

City of Chaska 2019 Budget



2019 Annual Budget

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

Submitted for your review is the proposed 2019 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.

2019 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 2019, 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, and 7.85% increase in 2018. For taxes payable 2019, we are seeing a 5.72% increase in our community's taxable market value, which provides a very healthy increase in our community's tax capacity, with it growing by 5.6%. 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 2019, 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 2019 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 5.72%. This will bring our overall property values in the community to just under \$3 billion, the highest level in our community's history. 1.70% 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. In taxes payable 2018, we did recapture

half of the \$250,000 annually lost from LGA, which we would propose to remain unchanged in 2019

- 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 27,000 residents
- Our Electric Revenue has continued to increase significantly, as we have seen a significant amount of Economic Development activity occur in the last 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 in which we have already invested 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 roads, 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 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. This policy also allows us to capture 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. Capturing this new value has no impact on the taxes paid by existing residences.

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. The only addition to the tax levy beyond this would be if there was an addition to our service levels in the community, with any increase directly related to the cost of providing this new service.

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 2019 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 was new in 2018 is the addition of the last objective, which is to develop a budget plan that is sustainable from a resource perspective. Over the past two years, the City Council had discussed 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 2019 budget does not completely address this new objective, there are pieces of the 2019 budget that do help to start down this path of addressing this reality. Over this past year, Staff did complete a comprehensive inventory to properly define what level of resources we should be at to keep our service levels sustainable. In early 2019, Staff is planning to provide the City Council with the results of this study to see where any current gaps exist in our resource levels, and what action items we may have to take over the next few years to get the resources at a level that is sustainable for our organization as we move into the future. The plan will not be to fill any identified gap in the 2020 budget process, but to instead come up with a multiple year plan to address how we fill this gap both to make sure we have sustainable resources to support our current service levels, but in a way that does not create an unreasonable financial burden for our residents in any one given year. In this way, it will likely be approached

in a very similar way to how the CIP plan was implemented over a 4-year period from 2014-2017.

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 4.7% increase in our operational tax levy for 2019. In addition to this, Staff is also recommending implementing an additional 2.4% increase in tax levy to address the funding of an additional service the Council has decided is important to provide to our residents but is currently not funded. Specifically, the City would be proposing to increase our Community Service Officer positions by 2.5 FTE to create a new Code Compliance Division. Currently our Code Compliance services are provided on a "complaint" basis only, meaning that we are only staffed to be reactive to Code compliance issues in our community. With the housing stock aging, and there being more problem properties in the community, the Council felt it was very important that we provide a more proactive service in this area, as problem properties can have such a negative impact on surrounding property values and quality of life for our residents. Staffing at 4.0 FTE in this division (2.5 FTE higher than the current staffing level), this will allow us to focus on problem areas, while also spending more time educating the public on what conditions are acceptable and not acceptable on any specific parcel. Implementing both our operational tax levy, based on our tax levy policy, along with creating the new Code Compliance Division within our organization would require a total increase of 7.1% to our General Fund, which would have an impact of increasing our tax rate by 1.5%, as we had already seen an increase of 5.6% in our tax capacity for 2019.

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 5.6% (as it will in 2019), the levy could also increase by 5.6% 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 7.1% increase in tax levy for 2019, and the tax capacity going up 5.6%, this means that the tax rate would go up by 1.5% for 2019. This means that if a property saw no increase in their property values for 2019, that their taxes would go up by 1.5%.

While the constant tax rate 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 during the Great Recession. 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 service levels 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 2019 budget, we are recommending levying an additional \$190,000 (2.4%) to fund the addition of 2.5 FTE Community Service Officers to fully staff our new Code Compliance Division. As Staff has shared with Council, we feel that the creating this Code Compliance Division has become an expectation of our residents on the level

of service we provide, and that without dealing with problem properties, we have the overall impact of potentially decrease both overall market values in the County and negatively impacting residents' quality of life. Staff feels that we would not be able to afford to provide this level of service if we did 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 6 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 five residential developments in the Southwest Chaska Development Area, with over 400 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. Over this past year, we have seen this C/I development trend continue, with construction starting on the new Formacoat building on the old Chaska Building Center site, Dunkin Donuts/Multi-Tenant commercial on the former Hot Spot

site, and Aldi/Chipotle/Starbucks in the Hazeltine Plaza development. We expect to see this level of development activity continue into the 2019 budget year, including the expected addition of 150 new residential properties in the community, as well as new Commercial/Industrial development, which is either already under construction or is scheduled to start early in the Spring of 2019. Below is a chart illustrating past population growth and the growth Staff anticipates over the 5-year period.

Table 1 Population Growth

Year	# of Households	# of New	Est. Pop.
2000	6,979	445	17,449
2001	7,394	415	17,746
2002	7,909	515	18,982
2003	8,378	469	20,107
2004	8,854	476	21,250
2005	9,122	268	21,893
2006	9,323	201	22,375
2007	9,553	230	22,927
2008	9,743	190	23,383
2009	9,767	24	23,441
2010	9,832	65	23,652
2011	9,907	75	23,777
2012	10,039	132	24,094
2013	10,173	134	24,415
2014	10,373	200	25,270
2015	10,523	150	25,255
2016	10,673	150	25,652
2017	10,823	150	25,975
2018	10,973	150	26,335
2019	11,123	150	26,695
2020	11,273	150	27,055
2021	11,423	150	27,415
2022	11,573	150	27,775
2023	11,723	150	28,135

An analysis of General Fund revenues by major fund source:

Total revenues anticipated to fund the 2019 General Fund operating budget are \$16,894,617 which is an increase of 5.5% from the 2018 budget of \$16,012,480. 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 4.7%, for operational expenses based on our tax levy policy that captures new growth (1.7%) and inflation to expenditures (3%). In addition to this, our tax levy policy only adds onto this percentage if a new service is being added. In mid-2018, this City did start its new Code Compliance Division in our Police Department to proactively address the development and enforcement of code compliance issues on properties across the community. With this becoming a much bigger issue in our community as the housing and building stock ages, the Council felt it was important from a quality of life perspective to be much more proactive instead of reactive with this service, and decided it was important to fully fund the necessary resources to meet this objective. Being housed within our Community Service Officer

Division, the department did need to add 2.5 FTE Community Service Officer positions onto the existing 1.5 CSOs, bring the total number of employees in this division to 4 FTEs. The additional tax revenue needed to support this service is \$190,000, which would add an additional 2.4% onto our tax levy needs. This would bring the total tax levy increase to 7.1%.

In addition to this, our other main source of income in our General Fund is our Electric and Gas Franchise Fees at just over \$4 million. The chart below shows a summary of revenues for the 2019 budget year:

General Fund Revenues					
	2017	2018	2019		
	Actual	Budget	Budget	Increase	%Increase
Property Tax	\$5,115,562	\$5,401,040	\$5,700,506	\$299,466	5.5%
Elec/Gas Franchise Fees	3,979,102	4,137,000	4,396,000	\$259,000	6.3%
Other Franchise Fees	321,423	297,054	315,000	\$17,946	6.0%
License and Permits	1,288,182	1,337,696	1,348,495	\$10,799	0.8%
Other Revenues	2,223,695	2,161,237	2,019,539	(\$141,698)	-6.6%
Admin Charges to Funds	1,970,000	2,678,453	3,115,077	\$436,624	16.3%
Total Revenue	\$14,897,964	\$16,012,480	\$16,894,617	\$882,137	5.5%

Table 2 Budget Overview

Capital Improvement Program

With our Capital Improvement Program being fully funded after the 2017 budget, the 2019 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 a 4-year period between 2014-2017 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, 2019 will bring a number of rehabilitation projects to the table, including:

- Street Overlay: \$370,000
- Trail Upgrade/Overlay: \$60,000

- Landscaping Wall Replacement-Clayhole #2 Lake: \$235,000
- MSB Annual Door/Hoist Maintenance Program: \$45,000
- Athletic Park Improvements: \$120,000
- Lion's Park Shelter Improvements: \$170,000

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 2019 the General Fund budget requires a total levy of \$9,201,811, which represents an increase of 7.1% from the 2018 tax levy. This levy is made up of 4.7% to support the Operating levy (3% for inflation and 1.7% for new growth in the community), with the remaining amount accounting for the addition of our new Code Compliance Division, which is 2.4% or \$190,000. 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, \$211,878 represents a levy for tax abatement assistance provided in the past. This additional amount represents the seventh 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 \$498,843 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
- \$8,799,933 being levied to support General Fund Operations, a portion of Street Reconstruction Debt Service, and existing Equipment Acquisition Fund needs
- \$190,000 to establish a fully-funded Code Compliance Division
- Continuation of the fully implemented Capital Improvement Program
- \$498,843 being levied in the Economic Development Authority Fund, with \$300,000 going to help support the newly established "Community Building Fund"
- 211,878 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 2016, 2017 and 2018, along with the proposed 2019 levy:

	2016	2017	2018	2019	Increase	%
General/Equipment Acquisition	\$ 7,130,307	\$ 7,764,085	\$ 8,392,340	\$ 8,983,933	\$ 591,593	7.0%
Mt Pleasant	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	0.0%
Total Operating and Special Levy	\$ 7,136,307	\$ 7,770,085	\$ 8,398,340	\$ 8,989,933	\$ 591,593	7.0%

Table 3 Tax Levies

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 \$161,740,300 to \$2,989,947,300, an overall increase of 5.72%. The largest percentage increase that we saw in 2018 was in Residential properties, with a 5.98% overall increase. 1.95% of that came from new construction of residential units in the community. The other major area of increase we saw was in apartment properties, with a 5.93% increase in market values. 0% of that growth came from new construction, meaning that existing apartment properties in the community are increasing in value. This indicates that there are not a lot of vacancies in these buildings. Commercial/Industrial properties also had an increase, with the overall increase in this type of property being at 5.62%. New construction accounted for only 1.50% of this change, with the remainder of the change coming from increases in property values to existing C/I properties. Below is a summary of the Market Values for taxes payable 2019 (assessed 2018) as established by the County Assessor's office:

Chaska 2018 Assessment					
	Residential	Commercial/Industrial	Apartment	Ag	Total
2018 EMV	\$2,242,300,300	\$478,652,800	\$181,658,300	\$87,335,900	\$2,989,947,300
2017 EMV	\$2,115,786,700	\$453,170,600	\$171,481,600	\$87,768,100	\$2,828,207,000
Total Value Change	\$126,513,600	\$25,482,200	\$10,176,700	(\$432,200)	\$161,740,300
New Construction	\$43,810,500	\$7,156,200	\$0	\$0	\$50,966,700
Market Change	\$82,703,100	\$18,326,000	\$10,176,700	(\$432,200)	\$110,773,600
% New Construction	1.95%	1.50%	0.00%	0.00%	1.70%
% Market Change	3.91%	4.04%	5.93%	-0.49%	3.92%
2018 Total % Increase	5.98%	5.62%	5.93%	-0.49%	5.72%

Table 4 Chaska 2018 Assessment

Using the 2018 market values and the classification formulas established by the State, the County Auditor has calculated Chaska’s 2018 (for taxes payable 2019) gross tax capacity to be \$33,822,989, an increase of 5.3%. 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 \$1,052,488 with Chaska’s fiscal disparities contribution for 2019 being \$3,523,588 resulting in a net tax capacity of \$29,435,207, an increase of 5.3%.

	2018	2019	Increase	%
Gross Tax Capacity	\$ 32,029,346	\$ 34,011,283	\$ 1,981,937	6.2%
TIF	\$ (974,106)	\$ (1,052,488)	\$ (78,382)	
Fiscal Disparities	\$ (3,096,735)	\$ (3,523,588)	\$ (426,853)	
Other	\$ -	\$ -	\$ -	
Net tax capacity	\$ 27,958,505	\$ 29,435,207	\$ 1,476,702	5.3%

Table 5 Net Tax Capacity

Based on these estimates, Carver County has estimated Chaska’s 2018 General Fund tax rate to be 27.61%. This is an increase of 1.39% from 2018, where we had a tax rate of 27.56%. With the average value of home going up from \$289,300 to \$299,100 in the community (3.91%), this would bring the average valued home’s City taxes from \$831 in 2018 to \$871 in 2019, or an increase of \$40 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 2019, 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 2018 City tax data, out of 87 local units of government looked at in the metropolitan area, Chaska ranked 82nd lowest in City taxes per capita. In this sense, Chaska has continued to perform very well when comparing our City property tax level compared to all of communities in the metropolitan area. It has allowed the City to keep a competitive edge when it relates to other municipalities in the metropolitan area and Carver County.

	<u>City</u>	<u>2018 Payable Levy</u>	<u>Population</u>	<u>Levy Per Capita</u>
1	Oak Park Heights	5,328,501	4,918	\$1,083
2	Golden Valley	22,420,742	21,520	\$1,042
3	Wayzata	4,683,662	4,586	\$1,021
4	Minneapolis	328,908,000	422,331	\$779
5	Hopkins	14,221,880	18,678	\$761
6	Mendota Heights	8,591,146	11,343	\$757
7	St. Anthony Village	6,687,477	9,077	\$737
8	Columbus	2,960,502	4,065	\$728
9	West St. Paul	14,344,671	19,767	\$726
10	Tonka Bay	1,122,322	1,561	\$719

68	Chanassen	10,913,868	25,558	\$427
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78	New Brighton	8,661,170	22,787	\$380
79	Mounds View	4,973,985	13,098	\$380
80	Andover	12,416,357	32,902	\$377
81	Arden Hills	3,786,942	10,362	\$365
82	Chaska	9,201,811	26,561	\$346
83	Vadnais Heights	4,427,548	13,561	\$326
84	Lauderdale	765,514	2,528	\$303
85	North Oaks	1,557,082	5,207	\$299
86	Falcon Heights	1,585,389	5,592	\$284
87	White Bear Lake	5,625,000	25,888	\$217

Table 6 2018 City Tax Data

Intergovernmental Revenues:

One significant change we experienced in 2018 and continues in 2019 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 2019 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 went down to approximately \$1,000 in 2018, and is expected to stay at this level in 2019 and into 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.

