

# City of Chaska 2022 Budget



## **2022 Annual Budget**

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

Submitted for your review is the proposed 2022 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. Coming out of the initial challenges of the COVID 19 pandemic on our General Fund operations, this budget begins to move us forward on re-establishing the initiatives we were working on prior to the pandemic, and to get us back on track to meet the long-term objectives we have set in the budgeting process. Specifically, this budget helps us get back on track to address the Staffing shortages that were identified in our 2019 Staffing Study, and to get us back on track to fill these gaps like we started to do in 2020 before having to take a break in 2021 to address the challenges of COVID.

As you read this budget, you will find that beyond trying to maintain our current service levels as constant as possible, this budget seeks to continue with our efforts to keep our Capital Asset Maintenance Program (CAMP fka CIP) fully funded as we move into the future so that we continue to reinvest back into the assets that are aging in our community. A high priority was also put towards making sure we are working towards keeping our General Fund Reserve balances at a sufficient level to be able to address requirements of our Bond Rating Agency to maintain our already high rating, and that special attention was put towards staffing of our public safety agencies to make sure that we are staffing at sufficient levels both to keep our Police Officers safe, and to address the logistical challenges of a paid-on-call Fire Department.

Finally, as mentioned previously, an emphasis was placed in this budget on fully funding the second year of implementation of our Staffing Study Gap analysis. While we were able to move forward with the first of 4-years of implementation in 2020, we did delay the implementation of the second year of our program in 2021 because of the uncertainties of COVID. With us now having a much better understanding of the economic impacts of COVID, we feel that it is important to get back on track with completing the final three years of this plan by implementing year 2 of the plan in 2022.

The following document will go through in detail these discussions, as well as lay out the data to show what we expect to see over the course of 2022 to help our residents understand the decisions that were made for the 2022 budget year.

### **2021 Revenue Discussion**

While we have seen increases in market values since 2014, 2016 was the first year we saw all the valuation lost during the "Great Recession" recovered in the community. As we go into 2022, we will once again see our valuations in the community continue to rise at a slightly higher level than what we saw in 2021, but a modest rate to what we saw over many of the years since 2014. 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, a 3.18% increase in 2017, a 7.85% increase in 2018, and a 5.72% increase in 2019, a 9.14% increase in 2020, and a 2.80% increase in 2021.

For taxes payable 2022, we are seeing a 4.90% increase in our community's taxable market value, which is nearly double what we saw in 2021, but average compared to the past eight years. Our tax capacity for 2022 is slated to grow 5.21% in 2022, compared to 3.01% in 2021. The tax capacity measures the amount of value that is taxable within a community.

As we look back at 2021, while there was uncertainty about what we would see for building in our community due to the continued COVID 19 pandemic, we ended up having our busiest construction season ever, as measured by the permit revenue that was generated over the course of the year. As we move into 2022, we actually expect this building level to increase, as we not only have continued and robust growth with residential construction occurring, but we also expect there to be significantly more Commercial and Industrial development occurring in the community than we have seen for several years. This would include developments such as Costco, Industrial buildings in West Creek Industrial Park, and an addition onto the 212 Medical Center. While we expect that 2022 permits could exceed those of 2021, which we anticipate bringing in between \$1.4 million and \$1.5 million, we are budgeting using a much more conservative number of \$1.1 million in case we see any drastic changes in the market.

As the 2022 budget was put together, there were several major budget environmental factors we needed to consider as it related to revenues, including:

- Market Values across the community increased by 4.90% compared to the 2.80% increase we saw last year. This will bring our overall property values in the community to \$3.51 billion, a little over \$111 million higher than last year. 1.56% of this change came from new construction, with the rest being increased values on existing properties. This 1.56% increase is slightly lower than the 1.80% increase from new construction we saw last year.
- Based on the State formula, the City will no longer receive Local Government Aid to help reduce our tax levy needed. As we saw for the first time in 2021, the amount we are projected to receive in 2022 will be \$0. This number was over \$550,000 in 2015 and has gone down ever since
- Residential and Commercial building permits in 2021 increased significantly, with the City expecting to be approximately \$500,000 over budget. In 2021, we budgeted conservatively, setting the permit revenue at just under \$900,000. For 2022, we expect that building activity is going to continue to be strong, with new Commercial, Industrial and Institutional buildings planned to break ground, and no expected decrease in residential building permit activity. While we do not want to overestimate this amount, we do think it is safe to bring this number closer to \$1.1 million for the 2022 budget
- We are continuing to see an increase in population, with a steady increase in the number of residential units being built in the community. We expect the population in Chaska to be just over 27,500 in 2022.

- Our Electric Revenue has continued to increase, 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 Right of Way Usage Fee coming back to our General Fund
- With industrial development well underway at the Chaska Creek Industrial Center (SW Corner of Engler and Highway 212) and three buildings planned for construction within the next 18 months, and with the construction of our Sewer Interceptor line serving the planned industrial area at the County Road 44/Highway 212 interchange, we continue to expect to see Industrial development continue to be robust over the next several years

During the recession period from 2008-2013, 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. When the economy improved after 2013, the City was able to put more emphasis into the projects that we had to defer, which many times were the reinvestment projects into our existing infrastructure and assets.

This renewed emphasis on reinvestment back into our existing infrastructure was demonstrated through the establishment of our Capital Asset Maintenance Program (CAMP fka CIP). The CAMP focused 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.

In 2021, facing decreased revenue due to COVID-related issues, we did identify that we would not be able to fully fund the CAMP at \$1,000,000 unless we increased our levy by an additional \$300,000 to offset losses we had seen in revenues. Feeling that it was important to not fall behind in this program, the Council did raise the levy and additional \$300,000 to fully fund this program. As Council has discussed during the 2022 budget process, this full funding is now built into our budget for the CAMP program and does not require us to raise any additional dollars to fully fund. The 2022 budget reflects the full \$1,000,000 in CAMP funds planned to allow us to complete all our planned Capital Asset Maintenance activity in 2022.

During the 2020 budget, we did turn our attention to addressing the gaps we have had in our staffing levels across the City in past years needed to sustainably meet our service level expectations. Following direction from the City Council in the 2017 Council/Department Head Retreat, focus was put on having our Financial Advisors at Baker Tilly complete a Staffing Study looking not only at what staff we need to plan on going into the future to keep up with our service level demands in a growing community, but also on any gaps we currently have in being able to sustainably meet

our service level expectations in the current environment. Based on this study, we were able to determine that we are were 16 employees short in being able to meet our current service needs, but that once we fill this gap, we could expect that we will need an additional 57 employees City-wide to meet our staffing needs when our community is fully developed in the next 20 years. While we were able to start this program implementation in 2020 with the addition of 3 Building Maintenance Staff and \$125,000 dedicated toward our building maintenance activities, we did suspend the implementation of the remainder of the 2020 portion of the program because of the COVID 19 issues. Once again in 2021 because of COVID-related revenue issues, the Council did decide to take a one-year hiatus in implementation of the second year of our Staffing Gap implementation. With our revenues stabilizing in 2022, the discussion during our budgeting process revolved around re-establishing this Staffing Gap implementation by using 2022 to complete the second year of the plan. With that, this budget does build in the second year of the Staffing Gap implementation, with the program supported by \$375,000 in additional tax levy, with \$125,000 coming from the Enterprise Funds to support not only the new staff but additional dollars that were included in the program to help support on-going maintenance of our City facilities by our new Building Maintenance Staff.

In addition to our CAMP and our Staffing Analysis Implementation, during the 2022 budget process, the Council did continue the discussion on continuing to build our General Fund reserves to healthy levels, a discussion that was first started during the 2021 budget process. During the 2021 Budget process, the Council felt that it was important to take the feedback from our Bond Rating Agencies who felt that our General Fund Reserve Balances need to be increased to keep up our current high bond rating. Seeing a downgrade in ratings would have a long-term financial impact on the City, so the Council felt it was important that we show that we are acting on this by deliberately raising additional revenue and setting it aside specifically for our General Fund Reserve. For the 2021 budget, the final decision was made to move forward with levying an additional \$100,000 for this program, along with moving an additional \$200,000 from our Enterprise Funds into the General Fund to support this program, as all our funds benefit from keeping a higher bond rating. For the 2022 budget process, this continues to be an emphasis, with these dollars continuing to be budgeted. However, because the \$100,000 from tax levy was already established in 2021, it has no additional impact on taxpayers to continue this program going into the future.

Finally, the discussion during the 2022 budget was in addressing gaps that we currently see in our public safety services in meeting the needs of our growing population and addressing challenges that we see specifically in our Paid-on-Call Fire model to be able to meet our call demand with a base-line volunteer Fire Department. From the Police perspective, while our Staffing Analysis did a good job of identifying the total number of Police Officers, we feel we will need when we are fully developed, it did not do as good of a job of identifying the pace of additions to the department and current gaps in service we have. Specifically, as we look at our current Staffing, one major concern is in the Safety of our officers with the current minimum staffing levels we have in our model. At our lowest Staffing levels, we only have two Police Officers on at our shift minimum times, giving the Officers little back-up if a problem or multiple calls occur. This minimum staffing level has been in place since 2001, with our City increasing in

population by more than 10,000 since this time. This has also decreased our Police Officer's ability to be more proactive in their work and spend more time in Community-Based policing-something that our residents clearly identified was a priority to them during our Community Conversations during the Summer of 2000. Over the next three years, we feel that we must increase our Officers by three total, one coming in each of the next three years. This would have an impact of adding \$112,000 to our tax levy in 2022 to be able to accomplish this.

From the Fire Department side, one of our biggest challenges in being able to keep a Paid-on-Call department is to be able to both address day-time response, when most of our Paid-on-Call staff are working at other jobs and addressing the Administrative work which is very difficult for a volunteer to be able to take on given other life and job responsibilities. To address this, we have been moving to a model of having our Administrative level positions become full-time Fire Fighters to both be around during the day to respond to a day-time call, but to also deal with the Administrative Work so that our Paid-on-Call Firefighters can focus on just being a Firefighter. With the Training Chief position, which was staffed by a Paid-on-Call firefighter, now being vacant, we feel that this is a good time to fill this position with a full-time firefighter to continue to move in the direction of implementing this new model. With changes made to the funding of our Fire Relief retirement benefit this past year, this does free up existing dollars for us to fund this new position without having to add additional tax levy to support this addition. In this respect, this change would not have an added impact on the taxpayers in the community, but still meet all our Fire Relief Funding needs.

This document will 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. This tax levy establishment policy goes on to say that we would only increase our tax levy above this amount if we were addressing new items in our budget, and that the levy would increase by an amount that is needed to support the direct cost of these new initiatives.

In this 2022 budget, the items that would be above and beyond our base-level tax levy establishment policy, which the Council has decided are critical to address in 2022 include:

- Re-instituting the second year of implementation of our Staffing Gap plan, which requires an additional \$375,000 in tax levy
- Commit to funding additional Police Officer in 2022, with two additional Officers being added in the 2023 and 2024 budgets. This would have an impact in 2022 of an additional \$112,000 in tax levy

As we will discuss later in this budget, utilizing our base tax levy policy, and addressing these two additional items above would have an impact on the Median Value Home in the community of \$7 per month, or \$84 over the course of the entire year.

Staff feels that this budget document continues to move forward in taking a more comprehensive look at not just our current operations, but also the future costs of properly maintaining our assets through our CAMP Program. This document also moves us in a direction of continuing to meet our Staffing needs, both reinstating our Staffing Gap Plan, while also addressing needs that have emerged in our Public Safety services. We also think that it creates a 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 our primary service objectives.

### **Budget Objectives**

As with all our budgeting processes, the first place that we start is by establishing 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 the establishing the proposed 2022 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

The newest objective on this list is the last one, in which we discuss the importance of resourcing our organization at a level that can sustain the service levels our residents have come to expect. Over the past three years, the City Council has discussed some of the biggest financial challenges the City will face over the next several years, with one of our biggest challenges being able 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 the high level of services we provide in the community. As the community grows, and assets such as our facilities get older, these levels of resources will not be sustainable to keep our service levels constant. This is especially true when it comes to the Staffing levels throughout the organization, and the dollars and staffing resources allocated towards maintaining our aging facilities. Continuing to address our Staffing needs through the reestablishment of our Staffing Gap implementation and making additions to Public Safety Staffing to reflect that changes we have seen in the community will have significant impacts on being able to meet the service level

expectations of our residents. And the continued dollars we put towards maintaining our City Facilities through the addition of \$125,000 annually to go towards this activity will help us establish a base to be able to keep our facilities in good condition, especially after we move to improve them over the next several years.

As mentioned previously, instituting each of the above-described initiatives in 2022 would require an additional tax levy of \$487,000. On the Median-Valued Home in Chaska (\$298,500) the tax impact would be \$7 per month in additional costs, or \$84 over the course of the entire year. This would require an 11.04% increase in our tax levy. Given that we are seeing a 5.21% increase in our tax capacity for 2022, we would see a 6.12% increase in our tax rate. With this change, we would still be in the amongst the lowest property tax levies per capita in the entire Twin Cities Metropolitan Area (72 lowest out of 84 Cities assuming other cities see no change in their tax levy), and we would be the lowest property tax levy per capita in Carver County. This analysis assumes that all other Cities do not change the taxes for 2022 with ours changing based on the levels discussed above.

### **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, 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 5.21% (as it will in 2022), the levy could also increase by 5.21% and have no impact on the tax rate in the community. This would mean that if someone's property did not change in taxable market value from one year to the next, that their City taxes would not see any increase.

While the constant tax rate policy worked very well for several years, during our last major recession (2010-2013) 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 one year to the next. While the tax rate would not change, a resident's taxes would change unless their market value stayed the same. This often was not the practical reality, as we saw a significant amount of property value growth 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. This 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 do not decrease unless a

community is willing to reduce the amount of services it provides. In fact, if the service levels are kept the same, the actual cost of providing the service in subsequent years increases because of inflationary factors. 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 services, and therefore levy. Theoretically, it does not cost the City more to provide services for a residence that is already existing, except for our actual inflationary increases in costs from year to year for supplies and labor. 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.

It was during the 2014 budgetary process that 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 an objective is to keep a constant level of services in the community:

- New construction in the community (1.56% for 2022)
- Inflationary increases in the market. (5% for 2022)
  - Total Base-line tax levy increase of 6.56% to keep current service levels constant

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. To make sure we take these issues into account, our new tax levy policy states that we would set our increase in operational 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 can make sure that all new users are paying their fair share of service costs in the community, and that we consider that 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 2022 budget, the two new items that are being added is the \$375,000 going towards the second year of implementation of our Staffing Gap study, and the \$112,000 it would take to add an additional Police Officer in 2022. The total new tax levy amount needed in 2022 to address these added programs would be \$487,000. Any other increase in the levy is due to keeping up with new growth and inflation to keep our service levels constant.

## **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, more than 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 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 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, and hence an increase in revenue necessary to provide the same level of services in the future to our residents.

From 2008-2013 however, residential development in the metro area decreased significantly because 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.

This downward trend reversed itself in late 2012, and stabilized, with several new residential developments approved over the past 9 years. Starting in 2013, this included the approvals for several new residential subdivisions both on the north end of Chaska, and in the Southwest quadrant of the community. We also saw very robust growth in our Commercial/Industrial properties, with the addition of the 212 Medical Center, several Data Centers, commercial additions in Hazeltine Plaza, and the expansion of buildings in our existing Industrial Parks. Over this past year, we have seen a continued push in residential development, while also seeing a large increase in Commercial/Industrial activity that we continue to expect to see move right into 2022 with the addition of 3 new Industrial Buildings in the Chaska Creek Corporate Center, a planned 2-3 story addition to the 212 Medical Center, and the addition of Costco in the community. While we were uncertain in our 2021 budgeting process how COVID would potentially impact C/I development, we have been able to see over the course of this year that it is moving forward very rapidly because of a shortage of Industrial property

in the Southwest Metro and across the Twin Cities. We expect to see this demand continue into 2022 and beyond given the feedback we are currently seeing in the market.

As mentioned earlier, we had decreased our budget for building permits in 2021 to just under \$900,000. The actual activity we expect to see by the end of the year is closer to \$1.5 million in Building Permit activity. This high level of activity is expected to occur in all sectors of the market in 2022. While we do expect it to be just as robust in 2022, we still want to be conservative in our estimates to not create budget to actual issues at the end of the 2022 budget year. To that end, we are budgeting approximately \$1.1 million in building permits for the 2022 year.

Year	Households	New Households	Estimated Population
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	11,243	120	26,983
2021	11,363	120	27,271
2022	11,498	135	27,595
2023	11,633	135	27,919
2024	11,768	135	28,243
2025	11,903	135	28,567
2026	12,038	135	28,891

**An analysis of General Fund revenues by major fund source:**

Total revenues anticipated to fund the 2022 General Fund operating budget are \$21,724,729, which is an increase of 7.29% from our 2021 General Fund Revenues of \$20,429,824.

