint	\$49,292	\$49,998	\$50,499	\$501	1.00%
Other	\$687,985	\$30,000	\$0	-\$30,000	-100.00%
Depreciation	\$51,977	\$0	\$0	\$0	0.00%
Debt Service	\$539,366	\$1,583,762	\$1,594,230	\$10,468	0.66%
Total Operating Expenses	\$2,204,602	\$2,544,379	\$2,717,809	\$173,430	6.82%