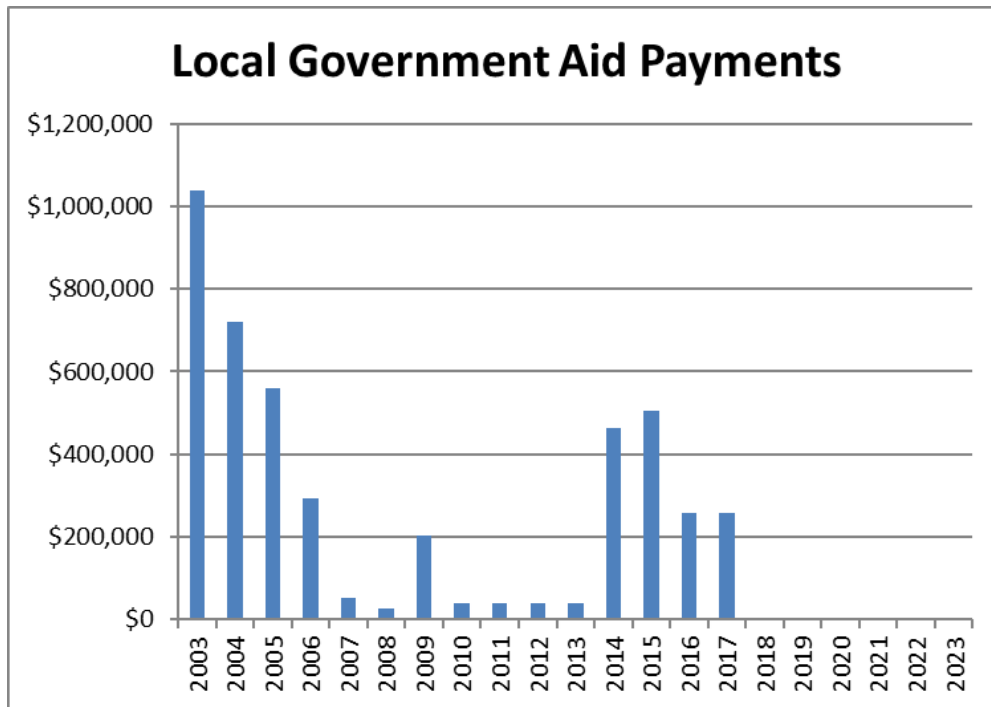


Table 7 Local Government Aid Payments

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 additional \$125,000 is included in the 2019 budget. No additional levy is needed to keep this in our revenue numbers.

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 2019, with Staff anticipating that we will see approximately \$1.34 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 including a new Dairy Queen 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.

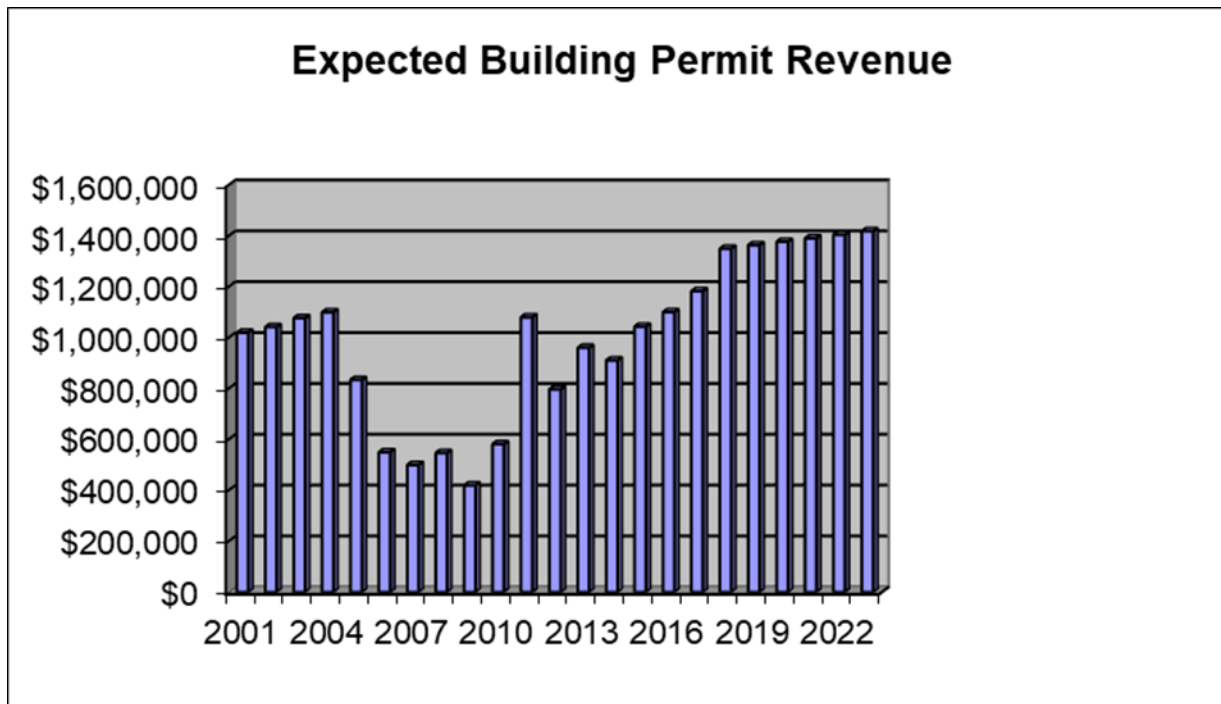


Figure 1 Expected Building Permit Revenue

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 2019 the franchise fee is anticipated to generate revenues to the general fund of approximately \$3,800,000. 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 2019 as we expect to see the addition of the Formacoat Factory in Downtown Chaska, and the addition of more load in our new Data Centers over the next year.

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 2019, with development of the first building at the Southwest corner of the intersection of 212 and Engler Boulevard now completed, and the addition of franchise fee from MN Valley Electric Coop Services in the Chevalle neighborhood.

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 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.

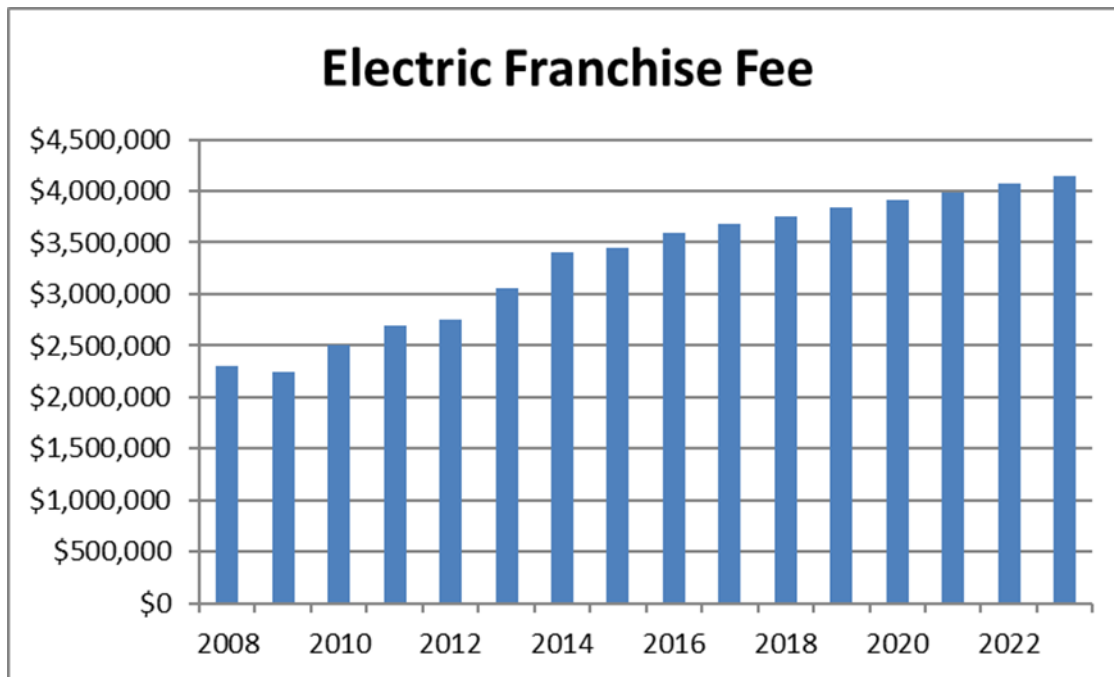


Figure 2 Electric Franchise Fee

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 2019, charges for services are programmed to be \$3,115,077 as compared to \$2,678,453 in 2018. 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 in 2018, 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. With us getting a healthy fund balance in these accounts over the past several years, we added more appropriate fees to these funds to help support the internal services they are receiving. In 2018, these charges helped support the addition of a Human Resources Technician, and a new Communications Coordinator position. Both have been badly needed positions within our organization and have helped to provide a great administrative service to our entire organization, not just our General Fund. As mentioned previously, we want to make sure that the Enterprise Funds are contributing an equitable share to the shared services the General Fund provides to ensure that the General Fund is not bearing an undue burden for these services and subsidizing our Enterprise funds for Administrative Services.

General Fund Expenditures:

General fund operating expenditures are forecast to be \$16,894,617 which is an increase of 5.5% over the 2018 Operating Budget. In preparing the 2019 budget the following general assumptions were used for the operating budget:

- *Utilize budgeting objectives developed*
- *Increase in the tax levy by 7.1% due to new growth and inflation, with an additional \$190,000 representing the addition of a Code Compliance Division*
 - *This would come through the addition of 2.5 CSOs to bring it up to 4 FTEs in the CSO division.*
- *Continue to fully implement the fully-established Capital Improvement Program in 2019*
- *Continue with the 5% Gas Franchise Fee, which will represent approximately \$450,000 in 2019 and be dedicated to the CIP Program*
- *Continuation of \$300,000 tax levy annually to the EDA Fund in 2019 and continuing into the future to support the "Community Building Fund"*
- *Operational costs up 1% in 2019*
- *Personnel salaries up 3%, with employer benefit contribution increases of 6%. Also address starting process of getting salaries for average-tenured employees up to Metro-averaged wages based on our completed MRA Study*
- *Assume normal continuation of our Street Reconstruction Program*
- *Continue contract with City of Carver for shared recreational services, bringing in additional \$51,000 in revenue*
- *Continue with \$12,000 expense in 2019 for "Scholarships" to support large community activities utilizing our new banquet facility (\$1,000 per month)*
- *Fully fund the Equipment Replacement Schedule for 2019. (Sale of Equipment Certificates)*
- *Plan for equipping all Police Officers with Body Cameras when 1-year free trial period has ended*
- *Assume no draw-down on General Fund reserves*
- *All other items in budget to remain unchanged*

Department	2017	2018	2019		%Increase	Notes
	Actual	Budget	Budget	Increase		
Council	\$175,661	\$112,730	\$113,457	\$727	0.64%	
Communication	\$55,638	\$76,394	\$113,507	\$37,113	48.58%	<i>Cable Coord move to FT</i>
Administration	\$707,427	\$725,841	\$802,158	\$76,317	10.51%	<i>Comm. Mngr Full Year</i>
Elections	\$0	\$32,433	\$5,000	-\$27,433	-84.58%	
Admin Serv-Finance	\$1,598,988	\$1,426,978	\$1,553,403	\$126,425	8.86%	<i>Half Year Support Position</i>
Admin Serv-IS	\$1,052,760	\$1,012,010	\$1,111,544	\$99,534	9.84%	
Legal	\$153,486	\$84,717	\$85,565	\$848	1.00%	
Community Dev.	\$1,137,743	\$990,891	\$1,028,557	\$37,666	3.80%	
Engineering	\$306,202	\$384,318	\$367,493	-\$16,825	-4.38%	<i>Assist Engin Half Year Funded</i>
City Hall Bldg	\$230,497	\$220,124	\$222,333	\$2,209	1.00%	
Police	\$4,152,040	\$4,001,799	\$4,435,876	\$434,077	10.85%	<i>Code Compliance Division</i>
Fire	\$1,569,875	\$1,740,483	\$1,974,325	\$233,842	13.44%	<i>Full Year Funding of Inspectors</i>
Civil Defense	\$3,785	\$5,615	\$5,672	\$57	1.02%	
Public Works Admin	\$290,692	\$290,597	\$347,931	\$57,334	19.73%	<i>All categories of Pub Works</i>
Streets	\$1,242,600	\$1,490,177	\$1,644,143	\$153,966	10.33%	<i>together similar to last year</i>
Snow Removal	\$136,964	\$186,821	\$202,912	\$16,091	8.61%	
MSB Building	\$196,759	\$218,150	\$220,339	\$2,189	1.00%	
Park Maintenance	\$1,180,005	\$1,199,097	\$1,001,881	-\$197,216	-16.45%	
ISD 112 Maint	\$40,817	\$39,344	\$40,745	\$1,401	3.56%	
Tree Control	\$27,880	\$30,498	\$37,007	\$6,509	21.34%	
Parks Admin	\$445,592	\$583,016	\$513,853	-\$69,163	-11.86%	
Parks Youth	\$62,382	\$64,132	\$172,889	\$108,757	169.58%	<i>Full Year Funding of Rec. Manager</i>
Parks Adult	\$96,218	\$83,302	\$84,250	\$948	1.14%	
Firemen's Park	\$112,173	\$283,899	\$294,215	\$10,316	3.63%	
Parks Skating Rink	\$8,505	\$9,515	\$9,559	\$44	0.46%	
Unallocated	\$440,916	\$719,599	\$506,003	-\$213,596	-29.68%	
Total	\$15,425,605	\$16,012,480	\$16,894,617	\$882,137	5.51%	

Table 8 General Fund Expenditures

The only major area of growth will be in the addition of 2.5 FTE Community Service Officers to create our Code Compliance Division. This will come at a cost of \$190,000 but will allow us to be proactive in addressing Code Compliance issues with properties in the community. This is an issue that is becoming a greater issue with the aging of our properties/structures in the community and can have a very large impact on the quality of life for our residents, especially if you live next door to a problem property.