As you will find on the chart below, Property taxes is the largest source of increased income going into the General Fund budget. One item on this that may not be clear is the while it shows an 9.1% increase in property taxes, that is not the actual percentage of increase of our total property taxes. The reason for this is that our property tax levy does not just fund the General Fund. It also funds the Equipment Acquisition Fund, the EDA and our Mt. Pleasant Cemetery operations. What the increase in property taxes refers to below is the increase of property taxes we have actually going into our General Fund as opposed to 2021. Our total property tax levy will be going up by 11.04%, with everything above and beyond the \$8.4 million in the General Fund going to support these other three tax-levy supported funds.

One other thing to point out with our budgeted revenues is the amount that we are budgeting for our Licenses and Permits. While the amount is approximately \$146,500 higher than our 2021 budget number, it is actually about \$500,000 less than what we expect to see for building permits at the end of 2021 (will be approximately \$1.5 million). As mentioned previously, we are trying to be conservative in the budgeting of our Building Permit revenue, as the subtraction of one large project can have a major impact on the revenues that are generated. However, we do feel that building permit activity will be at least as robust in 2022, if not greater than what we saw in 2021 because of planned building activity. We think it is conservative to build in this revenue at a level \$500,000 below what we had in 2021 to make sure that we have some room to move with this line item should we see the market influence any one of the large projects we project.

Finally, the other main source of income in our General Fund is our Electric Payment for Right of Way usage, the operational transfer of an additional 5% from the Electric Fund and Gas Franchise Fees, which are budgeted to be over \$4.9 million because of continued growth of electric/utility use in our community. We are also budgeting higher amount of Administrative Fees that we charge our Enterprise Funds to provide Administrative Services to other departments in the City. This also includes the \$125,000 of additional funds the Enterprise Funds bring over in 2022 to support the implementation of the second year of our Staffing/Building Maintenance Program discussed previously. It should be noted that one of the budget items we did discuss as part of our Community Center Enterprise budgeting process is to relieve the Community Center of the \$200,000 of Administrative Fees to the General Fund in 2022 because of the large financial impact we continue to see to that fund due to COVID. The way that we are implementing that in the General Fund for 2022 is to bring two positions that were in the Community Center Fund into the General Fund Park and Recreation budget. We think in the long term the positions we moved better fit in the General Fund Park and Recreation Fund as opposed to the Community Center because of the nature of recreation programming these positions provide. The chart below shows a summary of revenues for the 2022 budget year:

# General Fund Revenues

	2020	2021	2022		
	Actual	Budget	Budget	Increase	%Increase
<b>Property Tax</b>	\$6,952,467	\$7,743,413	\$8,446,549	\$703,136	9.1%
<b>Elec/Gas Franchise Fees</b>	4,397,652	4,684,200	4,987,000	\$302,800	6.5%
<b>Other Franchise Fees</b>	300,269	300,000	296,000	(\$4,000)	-1.3%
<b>License and Permits</b>	710,430	888,598	1,035,098	\$146,500	16.5%
<b>Other Revenues</b>	2,834,485	2,519,643	2,464,819	(\$54,824)	-2.2%
<b>Admin Charges to Funds</b>	3,834,038	4,113,970	4,495,263	\$381,293	9.3%
<b>Total Revenue</b>	<u>\$19,029,341</u>	<u>\$20,249,824</u>	<u>\$21,724,729</u>	<u>\$1,474,905</u>	<u>7.3%</u>

## Capital Asset Maintenance Program (CAMP)

As was discussed earlier in this document, one of the challenges that was faced with the 2021 budget was the ability to fully fund CAMP. With the reduction in revenues to our budget because of uncertainties in the economy and COVID, and the very small growth we saw in our market values, it was difficult for the Council to be able to fully fund the \$1 million program without increasing our tax levy. This prompted the Council to increase the levy in 2021 by \$300,000 to fully fund this program. Because of these changes in 2021, the Council can fully fund the CAMP program in 2022 without making any additional changes to the General Fund Tax Levy.

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 responsibility in asset maintenance.

With the CAMP fully funded, 2022 will bring several rehabilitation projects to the table, including:

- Street Overlay: \$400,000
- Trail Upgrades/Overlays: \$60,000
- Lion's Park Playground Rehab: \$160,000
- 2<sup>nd</sup>/Pine Street Parking Lot Retaining Wall Replacement: \$200,000
- MSB Annual Door/Hoist Work: \$40,000
- Shadow Wood Park Rehab: \$140,000

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.

### **Staffing Gap Analysis/Building Maintenance**

As mentioned previously, based on the results of our Staffing Analysis in 2017/18, we did determine that we were 16 employees short to meet our current service levels, and that we had a missing component in our current organization of proper resources and staff dedicated towards Building Maintenance, which is especially important with our aging facilities. The gap identified was \$2 million, with \$1.5 million being attributed towards tax levy resources and \$500,000 being attributed toward Enterprise Fund resources. Based on the recommended 4-year implementation of this plan to address these needs, this would have \$500,000 of additional resources added in 2020, with \$375,000 coming from additional tax levy and \$125,000 coming from Enterprise Fund Resources. We did fill the following positions/building maintenance gap in 2020, with us being able to accomplish all but the one position in Water/Sewer that we did not do because of changes in the economy due to COVID mid-year.:

#### **2020 Staffing Study Implementation Plan:**

- Building Maintenance Foreman: \$105,000
- Building Maintenance Worker: \$90,000
- Building Maintenance Worker: \$90,000
- Water/Sewer Maintenance Worker: \$90,000
- Allocation to Building Maintenance Budget: \$125,000

As we also discussed previously, in 2021 the Council did decide to take a one-year break from our 4-year implementation plan because of the uncertainties of what COVID would do to our revenue streams for that year. As we move into 2022, the budget is built around reinstating the implementation of this plan, with the City moving forward to fill the gaps identified for the second year of the program. The positions planned for the 2022 budget year to implement the second year of this program include:

#### **2022 Staffing Study Implementation Plan:**

- HR Generalist
- Assistant City Engineer
- Building Maintenance Worker (4<sup>th</sup> of 5)

To fund this second year of the plan would require raising the tax levy by \$375,000, with the addition of \$125,000 from the Enterprise Fund Budgets to support the second \$500,000 towards this total program of \$2 million, which we would have completed by the end of the 2024 budget year. This \$500,000 would support not only the 3 positions listed above but would also provide us with another \$125,000 to go towards our building maintenance activities.

### **Addressing Public Safety Issues**

As mentioned previously, the final new item to address in the 2022 budget is the gaps we are currently seeing in our Public Safety services.

First, one of the challenges we are seeing in our Police Staffing is in the number of officers we currently having staff our minimum levels on shifts that require less Officers. Our current policy, which was established in 2001, was to have our lowest level of staffing on the road at any give time be two Police Officers. With the changes we have seen in the community over the past 20 years, this level of Policing is no longer safe for our officers, leaving times that if an issue arises during a call, or multiple calls come in at the same time, there is no backup for our Officers. This is not safe operationally given the number of calls we respond to in any given shift.

The second issue this has created is not allowing our Police Officers to be as proactive with calls and take on more Community Policing initiatives. They are staffed so thin that it often does not give them the time to do this, which was clearly identified as a priority of our residents during the Community Conversations and Survey we did during the summer of 2021. Below are two charts illustrating how our Police Department compares to similar Police Departments for both Annual Call Responses Per Officer and the number of Officers per Capita. These two charts help illustrate that Chaska has historically had less Sworn Staff compared to similar departments in the area.

**Call Response per Officer-2019 Data (pre-pandemic)**

City	Calls for Service	# Sworn Officers	# Patrol Officers	Annual response per officer
Cottage Grove	18,687	43	23	812.5
Shakopee	22,910	50	27	848.5
Savage	12,666	35	24	527.75
Rosemount	15,166	27	18	842.6
Mendota Heights	11,589	20	15	772.6
Hutchinson	20,186	25	21	961.2
Mounds View	8000	21	13	615.38
Chaska	12,906	25*	15	860.4

**Officers per Capita-2020 Data**

City	Population	# Sworn Officers	Officers Per Capita
Cottage Grove	36,602	43	1.18
Shakopee	40,731	50	1.28
Savage	31,254	35	1.2
Rosemount	15,166	27	1.78
Mendota Heights	11,289	20	1.77
Hutchinson	13,914	25	1.8
Mounds View	12,412	21	1.69
Chaska	26,371	26*	.986

\*Increased to 27 sworn in 2021: recalculation of 1.02

To get to safer levels of staffing at a minimum of 3 officers per shift and be able to be more active in Community Policing, would require us to add 3 more Police Officers to

our roster. We are not recommending that this occur all in one year, as this would bring a large expense in 2022 if we were to do that, and it is not always practical to bring on that many new officers at once given the extensive amount of field training that is needed for each new officer we bring on. To that end, we are recommending that we add one new Police Officer each year over the next 3 years to meet that goal. For 2022, that would increase our expenses by \$112,000 that would need to be supported by an addition to our Tax Levy.

From the perspective of the Fire Department, our goal has been to keep a base Paid-on-Call (volunteer) Fire Department going into the future. What we are finding that is making that very difficult is relying on a Paid-on-call system for daytime response when our Fire Fighters are often working at the regular jobs. We have also found that taking on Administrative duties on top of being a Firefighter is very difficult for someone that is not a full time Firefighter. That is why we have been moving towards a model of filling our leadership roles on the department with Full time employees.

We have an opportunity with the recent vacancy of our Paid-on-call Training Chief position to make another one of these leadership positions full time, which we think will help address day-time response issues and take some of the Administrative burdens away from our Paid-on-call staff so they can focus solely on being a firefighter. While this is an additional cost of around \$100,000, this is something we can absorb with our current Fire Department Funding as we did make changes to our Fire Relief Retirement program this past year which did free up dollars that the City had been reserving for this. The City can meet all our funding requirements for the Relief benefit after making this change.

### **Property Taxes:**

For 2022, to accomplish establishing our base-line budget, address restarting the second year of the Staffing Gap plan implementation and address our identified Public Safety needs requires a total tax levy of \$12,672,429. This levy represents our entire levy, which includes General Fund, Equipment Acquisition Fund, Cemetery Fund, Tax Abatement Fund and the EDA. This represents an increase of 11.04% from the 2021 total tax levy. This levy increase would be made up of 6.56% to support the baseline levy (5% for inflation and 1.56% for new growth in the community), in addition to \$375,000 that is needed for restarting the Staffing Study and \$112,000 to fund the first of our three new Police Officers over the next three years. The final two numbers make up 4.48% of the tax levy growth. With a 5.21% increase in our Tax Capacity for 2022, this means that our tax rate would increase by 6.12%. It should be noted that a portion of our total levy goes towards our General Fund Budget, with the remaining going towards our Equipment Acquisition Fund and debt service for our current Downtown Street Reconstruction Program.

It should also be noted that out of this total tax levy amount, \$302,574 represents a levy for tax abatement assistance provided in the past. This additional amount represents the 10<sup>th</sup> year of tax abatement that was provided to the West Creek Corporate Center Development for development of infrastructure to support this new industrial park, along with some other tax abatement projects including the 212 Medical Center Addition and the Chaska Creek Medical Building. While we are required to

officially levy this assistance, the City is a “pass-through” for these funds, with the same amount coming in from this project that goes out for the tax abatement assistance. It does not influence other taxpayers in the community.

Within this total levy amount, the Chaska Economic Development Authority also has a \$182,989 levy. Last year this levy was \$171,598. The amount levied for 2022 in the EDA Fund of \$182,989 represents the dollars supporting the operations of our Economic Development Activity and was included in the total tax levy amount of \$12,672,429.

In summary, the total levy will include:

- Continuation of dollars to support the Downtown Street Reconstruction Program
- \$12,489,440 being levied to support General Fund Operations, a portion of Street Reconstruction Debt Service, Mt. Pleasant Cemetery, and existing Equipment Acquisition Fund needs
- \$375,000 of additional levy (included in the total above) to support the second year of implementation on our Staffing Gap program
- \$112,000 being levied to support the additional Police Officer in 2022
- \$182,989 being levied in the Economic Development Authority Fund for operations
- \$302,574 in tax abatement that is generated from the new West Creek Corporate Center Development, 212 Medical Center and Exactec.

The following table summarizes Chaska’s actual tax levies (General Levy, EDA, Tax Abatement and Mount Pleasant Cemetery for 2019, 2020 and 2021, along with the proposed 2022 levy:

	2019	2020	2021	2022	Increase	%
General/Equipment Acquisition/EDA/Tax Abatement	\$ 9,694,654	\$ 10,510,132	\$ 11,406,925	\$ 12,666,429	\$ 1,259,504	11.0%
Mt Pleasant	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	0.0%
<b>Total Operating and Special Levy</b>	<b>\$ 9,700,654</b>	<b>\$ 10,516,132</b>	<b>\$ 11,412,925</b>	<b>\$ 12,672,429</b>	<b>\$ 1,259,504</b>	<b>11.0%</b>

### **Impact of Tax Levy on Property Owners**

To understand the impact of the tax levy on individual taxpayers, three 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 \$164,134,600 to \$3,512,103,100 an overall increase of 4.90%. The largest percentage increase that we saw in 2021 was in residential properties, with a 5.73% overall increase. 1.97% of that came from construction of new residential units in the community, with the other 3.76% coming from increasing values in existing residential units.

The other major area of increase we saw was in Commercial/Industrial properties, with a 5.25% increase in market values. 0.54% of that growth came from new construction, meaning that most of the increase was experienced in existing Commercial/Industrial buildings. This is consistent with what we are seeing especially in the Industrial market with very few vacant properties existing in our community or throughout the region. Apartment properties also had an increase, with the overall increase in this type of property being at 1.90%. New construction accounted for 0.07% of this change, with the remainder of the change coming from increases in existing Apartment values. Below is a summary of the Market Values for taxes payable 2022 (assessed 2021) as established by the County Assessor's office:

<b>Chaska 2021 Assessment</b>					
	<b>Residential</b>	<b>Commercial/Industrial</b>	<b>Apartment</b>	<b>Ag</b>	<b>Total</b>
<b>2021 EMV</b>	<b>\$2,645,009,100</b>	<b>\$553,274,200</b>	<b>\$231,767,700</b>	<b>\$82,052,100</b>	<b>\$3,512,103,100</b>
<b>2020 EMV</b>	\$2,501,694,500	\$525,663,000	\$227,442,100	\$93,168,900	\$3,347,968,500
<b>Total Value Change</b>	\$143,314,600	\$27,611,200	\$4,325,600	(\$11,116,800)	\$164,134,600
<b>New Construction</b>	<b>\$49,321,100</b>	<b>\$2,823,800</b>	<b>\$162,000</b>	<b>\$0</b>	<b>\$52,306,900</b>
<b>Market Change</b>	\$93,993,500	\$24,787,400	\$4,163,600	(\$11,116,800)	\$111,827,700
<b>% New Construction</b>	1.97%	0.54%	0.07%	0.00%	1.56%
<b>% Market Change</b>	3.76%	4.72%	1.83%	-11.93%	3.34%
<b>2021 Total % Change</b>	<b>5.73%</b>	<b>5.25%</b>	<b>1.90%</b>	<b>-11.93%</b>	<b>4.90%</b>

Using the 2021 market values and the classification formulas established by the State, the County Auditor has calculated Chaska's 2021 (for taxes payable 2022) gross tax capacity to be \$40,238,279, an increase of 5.0%. To calculate the net tax capacity used for determining Chaska's tax rate, a reduction must be made for captured tax increment and fiscal disparity contributions. Our current captured TIF value is \$1,327,634 with Chaska's fiscal disparities contribution for 2022 being \$4,068,058 resulting in a net tax capacity of \$34,842,587, an increase of 5.2%.

	<b>2021</b>	<b>2022</b>	<b>Increase</b>	<b>%</b>
<b>Gross Tax Capacity</b>	\$ 38,287,428	\$ 40,238,279	\$ 1,950,851	5.1%
<b>TIF</b>	\$ 1,215,297	\$ 1,327,634	\$ 112,337	
<b>Fiscal Disparities</b>	\$ 3,959,880	\$ 4,068,058	\$ 108,178	
<b>Other</b>	\$ -	\$ -	\$ -	
<b>Net tax capacity</b>	\$ 33,112,251	\$ 34,842,587	\$ 1,730,336	5.2%

Based on these estimates, Carver County has estimated Chaska's 2022 General Fund tax rate to be 32.407%. This is an increase of 6.12% from 2021, where we had a tax

rate of 30.539%. With the median value of home going up from \$269,755 to \$298,500 in the community, this would bring the median-valued home's City taxes from \$873 in 2021 to \$957 in 2022, or an increase of \$7 per month or \$84 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 2021, Chaska will continue to maintain one of the lowest City tax levies per capita of any City in the metropolitan area, ranking 72<sup>nd</sup> out of 84<sup>th</sup> lowest in the entire Twin Cities Metropolitan Area. It also remains the lowest tax levy per capita of any City in Carver County as well. This analysis is comparing the 2022 tax levy for Chaska and assuming a 0% increase in other Communities' tax levies that we are comparing.