From a CIP perspective, 2019 will be the third 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 2019, the following projects are planned to be undertaken:

- Street Overlay: \$370,000
- Trail Upgrade/Overlay: \$60,000
- Landscaping Wall Replacement-Clayhole #2 Lake: \$235,000
- MSB Annual Door/Hoist Maintenance Program: \$45,000
- Athletic Park Improvements: \$120,000
- Lion's Park Shelter Improvements: \$170,000

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 2019 budget process, while also keeping us very low from a tax perspective in the entire Twin Cities Metropolitan Area.

Specific Department 2019 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 2019, except for the addition of a Finance Clerk budgeted for half of the year. This is to address the significant increase in reporting requirements we have had added over the last several years, and to address the addition of Funds we have added, such as the Curling and Event Center, which have continued to increase the work load of our Finance Department. This is a position that is supported by all Funds and not just the General Fund. 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 additional planned for 2019.

Community Development

As indicated previously, we do anticipate continuing to see an increase in the amount of building activity in the community in 2019, as we seen over the past 6 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 2019, we anticipate seeing approximately \$1,340,000 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 2019. The major Planning Project for 2019 will be continuing to work on the implementation of the City Square West/Library project, which along with the other general development activities will keep this department busy.

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 2018. With our Assistant City Engineer vacating that position in 2017 after accepting the City Engineer position, we are now at this time moving to get that filled. This is currently one of the most difficult positions in the Twin Cities for any City to fill, with us having gone through this process twice with no hires made. We are looking at other options now on how that position could potentially be supported by a designated person out of our Contract Engineering firm in the short term. Having this position filled would put us in a position of having this department fully staffed.

Police

As mentioned previously, the major change in the 2019 Budget is the addition of a Code Compliance Division within our Police Department. This division would address code compliance issues within the community on a pro-active level, instead of the re-active level we are currently staffed. To fully fund this division, we would need an additional 2.5 FTE Community Service Officers to join in with our current 1.5 FTE Community Service Officers, bringing the total in this division to 4 people. At this staffing level, we will be able to provide service to residents not only during normal business hours but also during evenings and weekends. This should be a major addition to the community in being able to address quality of life issues with problem properties/buildings within the community. In addition to this staffing, we do also have the replacement of some squad cars built into our Equipment Replacement Schedule for 2019.

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 2019, 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.

In the 2018 budget we made another significant change to the department by budgeting the addition of two new Rental Inspectors/Fire Fighters to the Department. The primary function of these employees is 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. An added benefit of these employees being in the Fire Department is that they 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. This has been a great addition to this department and is continued to be included in the 2019 budget.

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 2019, but only our normal replacement of equipment.

The Street Reconstruction Program is scheduled to continue forward in 2019, with the full reconstruction of 4th Street in front of St. John's Church.

Finally, with the addition of Firemen's Park and now Veteran'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 these parks now that they are in full use. To address this, we added approximately \$18,000 in park maintenance equipment and part-time park maintenance Staff to address these new maintenance needs.

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 2019, 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. While they are not a new position, we did move 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. Finally, in 2018 we did budget for the addition of a Recreational Manager to manage all recreation programming services in the City. While this position was funded for half of 2018, it is not yet filled, but should be in early 2019. This was already included in the base budget and does not represent an increase to the proposed budget.

Community Center Budget

For the Chaska Community Center, 2019 will be its 29th 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. While we have been trying to be more proactive about separating the general fund parks and recreation costs and functions from our Community Center activities, we still find that the Community Center and its operations provides us with many more efficiencies in both areas than are seen in most municipalities.

To put this in perspective, the Statewide average for Park and Recreation expenditures per capita supported from tax levy is just over \$95 per capita, where our tax supported portion of Parks and Recreation was \$43 per capita in the 2017 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 unnoticed 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
- Early 2018: Fitness Equipment Replaced/New Flooring in Fitness Center: \$200,000
 - Total of all CIP Improvements: \$4,306,720 (\$800,000 of which are tenant improvements for St. Francis and Breakaway, supported through lease payments)

In 2019, the major initiative that is planned to be completed on a Capital Replacement side is the renovation of the Kids Indoor Play Castle/Ball Pit Room. The dollars that we have allocated towards that in the budget is \$50,000. At the same time, we are going to be doing work in 2019 to identify the problem areas in the roof at not only the Community

Center, but other City facilities in which we have had roof issues. This has been a particularly visible problem at the Community Center where this issue has been an issue since the original facility was built. We do not have dollars programed in this 2019 budget for any fix as we do not know yet the extent of the issues we may be dealing with. Council should expect that during 2019 we come back with some indication of a solution to this issue that has plagued us in many of our City facilities for quite some time.

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 completed in 2018 were paid for by cash (flooring/painting improvements) from the CCC Fund, and by leasing the new fitness equipment brought into the fitness center. By leasing this equipment, this helps make sure that we are replacing this equipment on a regular schedule, and that any major repairs to the equipment are addressed through the leasing company.

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. We have also kept track of how any increases have kept us within the market for patron pricing. We feel confident, especially with Memberships and Admissions, that we were able to meet our targets for membership revenue increases 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 we had no increased pricing for Membership or Admission rates built into last year's budget. Instead, we kept the membership rates that same as 2017, while at the same time providing more benefits for our membership packages, including free daycare and drop-in fitness classes. This move generated an additional \$100,000 in membership revenue. While we did have some lost revenue from daycare and drop-in class fees, we were able to better than make that up with the increase in membership. The 2019 budget is anticipating rate increases further into the year, with us budgeting that between new memberships and increased rates, we can increase our membership revenue by 4.5%.

With our Ice Rates, we are currently right in the market with other surrounding facilities. We have looked at trying to benchmark any changes we make to rates to match up with

any rate changes the School District would make with the Ice in Victoria to create some consistency in rate schedules between ice facilities in School District #112.

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 2019 budget year.

Community Center Revenues

For 2019, we are projecting that the Community Center will generate total operating revenues of \$3,827,549, which is an increase of approximately 2.9% over the budget from 2018. Most of this increase will come from us looking at adjusting our rates in mid-2019 to match up closer to the market, and to continue to try to increase the number of memberships at the CCC facility.

For 2019, we are planning an increase in revenues for Membership of approximately 4.5%, with this increase coming from both an adjustment in membership and admission rates, but also through the increase in memberships numbers at the facility. As I previously mentioned, in 2018 we were able to increase our membership revenue by just over \$100,000, with much of this change being driven by reinvestment back into our facility, but most specifically in our Fitness Center, but also by offering free day care and drop-in classes. While we did lose some revenue through the addition of these benefits to our membership package, we were able to make that up through the increased volume of sales.

In 2018 we also added a "Work in Chaska" third tier of rates. This offers an individual or family rate that is cheaper than a non-resident rate, but more expensive than a resident rate if you work in Chaska. We plan to be more aggressive in marketing this program in 2019, and hope that this will add a new group of individuals to draw from for memberships to our facility.

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. At the end of 2018, this first agreement ends, and we will be negotiating a new contract with Carver should both cities want to consider extending this partnership. From Chaska's perspective, we do get compensated \$51,000 per year for this agreement. Looking at the number of Carver residents who now have memberships at the CCC, we lose about \$51,000 in revenue compared to if they were charged at the non-resident rate. What this means is that we have been covering this difference between resident and non-resident rates through this payment from Carver. However, as we look at renegotiating this agreement, we will have to look at what value our programming services offer to their community. The hope is that by having a continued partnership as both communities grow is that each community can built complementary recreation facilities both community's residents can use instead of building competing facilities which could negatively affect both communities as we move into the future. It is also hope that by

taking this approach, we will be able to provide for both of our residents' access to more variety in recreation offerings than if we both tried to provide this service by ourselves.

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. A final piece of this increase came in 2018 as we provided more amenities for those who purchase a membership, such as free daycare and drop-in classes.

As mentioned previously, in 2019 we will be continuing our new Membership Package as it has proved to be very successful for us, which includes 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 recent renovation of our Fitness Center and Play Castle/Ball Pit Area this year, we are going to continue to address many of the things that have either stopped people from getting a CCC Membership or have led to them dropping 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 number of people that have not been fully tapped into in the past.

Finally, as we clearly saw through our 2018 Community Survey results, reinvesting back into our existing facilities, such as the Community Center, is a high priority for our residents, if it is going to continue to offer our residents a great experience at this facility. In 2019 we will be moving forward with a full rate study to look at where we think we need to be from a rate perspective if we are going to support the many capital improvements we will need over the year, while still remaining a "great deal" for patrons to purchase a membership to our facility. It is our hope that by quantifying our needs and demonstrating how we can meet those capital improvement needs in the facility in the future while keeping our rates competitive, that this will help to continue to drive the addition of memberships in the facility as we can create a more certain future for improvements to be made.

Below is a chart illustrating what our membership numbers have been, the approximate \$1.3 million we expect for membership revenue in 2019, and what we expect from Membership revenue as we move into the next 5-years:

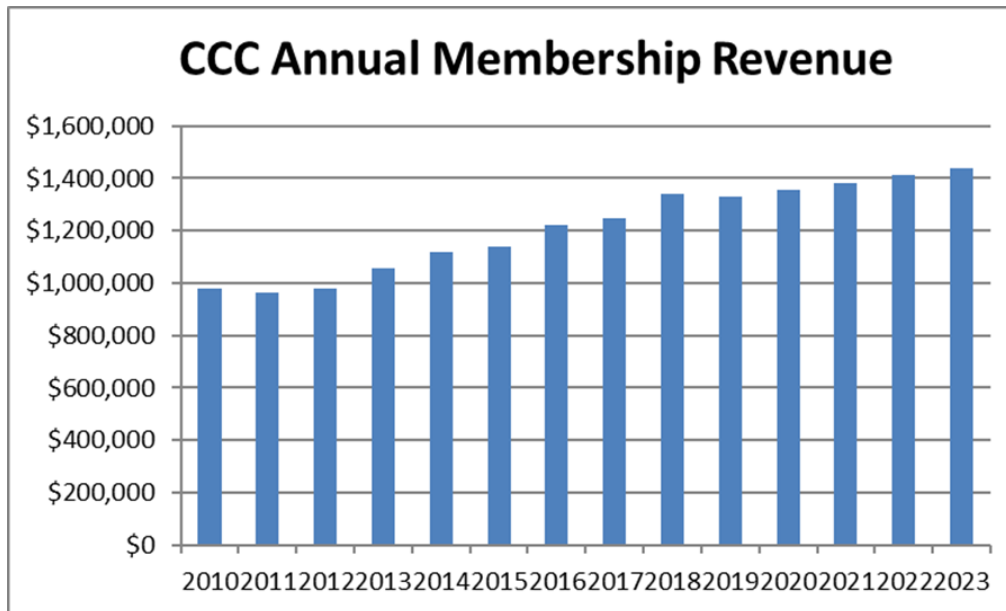


Figure 3 Chaska Community Center (CCC) Annual Membership Revenue

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 memberships, and at about average for daily admissions for both Chaska residents and non-residents. The facilities that we compare ourselves to for the sake of the survey are area public recreation facilities, including Shakopee (which recently had a major addition and renovation), Victoria, Eden Prairie (which recently had an addition) and Waconia.

As you will see in the charts below, we have been at average to slightly above average for Daily Admission Rates, but that for memberships, we have been quite a bit below average, especially on family memberships:

2018 Resident Rate Membership Survey

	Enroll Fee	Youth	Adult	AOA/Senior	Family	Dual
Chaska	\$0	\$273	\$371	\$273	\$586	
Shakopee	\$0	\$275	\$380	\$275	\$600	\$499
Victoria	\$0	\$115	\$421	\$115	\$563	
Eden Prairie	\$0	\$407	\$511	\$406	\$1,219	\$894
Waconia	\$0	\$354	\$508	\$354	\$767	
Average of Competitors	\$0	\$288	\$455	\$288	\$787	\$697
Chaska % of Average		94.88%	81.54%	94.96%	74.44%	

Table 9 2018 Resident Rate Membership Survey

For 2018, our Resident Rates were 81.5% of average for our Adult Memberships, 74.4% of average for our Family Memberships and 94% of average for our Youth/AOA rates.

2018 Non-Resident Rate Membership Survey

	Enroll Fee	Youth	Adult	AOA/Senior	Family	Dual
Chaska	0	373	530	373	851	
Shakopee	\$0	\$370	\$540	\$370	\$815	\$680
Victoria	\$0	\$172	\$501	\$172	\$703	
Eden Prairie	\$0	\$592	\$604	\$592	\$1,452	\$1,045
Waconia	\$0	\$425	\$567	\$425	\$827	
Average of Competitors	\$0	\$390	\$553	\$390	\$949	\$863
Chaska % of Average		95.70%	95.84%	95.70%	89.65%	

Table 10 Non-resident Rate Membership Survey

For 2018, our Adult membership were at 95.8% of the average for our market comparisons, our Family Membership were at 89.6% of average, and our Youth/AOA memberships were at 95.7% 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, especially if a patron’s main focus is on fitness equipment and classes. 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 implemented in 2018 did help us better compete with even this private health club competition, which is something that we do pay attention to.

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 2018 for residents, and slightly above for non-residents. We feel that this is a good place to be for our daily admission rates, as we would like to encourage more to consider being a member of our facility.

2018 Resident Rate Daily Admission Survey

	Youth	Adult	AOA/Senior	Family
Chaska	\$6.50	\$7.50	\$6.50	\$24.00
Shakopee	\$5.00	\$7.00	\$5.00	
Victoria	\$3.00	\$5.00	\$3.00	\$10.00
Eden Prairie	\$10.00	\$10.00	\$10.00	
Waconia	\$7.00	\$8.00	\$7.00	
Average of Competitors	\$6.25	\$7.50	\$6.25	\$10.00
Chaska % of Average	104.00%	100.00%	104.00%	240.00%

Table 11 2018 Resident Rate Daily Admission Survey

Daily resident admissions for 2018 were all very competitive compared to those in our market analysis.

2018 Non-Resident Daily Admission Survey

	Youth	Adult	AOA/Senior	Family
Chaska	\$8.00	\$9.00	\$8.00	\$32.00
Shakopee	\$5.00	\$8.50	\$5.00	
Victoria	\$5.00	\$7.00	\$5.00	\$15.00
Eden Prairie	\$10.00	\$10.00	\$10.00	
Waconia	\$8.00	\$9.00	\$8.00	
Average of Competitors	\$7.00	\$8.63	\$7.00	\$15.00
Chaska % of Average	114.29%	104.35%	114.29%	213.33%

Table 12 2018 Non-resident Daily Admission Survey

Even while our non-resident comparisons are slightly higher than average, we are still providing a great value as we offer more amenities than the other area facilities in our comparison chart.

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

	<i>Actual</i>	<i>Budget</i>	<i>Budget</i>		<i>%</i>
REVENUES	2017	2018	2019	Change	Change
<i>Member and Admis</i>	\$1,506,796	\$1,627,188	\$1,639,269	\$12,081	1%
<i>Community Events</i>	\$7,085	\$7,745	\$8,094	\$349	4%
<i>Community Room</i>	\$33,898	\$36,866	\$38,523	\$1,657	4%
<i>Craft Rooms</i>	\$37,671	\$39,874	\$41,669	\$1,795	4%
<i>Wellness-Water</i>	\$1,507	\$1,340	\$1,402	\$62	4%
<i>Wellness-Studio</i>	\$113,335	\$130,831	\$136,241	\$5,410	4%
<i>Rainbow Room</i>	\$4,030	\$5,317	\$5,557	\$240	4%
<i>Wellness Programs</i>	\$53,406	\$75,267	\$78,654	\$3,387	4%
<i>Gym</i>	\$31,286	\$48,856	\$51,055	\$2,199	4%
<i>Gym-Batting Cage</i>	\$290	\$1,325	\$1,385	\$60	4%
<i>Gym-Gymnastics</i>	\$21,947	\$20,701	\$21,633	\$932	4%
<i>Ice Arena</i>	\$674,455	\$655,000	\$684,443	\$29,443	4%
<i>Maintenance</i>	\$21,287	\$33,725	\$35,241	\$1,516	4%
<i>Wellness-Cycling</i>	\$9	\$1,608	\$1,682	\$74	4%
<i>Wellness-PT</i>	\$14,560	\$7,504	\$30,305	\$22,801	75%
<i>Play Castle/Daycare</i>	\$30,724	\$27,189	\$15,678	(\$11,511)	-73%
<i>Treks and Trails</i>	\$91,827	\$86,860	\$90,764	\$3,904	4%
<i>Club Extreme</i>	\$102,192	\$105,800	\$110,556	\$4,756	4%
<i>Raquetball</i>	\$12,716	\$15,126	\$15,813	\$687	4%
<i>Swimming Pool</i>	\$19,805	\$13,750	\$14,370	\$620	4%
<i>Swim Lessons</i>	\$121,119	\$117,901	\$123,200	\$5,299	4%
<i>Theater</i>	\$88,818	\$75,064	\$88,550	\$13,486	15%
<i>The Lodge</i>	\$69,362	\$54,208	\$56,647	\$2,439	4%
<i>Birthday Parties</i>	\$40,529	\$39,020	\$40,780	\$1,760	4%
<i>Tot Time Preschool</i>	\$6,718	\$10,966	\$11,459	\$493	4%
<i>Before/After School</i>	\$8,872	\$9,090	\$9,499	\$409	4%
<i>Vending</i>	\$43,986	\$36,185	\$37,812	\$1,627	4%
<i>Misc.</i>	\$7,141	\$1,383	\$12,062	\$10,679	89%
Total Oper Rev	\$3,165,371	\$3,285,689	\$3,402,343	\$116,654	3%
Non-operating					
<i>Equipment Acqui</i>	\$1,253	\$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	\$251,000	\$244,203	(\$6,797)	-3%
Total Non oper	\$432,253	\$433,000	\$425,206	(\$7,794)	-2%
TOTAL REV	\$3,597,624	\$3,718,689	\$3,827,549	\$121,065	3%

Table 13 Community Center Major Revenue Sources

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 \$51,055. In 2018, this number was budgeted to be at 48,856. 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 \$123,200 for 2019. This is compared to the \$117,901 we budgeted for 2018 and is due mainly to the success we have seen with our Swimming Lesson programs. From 2012 to 2018, 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 2019 to be \$684,443,000, 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. For 2019, we are looking at an increase in rates, but to do so in conjunction with the School District with their Victoria Ice, as that is the main competition for our ice rentals within our Community Center.

One component of the Ice Rink that should be pointed out is the addition of the Girls Hockey Locker Room that is just being completed on the west side of our Ice Arena #1. This project is just over \$600,000, with it being a partnership with School District #112. The City is financing this project, with approximately \$500,000 of this coming back to the City through a lease agreement with the School District.

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 did decrease in 2018 due to the newly built domed field facility that was built behind Middle School East. While we still have some daytime use of the CCC by the School District for Physical Education classes (such as the use of the Ice), we still have about \$25,000 of use from the School District on an annual basis. This revenue no longer comes through an agreement with the School District but comes through their actual use and based on a discounted rate that we provide our Schools.

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, 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 an 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 generated 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 2019 these activities are anticipated to generate \$136,241. This is compared to \$130,831 budgeted in 2018. It should be noted that as part of our Capital Improvement Program, one of the changes that we saw in the Fitness Center in 2018 was the replacement of our aged fitness equipment. To replace this equipment, we replaced it with leased equipment so that we can continue to replace this on a regular basis as it fails and have a contract to maintain it should larger maintenance need to be completed on this equipment. In addition to replacing this equipment and renovating the fitness center space, we also did provide some membership package changes in 2018, now offering daycare and drop-in fitness classes at no cost. While this created some decrease in revenue in these areas, we were able to more than offset this loss by the addition of \$100,000 in new memberships.

Finally, with the completion of The Lodge addition, two new program areas were added to the Community Center. The Lodge is budgeted to generate \$56,647 in revenue in 2019, compared to \$54,208 in 2018. 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 \$90,764 in revenue in 2019 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 \$2.8 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 2019.

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 only major new items that will be focused on in the 2019 budget include:

- Addition of New Community Center Manager Position
- Completion of full rate and Capital Improvement Study in CCC

As we have discussed the past year and a half, one major change we are making within our Parks and Recreation Department Structure is to create more deliberate separation between the operations of our major facilities (CCC and Curling and Event Center) from

our General Recreation Programming services. With the Curling and Event Center already having a manager in place, the two positions that we are currently working to fill is the Community Center Manager position, which will be in charge of managing the day-to-day and future planning operations of this facility, and the Recreation Program Manager position, which will be charged with managing all programmed activities we have in the City, whether they are in the Community Center or any other place around the City. We feel that this will be a critical move for the Community Center on working to look at just it's operations, as it by itself is a \$3.8 million annual operation, and to properly plan for the future for what we will have to do to make this facility sustainable as it continues to age. It will also continue the trend we have had the past two years of trying to shift more of the general recreational services we have in the City into our General Fund operational budget, as these services are available to all City residents (not just Community Center members) and more closely replicates how most Cities provide these types of services. It should be noted that one of the major initiatives we would expect the new Community Center Manager to be working on in 2019 is a formal rate and capital improvement/maintenance study to help develop a sustainable plan going into the future how we meet our facility maintenance needs (which residents identified in our latest Community Survey is something they largely support for our existing assets) and at the same time to make sure that we are a great value to our residents.

Each year we include \$50,000 to go towards on-going capital replacement items within the Community Center. In 2019, 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 continue to 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 0.74%% decrease in our overall expenditures is because we are continuing to shift more of the general recreational services/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.

With the items listed above, total budgeted expenditures in 2019 will be \$3,823,938 which decreases the budget by 0.74% from 2018.

The following is a summary of all expenses in the Community Center Fund for 2019:

EXPENSES	Actual 2017	Budget 2018	Budget 2019	Increase	%
<i>Admin</i>	\$ 864,197	\$ 691,981	\$ 692,118	\$ 137	0.02%
<i>Events</i>	\$ 11,011	\$ 33,142	\$ 5,846	\$ (27,296)	-82.36%
<i>Craft Rms</i>	\$ 13,520	\$ 12,423	\$ 13,548	\$ 1,125	9.06%
<i>Well-Water</i>	\$ 4,396	\$ 4,230	\$ 4,229	\$ (1)	-0.02%
<i>Well-Studio</i>	\$ 38,077	\$ 25,077	\$ 36,810	\$ 11,733	46.79%
<i>Front Desk</i>	\$ 119,488	\$ 107,327	\$ 120,555	\$ 13,228	12.32%
<i>Well- Prog</i>	\$ 31,389	\$ 31,399	\$ 30,815	\$ (584)	-1.86%
<i>Gym</i>	\$ 19,171	\$ 20,801	\$ 19,577	\$ (1,224)	-5.88%
<i>Bat Cages</i>	\$ 437	\$ 1,823	\$ 1,717	\$ (106)	-5.81%
<i>Gymnastics</i>	\$ 15,782	\$ 16,179	\$ 16,435	\$ 256	1.58%
<i>Ice Arena</i>	\$ 243,581	\$ 205,416	\$ 221,195	\$ 15,779	7.68%
<i>Maintenance</i>	\$1,144,955	\$1,098,549	\$1,099,549	\$ 1,000	0.09%
<i>Cycling</i>	\$ 128	\$ 1,680	\$ 552	\$ (1,128)	-67.14%
<i>Personal Train</i>	\$ 11,106	\$ 6,079	\$ 21,150	\$ 15,071	247.92%
<i>Wellness Add</i>	\$ 114,603	\$ 182,144	\$ 129,699	\$ (52,445)	-28.79%
<i>Play/Daycare</i>	\$ 52,665	\$ 52,874	\$ 62,918	\$ 10,044	19.00%
<i>Treks& Trails</i>	\$ 86,678	\$ 93,240	\$ 94,556	\$ 1,316	1.41%
<i>Club Extreme</i>	\$ 74,728	\$ 78,085	\$ 74,894	\$ (3,191)	-4.09%
<i>Raquetball</i>	\$ 1,116	\$ 2,354	\$ 1,697	\$ (657)	-27.91%
<i>Swim Pool</i>	\$ 361,519	\$ 316,829	\$ 345,892	\$ 29,063	9.17%
<i>Swim Less</i>	\$ 31,188	\$ 31,731	\$ 32,165	\$ 434	1.37%
<i>Theater</i>	\$ 7,405	\$ 7,884	\$ 7,414	\$ (470)	-5.96%
<i>Lodge</i>	\$ 118,431	\$ 99,123	\$ 97,876	\$ (1,247)	-1.26%
<i>Birth Party</i>	\$ 7,565	\$ 6,996	\$ 6,775	\$ (221)	-3.16%
<i>Tot Time</i>	\$ 6,623	\$ 6,155	\$ 5,994	\$ (161)	-2.62%
<i>Gen Facility</i>	\$ 403,688	\$ 50,000	\$ 50,000	\$ -	0.00%
<i>Advent Prog</i>	\$ 119,457	\$ 111,381	\$ 117,540	\$ 6,159	5.53%
<i>B/A School</i>	\$ 8,725	\$ 7,005	\$ 5,294	\$ (1,711)	-24.43%
<i>Vending</i>	\$ 25,754	\$ 13,519	\$ 12,707	\$ (812)	-6.01%
<i>Depreciation</i>	\$ 710,669	\$ -	\$ -	\$ -	#DIV/0!
<i>Debt Service</i>	\$ 272,443	\$ 536,321	\$ 493,546	\$ (42,775)	-7.98%
<i>Transfer Out</i>	\$ (327,393)	\$ -	\$ -	\$ -	#DIV/0!
<i>Other</i>	\$ 7,847	\$ 522	\$ 875	\$ 353	67.62%
Expenses	\$4,600,949	\$3,852,269	\$3,823,938	\$ (28,331)	-0.74%

Table 14 Community Center Expenses

Based on our forecasted revenues and expenditures for 2018, we are estimating that the facility will have a balanced budget in 2019, meaning that we are not budgeting that there would be any addition to our Fund Balance in this fund.

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 we attempt to generate 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 23.83 million in 2017, according to the National Golf Foundation. This number has dropped approximately 1.9 million golfers just since 2012. 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 and has kept 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. This has resulted in us averaging about 32,000 rounds of golf per year.

While the Town Course was extremely busy during the peak times of this past summer, 2018 was not a good year for weather, dropping the total number of rounds this year to just under 30,000. In the month of April, we had no rounds of golf played, as we had a large snow storm in the middle of that month, and fall weather kept people off the course for a good portion of October. This reduction in rounds due to weather resulted in a loss of close to \$100,000 for the year compared to budget. While this summer did not produce the number of rounds we would have liked it to, we will continue to look at the average golfing rounds we would typically see in a year from which to budget in 2019, with us budgeting 32,000 rounds for 2019.

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

contributed towards our debt service on the course until all debt was repaid with the Closing of TIF District #4 in 2014. 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.

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 continued to struggle to generate significant reserves to go towards its future capital replacement needs.