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 58% of Chaska's tax-levy supported funds 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 Department of Revenue Survey looking at 2021 City tax data, out of 84 local units of government looked at in the metropolitan area, Chaska ranked 72<sup>nd</sup> lowest in City taxes per capita. This is comparing our data assuming our increase for 2022 and comparing it to the other cities having a 0% increase in 2022. 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. Third, we continue to be the lowest tax levy per capita in Carver County.

The following chart illustrates highlights of this survey:

Ranking	City	Taxes	Population	Tax Levy Per Capita
1	Oak Park Heights	\$5,691,012.00	4,897	\$1,162.14
2	Golden Valley	\$26,106,046.00	22,715	\$1,149.29
3	Wayzata	\$5,145,201.00	4,672	\$1,101.28
4	Dayton	\$5,795,835.00	6,320	\$917.06
5	Hopkins	\$17,788,384.00	19,555	\$909.66
6	Minneapolis	\$393,527,000.00	435,885	\$902.82
7	Mendota Heights	\$10,482,617.00	11,747	\$892.37
8	Columbus	\$3,491,304.00	4,067	\$858.45
9	St. Anthony Village	\$7,668,031.00	9,020	\$850.11
10	West St. Paul	\$17,744,425.00	21,205	\$836.80
11	Afton	\$2,455,912.00	3,009	\$816.19
12	Orono	\$6,610,620.00	8,284	\$798.00

71	Chanhassen	\$12,066,700.00	26,278	\$459.19
72	Chaska	\$12,672,429.00	27,800	\$455.84
73	Andover	\$14,913,945.00	32,882	\$453.56
74	New Brighton	\$10,608,250.00	23,427	\$452.82
75	North St. Paul	\$5,491,446.00	12,161	\$451.56
76	Mounds View	\$5,866,279.00	13,513	\$434.12
77	Arden Hills	\$4,280,080.00	10,008	\$427.67
78	St. Paul Park	\$2,332,997.00	5,611	\$415.79
79	Falcon Heights	\$2,249,275.00	5,446	\$413.01
80	Anoka	\$7,446,100.00	18,728	\$397.59
81	Vadnais Heights	\$5,060,231.00	13,338	\$379.38
82	North Oaks	\$1,974,877.00	5,320	\$371.22
83	Lauderdale	\$889,710.00	2,442	\$364.34
84	White Bear Lake	\$7,370,000.00	25,752	\$286.19

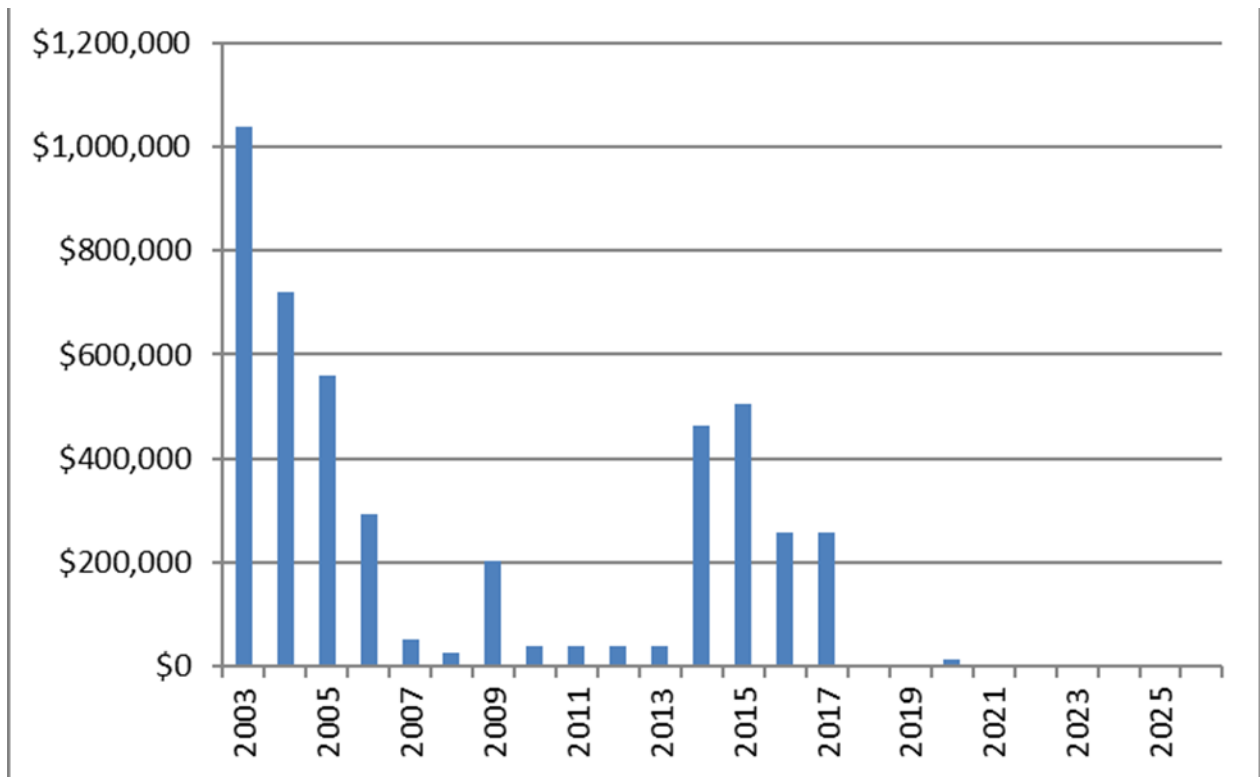
### Intergovernmental Revenues:

One significant change we experienced starting in 2018 and has continued into 2022 is the reduction of our Local Government Aid by approximately \$250,000, bring us down to nearly \$0 for the past 2 years. In 2020 the amount we had certified was \$14,171, with us receiving \$0 in 2021. In 2022, we received notification that our certified amount is \$0, meaning this will be the second time we receive no Local Government Aid at all. We expect this will continue at this level into the future. This change 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 in LGA from the State on an annual basis. This was a very significant hit to the City's revenues, representing approximately 10% of our overall revenues. The loss of nearly \$1 million in revenue was a significant reason that we started to get behind in properly staffing of our services and have had a difficult time catching back up ever since.

In 2014, the City received did see an allocation of LGA in the amount of \$462,000, with it going to just over \$500,000 in 2015 and \$550,000 in 2016. In 2017, we once again saw this amount reduced to just under \$250,000. With it now officially certified at \$0, we do not expect we will see this revenue source again in the near 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.

### Local Government Aid



It should be noted that when the City saw the \$250,000 LGA amount go to \$1,000 in 2018, the Council did decide to levy back half of that amount (\$125,000), which has remained in the budget ever since, and is included in the 2022 budgeted revenues. However, it continues to be important to point out that this loss of nearly \$1 million from the State from that 2004 period did have a long-term impact on the City and is a large reason why we are now having to have the discussions about the gaps that we see in our staffing levels to sustainably meet our service level expectations and a significant reason we got behind on building maintenance activities.

### **Licenses and Permits**

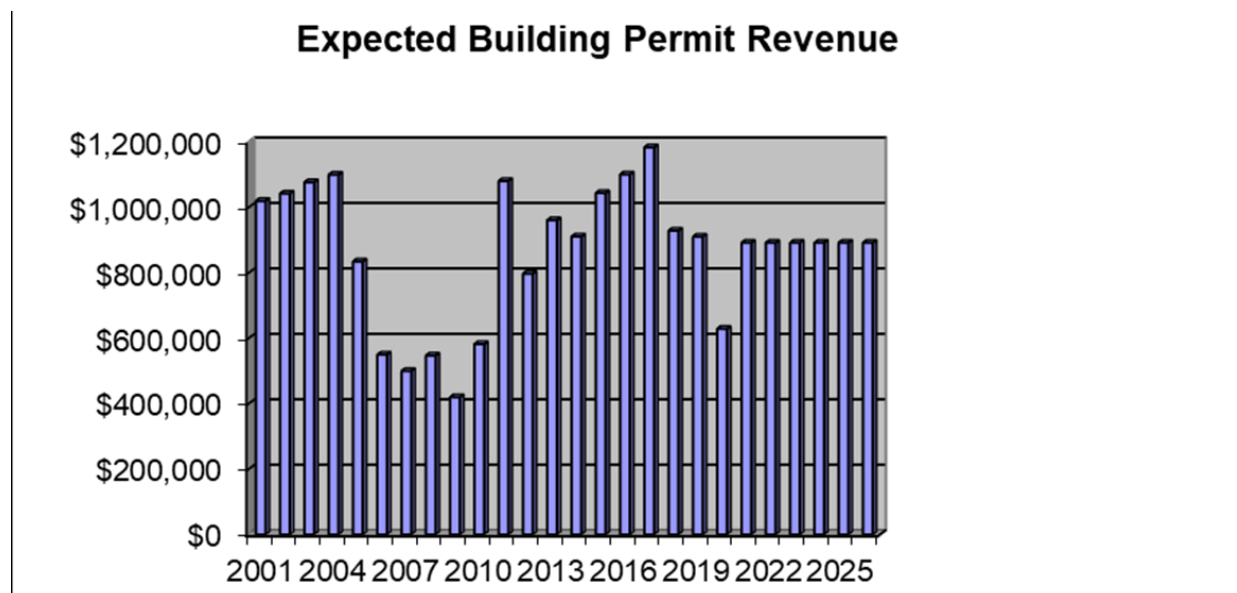
From 2008-2011, Chaska and the rest of the metropolitan area experienced a dramatic slowdown in not only residential development, but development in all sectors of the market. As a result of the downturn, building permit revenues dropped significantly. Up through 2005, this revenue source was over \$1 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 has continued to be volatile and can be somewhat difficult to project from year to year.

With the downturn in the economy in early 2020 due to the pandemic, we did see the permit revenue we expected to see be reduced significantly. While we continued to see relatively steady single-family residential development, we did see a big downturn in Commercial/Industrial activity, with only a few projects moving forward. In early July of 2020, we did amend our General Fund budget when we started to understand the impacts it would have on our budgeted revenues, especially in building permits. As part of that action, we did adjust our budget numbers down to \$600,000, a reduction of approximately \$400,000 from what we had budgeted at the beginning of the year.

While we continued being conservative in our budgeting for 2021, budgeting for just under \$900,000 over the course of the year, we did see a much larger than anticipated growth in residential activity, as well as growth in the Commercial/Industrial Market, which we expect to see continue into 2022. Although we budgeted just under \$900,000 in 2021, we will end the year with close to \$1.5 million in activity. Given this, we are recommending an increase in our budgeted permits for 2022, but not to the level of actual activity we saw in 2021 to create a buffer in our budgeting numbers. What we show in the budget is a number of just under \$1.1 million in permits for 2022, which should be lower than what we actually bring in in 2022 given the expected building activity but does provide us with a budgeting buffer. In that way we can make sure that if there is a project or two that does not move forward as expected, that we will still be able to meet our budgeted numbers.

Under our current building projections, our staffing levels will be enough to cover the anticipated workload and be able to turn around building permits in a timely fashion.

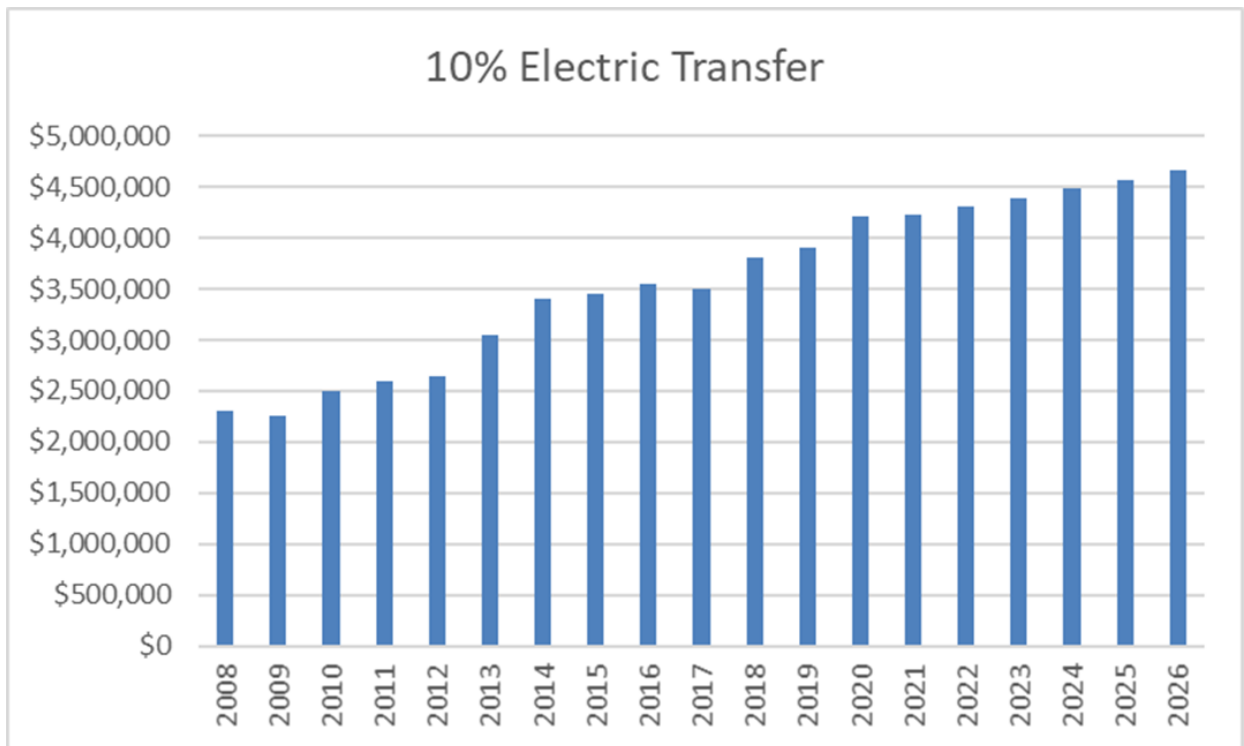


## **Electric Fund Transfers**

The City has a formal policy of charging ourselves a per kilowatt-hour Right of Way usage fee, which is roughly equivalent to 5% of the total electric rate of our electric utility. In addition, we do an operational transfer from our Electric Fund to the General Fund to help support General Fund services, which is an objective of the Electric Fund. For 2022, the total amount of Right of Way fee transfer and operational transfer is budgeted to be \$4,530,000. We have seen an a dramatic increase in this portion of our revenue over the past several 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 an increase in Data Centers, additional commercial uses in town, and the recent expansions we have seen with existing businesses in our original Industrial Parks on the north end of the community. We continue to expect that to increase in 2022 as we expect to see some continued expansion of load in our data centers, as well as seeing existing industrial customers add on, Commercial uses be built, and residential growth continue.

It should be noted that in that total Electric 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 2022, with development of the first building at the Southwest corner of the intersection of 212 and Engler Boulevard now completed, the addition of residential in the Chevelle neighborhood, and the addition of at least one industrial building in West Creek Corporate Center opening in 2022. This Franchise fee to the other providers in Chaska is something that we would plan to fully implement in 2022 to make sure that as we see new development in our community, that users in other provider's territories are seeing a Franchise Fee (Right of Way usage fee) as if they were in Chaska Electric's territory.

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 the Franchise fee that will be charged to MVEC and Xcel will be based on 5% of their gross revenues for the year to keep it consistent with our Right of Way usage fee for Chaska Electric. This is because of the limitations State Statute allows us to charge from an outside utility, and because this percentage matches up with the percentage that is charged to Centerpointe Energy for our enacted Gas Franchise Fee. Statute requires that these fees to external utilities be equitable from one utility to the next. The total for all external Utility Franchise Fees and our Right of Way usage fee and operational transfer for Chaska Electric represents 23% of our total General Fund Revenue Budget.