To illustrate this, each year the Chaska Town Course has approximately \$450,000 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 2017, the Chaska Town Course showed that with including Depreciation as a cost, the Course's net Cash Position was (\$543,076). With Depreciation in that year being \$452,000, this means that from an operational standpoint, we ended the year in a positive position. 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 \$200,000 total that we included between the 2018 and 2019 budget to replace the sand and drainage system in our bunkers to help improve the play on the course. This improvement is to prepare for the 2020 PGA Junior Championship which we will co-host with Hazeltine. 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 2019, we are forecasting total revenues of \$2,142,100. This compares to the budgeted revenues we had for 2018, which were \$2,034,000. For 2019, we are budgeting based on 32,000 total rounds during the season. Our past 4-year average has been just over 32,000 rounds.

As mentioned previously, 2018 was not a good year for weather on the golf course, with us seeing no rounds during the month of April, and a much-decreased number of rounds in the fall. This brought our total number of rounds for the season to just under 30,000 rounds. This decrease in rounds did decrease the amount of greens fees that we had budgeted by approximately \$100,000 for the 2018 season.

Based on our assumptions, the total 2019 revenues are derived from the following sources:

	Actual	Budget	Budget		
<i>Revenues</i>	2017	2018	2019	Change	% Change
Green fees	\$ 1,258,506	\$ 1,296,000	\$ 1,403,000	\$ 107,000	8.26%
Driving range	\$ 102,610	\$ 100,000	\$ 100,000	\$ -	0.00%
Member fees	\$ 72,374	\$ 65,000	\$ 75,000	\$ 10,000	15.38%
Sale of supplies	\$ 248,039	\$ 229,000	\$ 229,000	\$ -	0.00%
Concessions	\$ 49,985	\$ 45,000	\$ 45,000	\$ -	0.00%
Cart rental	\$ 280,928	\$ 280,000	\$ 280,000	\$ -	0.00%
Misc	\$ 122,254	\$ 19,000	\$ 10,100	\$ (8,900)	-46.84%
Total revenues	\$ 2,134,696	\$ 2,034,000	\$ 2,142,100	\$ 108,100	5.31%

Table 15 Town Course 2018 Revenues

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 2019 we are planning for 32,000 paid rounds being played at the facility. The past 4-year average for play at the CTC has been just over 32,000 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 discounted by 25% than the regular non-resident rate.

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 2018 the average metro high-end golf course green fee including cart on weekends was \$93.57, ranging from \$76 for Edinburgh USA to \$119 for Rush Creek. Chaska's weekend non-resident rate in 2018 of \$89, including cart, was well within this range. In 2017 the Chaska Town Course did not see a rate increase.

To avoid rate fatigue, we have restricted any consideration for increases in rates to every-other year, meaning that in 2019, Staff is recommending an increase in rates and cart rental fees. These rate increases are periodically necessary both so that we stay within our defined market for rates compared to other courses, but more importantly to make sure that we are generating sufficient income to be able to keep this course in a great condition, which is critical to its success. In 2019, we are proposing that we see a non-resident increase in rates of \$3.25 for Weekday Rounds, and \$3 for Weekend Rates. This rate increase includes a \$1 increase in the cart rental fee. The chart below compares our rates to the other high-end public golfing facilities in the Twin Cities:

Course	Green Fees	
	Weekday 18 hole	Weekend 18 hole
Edinburgh USA	\$76.00	\$76.00
Stoneridge	\$69.00	\$77.00
Rush Creek	\$119.00	\$119.00
The Legends	\$99.00	\$99.00
Troy Burne	\$110.00	\$110.00
Meadows at Mystic Lake	\$89.00	\$89.00
The Wilds	\$93.00	\$93.00
Average	\$93.57	\$94.71
Chaska non-res Current	\$83.00	\$89.00
Chaska non-res Proposed	\$86.25	\$92.00
Chaska Resident Proposed	\$60.00	\$67.00

Table 16 Rate Comparison

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 2018. 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 2019 we are proposing an increase in Greens Fee Rates for residents, as well as an increase in Cart Rental Fees. The increase for the weekday would be to only add \$1 onto the total price representing the increase in Cart Rental Fees, with no increase in the Greens Fee rate. The weekend rate would go up by \$3, with \$2 being the greens fee increase and \$1 being the increase in the Cart Rental Fee. The reason we are proposing looking at the weekday and weekend rate changes differently is to try to encourage our residents to play more of their rounds on Weekdays, which are always more difficult to fill the weekend days.

This would result in our rates in 2019 continuing to be very competitive to all of the area courses, as it was in past years. Based on these assumptions, 2019 green fee revenue is projected to be \$1,403,000.

Course	Green Fees	
	Weekday 18 Hole	Weekend 18 Hole
Dalgreen	\$59.00	\$61.00
Bluff Creek	\$57.00	\$63.00
Ridges at Sand Creek	\$57.00	\$62.00
Deer Run	\$59.00	\$74.00
Stonebrook	\$76.50	\$84.50
Average	\$61.70	\$68.90
Town Course Res Current	\$59.00	\$64.00
Town Course Res Proposed	\$60.00	\$67.00

Table 17 Green Fees

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 and 2018, 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 2019 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.

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 will come to the facility solely to use the practice complex. Range revenues were budgeted for \$100,000 in 2018. For 2019 we are proposing that we keep the budgeted revenue the same as in 2018 at \$100,000.

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 2019 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. In 2018, despite not being able to open the entire month of April because of weather, they still were able to exceed their budgeted revenue to the City and had the peak months during the summer be record sales for them over the past 3 years. 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 2019, 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. We're specially going to be marketing the clubhouse as a nice and smaller option for patrons looking at our Event Center Space in Firemen's Park. Our hope is that by making this part of the City's marketing package that we will be able to generate business for the facility during the winter months. 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.

Other than what has been described above, we do not anticipate there will be any large changes in revenue from the 2018 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 5 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 2018. This is also something that we confirm through our Decision Resources Community Survey, which we just completed last winter.

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		
	2017	2018	2019	Change	% Change
Course Maintenance	\$1,210,911	\$1,166,953	\$1,076,033	-\$90,920	-7.79%
Course Admin/Clubhouse	\$975,301	\$871,599	\$882,403	\$10,804	1.24%
Merchandise	\$171,950	\$170,000	\$171,700	\$1,700	1.00%
Debt Service (Carts)	\$9,411	\$70,184	\$105,775	\$35,591	50.71%
Transfers Out/Debt Service	-\$231,870	\$0	\$0	\$0	
Depreciation	\$452,068	\$0	\$0	\$0	
Total Expenses	\$2,587,771	\$2,278,736	\$2,235,911	-\$42,825	-1.88%

Table 18 Maintenance Staffing Costs

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 2018, the total Clubhouse expenses were budgeted to be \$871,599. In 2019, we are budgeting this number to go to \$882,403. It should be noted that most of the increase in 2019 has to do with our equipment purchases along with completing the bunker work along the Fairways on the Course. This breaks down to \$100,000 for the summer. We will also see the exterior of the Clubhouse facility be re-stained/repainted during the course of the upcoming summer. This is something that has not occurred since the facility was open in 1997.

It should be noted that as we did during the 2019 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 was the replacement of our electric golf cart fleet. The cost for replacing this fleet was \$195,000 and was included in the 2017 Equipment Certificate Bonding that was completed. In 2019 we have approximately \$137,000 of equipment to replace. We are planning to finance this equipment replacement through the sale of Equipment Certificates, meaning that the cash deficit of just over \$93,000 for 2019 will be financed to cover our total cost of \$137,000, allowing us to balance our budget.

Also, the other major item that will continue this summer is the rebuilding of the fairway bunkers throughout the course to address drainage issues we have, and to prepare us to be the co-host of the 2020 PGA Junior Championship. The share going towards this year's work is approximately \$100,000.

Besides these changes, we still budget \$15,000 for course improvements in 2018, and \$12,000 to our cart-path replacement program. In 2019, part of the work completed on the course will be the Replacement of the Bridge on Hole #15, which is greatly needed.

Total budgeted expenses for the golf course operation in 2018 are \$2,235,911. This would result in a decrease of fund balance at the Chaska Town Course in 2018 of approximately \$93,000. However, as mentioned before, this is offset mostly by the bond proceeds that came into the fund in 2019 to cover the upfront cost of these purchases.

Par 30 Budget

In establishing the 2019 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.

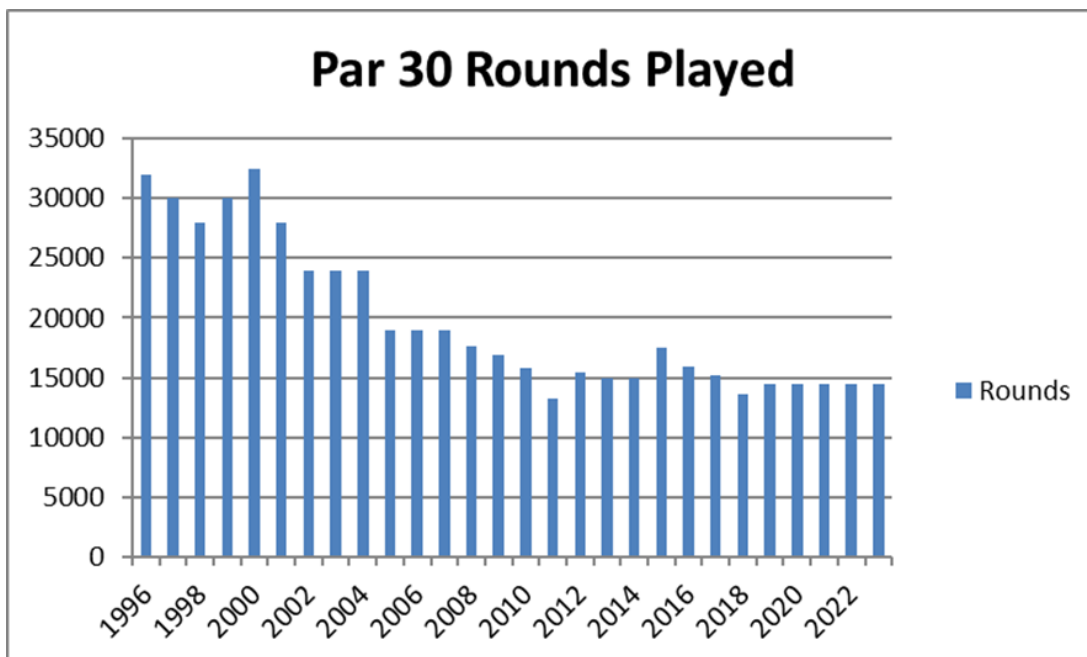


Figure 4 Par 30 Rounds Played

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 and 2018, while Foot Golf did remain at the Course, we did not see any growth in this offering. It is being planned to keep Foot Golf as an option at the Par 30, but we do not see it being a large driver of increasing rounds in the future. We are budgeting for 14,400 rounds in 2019, which is less than the 15,200 rounds we budgeted in 2018.

One offering we are going to be adding at the Par 30 in 2019 is the addition of Adult Leagues at the Par 30. We have had Junior and Senior Leagues for quite some time, which have been successful at this course. With much of the drop-in golf globally, one of the big factors has been in the amount of time that someone needs to invest to complete a round, which can be close to 5 hours. By adding this option at the Par 30, we are hoping to tap into a group of golfers that would still like to golf on a regular basis, and maybe even be in a League, but view the traditional courses as being too much of a time commitment to participate. While we are not budgeting any additional rounds because of this new offering, we do think it could help to stabilize rounds at this course.

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 2019, just like at the Chaska Town Course, we are recommending we do have a rate increase be considered, as we have not had one since 2017. We are recommending this be a \$0.50 increase per round in each category.

Based on this recommendation, the following would be the comparison of the Par 30 for 2019 rates compared to the 2018 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	\$15.50
Orono	\$12.00	\$15.00	\$18.00
Glen Lake	\$13.00	\$13.00	\$17.00
Average	\$12.00	\$13.80	\$16.70
Par 30 Rate	\$12.75	\$12.75	\$14.75
Par 30 vs Halla	-\$0.25	-\$0.25	-\$1.25

Table 19 Par 30 Rate Comparison

It should be noted in the chart above, that while we compare to all of the Executive Courses, our main competition for the Chaska Par 30 is Halla Greens, as it is located just off Chaska's eastern border with Chanhassen. As you will see, we are \$0.25 cheaper than Halla Greens for Juniors and Seniors, and \$1.25 lower on Adult rates compared to their current rates and assuming they make no changes for 2019.

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 2019 will be \$197,851. 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 \$14,000 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. At the same time, we are also working on looking at the feasibility of working with a non-profit group called The Learning Links of Chaska to make the Par 30

a fully accessible golf course. This would require a redesign of the course, and as part of that we would plan on moving the parking lot over to 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. Moving forward with this project will be contingent upon this group completing its fundraising efforts.

As we have done in past years, we are also continuing to budget \$5,000 toward the course to deal with any course improvements that need to be made over the course of 2019. 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. If the Learning Links of Chaska project were to move forward, replacement of this irrigation system would also be a part of this overall project.

Based on our forecast of revenues and expenses, we are anticipating that the Par 30 operations will have a decrease in fund balance of \$7,925, although we hope this to be smaller given that we will be adding adult leagues to the offerings at the Par 30. As these are able to offer shorter time commitments to individuals to play in these leagues, we hope that they do catch on.

Below is a summary of the 2019 Par 30 Budget.

	Actual 2017	Budget 2018	Budget 2019	Change	%Change
Green Fees	\$148,681	\$146,000	\$173,000	\$27,000	18.49%
Other Fees	\$27,889	\$18,026	\$16,926	-\$1,100	-6.10%
Total Revenue	\$176,570	\$164,026	\$189,926	\$25,900	15.79%
Maintenance	\$100,130	\$105,910	\$110,517	\$4,607	4.35%
Administration	\$76,454	\$76,216	\$83,294	\$7,078	9.29%
Merchandise	\$4,768	\$4,000	\$4,040	\$40	1.00%
Other	\$12,754	\$0	\$0	\$0	0.00%
Transfers Out	\$0	\$0	\$0	\$0	0.00%
Total Expenses	\$194,106	\$186,126	\$197,851	\$11,725	6.30%
Net Income (loss)	-\$17,536	-\$22,100	-\$7,925	\$14,175	

Table 20 Par 30 2019 Budget

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 maintaining our rates at a very competitive level compared to our neighboring communities.