### **Charges for Services**

Charges for services are those revenues that support the City 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 costs to our Enterprise Funds (i.e. Electric, Sewer, Water, CEC, etc...). For 2022, charges for services are programmed to be \$4,495,263 as compared to \$4,113,970 in 2021, or an increase of \$381,293. 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. This includes all our Administrative Services, Human Resources and Administration. In 2020, we also added a contribution from the Enterprise Funds to the overall Building Maintenance Division Budget, which started at \$125,000 in 2020. This amount is planned to increase to \$250,000 for 2022 as we are implementing the second phase of our Staffing Study implementation.

### **General Fund Expenditures:**

General fund operating expenditures are forecast to be \$21,724,729 in 2022, which is an increase of 7.29% over the 2021 Operating Budget.

In preparing the 2022 budget the following general assumptions were used for the operating budget:

- Utilize budgeting objectives developed
- Increase in the tax levy by 1.56% due to new growth and 5% for inflation
- Move to implement the second year of our Staffing Gap Study, adding \$375,000 to the total tax levy, and an additional \$125,000 from the Enterprise Funds to support the second year of the plan

- Addition of \$112,000 to help support the hiring of 1 additional Police Officer in 2022, along with the reallocation of approximately \$100,000 in existing dollars within the Fire Department to support making the Fire Training Chief a Full-time position
- Personnel salaries up 3%, with employer benefit contribution seeing 0% increase in 2022.
- Assume continuation of our Street Reconstruction Program, with the 2021 project targeted to be the areas of 6<sup>th</sup> Street and Beech Street just to the north and west of the Carver County Courthouse
- Continue contract with City of Carver for shared recreational services, bringing in approximately \$67,000 to support our recreational services
- Continue with \$12,000 expense in 2020 for "Scholarships" to support large community activities utilizing our new banquet facility (\$1,000 per month)
- Fully fund the Equipment Replacement Schedule for 2022
- Assume we are building up our General Fund reserves
- All other items in budget to remain unchanged

Department	2020	2021	2022	Increase	%Increase	Notes
	Actual	Budget	Budget			
Council	\$199,757	\$155,509	\$182,008	\$26,499	17.04%	<i>Increased Special Events Budget to meet Actual</i>
Communication Administration	\$106,021	\$112,115	\$52,008	-\$60,107	-53.61%	<i>Moved a position from FT to PT</i>
Human Resources	\$794,154	\$866,591	\$890,488	\$23,897	2.76%	
Elections	\$271,592	\$286,290	\$462,916	\$176,626	100.00%	<i>Added an HR Tech Position plus Pay Eq. Report</i>
Admin Serv-Finance	\$61,512	\$5,402	\$38,905	\$33,503	620.20%	<i>Increases every 2 years for Election</i>
Admin Serv-IS	\$1,670,820	\$1,666,915	\$1,760,400	\$93,485	5.61%	
Legal	\$1,202,917	\$1,291,865	\$1,269,942	-\$21,923	-1.70%	
Community Dev.	\$141,281	\$80,400	\$100,000	\$19,600	24.38%	<i>Increased activity with new Development</i>
Engineering	\$325,030	\$366,267	\$380,392	\$14,125	3.86%	
City Hall Bldg	\$467,689	\$480,685	\$547,244	\$66,559	13.85%	<i>Addition of Assistant City Engineer in July</i>
Building Maint Div	\$220,284	\$239,710	\$203,720	-\$35,990	-15.01%	
Police	\$254,346	\$476,253	\$681,240	\$204,987	100.00%	<i>Add 4th Building Tech &amp; Add Bldg Resources</i>
Fire	\$4,836,613	\$5,139,118	\$5,579,386	\$440,268	8.57%	<i>Addition of New Officer plus adj. to reflect OT</i>
Building Inspection	\$2,182,768	\$2,123,571	\$2,283,915	\$160,344	7.55%	<i>Move Training Chief to FT</i>
Public Works Admin	\$681,165	\$763,215	\$755,775	-\$7,440	-0.97%	
Streets	\$435,971	\$417,742	\$427,833	\$10,091	2.42%	
Snow Removal	\$1,717,805	\$1,880,342	\$1,934,186	\$53,844	2.86%	
MSB Building	\$229,009	\$227,430	\$267,799	\$40,369	17.75%	<i>Addition of Maintenance Equipment</i>
Park Maintenance	\$171,307	\$235,081	\$236,164	\$1,083	0.46%	
ISD 112 Maint	\$1,285,871	\$1,218,315	\$1,149,376	-\$68,939	-5.66%	
Tree Control	\$25,310	\$37,205	\$37,369	\$164	0.44%	
Parks Admin	\$16,398	\$40,720	\$40,843	\$123	0.30%	
Parks Youth	\$529,924	\$541,263	\$691,010	\$149,747	27.67%	<i>Moved Additional hours from CCC in P and R</i>
Park Senior	\$178,545	\$182,178	\$185,081	\$2,903	1.59%	
Parks Adult	\$0	\$0	\$165,925	\$165,925		<i>Moved Programmer Positions from CCC</i>
Firemen's Park	\$64,138	\$97,619	\$63,662	-\$33,957	-34.79%	
Parks Skating Rink	\$62,685	\$121,664	\$103,983	-\$17,681	-14.53%	
Unallocated	\$10,054	\$11,670	\$11,629	-\$41	-0.35%	
<b>Total</b>	<b>\$828,410</b>	<b>\$1,184,226</b>	<b>\$1,221,530</b>	<b>\$37,304</b>	<b>3.15%</b>	<b>\$400,000 Fund Balance; \$355,000 EDA Debt Service</b>
<b>Total</b>	<b>\$ 18,971,376</b>	<b>\$20,249,361</b>	<b>\$21,724,729</b>	<b>\$ 1,475,368</b>	<b>7.29%</b>	

From a CAMP perspective, 2022 will mark the 6<sup>th</sup> year in a row that we have budgeted for \$1,000,000 being dedicated to the plan. This allows us to be able to program the exact projects we will be undertaking on an annual basis to support our overall Capital Asset Maintenance Program. For 2022, the following projects are planned to be undertaken:

- Street Overlay: \$400,000
- Trail Upgrades/Overlays: \$60,000
- Lion’s Park Playground Rehab: \$160,000
- 2<sup>nd</sup>/Pine Street Parking Lot Retaining Wall Replacement: \$200,000
- MSB Annual Door/Hoist Work: \$40,000
- Shadow Wood Park Rehab: \$140,000

Based on this, and the other changes that were listed above, the level of expenditures we are recommending to the budget would allow us to meet our budget and service objectives set for the 2022 budget process, while also keeping us very low from a tax perspective in the entire Twin Cities Metropolitan Area.

### Specific Department 2022 Activities

#### **Administration**

For 2022, we have one new position that is being added in the budget as part of the Staffing Gap Analysis Plan. The position being added would be a Human Resource Technician position, which would bring the total number of HR personnel for the City to three. This would bring this department to full staffing levels for the foreseeable future, and help this department be able to keep up with the increasing requirements we have as our organization continues to grow. As we look into 2023, the other position this department will be planning for is the addition of an Economic Development Technician which will be able to provide the support needed for our increasing economic development activities.

#### **Administrative Services**

Budgeted staffing levels for the Administrative Services Department will remain steady in 2022. As part of the Staffing Study, it was identified that the IS portion of this department is short 1 Network Analyst position. With the delay in the Staffing Study, we have this position being implemented in fourth year of the Staffing Study in 2024.

#### **Community Development**

As indicated previously, we do anticipate that this upcoming year is going to be a busy one for planning and building activity in the community. With us coming off a 2021 that saw \$1.5 million in building permit activity, we are expecting 2022 to see levels of construction increase, as we do expect to see additional commercial and industrial activity in the community. We are staffed to handle this load of development, although the building department will be very busy. To be conservative on budgeting expectations, we are budgeting for \$1.1 million in building permit activity in 2022.

The addition we see coming into the department is a second City Planner position, which was identified in the Staffing Study. This is something that is needed given the level of our planning activities in Chaska, but we do not have it coming on-line until 2023. One major reason for waiting until 2023 is that we will have a new Community

Development Director starting at the beginning of 2022 with a pending retirement in that position, and we want to give this new director an opportunity to determine how best to staff this position when we do move forward with it.

In the Engineering Department, the Staffing Study does show the need for 1 additional position in the Engineering Department, which would be an Assistant Engineer position. This position is budgeted to be added in the 2022 budget and would help us round out our immediate needs in the department unless we were to bring some of the design services for engineering in-house, as we currently contract that work out to our Engineering Consultants at Stantec.

## **Police**

As we have discussed during the budget process this year, we have identified a major need in the department to deal with the shortage of staff especially in our shifts that are staffed at minimum levels. Our current policy indicates that our Staff minimums would be 2 Officers per shift at times in which we have traditionally lower demand. This is a staffing level policy that has been in place since 2001. As our community has continued to grow, increasing nearly 10,000 in population, our policy has not been able to keep up with safe practices for our Officers. Multiple calls for service at these times leaves an officer without proper backup, which can put an officer in a dangerous position. It also forces our Officers to be more reactive to situations instead of proactive utilizing Community Policing techniques. This is due to their not having adequate time to take on Community Policing activities in these times we are staffed at minimum levels. This was identified in our Community Conversations/Survey in the summer of 2020 as being something desired in Chaska by our residents. To be able to meet these needs would take three additional officers. We are proposing to add one additional officer each year for the next three years, with the first one coming on in 2022 at a cost of \$112,000. This is the only major change proposed in the Police budget for 2022.

## **Fire Department**

Currently, the Fire Department has an authorized staffing level of 45 paid-on-call staff, although because of retirements on the department, the actual staffing level is usually lower, with a full-time Fire Chief and Fire Marshal, along with two Fire Inspectors. We also have a support staff in the Fire Department to support Administrative functions. All 5 of these full-time staff are also Firefighters, allowing them to respond to calls during the day, and reduce the burden on our Paid-on-Call Staff.

To preserve our volunteer base of firefighters, the City added a Fire Chief position in 2013 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 would be a cost savings to the Fire Department over time, 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. At the time that we created the Fire Chief position, we also moved the Fire Marshall position out of the

Community Development Department and moved this position into the Fire Department.

In addition to this, in 2015 we also did add Duty Crew shifts twice a week to both help take the burden off 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 five years, providing this service most days of the week.

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 area of services has been on the rise as more single-family homes were converted to rentals during our last economic downturn. As mentioned previously, an added benefit of these employees being in the Fire Department is that they add two additional firefighters 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 2022 budget, along with the Administrative Support position that is also staffed by a firefighter to provide additional daytime response.

As we discussed previously, the biggest need to keep this department with a base of Paid on Call firefighters is to deal with the day-time response issues, and to relieve our volunteers from having to take on Administrative duties. To continue to address this in 2022, we are budgeting to take the existing Training Chief position, which was budgeted as a Paid-on-Call firefighter, and to budget this as a full-time position. This will help us continue to create more full-time support for those difficult daytime hours, and to take away more administrative burden from volunteers. We hope that will help with recruitment and retention of firefighters into the future. This position is just over \$100,000 but can be funded with existing funds in the Fire Department. It will utilize dollars that are overfunding our current Fire Relief Retirement Program while keeping our funding at the levels needed to support the new levels of retirement benefits we committed to during this past year.

## **Public Works**

Chaska's Public Works activities are anticipated to increase as the community grows, with personnel needing to be added as mileage of road and the addition of parks occurs in the community. We will also have to plan for the addition of Staff to support our Storm Water activities. While these services are paid out of the Storm Water Fund, they are housed out of the Public Works Department, as we utilize our Staff for multiple functions.

The largest item identified as a need in the Staffing Study was the need for the City to dedicate more resources to our Building Maintenance Activities. This is especially true as our facilities have continued to age, and we have not always put the proper levels of resources necessary in the past to keep these buildings in good condition. As the Council is aware, the City did move in 2020 to centralize all its Building Maintenance

Activities to one central Division, which we currently house in the Public Works Department. Ultimately, the Staffing study would show that this Division will have 5 dedicated full-time Staff to address building maintenance, with the ability to centralize it in one area so that we are able to maintain all our facilities in a similar manner and take advantage of purchasing power by bringing service contracts under one area of the organization.

While we did need to put a hold on our Staffing Study implementation in 2020 and did delay additional implementation steps in the 2021 budget, we were able to accomplish the hiring of a Building Maintenance Foreman, along with a Building Maintenance Lead and a Building Maintenance Worker in 2020. We were also able to fund the first \$125,000 of a Building Maintenance Division budget in 2020, a budget that will grow to \$500,000 annually by the time we have fully implemented our plan by 2024. While we did delay the next phase of implementation in 2021, we were able to keep these three Building Maintenance positions in the 2021 budget along with the first \$125,000 we set aside as a budget for this division. In 2022, we do have it budgeted to add the next Building Maintenance Worker, along with \$125,000 to go towards the building maintenance activities. This will not only fill out that division with 4 of the 5 planned staff but bring up the resources they must work within each of our facilities to approximately \$250,000. In 2023, we would plan to add to the Public Works Department with an additional Storm Water Maintenance Worker and a Park Maintenance Worker.

## **Recreation**

Although functionally, the Recreation Department, Community Center and new Curling/Event Center are in essence combined, Recreation Administration and Programming are budgeted as separate General Fund activities. Having them functionally work together does create efficiencies, which has kept our Park and Recreation expenditures significantly below the State average for communities our size. In 2022, we plan to continue to have our Park and Recreation Director, our Recreation Manager, our Recreation Coordinator, the Recreation/Special Events Coordinator and Athletics Supervisor all funded fully out of the General Fund, with a portion of other support positions allocated to the General Fund. As mentioned previously, we also are planning to relieve the Community Center of the \$200,000 of Administrative Fee charged to it annually to recognize the significant negative impacts COVID has had on that facility. We will practically accomplish this by moving two Programming positions from the Community Center into the General Fund Budget. We think that this could be a potential good permanent move to consider in the future, as these positions probably functionally fit better in the General Fund as opposed to the Community Center given the type of Programming they undertake. The Staffing Study did not identify any gaps in our overall staffing levels for recreation, and Staffing levels will remain unchanged for 2022 and into the near future.

For the Chaska Community Center, 2022 will be its 31st year of operation. As the Center has evolved, we are confident that it has addressed its mission of being Chaska's community gathering place, while providing an opportunity to run into people you know. The objectives of the Community Center are:

1. To promote community gathering and interaction.
2. To provide family and individual recreation with an emphasis on fun and providing a variety of program opportunities.
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 the maintenance and improvement needs on this aging facility

Historically, the Community Center has 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 can offer the services it does, and not utilize tax levy to support its operations. Many city-owned community centers/recreation centers have some tax levy support, with a common split being 60% coming from revenue generated from the facility and 40% being supported by a property tax levy.

Because the Chaska Community Center has not relied on any tax levy for support, it has had the effect of being a significant factor of what has kept our General Fund tax levy low. This has occurred financially by the CCC taking on many of the City's recreational functions that would normally be covered in other communities by tax levy support. This is especially true for the expense of Recreation Staff members who are providing programming in many different venues outside of our Community Center. While this has provided many efficiencies that have kept our overall City costs for the facility low, over the past 5 years this has become a major limiting factor in the Community Center as the facility has aged and we have not had the cash flow to be able to accommodate all the needed upkeep work on the facility. Since 2018 when we have had some major infrastructure equipment in the Community Center fail, the replacement of these necessary items has caused the CCC Enterprise Fund to run deficits in the Fund.

To put this in perspective, the Statewide average for Park and Recreation expenditures per capita supported from tax levy is \$106 per capita. This is for cities ranging in population from 20,000-100,000 residents. In Chaska, our tax levy supported portion of Parks and Recreation was \$34 per capita in the 2020 Audited year. This is a large reason we can 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. However, this has become a big

issue within the Community Center, as this facility has in essence subsidized general Park and Recreation services in the community, while at the same time trying to account for all the current and future costs for owning and operating this facility. A key indicator of this has been the fact that the Community Center depreciates by \$750,000 without us being able to fund this depreciation. This means that as our asset is consumed, we have not been able to properly reinvest back into the facility to deal with replacing and maintaining key aspects of this facility. This is especially becoming a problem as the Community Center has aged and has forced us to use funds like the Electric Fund to take on some of these necessary expenses.

This is a key factor that we need to take into consideration as we move forward financially planning for this facility's future.