As you will see in this year's budget for the Water Fund for 2019, we are recommending that we increase our retail rates go up by 5% for the average users of water to make sure that we keep up with inflationary pressures, and do not lose 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's water consumption is. 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. It should be noted that our water usage has trended downward over the past 10 years. It is uncertain whether our rate structure has helped this, or whether we are seeing individuals and businesses be more conservation oriented, but it has been consistently lower since 2009, except for large consumption in the summer of 2012 which was more related to a long and warm spring and summer.

From a sewer and electric perspective, our rates have remained very competitive over 2018, compared with other municipalities and with Xcel. From an electric fund perspective, our total rates in 2018, including the Energy Adjustment Clause, averaged 10.1% lower than Xcel for residential customers, compared to 9.4% lower in 2017. Compared to Mn Valley Electric Cooperative, we were approximately 1% lower in 2018. In 2016 we were approximately 5.6% lower than Minnesota Valley Electric Cooperative. Xcel and Minnesota Valley are our main competitor. It should be noted that more than half of the new growth we will see in Chaska over the next 20 years in Chaska will be in Minnesota Valley Electric Cooperative's territory, with them holding most of our new Commercial/industrial load. Having their pricing closer to Chaska Electric will become a strategic advantage from an Economic Development perspective as we see more property develop in our Southwest Chaska Area in the future.

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 about 1.9%, 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 2% increase to our Retail rates both to accommodate the wholesale rate increase but also our increasing costs associated with replacing aging infrastructure, and to also be able to accommodate large capital costs we had in 2017 and 2018, including the addition of a necessary substation in our north industrial park, and a new feeder 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 5.41% for sewage treatment at the Met Council's Blue Lake Facility. While our Met Council rates are going up, and our cost of providing service is also increasing, Staff is actually recommending that we see a 0% increase in our Sewer retail rates. The reason for this is because in 2018 Council approved a much different structure to our Sewer rate structure, shifting more of the fixed costs for providing this serving into a monthly service fee. These are costs our utility has whether someone uses service or not. In 2018, Council did approve a \$4 monthly service charge for the Sewer utility, with half of this being implemented in 2018, as it was, and the other half going into effect on January 1, 2019. With this change already being approved in 2018, Staff does not feel we need to make any more changes to our Sewer Rates for 2019, but simply to continue forward with implementing the last

\$2 of this monthly service fee. The implementation of the second half of this service fee will have the effect of increasing the average user’s Sewer Charges by 6%. It should be noted, as Metro Waste provides treatment services for most surrounding cities, and this treatment is the major cost of sewer service, our rates tend to be fairly similar from City to City, thus keeping us competitive with our surrounding communities.

Finally, with the Storm Sewer Utility, 2018 was a year that brought changes to this Utility, as we did have a significant increase in our Storm Water Rates by increasing the monthly residential charge by just over \$3 per month up to \$9.50. The need for this change came from the fact that our Storm Water utility was not able to keep up with the increasing mandates from the State on Storm Water management, and the fact that we have seen much more significant rain events that have caused significant damage in our community. The heavy rains of June 2014 were evidence of that, and something we are seeing much more often. To make that change, the methodology that Staff used was to compare Chaska not to just the surrounding cities for our storm water rate comparison, but to other cities that tend to have similar demands to Chaska, such as River Cities. We feel that this has created a more accurate base to compare ourselves. With that base rate being adjusted in 2018 to better match our needs and the market, Staff is only recommending that we increase our Storm Water Utility residential rates by 3% in 2019 to be able to keep up with the inflationary increases in service delivery in our current environment.

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 2019. As you will see, based on the recommendations above, the average user would see a 3% increase in all of their Utility Rates in 2019, which translates into an increase of \$5.24 in service costs each month for the average household in the community.

	2018	2019	Increase	Increase
Water	\$20.08	\$21.08	\$1.00	5.00%
Sewer	\$31.12	\$33.12	\$2.00	6.00%
Electric	\$97.29	\$99.24	\$1.95	2.00%
Storm Sewer	\$9.50	\$9.79	\$0.29	3.00%
Total	\$157.99	\$163.23	\$5.24	3.00%

Table 21 Typical Rate Increase for 2019

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 new Utility Billing Software is fully deployed 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 finishing our new Utility Billing software, Staff feels it is prudent in 2018 to move forward with a new Water Rate study. With this hope of being able to move to the point of starting this study in 2019, we hope to come back with information during the budgeting process for 2020 that can help guide our decision-making process over the next 10-years.

While waiting to complete this analysis, 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 have approximately \$495,000 of Capital Replacement work scheduled in 2019, with \$300,000 of this going towards the removal of the Water Storage Tank (Water Tower on the ground) adjacent to the Hammer's Property. This Storage Tank will be replaced by a pressure reduction station. This is work that need to get completed as the Hammer's property develops.

For that reason, we are recommending a 5% increase in retail rates in 2019 for all average users of water, with the actual rate structure continuing to shift a higher percentage of the burden to those customers that do little to conserve their water use. Staff is 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, but to continue to shift more burden onto the higher water users, to create an economic deterrent from using too much 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. It should be noted that this 5% recommendation is 0.5% higher than the anticipated rate change we showed last year for 2019. This slight increase is due to the fact that we are continuing to see less pumping activity on an annual basis, which does impact the revenue we generate from fees. Our hope is that by having it at 5% that we will be able to mitigate some of the reductions in pumping we have seen over the past several years.

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

0-7,000 gallons: \$2.56/1,000 gallons (4% increase)
7,001-20,000 gallons: \$2.71/1,000 gallons (5% increase)
20,001-30,000 gallons: \$3.04/1,000 gallons (7% increase)
30,001-40,000 gallons: \$3.53/1,000 gallons (9% increase)

Above 40,001 gallons: \$4.37/1,000 gallons (11% increase)

Compared to in 2018, the gaps between these rate categories is larger, as we continue to think this create some economic incentive to reduce water usage. 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 5% increase and compares it to the other City's 2017 rates without taking into account any rate changes they may make:

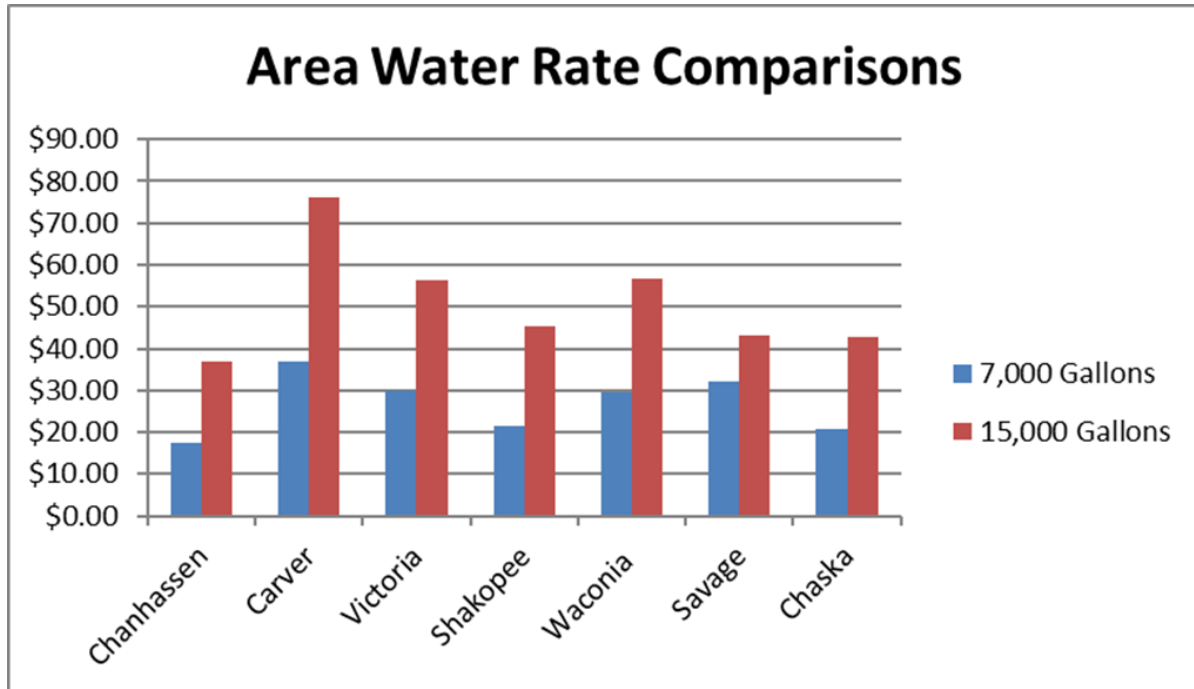


Figure 5 Area Water Rate Comparisons

2019 Budget

Based on the changes described above, Water Fund Revenues for 2019 are budgeted to be \$3,722,380 compared to the 2018 budget of \$3,550,646, or a 4.84% 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 effect on usage. 2018 was a very wet summer, and short with the Spring and Fall months being cold. Because of that, we saw our water revenue come in 4.84% lower than what we were budgeting. We think that was very much affected by the weather. We are projecting a 1.7% increase in water usage for 2019. This projection in increase in water usage is due to looking at averages we have seen over the past several years,

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	
	2017	2018	2019	% Change
Revenues				
Metered	\$2,390,634	\$2,524,000	\$2,664,000	5.55%
Other	\$434,285	\$422,298	\$462,380	9.49%
Transfers In	\$644,611	\$604,348	\$596,000	-1.38%
Total	\$3,469,530	\$3,550,646	\$3,722,380	4.84%
Expenses				
Pumping	\$356,239	\$313,936	\$366,325	16.69%
Treatment	\$274,699	\$266,795	\$269,463	1.00%
Distribution	\$657,811	\$802,315	\$1,118,057	39.35%
Administration	\$422,821	\$569,343	\$578,364	1.58%
Depreciation	\$753,760	\$0	\$0	0.00%
Debt Service	\$365,244	\$1,317,964	\$974,920	-26.03%
Capital	\$26,515	\$230,000	\$28,000	-87.83%
Transfers Out	-\$49,450	\$55,800	\$56,000	0.36%
Other	\$157,082	\$153,241	\$159,895	4.34%
Total	\$2,964,721	\$3,709,394	\$3,551,024	-4.27%

Table 22 Water Fund Revenues and Expenses

For 2019, we are projecting that we will generate \$2,664,000 in metered sales. This is up 5.55% from the metered sales we budgeted in 2018 at \$2,524,000, even though it is looking now like we will be lower than that budget by 4.84% because of weather. This is due to us 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 5% in 2019. We do expect to see some additional economic development activity in 2019, along with a continued increase in residential activity, with the new housing starts in our Southwest Chaska Growth area. This should also help increase the revenue in this fund.

Total water expenses for 2019 are programmed to be \$3,551,024. This compares with \$3,709,394 budgeted in 2018. This is a 4.27% decrease in expenditures, with most of this due to us seeing a lower debt service payment on our Water Treatment Plant in 2019.

Our normal maintenance activities are being funded for 2019, including a \$60,000 allocation, as we have done the past few years, 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 expenditures

for 2019 will include the replacement of one of our service trucks at \$56,000, which is shared with our Sewer Department both in cost and in function. We will also have \$300,000 included in our budget for this year for the abandonment of our Ground Water Tank (water tower) that is located just above the hill from Mt. Pleasant Cemetery, and adjacent to the Hammer's Family property that looks like it will develop in 2019. This is our oldest Water storage facility in the City, and was scheduled to be removed from service when the Hammer's Property developed. As this work is being completed, a Pressure Reduction Station will be added in its place to make sure that we can control the pressured flows of water coming down into our Downtown area. Finally, we have \$75,000 allocated towards well maintenance and \$10,000 allocated towards building maintenance in 2019.

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 2019, with our payment budgeted for \$974,920.

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 2019, 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 dollars 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 \$171,356 increase in our Fund Balance. This will bring the projected cash balance in the Water Fund to just under \$3,000,000 in 2019, which is a healthy balance in this Fund. We expect this to be healthy going into the future.

Sewer Fund

Sewer Fund revenues for 2019 are anticipated to be \$4,188,452, a 6% increase over the budget in 2018. As mentioned previously, the increase in this revenue is coming from the implementation of the second half of our Sewer service fee, which was increased in 2018 to more accurately reflect our fixed sewer costs. This fee was established to break out the fixed costs that we have in our sewer service, regardless of whether or not someone uses their sewer service. Especially with Sewer service, and many not utilizing their service in the winter if they go down south, we have to have a way to recoup the costs we encounter just to provide this service to a property. In 2018, Council approved a \$4 Sewer Service Fee, with \$2 of this coming in 2018 and the other half being implemented on January 1, 2019. With this increase in the Sewer Service Fee, we are recommending no change to the retail rates. The following table is a summary of anticipated revenues and expenses for 2019 relative to past years.

Sewer	Actual	Budget	Budget	
	2017	2018	2019	% Change
Revenues				
Metered Sales	\$3,822,010	\$3,879,573	\$4,118,452	6%
Other Revenues	\$0	\$0	\$0	0%
Total	\$3,822,010	\$3,879,573	\$4,118,452	6%
Expenses				
Pumping	\$17,352	\$48,091	\$48,571	1%
Treatment	\$2,181,822	\$2,308,938	\$2,433,857	5%
Collection	\$748,700	\$907,813	\$630,608	-31%
Administration	\$564,304	\$722,035	\$737,301	2%
Transfers Out	-\$48,998	\$115,800	\$116,000	0%
Depreciation	\$83,161	\$0	\$0	0%
Debt Service	-\$104,000	\$0	\$0	0%
Other	\$179,712	\$163,451	\$216,134	32%
Total	\$3,622,053	\$4,266,128	\$4,182,471	-2%

Table 23 2019 Anticipated Revenues and Expenses

Sales revenue is based on seeing a 0% increase in retail rates for 2019, along with implementing the second year of our service fee, which has already been approved to go up by \$2 in 2019. 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 2019 is \$2,433,857, which is approximately a 5% increase from 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, we increased our rates by 7.93% to accommodate that. 2011 rate increases from Metro Waste were much less, requiring a 1.61% increase in our 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 needed a 5% increase in our retail rates for 2016, a 8.23% increase in 2017 and a 5.9% increase in 2018 to accommodate the changes we were seeing with our treatment costs at the Met Council. The increase of 5% increase in Metro Waste rates for 2019 is directly attributable to the increased amount of sewer usage we have seen over the past 12 months, particularly through new development and process expansions in existing businesses. As mentioned previously, we will be able to accommodate that increase in the Met Council rate through a 0% increase in our retail rates and by implementing the second \$2 increase in our service fee implemented in early 2018. 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.