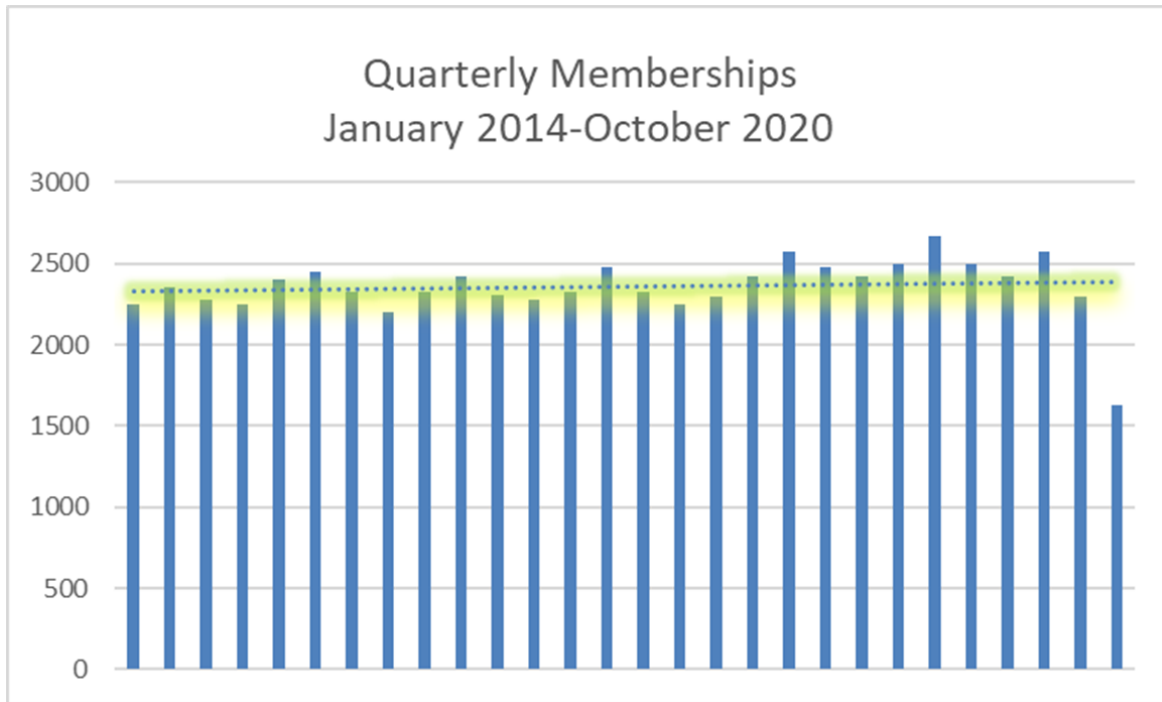
### **Impact of COVID 19 Pandemic on Community Center**

Of all our facilities within the City of Chaska, the Community Center has been hit the hardest financially from the impacts of the pandemic. This has been both because we were forced to close our facility through Executive Orders coming from the State of Minnesota twice during 2020 and at the beginning of 2021-totaling 4.5 months of closure throughout the year-but also because we were limited to 25% capacity in the facility in the months that we have been able to be open until early summer of 2021. This has led to not only to several patrons dropping their memberships at the facility but has also led to financial losses from the City needing to extend memberships by the amount of time we have been closed at no additional cost to our members.

Our first closure came in the last week of March 2020, with us not being able to re-open the facility until July 7<sup>th</sup>. When we did open July 7<sup>th</sup>, it was at 25% capacity for four major areas of the facility, including the Fitness/Weight Center, Lap Swim, Open Swim, and the Ice Arena. We were only able to hold a limited number of fitness classes, and we were not able to restart any of our Recreation programming, which is a large reason people are members and visit the Community Center Facility. The Community Center once again was forced to close on November 21<sup>st</sup> and took us into the first couple of months of 2021.

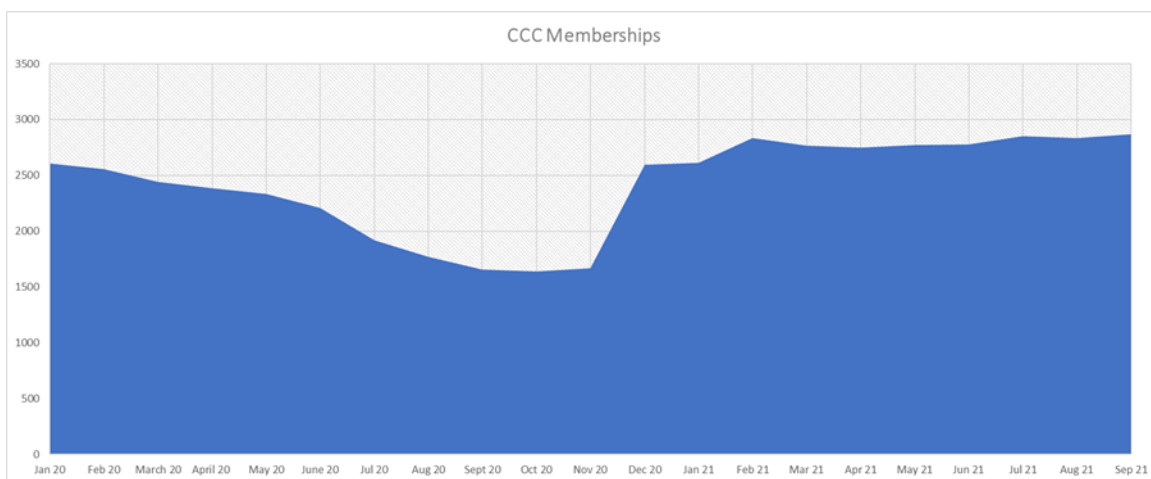
To help control expenditures during this time we had to furlough part-time staff, with our full-time staff moving into the roles of day-to-day operation of much of the facility while we waited to see things get back to normal.

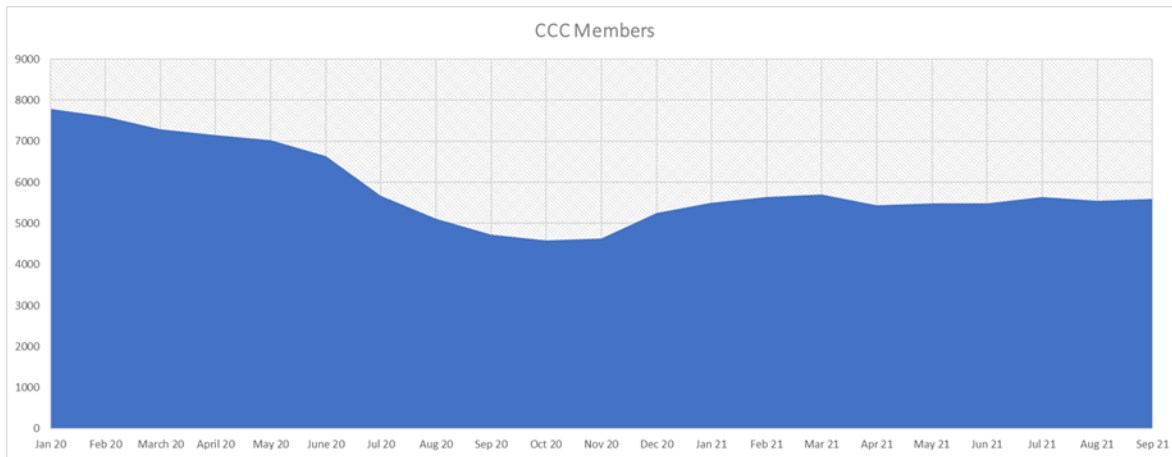
These closures, and patrons generally having a concern about working out in a public space during the pandemic has led not only to a 37.5% loss in membership revenue just based on the amount of time that we have been closed but has also led to a loss of approximately 40% of our members who dropped their memberships until the pandemic was under control. Below is a chart both illustrating where membership numbers were going over the past 6 years, with us seeing them move in an upward direction, but also the impact we have seen over the past 12 months from the pandemic.



Over the course of 2020 and 2021, we saw close to \$2.3 million in lost revenue compared to budget. While we had the potential to have to address these losses using our Self Insurance Fund, we did not need to do that as the City did receive an allocation of dollars from the Federal Government for COVID Aid in early 2021. While these dollars cannot go back directly into this fund, we are able to utilize them in other areas of infrastructure development (specifically in our Water Fund) and be able to use the dollars we would have spent in these areas to help support the Community Center as we continue to work to get back to normal.

With vaccinations being available to the public in the late 1<sup>st</sup> quarter of 2021 and into the 2<sup>nd</sup> quarter, we did start to see our membership numbers begin to increase again as you can see in the chart below:





These charts follow the progress of both memberships (top chart) and total members (bottom chart) we have seen in the CCC from the beginning of the pandemic until now. As you will see in the charts, while we saw our lowest membership level happen in November of 2020, with us being down to 1,667 memberships (down from the 2,610 total memberships at the beginning of the pandemic). We are currently back to 2,900 memberships, which is a higher number compared to where we were before the pandemic. However, the actual members went down from the high of 7,794 at the beginning of the pandemic to 4,640 in November of 2020 and are now back up to 5,600 members. So, while the memberships are higher, the actual members are lower because we have seen more growth in single memberships at the facility.

With vaccines now available to kids, our hope is that we can start getting back more family memberships at the CCC. We will be taking steps over the course of 2022 to open back up more of the spaces in the CCC that are attractive to families (like the Big Gym) which we think will not only provide greater activity space for kids but will also us to start programing larger space which is another reason people often state for purchasing Family memberships.

While COVID is still an issue that we are dealing with, we think that things are progressing in a positive way, and that we will see improvement in 2022. For that reason, you will see in this document that we plan to use 2019 as a model for what to expect from a revenue perspective, which is very similar to how we budgeted the Curling and Event Center space for 2022.

**Aging Facility Creates Additional Needs**

While the COVID pandemic continues to be a concern, there are more systemic issues that we need to plan for and address during this budget year to help properly plan for the future of this facility.

While we have been able to keep our tax levy support of our Parks and Recreation Programming very low compared to other communities, and while the Chaska Community Center has been able to be operationally self-supporting over the years with no tax levy support, this has become much more challenging to accomplish as the facility has aged and major improvements have needed to occur. Just over the past 8 years, we have had to complete over \$4.5 million of improvements to our facility to keep it functioning. Most of this work has involved replacing equipment behind the

scenes including items such as our Ice Arena and Pool Mechanical Equipment, with only a portion of this being able to go towards improvements that have been visible and enhanced services for our patrons. Over the time of our first COVID-related closure in the spring of 2020, we were able to utilize our Staff to do many cosmetic improvements to the facility, including painting the entire interior of the facility. We were also able to get improvements completed in the Pool area, with the deck replaced, Caterpillar Slide repaired/repainted, the entire interior room of the pool repainted, and air movement being able to be addressed. The challenge with all these improvements is that most of the costs have had to be able to be covered from other sources, such as our Electric Fund with annually pays for \$150,000 of the \$275,000 in debt service for these projects because the Community Center has not been able to afford these necessary expenses. These replacements have continued as this past year we had a failure of the original HVAC unit in the main part of the building, which was original to the building.

It should be noted that the Chaska Community Center originally cost us \$22.5 million to construct in 1991, and with all the additions we have put onto the facility would be over \$50,000,000 to replace if we were to start from scratch. We depreciate about \$750,000 of this facility annually and have never had a mechanism to properly reinvest back into this asset with us not being able to afford to fund this depreciation from the Community Center Fund itself. At the very least, our objective should be to fully fund this annual depreciation so that we are able to replace the asset at the same rate it is consumed. With the increased dollars we have had to spend towards building maintenance, and this amount increasing as the facility continues to age, this has impacted our ability both to make the facility operationally self-supporting as we move into the future and to be able to generate cash reserves that can go towards needed facility improvements as it ages.

### **Comparison to Other Municipal Facilities**

As mentioned previously, the Chaska Community Center is one of the few City-owned community centers/recreational facilities that does not have any tax levy support and relies solely on memberships and other user fees to support its annual operations. This is true even though a good portion of our Community Center (entire first floor and upper track) does not require a membership or daily admission for entrance.

With its reliance on memberships and daily admissions for support of our operations and reinvestment, it is critical that we price our memberships to be able to meet our current and future needs. This is an area that we have fell behind in, especially when compared to membership fees at other similar City-owned Community Center/Recreational Centers in the Twin Cities. Below is a recent survey that was completed looking at our Family Membership rates compared to City-owned facilities across the Twin Cities that have the most comparable amenities.

2021 Comparable Facilities	Annual Family Membership-Residents	Annual Family Membership-Non Resident
Eden Prairie	\$1,171	\$1,395
Shakopee	\$630	\$856
Shoreview	\$700	\$880
Williston	\$820	\$1,014
Eagan	\$973	\$1,103
Average	\$859	\$1,050
Chaska	\$610	\$851
Chaska % of Average	71.03%	81.08%
Actual Difference from Average	\$249	\$199

It should be noted that many of these facilities have tax levy support, with the average of membership rates still being significantly lower than our membership rates. With our current Annual Family Membership Rate for residents being at \$610, and the average of comparable facilities being at \$859 in 2021, we are 29% below the market for our residential membership rates, with an actual difference from average of \$249. For our non-residents, our family membership rate is \$851 compared to the average of these comparable facilities being at \$1,050, for a difference of 19% or \$199 annually. It should be noted that for an individual membership at Lifetime Fitness, it is \$1,188 for a year, with a basic family membership being \$1,788 annually.

As Staff has looked at our current operational needs for the facility, and the Capital Improvements that we are going to need to make over the next several years, this is an unsustainable model to be this far out of the market and will lead to us not being able to properly reinvest back into the facility, which over time will make it more difficult to retain membership at our facility. With the CCC having no property tax support, and rates significantly below market for other City facilities, this will be unsustainable as we move into the future.

**Five-Year Plan for Membership and Admission Fees**

As we discussed during our budget process this year, this was an issue that we discussed during the 2020 budget process, with us identifying a five-year target plan for how to get our membership rates up to a point they are more comparable with other similar City-owned recreational facilities across the Twin Cities. As we discussed, with this being a looming issue, if we want to make the Chaska Community Center financially sustainable into the future, it is important that we develop a plan to address our membership and admission/program rates as we move over the next 5-years if we want to be able to fund some of our most basic facility needs in this aging facility. At the same time, the Council identified that it is important that we continue to provide a facility that residents see a financial benefit for being a member, making it an affordable option for all our residents.

During the 2020 budget process, we did discuss that while this is an issue that needs to get addressed, it is one that we can not take on in just one budget cycle, but really needs to be implemented over an entire 5-year budget cycle. The recommendation that was adopted in the 2020 budget was to increase our membership/rates/program fees by 4.5% for 2020 and 7% annually for 2021-2023, with us then being able to get back to a rate adjustment closer to the rate of inflation of 3% in 2024. As we discussed in 2020, if we were to do this, our rates would still be 15.5% lower than the

comparable averages, assuming they make no changes to their rate structures over the next 5-years. In this sense, this plan allowed us to work towards making our facility more financially sustainable over time, while keeping this a considerable value to our patrons compared to other municipal community/recreation centers.

While we did adopt this plan in 2020, and did move forward with the first 4.5% increase in rates during the 2020 budget year, Staff did recommend in 2021 that because of the COVID Pandemic, and the significant impact that has had on the Community Center and our patrons' ability to fully utilize their memberships, that we should delay the second year of implementation of this plan to allow the facility to get back to normal before increasing membership costs. We felt that having a rate increase while we are focusing on that goal, and while there are restrictions on what members can access with their memberships would hamper our abilities to rebuild our memberships and potentially impact us in a negative way with retaining our membership base.

With us now coming out of the worst of the pandemic and starting to open more of our Community Center up to normal activity and having made investments into replacing all our Fitness Equipment over the past month, Staff feels it is important to reinstitute the plan of increasing our membership fees, just as we have done in the Chaska Town Course. For 2022, we are recommending closer to a 6% increase in rates as opposed to the 7% contemplated before. Even with rate adjustments like this, over the remaining 4-year period, if we were to increase our rates as proposed, and the other facilities saw not increase in their rates, we would still be 13% lower than comparable facilities. Assuming they increase by 3% annually, we would be 22% lower than those same facilities. In this respect, we are getting our rates closer to the market and keeping a good value for our patrons. It also allows us to focus on working towards the proper resources to keep our facility in good condition and sustainable over time.

### **30-Year Anniversary Visioning Study**

One thing that Staff feels is critical to complete as part of not only these rate adjustments, but to also understand our facility as a whole, is to go through a Master Planning/Visioning Process to both understand where our residents would like to see this facility go in the future, but to also understand what the physical needs of the facility will be and what the financial impacts this vision will have in the future so we can properly plan for it.

With the Community Center's 30<sup>th</sup> Anniversary being in 2021, Staff has moved forward to commence a Master/Visioning Plan for the facility, looking at what the next 30 years will bring and what we need to plan for to keep the facility both desirous to the public, but also physically and financially sustainable. This planning process would be one that we would want to have user input into to determine what our Patrons would like to see occur in the Community Center going into the future, what services we do not provide that they think we should, what we do provide that they do not see as a high priority, and to come out of it developing a cost estimate and an implementation strategy for how we can work towards these improvements over the next several years. We would see this process not only being an architectural study of the building, but one in which we would engage our City's financial advisors at Baker Tilley to complete a Cost-of-

Service study to be able to develop a financially sustainable plan that can be implemented.