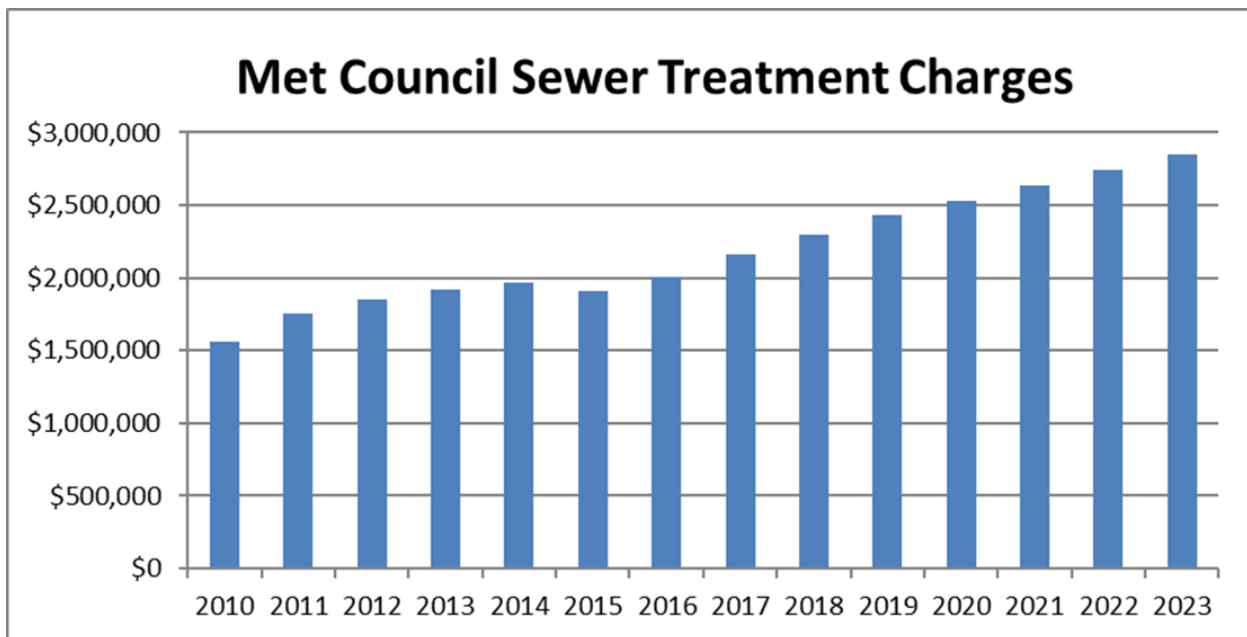


Figure 6 MET Council Sewer Treatment Charges

Expenses:

Sewer expenses are anticipated to be \$4,182,471 for 2019, a decrease of 2% from 2018. A big reason for the drop in expenditure levels in the Sewer Fund from last year to this year is that we had a major purchase in 2018 with the replacement of our Vactor/Jetter vehicle, which had a total cost of \$435,000 and the Sewer Fund contributing \$230,000 to this purchase. In 2019, the only capital equipment replacement is in a service truck, which has a \$56,000 total cost and is shared with the Water Fund.

The major improvements scheduled for 2019 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 \$40,000 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:

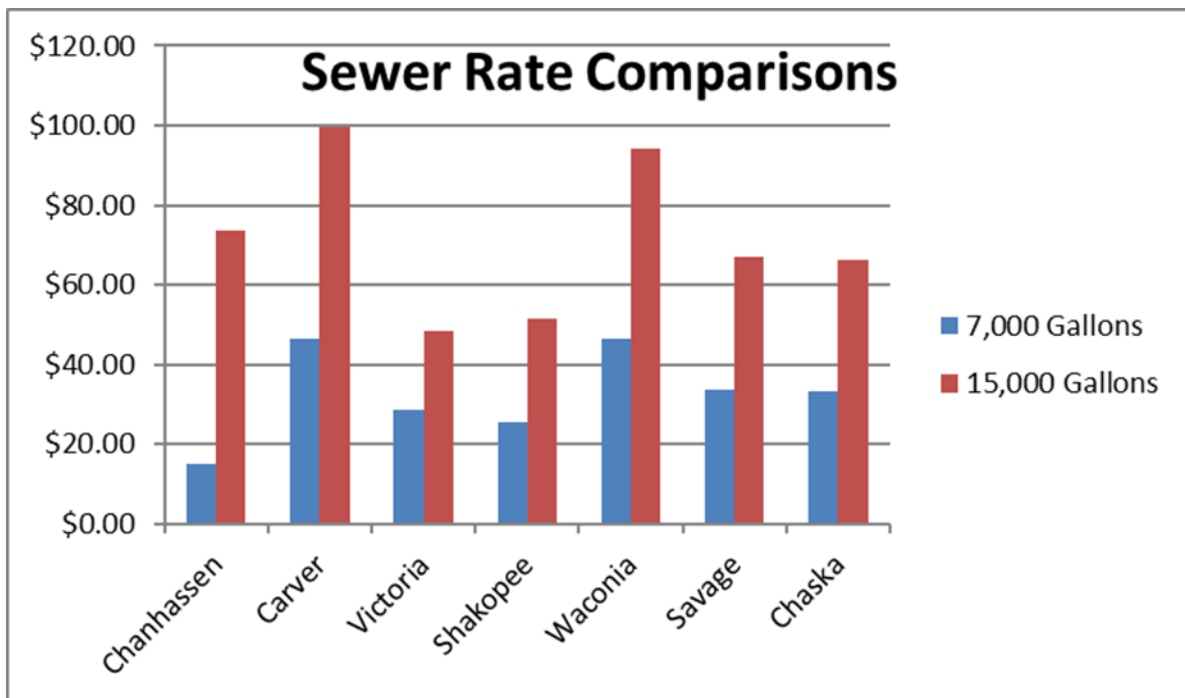


Figure 7 Sewer Rate Comparisons

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 2019 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 \$116,000 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 a 3-year period 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 final roll-out of our new Utility Billing Software program in 2019.

As mentioned previously, from an equipment standpoint, we would have the \$28,000 allocation from the Sewer Fund to support 50% of the replacement cost for the Sewer/Water Service Truck, which costs \$56,000 in total.

Based on our total expenditures and revenues, we are budgeting that there is a decrease of \$64,019 in the Sewer Fund for 2019. This decrease in Fund Balance was planned to help ease our customers into the new service charge, which I have already mentioned gets fully implemented in 2019 with an addition of \$2 per month to the charge for residential units. With this creating a larger percentage increase, we planned the use of our reserves in the short term to lessen this initial impact to residents, with the intent of getting back to our more traditional method of setting rates in 2020 when the service charge is fully implemented. With this change, the Sewer Fund Balance would still be projected to be at just over \$1.2 million.

Electric Fund Budget

For 2019, Electric Fund revenues are anticipated to be \$37,323,400. This compares to the \$35,415,000 we had budgeted for revenue in 2018, an increase of 5.39%. As part of the 2019 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 2019, but for the years included in our 5-year forecast. We will continue to see significant new growth in our commercial/industrial sales in 2019, as we see the new additions to existing Industrial businesses come on-line, and as we continue to see the existing data centers increase in capacity. At the same time, we are also seeing both single-family and multi-family residential development increase, which will also increase our usage. We expect to see a similar level of development activity move forward in 2019 as we have over the past few years. Below is a chart looking at our anticipated revenue for 2019.

	Actual	Budget	Budget		
	2017	2018	2019	Change	% Change
Electric Sales	\$38,255,308	\$35,403,000	\$37,311,400	\$1,908,400	5.39%
Other Revenue	\$12,000	\$12,000	\$12,000	\$0	0.00%
Total Revenue	\$38,267,308	\$35,415,000	\$37,323,400	\$1,908,400	5.39%

Table 24 Electric Fund Anticipated Revenue for 2019

To develop our 2019 revenue budget, we did utilize the following assumptions:

- Total retail rate increase increases of 2% in 2019 to accommodate for the wholesale power cost increase and capital improvements needed on our aging infrastructure
- Sales increases in 2019 of 2.06%
- 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 1.9%, 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 fared well compared to the market. Looking at 2018, we did see total bills for residential users that averaged 10.1% lower than Xcel, and 1% lower than Minnesota Valley Electrical Cooperative. This compares to Chaska being 9.4% lower than Xcel and 5.6% lower than MN Valley in 2016. It should be noted that Minnesota Valley Cooperative does have much of our new development area in their territory, so from an Economic Development perspective, having our rates significantly lower than Xcel and relatively close to MN Valley will be good for us strategically.

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, as well as other wind and solar projects we have brought into MMPA's portfolio, 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 2018:

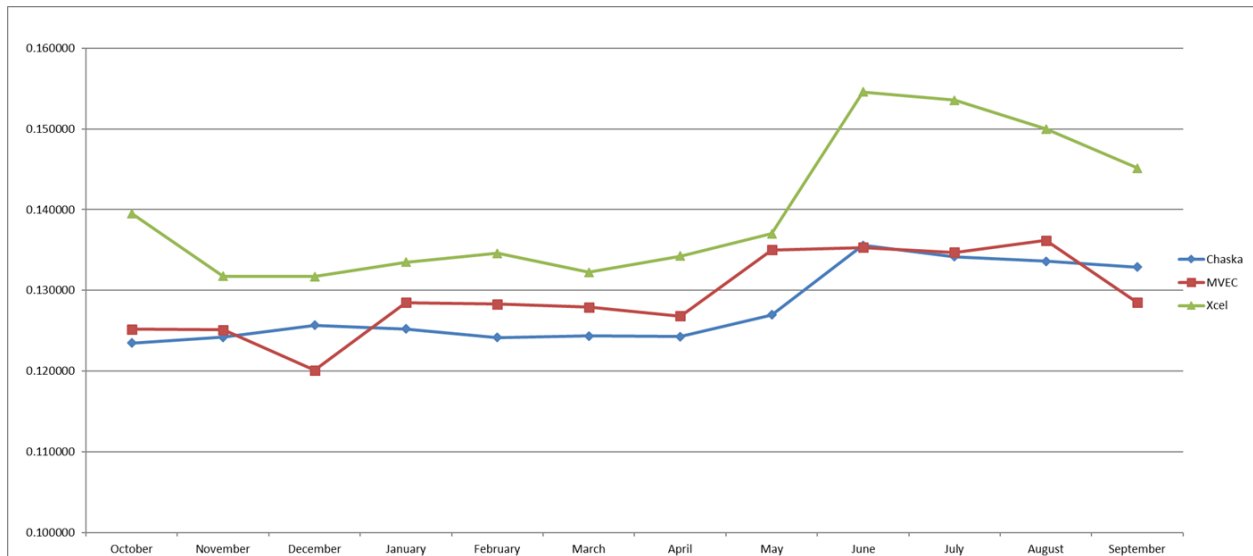


Figure 8 Residential Electric Bill Comparison

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 in 2017 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 2019 are projected to be \$36,893,818 compared to \$34,664,678 in 2018, for a total increase of 6.43%. There are two primary factors driving expenses for 2019.

The first primary cost factor in our electric utility is the purchase of wholesale power from the Minnesota Municipal Power Agency. For 2019 we are anticipating that the Agency's wholesale will effectively go up by about 1.9%, 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 2019 will be \$25,055,000 compared to the budget of \$23,517,000 in 2018, or a total increase of 6.54%. With it's tie to the sale of Electricity, this also has the impact of affecting our Franchise Fee generated, which is expected to go up \$250,000 because of an increase in sales.

The other major factor is transfers out of the Fund. As part of creating the Community Building Fund for the redevelopment of the Firemen's Park project and other future large projects in the community, we did commit that there was going to be a fixed dollar amount that we could plan for coming out of the Electric Fund to support these projects. We did this both to define what we felt the Electric Fund could afford to support annually going into the future, and to create some certainty as we moved forward. We were trying to avoid just turning to the Electric Fund to support all projects, but instead to create parameters around how much money this fund could support for Community Building Projects going into the future. 2019 we will be getting up to that total amount, which goes between the Community Building Fund, and the transfers that have been in place for the Chaska Community Center for several years.

In addition to this work, there is approximately \$600,000 programmed for System Improvement work in 2019. 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 \$71,000 of equipment scheduled to be replaced, including a Hydro Seeder to help with restoration work on projects, and a chipper needed to help trim trees.

Finally, it should be noted that from a Personnel Standpoint, we do have budgeted for 2019 the addition of a Journeyman Lineman position, along with restructuring our existing part-time labor to have two 1,000 hour/year employees instead of more part-time employees that dedicate less time each week. Both of these additions are needed because of growth.

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 has just opened up a Solar generation facility in the City of Buffalo and is 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 2019, we are planning on adding to this Staff with one additional Journeyman Lineman position, along with restructuring our Seasonal Part time positions to consolidate them into two 1,000 hour/year employees. Both of these moves are needed to keep up with the growth in our community.