Utilizing a Citizen Task Force as part of this process to get good input and community support of this plan, the goal would be to use this plan to demonstrate a “value proposition” into why as a community we should continue investing into this facility. Though this process, we feel that we can continue to demonstrate that we are a great economic value to our Patrons compared to other municipal facilities, while also demonstrating a pathway to accomplish the improvements our Community Center facility will need, and our patrons will want, over the upcoming years.

This process was officially kicked off at the December 6<sup>th</sup> City Council meeting with RFPs being released for architectural firms to help guide us through this process, with the Task Force scheduled to start their work in February. We would hope to have this process completed by mid-summer to be able to use in the 2023 budget process.

### **Community Center Revenues**

While we are continuing to see improvement in the market, 2022 is going to continue to be another challenging year for the Community Center from a revenue perspective due to the on-going nature of the COVID pandemic. While we have seen our memberships and members build back, we are really going to have to focus on things that attract kids/families we build back our Family Membership numbers.

As discussed earlier in this section, when establishing our 2022 budget, we are using 2019 as a guide for reference, as we are starting to see numbers grow back to pre-pandemic numbers-although we have not seen the growth we would normally see since 2019.

As you will see in the chart below, we would recommend adopting a budgeted revenue number of \$4,021,443 for 2022. This would include not only the numbers for where we think we will grow going into 2022, but also includes a loan of \$350,000 from the Self Insurance Fund to complete some necessary improvements that will need to occur prior to our Master Plan being complete to keep the facility functionally running in good condition. This \$350,000 of revenue we would expect to be able to reimburse back to the Self Insurance Fund once we have a more permanent improvement/financial plan in place coming out of the CCC Master Planning process, and would include work in the following critical areas:

1. Replace Filters in the Lap Pool, moving from a sand filtration to a regenerative media filtration-\$150,000
2. Replace the AHU5 Chiller System which provides air conditioning to the Theater/Office addition-\$150,000
3. Temporary Roof Repairs to the building (1<sup>st</sup> of 2 years): \$25,000
4. Replace the York Roof Top Unit over Arena #2: \$25,000

Total Improvements: \$350,000

The total revenue for 2022 is budgeted to be \$4,021,443, which is an 28% from 2021. Much of this growth is coming back in the areas that we have seen have to shut down because of COVID the past year, with a particular emphasis on being able to get family activities back into the CCC to be able to help boost our Family Membership plans.

Below is a chart illustrating the Budgeted Revenues for 2022:

While memberships and admissions make up a large percentage of the overall revenue that we see coming into the Community Center Fund, I think it is important to recognize some other significant sources of revenue that help support the Community Center Fund, which fortunately have seen little impact from COVID due to them being dollars generated through leases/agreements for space in the facility, or are annual contributions made through the Electric Fund. Below is a listing of the other key revenues that support the Community Center Facility:

REVENUES	Actual 2019	Actual 2020	Budget 2021	Budget 2022	Change	% Change
<i>Member and Admis</i>	\$1,569,760	\$837,117	\$1,126,539	\$1,582,631	\$456,092	29%
<i>Community Events</i>	\$2,370	\$2,528	\$1,500	\$3,060	\$1,560	51%
<i>Community Room</i>	\$62,452	\$22,337	\$25,000	\$50,854	\$25,854	51%
<i>Craft Rooms</i>	\$32,944	\$17,000	\$40,300	\$43,544	\$3,244	7%
<i>Fitness Programs</i>	\$44,674	\$15,275	\$26,000	\$46,250	\$20,250	44%
<i>Gym</i>	\$37,588	\$25,063	\$26,476	\$22,000	(\$4,476)	-20%
<i>Ice Arena</i>	\$731,717	\$610,794	\$660,198	\$793,551	\$133,353	17%
<i>Maintenance</i>	\$39,586	\$14,576	\$10,000	\$25,500	\$15,500	61%
<i>Wellness-PT</i>	\$27,134	\$8,756	\$15,000	\$30,000	\$15,000	50%
<i>Senior Programs</i>	\$0	\$0	\$0	\$33,000	\$33,000	100%
<i>Adult Programs</i>	\$0	\$0	\$0	\$13,500	\$13,500	100%
<i>Teen Programs</i>	\$3,047	\$2,675	\$3,124	\$5,500	\$2,376	43%
<i>Pre/Youth Programs</i>	\$8,795	\$1,585	\$146,314	\$250,000	\$103,686	41%
<i>Swimming Pool</i>	\$10,078	\$16,525	\$10,876	\$17,214	\$6,338	37%
<i>Swim Lessons</i>	\$100,162	\$24,815	\$75,000	\$130,000	\$55,000	42%
<i>Theater</i>	\$103,556	\$80,567	\$96,000	\$106,743	\$10,743	10%
<i>The Lodge</i>	\$62,384	\$10,265	\$31,494	\$13,000	(\$18,494)	-142%
<i>Birthday Parties</i>	\$37,455	\$5,005	\$17,700	\$37,740	\$20,040	53%
<i>Tot Time Preschool</i>	\$5,921	\$2,708	\$0	\$2,000	\$2,000	100%
<i>Vending</i>	\$39,967	\$14,573	\$0	\$10,000	\$10,000	100%
<i>Misc.</i>	\$281,897	\$404,405	\$91,689	\$335,356	\$243,667	73%
<b>Total Oper Rev</b>	<b>\$3,201,487</b>	<b>\$2,116,569</b>	<b>\$2,403,210</b>	<b>\$3,551,443</b>	<b>\$1,148,233</b>	<b>32%</b>
<b>Non-operating</b>						
<i>Self Insurance (CIP)</i>	\$0	\$0	\$0	\$350,000	\$350,000	100%
<i>The Lodge Debt</i>	\$181,000	\$181,000	\$181,000	\$181,000	\$0	0%
<i>Electric fund</i>	\$251,000	\$296,000	\$296,000	\$289,000	(\$7,000)	-2%
<b>Total Non oper</b>	<b>\$432,000</b>	<b>\$477,000</b>	<b>\$477,000</b>	<b>\$470,000</b>	<b>(\$7,000)</b>	<b>-1%</b>
<b>TOTAL REV</b>	<b>\$3,633,487</b>	<b>\$2,593,569</b>	<b>\$2,880,210</b>	<b>\$4,021,443</b>	<b>\$1,141,233</b>	<b>28%</b>

- St. Francis/Capable Kids-Receive approximately \$180,000 annually to lease space on the north end of the building

- Breakaway Academy: \$80,000 annually to lease space in the lower level of the building
- Alphabet Junction Preschool: \$48,000 per year
- ISD #112: Makes payments to the City of Chaska in the amount of \$44,700 annually to support the debt service for adding onto the building to make Girls Locker Rooms for the Chaska/Chanhassen Girls Hockey Program. This continues for 15-years starting in 2020
- Breakaway Ice Program (separate from the school)-Rents approximately \$12,000 of space within the Ice Rinks annually for its programming. In addition, they also rent additional ice time that is above and beyond this number
- Electric Fund Transfers to the Community Center to support the following:
  - \$100,000 annually since the facility opened in 1991 to help offset the costs of improvements in the building
  - \$182,000 annually supporting the Debt Service for The Lodge-debt is retired in 2027. Would plan to keep these dollars in the CCC after debt paid to help support reinvestment back into the facility
  - \$150,000 annual support toward the total \$275,000 debt service for the Pool and Ice Arena mechanical improvements-debt is retired in 2033. We would plan to keep this in the CCC Fund to help support future improvement projects

Other than these major sources of income, our memberships and admissions, the remainder of our revenue for the facility comes from user fees paid to participate in programs, swim lessons, classes, and purchased from our vending machines.

### **Expenditures**

From an expenditure perspective, we are approaching the budget the same way as we are with our revenues, looking to 2019 as a model to help gauge where we think we can get back to in this upcoming year.

If we look at our 2022 expenditure numbers, you can see in the chart below that we would budget planning to have our expenditures in 2022 be \$4,383,175. This would represent about a 13.01% increase in our expenditures from our 2021 budget, but close to where we were in 2019. We would anticipate that we would see little changes in staffing, except for combining some functions of Part-time staff to make them more efficient. We would also see the \$350,000 in Capital Improvements listed above that need to be made to the facility over the course of 2022.

To help address the financial challenges the Fund will have as we move out of COVID, we are planning that the CCC Fund not make an Administrative Fee payment to the General Fund for use of Administrative Services. Instead, to help the CCC financially as it comes out of the pandemic, we are recommending that the General Fund help take off that burden by shifting two positions into the General Fund (Recreation Programmers) that may better fit in that department going into the future.

While we would have liked to be able to plan to reduce our expenditures by the amount of revenue reduction we expect to continue to see in 2022, we feel that this is not possible if we want to try to keep our membership base as high as possible during the

upcoming year. Unfortunately, many of our costs are fixed costs, and are necessary whether we are running at full capacity or not. To cut some of these services would provide a lesser product to our patrons and could negatively impact us on the revenue side of the budget. This will be a careful balance we will have to watch throughout the entire 2022 year, with us continuing to look for opportunities to reduce costs during the year with it having a little impact on services as possible.

Again, one of our objectives of the CCC Master Plan will be to look at this issue in greater detail and to come up with sustainable ways to keep this facility not only in good order going into the future, but also financially sustainable.

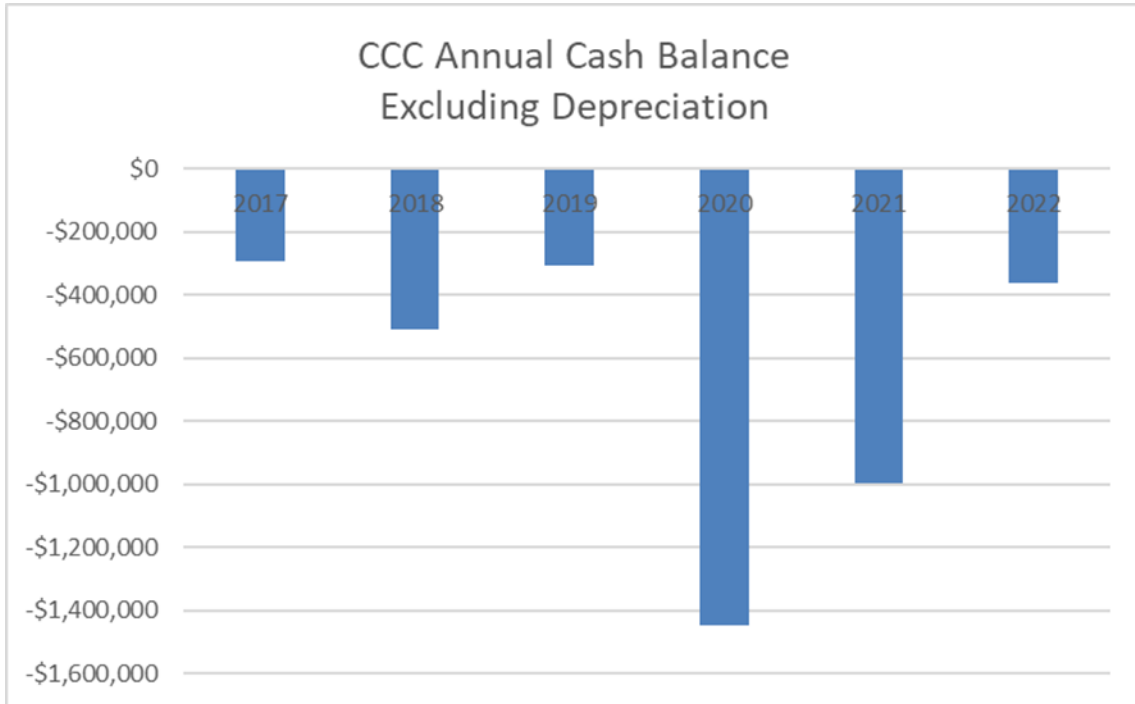
Below is a list of the Expenditures budgeted for 2022:

<b>EXPENSES</b>	<b>Actual 2019</b>	<b>Actual 2020</b>	<b>Budget 2021</b>	<b>Budget 2022</b>	<b>Increase</b>	<b>%</b>
Admin	\$759,894	\$ 679,033	\$ 654,320	\$ 626,573	\$ (27,747)	-4.24%
Events	\$4,938	\$ 4,095	\$ 4,396	\$ 5,000	\$ 604	13.74%
Craft Rms	\$11,712	\$ 5,419	\$ 6,846	\$ -	\$ (6,846)	-100.00%
Well-Studio	\$53,652	\$ 61,408	\$ 27,851	\$ -	\$ (27,851)	-100.00%
Front Desk	\$146,669	\$ 158,504	\$ 64,585	\$ 137,433	\$ 72,848	112.79%
Well- Prog	\$34,203	\$ 14,333	\$ 16,794	\$ 19,517	\$ 2,723	16.21%
Gym	\$29,591	\$ 8,676	\$ 10,861	\$ -	\$ (10,861)	-100.00%
Gymnastics	\$14,882	\$ 12,725	\$ 312	\$ -	\$ (312)	-100.00%
Ice Arena	\$224,126	\$ 399,576	\$ 263,464	\$ 296,593	\$ 33,129	12.57%
Maintenance	\$1,247,306	\$1,158,358	\$1,295,492	\$1,259,502	\$ (35,990)	-2.78%
Personal Train	\$42,924	\$ 19,183	\$ 16,254	\$ 20,177	\$ 3,923	24.14%
Wellness Add	\$123,601	\$ 125,218	\$ 126,933	\$ 190,926	\$ 63,993	50.41%
Play/Daycare	\$106,023	\$ 94,242	\$ -	\$ -	\$ -	
Club Extreme	\$86,832	\$ 39,136	\$ -	\$ -	\$ -	
Swim Pool	\$408,335	\$ 537,291	\$ 452,560	\$ 491,683	\$ 39,123	8.64%
Swim Less	\$34,539	\$ 15,456	\$ 19,570	\$ 24,604	\$ 5,034	25.72%
Theater	\$13,519	\$ -	\$ 7,527	\$ 7,565	\$ 38	0.50%
Lodge	\$130,129	\$ 199,821	\$ 155,497	\$ 4,450	\$ (151,047)	
Birth Party	\$3,368	\$ 70	\$ -	\$ -	\$ -	
Tot Time	\$2,707	\$ 3,360	\$ -	\$ 1,800	\$ 1,800	
Gen Facility	\$98,345	\$ 68,988	\$ 62,000	\$ 362,060	\$ 300,060	483.97%
Senior Programing	\$0	\$ -	\$ 8,501	\$ 166,582	\$ 158,081	#####
Adult Programming	\$0	\$ -	\$ -	\$ 9,826	\$ 9,826	
Teen Programming	\$102,984	\$ 5,782	\$ 1,774	\$ 16,051	\$ 14,277	804.79%
Prescl/Youth Program	\$6,001	\$ 1,857	\$ 177,446	\$ 239,379	\$ 61,933	34.90%
Vending	\$19,663	\$ 6,414	\$ 10,000	\$ -	\$ (10,000)	-100.00%
Depreciation	\$748,506	\$ 766,015	\$ -	\$ -	\$ -	
Debt Service	\$153,605	\$ 308,521	\$ 504,070	\$ 467,750	\$ (36,320)	-7.21%
Other	\$ 79,561	\$ 114,905	\$ (8,501)	\$ 35,704	\$ 44,205	-520.00%
<b>Expenses</b>	<b>\$4,687,615</b>	<b>\$4,808,386</b>	<b>\$3,878,552</b>	<b>\$4,383,175</b>	<b>\$ 504,623</b>	<b>13.01%</b>

Based on our forecasted Revenues and Expenditures for 2022, we are estimating that the facility will have a deficit of just over \$350,000. If we would have a deficit in 2022, we would plan to cover that through the Self Insurance Fund, which would have sufficient funds to cover this deficit. As mentioned previously, while we had planned on using the Self Insurance Fund as a backup if Federal Assistance did not come through

in 2021, we did not have to do that as we were able to receive dollars to the City very close to the losses we had experienced.

Below is a chart that illustrates what happens over the 5-year period to Fund Balances. After our Master/Visioning Plan is completed in 2022, we will have a better sense of other actions we will need to take over the next several years to continue to move this in the right direction.



As you can see above, the deficit over 2020 and 2021 year can be covered by the Federal Aid, while us still being able to cover the deficit we experienced in the Curling and Event Center Fund due to COVID. While this takes care of immediate needs, we will have to focus in our Master Planning efforts to look at this sustainability over time so that we can properly reinvest back into this important facility in our community.

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 is viewed as a top public golf course facility in the Twin Cities, helping also attract visitors to our community.

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 facility.

As we look into the future, this will be the largest single challenge of the course as it has historically been able to operate as a self-sufficient golf course 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 24.3 million in 2019, according to the National Golf Foundation. This number has dropped approximately 1.9 million golfers between 2012 and 2017 but has increased slightly by 500,000 between 2017-2019. One positive trend that we have seen in the industry that has come out of COVID is the continued increase of golfers coming back to the game. In just 2020, the number of golfers increased an additional 500,000 players in one year, getting the total up to 24.8 million. While the Chaska Town Course has remained relatively consistent in rounds per year since its opening, it is a national trend we must pay attention to as we are still down industry-wide approximately 6 million golfers from its peak in 2003.

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. At the same time, it 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 not only for our residents, but for patrons from across the Twin Cities market. This has resulted in us averaging about 31,000-32,000 rounds of golf per year, with the past two years seeing rounds of approximately 40,000 rounds.

The larger economic challenge the Chaska Town Course has experienced, especially over the past decade, is the shift in makeup of the patrons who golf at this facility. When the Chaska Town Course first opened in 1997, over 70% of the rounds that were played at the course were by non-resident golfers, with around 30% being made up of Chaska residents. As the community has continued to grow, and as people moving to the area have recognized the benefit of moving to Chaska as opposed to surrounding communities because of our resident Town Course discount, this patron makeup has

moved to be approximately 50% resident play, with only 50% coming from outside of the community. As we finish up the 2021 golf season, we can see that the actual percentage was 48% residents, with 52% non-residents playing the course. This was like what we saw in 2020. While this has been great for our mission of making the Chaska Town Course a premier community gathering location for our residents, this has been a very difficult financial transition for the course as our resident discount has peaked in 2019 at around 40% from the regular rate that non-residents pay.

While we think it is important to keep a resident discount in place as we go into the future, it will be much more important for us to look at exactly what this discount is, as having 50% of our golfers continue to have this level of discount will not be financially sustainable. This is something that was discussed during the 2020 budget process and which we discussed with some of our most-loyal patrons prior to the 2021 budget process to identify a pathway to address this issue while still providing a benefit to our resident golfers.

### 2021 Chaska Town Course Season

As with all our City operations, COVID 19 had impact on the operations of the Town Course during 2021 as it did in 2020. Unlike our other funds, the impacts of the pandemic on the Town Course were not negative, with us experiencing a growth in usage at the Course as patrons saw golf as a safe recreational activity that could be done during the pandemic with it being outside and naturally socially distanced from large numbers of people.

As we discussed during the budget process last year, we were uncertain what type of an impact we would see from the pandemic as an Executive Order from the Governor required us to close the Town Course during the Spring of 2020, with us not opening until the third week of May. This was especially concerning as we were just coming off two seasons (2018 and 2019) where we saw significantly less rounds during the season due to poor weather conditions in both the spring and the fall. In both years, we had only 29,500 rounds compared to our average 32,000 rounds, with each of these years losing close to \$100,000 each because of the reduction in play.

While the uncertainty of 2020 could have made this another difficult year, we saw exactly the opposite occurring, with us recording the largest number of rounds ever played at the Town Course in one season at 38,550. This high number of rounds was achieved even though throughout the season we had to create larger gaps between groups teeing off because of social distancing requirements, and with us not allowing carts at the beginning of the season due to concerns of contamination with multiple people in a cart. In 2021, with the Town Course not being required to close at any time during the season, we actually saw our rounds increase once again, with the CTC reaching approximately 42,500 rounds, setting a course record for the number of rounds for the second year in a row.

We found in both 2020 and 2021 that two factors greatly influenced the success of the Town Course during these seasons. First, we had very good weather the entirety of both seasons, with it being both hot and dry both summers. That meant that we had very few days that were complete washouts. At the same time, with less people

traveling because of COVID, we had more people staying close to home that were looking for a safe, outdoors activity that was close to home. This factor brought more patrons not only to the Town Course, but to all courses throughout the State and Country. As mentioned previously, the golf industry in general has grown by over 1,000,000 golfers since 2017, with 500,000 of those coming after COVID began. When we complete financials for the 2020 year, we expect that we will see another growth in fund balance of between \$400,000-\$500,000, which is like what we saw in 2020.

#### Depreciation Funding-Continued Reinvestment into Facility

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 anymore. 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. This is what we experienced as the golf course debt was retired with the closing of TIF District #4 in 2014.

While these resources have taken the need away from the Town Course to contribute directly towards its annual debt service from its initial construction, 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. This depreciation represents the monetary value of how much of the Town Course asset we consumed during this past year. If we do not fund this depreciation, we are not adequately putting back into the course what we take out of it each year. It is a good target for us to use to determine what we should be funding on an annual basis to put back into improvements on the course, or to fund to help support the cost of improvements when they are necessary.

In our audited financial statements from 2019, the Chaska Town Course showed that if we included Depreciation as a cost, the Course's net Cash Position for the year was (\$400,458). With Depreciation in that year being \$449,264, this means that from an operational standpoint, we ended the year in a positive position with a cash profit that year of \$48,806. In 2018, with a very bad weather year and golf rounds down significantly, the net cash position for the year was (483,000) and our depreciation cost was \$453,000, meaning that we came very close to covering all our operational costs even during a bad year.

While meeting these annual operational costs is a positive, over time this will be an issue if we do not have enough money built in to fund future improvements. This is a

big reason we must 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. It also makes it even more important for us to focus on the large gap between resident and regular rates (37% discount), with close to 50% of our rounds now receiving that discount. This will make it difficult in the future for us not only to meet our capital reinvestment needs, but also our operational needs as that resident percentage continues to get higher as we would expect it would in a growing community.

One positive impact of COVID, as mentioned previously, is that we have seen rounds of play increase significantly. Because of that, we have seen in both 2020 and 2021 the ability for our Depreciation to be funded, while also still being able to add to our Fund Balance. In 2020, we saw our fund balance increase by approximately \$100,000 after depreciation was funded, with 2021 expected to both fund depreciation and add approximately \$200,000 to the Fund Balance. This increase in 2021 was due not only to additional rounds being played, but also because we started addressing the resident vs regular rates, decreasing the discount that our residents receive.

As we discussed during the 2020 budget process, 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. Meeting our financial needs without property tax support is particularly important in the Chaska Town Course Fund, as only a relatively small portion of our residents golf (8% report that upkeep of the CTC is Essential, with 35% reporting upkeep as Important in our last Community Survey) and it would be more difficult to recommend using tax dollars to support this operation when less than a majority of our residents are utilizing this facility.

That is not to say that a significant amount of maintenance work has not been done annually to keep our existing assets in as good of shape as possible. In 2018 and 2019, we included approximately \$200,000 in work to replace the sand and drainage system in our bunkers to help improve the play on the course. In 2016, we also made a significant reinvestment back into the kitchen of the Clubhouse to make it more usable for Oak 19 to operate their business, which has been very successful. We also make sure that we are regularly replacing our maintenance equipment, which has a large impact on the condition of the course daily. We have also been reinvesting back into our Cart Paths through overlay efforts taken on by our Public Works Department. 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 them to address the toll that many years of service will put on a building and on the course in general.

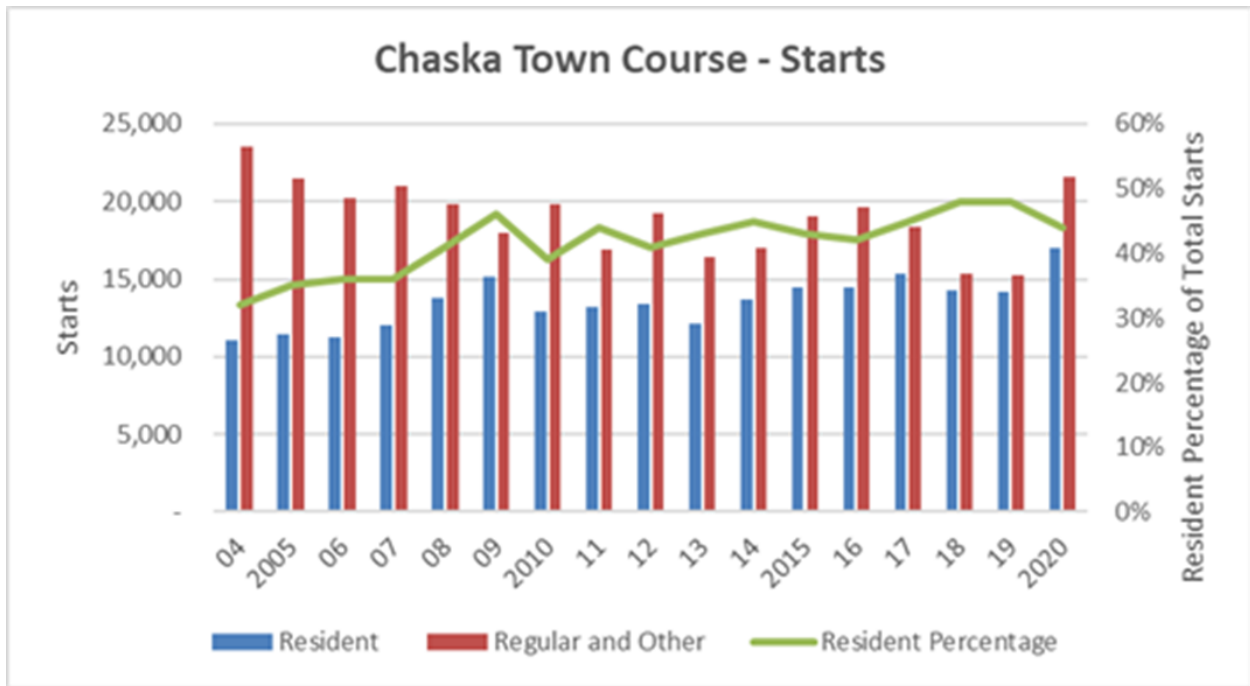
As we look at this, we will have to be cognizant of the market of other golf courses in the area, so that our greens fees do not make it difficult to compete with these other courses. We will not be able to address this issue only through rate increases, as too large of an increase could have the effect of dropping rounds played and making revenues drop, as golf patrons are sensitive to price changes and do have several choices in the area of where to take their business. This is especially true with our non-resident golfers, where our rate has been very close to the average of high-end golf

courses over the years. Addressing reinvestment back into the course, while also being sensitive to the market of choices our patrons have is a balancing act we will have to continue to closely monitor to strike a good balance going into the future.

Resident vs Regular Rates

As discussed above, the largest item that Staff focused on while putting together both the 2020 and 2021 budgets for the Chaska Town Course was looking at the split between resident and regular play at the Course. As mentioned previously, when the Town Course first opened, approximately 70% of our rounds came from non-resident play. As our community has grown, we have seen this non-resident regular rate play drop to approximately 50%. While this has been great for meeting our mission of having this be a premier community gathering location, it has made it very difficult from a financial perspective to keep the Chaska Town Course financially sustainable going into the future with our residents now seeing close to a 40% discount from our regular rates. Having over 50% of our patrons see this deep of a discount is not something we can continue to do if we want to have this course be both operationally self-sustaining and be able to reinvest back into the course as it ages.

Below is a chart illustrating the changes we have seen in resident vs. non-resident play since 2004 to illustrate the changes we have seen:



In examining this issue, Staff committed to meeting with resident patrons of the Chaska Town Course to both educate them on this issue, but to also get their feedback on how to structure our rates going into the future so that residents still feel they are receiving a significant benefit for having this asset in their community, but also being cognizant of how changes can positively affect the financial sustainability of the Chaska Town Course going into the future.

This discussion with regular resident patrons occurred in January 2020 and resulted in a significant amount of good feedback that led to the recommendations Staff ultimately

made for where to go with rates over the next few years. Some of the feedback received included:

- They understood the importance of making this a financially stable facility and understood the changes in demographics we have seen at the Town Course over the past several years
- They felt it was important that we reinvest back into this facility and understood that to do this the course needed to be financially strong
- They understood that a 37% discount was likely too much, but asked that we not let it get lower than a 20% discount
- They understood that not all Chaska residents are golfers and that it would be difficult to expect others in the community to support the course if they saw/perceived no benefit
- While they understood changes needed to be made, they asked that we give special consideration to the residents who are frequent customers of the course
- They appreciated being asked their opinion on this before we just moved forward

Based on these discussions this did help us in developing conclusions on what we should ultimately be targeting for resident discounts when we have fully made changes to our rate structure, but we also recognized that there was a way to provide a better benefit to our most loyal resident patrons, while keeping our highest revenue generating times (weekends) open to maximize the revenue we generate during these times.

Specifically, what we recognized is that our most loyal resident golfers were playing during the weekdays both because they play in a league, but also because most of them play multiple times per week. At the same time, we recognized that the weekend tee times represented a time we have no issues selling, and that we do not typically see as many residents during the weekend times because of how busy it can be.

Based on this feedback from these resident patrons, and from looking at the sales data from the Town Course's history, we were able to generate the following rate recommendations for how we approach structurally changing our rates over the next few years to work towards economic sustainability of this facility. The following are the main components of the recommendation that was made:

- Continue to view this change as a 5-year implementation to allow patrons to ease into this change (we started in 2020 and would complete by 2025)
- With most of our regular resident patrons playing during weekday times, (i.e. Leagues and evenings), provide a greater discount to residents during these times to recognize them for their loyalty and to financially incent them to play during these times so we can keep our higher rates on the weekends when we have no issues selling tee times
- Target that by the end of our 5-year implementation period (2025) that we have resident rates set based on the following guidelines:
  - Target that by the end of the 5-years, our resident discounts are set at 25% of the Regular Rate for Weekdays and 20% of the Regular Rate for Weekends

- o Do not allow resident rates to go below the average for local courses (i.e. Dahlgreen, Bluff Creek, Deer Run, etc...) as these are not as quality of a course
- o Keep our cart rental competitive with the market for both residents and non-residents

Based on these guidelines, Council did move forward with starting to implement this plan in 2020. 2022 would be the third year of implementation, with our rounds actually increasing significantly during the first two years of implementation. For 2022, the changes to the rates to reflect this plan would be as follows:

- Resident Weekdays: Up \$4 to \$47 (\$68 with Cart)-Represents 27% discount
- Resident Weekends: Up \$3 to \$56 (\$77 with Cart)-Represents 23% discount
- Non-Resident Weekdays: Up \$2 to \$72 (\$93 with Cart)
- Non-Resident Weekends: Up \$2 to \$78 (\$99 with Cart)
- No changes to our Cart Rates-remain at \$21 for 2022 as they were in 2021

Moving based on these recommendations would allow us to continue to move towards our goal of resident weekday discount being 25% and resident weekend discounts being 20%, with us still have two more years to implement this overall plan.

Based on this recommendation, below are two charts both showing our rates compared to High-End Courses as well as a second chart comparing our proposed rates to area golf courses:

### Comparisons to High-End Courses

Top Public 18 Hole	WD 18 Hole GF	WE 18 Hole GF	18 Hole Cart	Twilight GF	Twilight Cart
Edinburgh	\$59.00	\$59.00	\$19.00	\$35.00	\$14.00
Stoneridge	\$74.00	\$94.00	\$15.00	\$74.00	\$15.00
The Wilds	\$79.00	\$79	\$18.00	\$48.00	\$18.00
Meadows at Mystic	\$110.00	\$130	included	\$75.00	included
Rush Creek	\$119.00	\$119.00	\$20.00	\$69.00	\$20.00
Troy Burne	\$92.00	\$92.00	\$20.00	\$69.00	\$20.00
Legends	\$95.00	\$95.00	\$15.00	\$70.00	\$10.00
Average	\$89.71	\$95.43	\$17.83	\$62.86	\$16.17
Average (less High/low)	\$90.00	\$95.80	\$18.00	\$66.00	\$16.75
<b>CTC Non-Resident</b>	<b>\$72.00</b>	<b>\$78.00</b>	<b>\$21.00</b>	<b>\$55.00</b>	<b>\$16.00</b>
<b>CTC Resident</b>	<b>\$47.00</b>	<b>\$56.00</b>	<b>\$21.00</b>	<b>\$42.00</b>	<b>\$16.00</b>

### Comparisons to Area Golf Courses

Local 18 Hole	WD 18 Hole GF	WE 18 Hole GF	18 Hole Cart	Twilight GF	Twilight Cart
Ridges Sand Creek	\$40.00	\$45.00	\$16.00	\$30.00	\$9.00
Stonebrooke	\$74.50	\$82.50	included	\$64.00	included
Deer Run	\$59.00	\$59.00	\$17.00	\$40.00	\$10.00
Dahlgreen	\$43.00	\$46.00	\$19.00	N/A	N/A
Bluff Creek	\$45.00	\$51.00	\$17.00	\$38.00	\$11.00
Average	\$52.30	\$56.70	\$17.25	\$43.00	\$10.00
Average (less High/low)	\$49.00	\$52.00	\$17.00	\$39.00	\$10.00
<b>CTC Resident</b>	<b>\$47.00</b>	<b>\$56.00</b>	<b>\$21.00</b>	<b>\$42.00</b>	<b>\$16.00</b>

### Revenue Projections for 2022

Based on the changes that we are recommending for rates next year, for 2022, we are forecasting total revenues of \$3,030,400. This compares to the actual revenues we expect for Year-End 2021, which was \$2,967,644, for an increase of 2.11%. As discussed previously, 2020 was a very good year for golf, with us seeing over 38,500 rounds. 2021 was also a very good year, with us seeing approximately 42,500 rounds. Typically, we would budget for approximately 32,000 rounds. While we have seen these rounds be significantly higher over the past two years, we do not feel that we should budget to those high numbers as it is uncertain what was the largest driver of this increased usage. However, we do think it is prudent that we add some rounds to the budgeted revenues, as the Golf Industry in general has grown significantly over the past 4 years, adding almost 1,000,000 players back. For this reason, we are recommending budgeting based on 34,000 rounds being played in 2022.