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 was discussed earlier 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 approximately once every decade, while also considering the depreciation costs of these projects within this "Community Building Fund". While there are multiple sources of funding for this Fund, it is being recommended that \$800,000 continue to be budgeted annually from the Electric Fund to support this fund, to support the debt service for these projects being developed. In addition to this, in 1997 the City adopted a financing plan for the new Fire Station, including an annual transfer of \$300,000 from the Electric Fund to the Fire Station debt service. This debt service ended after 2015. It is being recommended that we continue to budget these dollars but move them into the "Community Building Fund" now that the Fire Department Debt Service is fully paid, making our total contribution to the Community Building Fund be \$1,100,000 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 at a reasonable cost.

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 2019. In addition, there is also debt service going toward the development of the West Creek Substation

and the North Industrial Substation. Both of these projects were necessary to accommodate the growth in Chaska, especially in our Commercial/Industrial sector.

Based on this, the following would be the expenditures for 2019:

	Actual	Budget	Budget		
	2017	2018	2019	Change	% Change
Purchased Power	\$26,415,970	\$23,517,000	\$25,055,000	\$1,538,000	6.54%
Trans/Distribution	\$202,691	\$2,554,768	\$2,603,148	\$48,380	1.89%
Load Conservation	\$505,403	\$674,688	\$681,434	\$6,746	1.00%
Admin System	\$1,879,119	\$1,732,149	\$1,755,924	\$23,775	1.37%
Admin Billing	\$396,305	\$379,469	\$393,498	\$14,029	3.70%
Franchise Fee	\$3,521,540	\$3,649,000	\$3,899,000	\$250,000	6.85%
Depreciation	\$1,013,193	\$0	\$0	\$0	0.00%
Debt Service	\$372,161	\$884,004	\$833,814	-\$50,190	-5.68%
Transfer	\$1,081,312	\$1,273,600	\$1,672,000	\$398,400	31.28%
Other	\$1,830,868	\$0	\$0	\$0	0.00%
Total	\$37,218,562	\$34,664,678	\$36,893,818	\$2,229,140	6.43%

Table 25 Electric Fund Expenditures for 2019

Based on the budget as proposed, the Electric Fund would increase its overall fund balance for 2019 by approximately \$429,582, putting our fund balance at approximately \$6.5 million by the end of 2019. It should be noted that based on projections, we would see this cash balance grow to over \$9 million by 2023.

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.

2019 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 need 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	\$9.50
Average (minus high/low)	\$8.70

Table 26 Storm Water Rate Comparison

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 that we would need to increase our base rate.

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

With this new base rate of \$9.50 established in 2018, it is now important to make sure that we keep this rate current from year to year, assuming things such as inflation and any additional services we may decide to offer in the future. This is why Staff is recommending a 3% increase in our rates in 2019, to keep up with inflationary forces making the expenditures within this fund more expensive this upcoming year than in

2018. This would bring the new residential rate (and basis for residential equivalency) to \$9.79 per month.

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

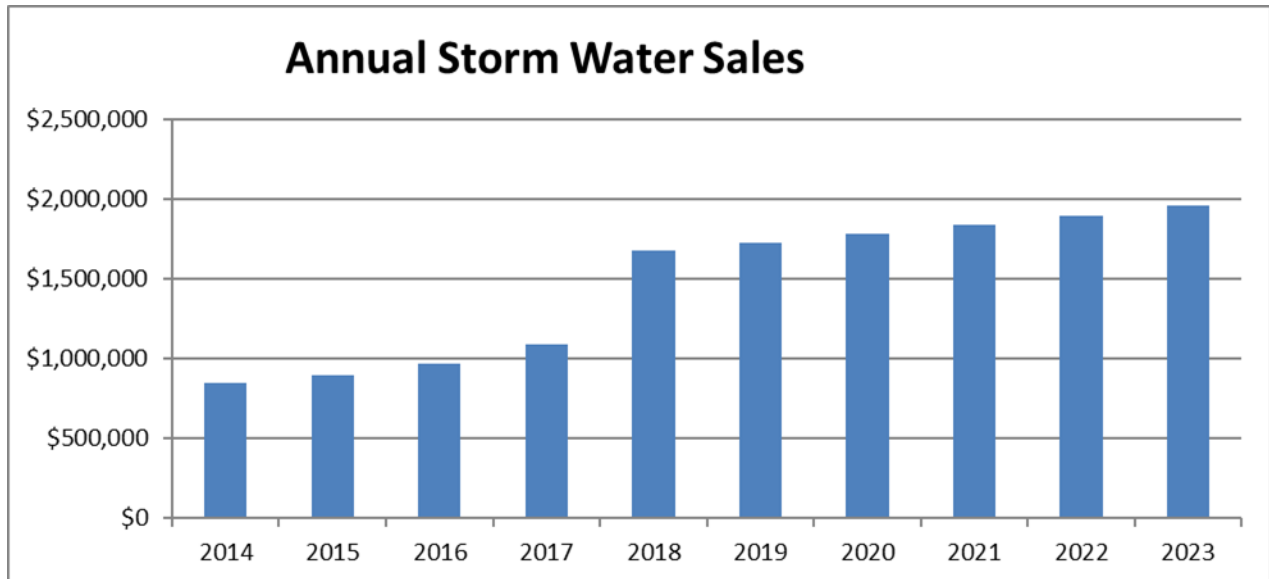


Figure 9 Annual Storm Water Sales Figure

2019 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 2019, 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 2019 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. This was first scheduled to occur during the 2018 budget year but got moved to 2019 as Staff did not have the capacity to complete this project in 2018.
- Contribution of \$26,000 towards the purchase of a hydro-seeder to be shared with the Electric Department to restore areas that are disturbed through work.

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 currently funded at half time for an Assistant Engineering position, but we may explore the addition of an Engineering Technician specializing in Storm Water Management, as we have not had success in filling this position over the last year and a half. 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 2019 there are no planned personnel additions for Storm Water Maintenance, with no new positions being budgeted during the entire 5-year planning horizon. Any changes would be on how we allocate existing Public Works Crew's time to the jobs they are performing.

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 2019:

	2017	2018	2019		
Revenues	Actual	Budget	Budget	Change	% Change
Storm Water Fees	\$1,088,986	\$1,627,000	\$1,670,900	\$43,900	2.63%
Other	\$230,312	\$100,000	\$207,768	\$107,768	51.87%
Total	\$1,319,298	\$1,727,000	\$1,878,668	\$151,668	8.07%
Expenditures					
Transfer Out	\$106,930	\$200,000	\$200,000	\$0	0.00%
Transmission/Distribution	\$546,314	\$953,350	\$964,875	\$11,525	1.19%
Administration	\$242,910	\$331,514	\$333,761	\$2,247	0.67%
Utility Billing	\$43,962	\$22,957	\$23,187	\$230	0.99%
Capital Outlay	\$0	\$87,500	\$0	-\$87,500	
Depreciation	\$170,419	\$30,000	\$30,000	\$0	0.00%
Debt Service Support	\$62,140	\$190,549	\$194,522	\$3,973	2.04%
Other	\$94,783	\$190,549	\$194,522	\$3,973	2.04%
Total	\$1,205,318	\$1,815,870	\$1,746,345	-\$69,525	-3.98%

Table 27 Storm Water Revenues and Expenditures for 2019

The Storm Water Fund is budgeted to add to our Fund Balance in 2019 by \$132,323, decreasing the Fund Balance Deficit to just over \$500,000. During the 5-year period, we do expect this fund to start accumulating a cash reserve barring any major surprise projects that may come up. 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.

2019 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 meant 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 2018, the amount generated from this lease is on track to be \$400,000, with it being budgeted at \$428,000. While it is slightly slower than when it first opened, 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 2019 operations, we are budgeting this number to be \$428,000, with us seeing potential for more growth in the Event Center banquet opportunities, especially throughout the weekdays, which tends to be the Event Center's slowest times.

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 was at approximately 950 members, and ended up matching the first year for league and membership revenue. For the 2018 season, we continue to be at about 950 members and the Leagues continue to be full. We budgeted \$410,000 for Leagues

and Membership in 2018, but it appears we will be closer to \$420,000 at the end of 2018.

New members are typically 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.

For 2019, we are proposing that we not change the membership fee structure, but that instead we add on half of the cost for our members to be members of the United States Curling Association. In 2018, we did move to make our members also members of the USCA. The USCA requires all members of a Curling facility to be members of the USCA if the facility is going to be a USCA member. With the cost at \$30 per member, we did not want to pass that cost along to our members the first year, as we wanted to demonstrate to them first what value they would receive from being a member. Throughout the course of 2018, we were able to demonstrate to our members the value of belonging to the USCA, including all members receiving a subscription to the USCA's magazine, as well as the facility being able to host events like Curling Night in America. We are now in the progress of negotiating with the USCA a deal to make the Chaska Curling Center an official High Performance (HP) training facility, and potentially an Olympic Training Facility, meaning that the best curlers in the US/World would be practicing in Chaska. The benefit this provides to our members is to be able to receive training from these elite curlers, and for them to help grow our Junior's Program. For 2019, the budget assumes that our internal membership fees would not change, with us charging half of the USCA membership (\$15 per year) back to each of our members. Based on that, the revenue for 2019 in Membership and Leagues would be \$461,158.

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, as we shared during the 2018 budget process. At the time, we discussed that it was important to get the changes out there so that people knew they were coming, but to not take action until 2019 as people already had their events scheduled in 2018 and prices were already quoted. Moving into 2019, the following chart illustrates the new rate structure we would be going to:

Friday	Current Resident	Rec. Resident	Curren Non	Rec. Non
8 hour minimum	\$800	\$1,000	\$1,000	\$1,250
Saturday				
8 hour minimum	\$1,100	\$1,250	\$1,350	\$1,500
Sunday				
2 hours	\$125	\$150	\$175	\$200
4 hours	\$275	\$300	\$350	\$375
8 hours	\$500	\$550	\$625	\$675

Table 28 Curling Center Rate Structure for 2019

It should be noted that this chart only shows our weekend rates, as these would be the only ones we would be proposing to change. We would be keeping our Weekday rates that same, as this is a time that we still have capacity.

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 caterer’s 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 2018 in the Event Center is on track to be \$120,000, with its budget being \$136,000. For 2019, we are budgeting \$148,000 as we will have a full year of staffing in 2019 to push for filling our capacity during non prime-time hours. In 2018, we had a significant stretch in which we only had interim staff to be able to promote the facility.

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 per 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 2018 is on track to be \$210,000, with it being budgeted at \$150,000. We are budgeting a number of \$218,000 for 2019 as we continue to see the demand for this service continue to increase.

The final revenue source we have coming in is \$1,578,387 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 2019 is budgeted to be \$2,833,545, which is a 4.24% increase from 2018 which had \$2,718,230 in total revenues budgeted.

Below is a chart reflecting the revenue number for both 2018 and the 2019 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 2017	Budget 2018	Budget 2019	Change	%Change
Event Center Rental	\$113,623	\$136,000	\$148,000	\$12,000	8.82%
Curling Center Leagues/Memberships	\$440,499	\$409,158	\$461,158	\$52,000	12.71%
Corporate Curling Events	\$189,301	\$150,842	\$218,000	\$67,158	44.52%
Restaurant Lease	\$478,104	\$428,000	\$428,000	\$0	0.00%
Community Fund Transfer (Debt)	\$1,483,762	\$1,594,230	\$1,578,387	-\$15,843	-0.99%
Other Revenue	\$2,680	\$0	\$0	\$0	
Total Operating Revenues	\$2,707,969	\$2,718,230	\$2,833,545	\$115,315	4.24%

Table 29 Curling and Event Center Revenue

2019 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 that position, we were 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.

One position that we are recommending to add in 2019 is Facility Coordinator position. With us having multiple parts of the building to manage, and most of our business coming during the evening and weekend hours, we need to have a "Person in Charge" of the facility, to be able to assure that the facility is constantly able to operate no matter what time of day it is, and that patrons can expect to have the same level of staffing service during the evening/weekend hours as they would during business hours. From an operational standpoint, we have also found that we need more than our part-time staff to act as the Person in Charge as issues arise during these evening and weekend hours. The total cost of this position is \$60,000, with us funding half a year of this position in 2019, with it moving to full funding in 2020. Besides this, the only addition we are budgeting for is the addition of \$7,000 in Part-time Ice

Maintenance Hours, should we move forward and implement being a High Performance Facility. This will require more dedication to ice maintenance especially on weekends.

Moving forward with this change, our full-time staff would consist of our Curling Manager, our Curling Ice Maker and our Event Center Manager and our Facility Manager Positions. 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 \$159,581 per year, with the costs within the restaurant area being approximately \$53,000 per year. We see this number staying relatively constant in 2019, budgeting \$161,177 or a 1% increase from 2018 budgeted number.

As mentioned previously, a change that we have incorporated into the 2018 budget and recommend going into the 2019 budget is \$35,000 for dues and subscriptions to the USCA. We do think that this has been a benefit to our members over the year we have provided this membership to them, and in 2019 we are proposing that we recapture half of their membership fee (\$15 per year) as the increase our members will see in their membership fees.

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 2019, the CEC Fund does balance from an operational standpoint in 2019. Below is a summary of the total expenditures in the fund:

Expenditures	Budget 2017	Budget 2018	Budget 2019	Change	% Change
Administration/General Facilities	\$546,570	\$454,834	\$565,755	\$110,921	24.39%
Event Center	\$140,096	\$140,609	\$134,306	-\$6,303	-4.48%
Curling Center	\$430,474	\$477,637	\$484,448	\$6,811	1.43%
Crooked Pint	\$63,418	\$50,499	\$58,304	\$7,805	15.46%
Other	-\$3,485	\$0	\$0	\$0	
Depreciation	\$628,090	\$0	\$0	\$0	
Debt Service	\$527,117	\$1,594,230	\$1,590,287	-\$3,943	-0.25%
Total Operating Expenses	\$2,332,280	\$2,717,809	\$2,833,100	\$115,291	4.24%

Table 30 Curling and Event Center Expenditures