Based on this assumption, along with the proposed rate increased for 2022, the total 2022 revenues would be budgeted to come from the following sources:

	Actual	Budget	Expected	Budget	Change	% change
<i>Revenues</i>	2020	2021	2021	2022	w/expect	w/expect
Green fees	\$ 1,690,448	\$ 1,464,000	\$ 1,877,049	\$ 1,664,000	\$ (213,049)	-11.35%
Driving range	\$ 138,449	\$ 125,000	\$ 165,045	\$ 155,000	\$ (10,045)	-6.09%
Member fees	\$ 54,021	\$ 75,000	\$ 78,134	\$ 75,000	\$ (3,134)	-4.01%
Sale of supplies	\$ 252,219	\$ 250,000	\$ 310,842	\$ 258,000	\$ (52,842)	-17.00%
Concessions	\$ 41,873	\$ 40,000	\$ 78,134	\$ 80,000	\$ 1,866	2.39%
Cart rental	\$ 339,833	\$ 356,000	\$ 440,124	\$ 437,000	\$ (3,124)	-0.71%
Misc	\$ 52,179	\$ 20,700	\$ 18,316	\$ 361,400	\$ 343,084	1873.14%
<b>Total revenues</b>	<b>\$ 2,569,022</b>	<b>\$ 2,330,700</b>	<b>\$ 2,967,644</b>	<b>\$ 3,030,400</b>	<b>\$ 62,756</b>	<b>2.11%</b>

### Components of the Chaska Town Course Revenue

A key revenue assumption for the CTC is the green fees schedule, as the greens fees do generate approximately to 64% 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 very competitive. As mentioned previously, based on our efforts to reduce the resident discounts to a

reasonable amount over a 5-year period, but to do this in a way that benefits our most loyal Town Course patrons by providing a greater resident discount on weekdays, we are recommending the following rates for the 2022 budget:

- Resident Weekdays: Up \$4 to \$47 (\$68 with Cart)-Represents 27% discount
- Resident Weekends: Up \$3 to \$56 (\$77 with Cart)-Represents 23% discount
- Non-Resident Weekdays: Up \$2 to \$72 (\$93 with Cart)
- Non-Resident Weekends: Up \$2 to \$78 (\$99 with Cart)
- No changes to our Cart Rates-remain at \$21 for 2022 as they were in 2021

Based on this, the projected Green Fees revenue for 2022 would be \$1,664,000, which would be a decrease of 11.35% from the actual 2021 Greens Fee Revenue. This budgeted revenue is a decrease from our actual in 2021 because we do not think that it would be prudent to budget at the 42,500 rounds we saw in 2021. We think it is much more reasonable to expect that we would see rounds closer to 34,000.

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. At that time, we purchased a new set of carts equipped with a GPS system. This system allows us to remotely control the carts so they do not go in areas that would be detrimental to the condition of the course. The system was implemented in 2006 and increased cart revenues to \$212,000.

In 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 2022 we are once again anticipating that 40% of patrons will continue to utilize a cart, as we have seen over the past several years, and we are recommending that we do not increase this rate for 2022 as we just made a change to this rate in 2021. Based on this, the total revenue in 2022 for cart rentals would be \$437,000.

Through our twenty years of operation, the driving range has been a popular element of the facility. One attribute contributing to the success of 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 did come in at \$165,045 for 2021. For 2022 we are proposing that we budget the number of \$155,000, as we do not want to make our budget assumptions off the past two high years.

Pro Shop sales have continued to be strong. In fact, in 2022 we completely sold out of our merchandize that we purchased for this golfing season. Our expected Pro Shop sales in 2021 was \$310,842. In 2022 we are proposing a budget of \$258,000 for Pro

Shop sales, again assuming that we cannot keep the record-breaking pace going into a third year.

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. In 2019, despite the less-than-ideal weather conditions, they continued to exceed our budgeted revenue for the facility, based on our revenue-sharing lease agreement. In 2020, although restaurants were closed at the beginning of the season, they did see a very successful year, with them shifting to a model where patrons order at the Counter and have their food delivered to them. This allowed them to have more control over service to reduce exposure issues for Staff and Patrons but also ended up being a very popular service delivery model change that they have kept in place the last two years. Staff have continued to see very positive reviews from patrons on both food and beverage service in the Clubhouse, along with beverage cart service on the course.

Oak 19 did have their lease renewal last year, which not only increased the number of years they will be at the facility, but also changed the percentage that we charge for rent to be more responsive to market changes. The new lease has them paying a straight 6% of total revenue based on both their alcohol and food sales. Based on this, we are going to be bringing back a lease renewal that will recommend making their revenue share be 6% of all food and beverage for this next renewal period. 2021 was the first year of this change, with the restaurant earning close to \$80,000, which was above the \$40,000 we budgeted. And even though our percentage for alcohol went down in the new lease structure, we saw the revenue be significantly greater than the \$41,873 that was generated in 2020. We are budgeting \$80,000 for lease revenue from the restaurant for 2022.

## **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 few Golf Seasons, we had some of the best turf conditions since our course opened, especially in warm/dry

years like we have seen the past two summers. This has been confirmed in feedback we have received from golfers in our surveys and helped continue to drive patrons to our course during the summer of 2021. This is also something that we confirm through our Decision Resources Community Survey, which we just completed a little over two years ago. 92% of the respondents rated the upkeep/maintenance of the Chaska Town Course positively.

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 the same as 2021, with five full-time Greenskeepers, plus a Superintendent who is responsible for the maintenance of the Chaska Town Course facility as well as the The Loop when it re-opens in the late summer of 2022.

As in the past these full-time positions will be supplemented by eight, six month and six four-month seasonal employees.

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 2020, the total Clubhouse expenses that we had were \$949,566, with 2021 expenses being \$904,245. We are budgeting \$973,443 for 2022. This would bring the total Clubhouse expenses up by 7.65% for 2022.

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 reduce overall costs at the Course and help work towards long-term financial sustainability.

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. The debt service to support these purchases is \$152,000 in 2021.

We do have equipment scheduled to be replaced in 2022, including:

- Fairway Mower-\$53,000
- Club Car-\$32,000
- Topdresser-\$15,000
- Green Triplex-\$88,000
- Workman-\$29,000
- Sprayer-\$48,000
- Reel Grinder-\$45,000
- Replacement of 25 batteries for carts that are out of Warranty-\$50,000

Besides these equipment purchases, we do have resurfacing of the Cart Paths on Holes 11 and 13 for \$75,000 and patching to occur on Hole #9. We will also be making improvements to the Driving range to make it more durable throughout the season, adding a cement strip and pads to drive from in wet times/large events to keep damage on the tee box to a minimum. The cost of this improvement is \$40,000.

Total budgeted expenses for the golf course operation in 2022 are \$2,860,152, or an increase of 25.83% increase from 2021. This increase is high for 2022 because we have several replacement pieces of equipment that are due for this next year, and we are making the improvements to the driving range and cart paths this next year.

The following is the proposed Expenditure Budget for 2022:

Expenses	Actual 2020	Budget 2021	Expected 2021	Budget 2022	Change w/expect	% change w/expect
Course Maintenance	\$809,049	\$1,117,301	\$1,007,282	\$1,507,354	\$500,072	49.65%
Course Admin/Clubhouse	\$949,566	\$868,548	\$904,245	\$973,443	\$69,198	7.65%
Merchandise	\$183,295	\$174,284	\$209,546	\$175,155	-\$34,391	-16.41%
Debt Service (Equip)	\$30,009	\$152,000	\$152,000	\$204,200	\$52,200	34.34%
Transfers Out/Debt Service	\$0	\$0	\$0	\$0	\$0	
Depreciation	\$469,035	\$0	\$0	\$0	\$0	
<b>Total Expenses</b>	<b>\$2,461,971</b>	<b>\$2,312,133</b>	<b>\$2,273,073</b>	<b>\$2,860,152</b>	<b>\$587,079</b>	<b>25.83%</b>

Based on this budget, we would expect to see an increase in the Fund Balance of \$170,248, although we hope that this is a conservative number as we have continued to budget a lower-than-average number of rounds played during the year. Given the fact that our Depreciation is approximately \$450,000 per year, this does illustrate why it will continue to be important over the next 4-years to continue to implement our changes to resident rates, until we hit our target of a 25% discount for weekday rounds and a 20% discount for weekend rounds, as opposed to the 37% discount that we had prior to making these changes.

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 and reliable 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 I will discuss in greater detail through this section of the Budget Report, the continued focus in our utilities this year, as it was in 2021, is in the results and implementation of the Cost-of-Service study analysis we completed for our Water, Sewer and Electric Utilities. The purpose of completing a detailed cost of service study analysis for our utility funds is to identify all current and future operational needs of each fund, as well as the timely maintenance of our existing systems and new additions to our system needed for future growth to make sure that we have enough financial resources available to support the sustainability of all our utility systems.

The results of this Cost-of-Service study provide data that can help us in each of our utilities accomplish the following objectives:

- Accurately set our rates (variable costs)
- Accurately set our service charges (fixed costs)

- Equitably set our rate structure to assure that our users are being charged properly based on their usage
- Set rates to encourage desired consumer behaviors to help conserve our finite resources
- Set rates to be able to accommodate all necessary maintenance and improvement activities in the future, ensuring that we have a proper level of reserves available in each fund to make our systems sustainable

The results of a Cost-of-service study gives the City a concrete, data-driven analysis to set our rates precisely to accomplish the objectives we have in each fund. If the quantitative results of a Cost-of-Service study are used to set both our current and future rates, as well as the work plan for when improvements or additions to our system need to occur, the results can provide confidence to the City that we are planning for a sustainable system in the future while also keeping our rate structure competitive. It can also allow us to plan for changes over a longer period to try to avoid large changes in rates at any given time.

As you will see through a discussion of each of our Utilities in this section of the Budget Report, we did rely on our most recent Cost-of-Service study findings to drive our recommendations this year, and to know how we should look at the next 5-year period. It would be our intent that we complete a Cost-of-Service study every 5 years in each of our utilities to make sure that we are staying current with any major changes that may have occurred in the community that affect our utilities, and to provide our users with a glimpse of what to expect over an entire 5-year period.

I will be talking about the Cost-of-Service study as it relates to each individual Utility Fund throughout this section of the Budget Report as there are different issues and factors that affect each utility. At the end, you will see how we meshed these findings together to try to provide the average user with an overall reasonable overall rate increase for all utilities for 2022, although some utilities may see larger individual changes than others. Below is a chart that illustrates our total increase for all utilities in 2022 for an average user. As you will see, they will experience a 4.08% overall increase, which would result in an actual increase of \$6.32 per month for the total utility bill.

Utility Fund	Units/Month	2021 Bill	2022 Bill	Increase	% Increase		COS Revenue Target
Electric (kWh)	750	\$105.11	\$107.48	\$2.37	2.25%		2.50%
Water (Gal X 1,000)	4	\$15.20	\$16.64	\$1.44	9.47%		8.00%
Sewer (Gal x 1,000)	4	\$24.22	\$26.31	\$2.09	8.63%		7.35%
Storm Water	1	\$10.55	\$10.97	\$0.42	3.98%		4.00%
<b>Total</b>		<b>\$155.08</b>	<b>\$161.40</b>	<b>\$6.32</b>	<b>4.08%</b>		

### Water Fund

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 at that time 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.

Because of the large changes that were made back in 2010 with our first Water Rate Analysis, this allowed our Water Fund to stabilize over the last decade and now allows us in this Cost-of-Service Study to really focus on the fine-tune details of our fund and rate structure to make sure that we are structuring our rates correctly to both meet our future needs but to also make sure that the cost of our services are equitably spread to users that have the greatest impact on our system.

As we will discuss in the Water Fund section below, the main findings we had in our Cost-of-Service study is that water usage in general has decreased and that too much of our costs have been allocated into our rates instead of our service fees which cover our fixed costs. Consequently, although we do need to increase our overall revenue to meet our long-term financial needs, a lot of change revolves around the reallocation of fees from our rates, which cover variable costs, to our service charges which cover our fixed costs that we incur regardless of how much water is utilized in our system.

As you will see in this year's budget for the Water Fund for 2022, the revenue target established in the Cost-of-Service Study for this year was an overall increase of 8% in total revenue to the fund. Based on that target, this would require an increase in our overall rates by 9.47% for our average residential users, which equates to \$1.44 per month. Out of that overall rate increase, about 3.4% would come from the actual increase to the rates (variable costs) with the remainder of the increase coming in our Service Charge (fixed costs). So, while the overall increase is 9.47%, what the Cost-of-Service study allows us to do is to properly allocate our charges to the right place so that we are properly covering both our fixed and variable charges in the fund.

The other major change that we continued to discuss this year is the decrease in overall water usage that we are seeing in our community, and how that requires us to change our tiered rate structure to assure that we both have it structured in a way that encourages water conservation, but also that it puts more of the burden on our water system on those who choose to use more than the average user in the community. When we initially established our tiered water rate structure in 2010, the average residential user in the community utilized 7,000 gallons per month. That number has gone down to 4,000 gallons per month. As a result, in 2021 we changed our tiers in for rates in the Water Fund to make sure that we were not rewarding users that utilize more than what the average user should use. In this way we are helping to meet our goal of setting our rates in such a way that it encourages the types of conservation we desire to help preserve our limited water resources.

## Electric Fund

From an electric fund perspective, our total rates in 2021, including the Energy Adjustment Clause, averaged 7% lower than Xcel for residential customers and very similar compared to MN Valley Electric Cooperative. This result is about 2% lower than the 9% difference we saw in 2019. However, we will once again see these rates start to diverge from each other as Xcel recently requested a 3-year 21% increase in rates from the State Public Utilities Commission, with their initial interim rate being over a 9% increase from 2021. Xcel and Minnesota Valley are our main competitors. 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.

As we will discuss in the Electric Fund Section, our Cost-of-Service study looked at many different factors of our current rate structure. Besides making sure that we can meet all our future maintenance and development needs, and maintain an adequate cash balance in the Fund, the major finding in the Electric analysis was very similar to the Water Fund, in that it found that we are currently allocating too much of our cost to our rates, which cover variable costs, and not enough to our service charges that cover fixed costs. Consequently, the recommendation in 2022 will be that our overall rate to our average customers will go up by 2.25%, although our variable rates will only go up by 1.71%, while most of this overall increase will come from an 8.04% increase in our service charge. The study also recommended changing our Senior Discount to a Senior Credit, which is based on the average users in the system, so that this discount is impacting the right customers in our system (Senior's on a fixed income), and not just providing the discount because someone is a Senior.

### Sewer Fund

From a sewer perspective, a major factor that drives our cost of service is our charge from Met Council for treatment of our sewage. This is a fee that is charged to all municipalities in the Twin Cities that are on Metro Sewer, which means that we see similarities between Metro municipalities in Sewer Rates due to the treatment being centralized with the Met Council. Our Met Council rate for 2022 is scheduled to go up by 13.2% to \$3,072,288. This is a fixed charged that we know before the budget year has begun.

As for our Cost-of-Service study findings in the Sewer Fund, we once again found that our focus needs to be on setting our fixed service charge correctly as we have not necessarily allocated our costs equitably in the past. From the Cost-of-Service Study it is being recommended that we increase our overall rates for the average customer by 8.63%, with the actual usage rates going up by 5.62% (\$1.02 increase) and the service charge going up by 17.6% (\$1.07 increase). So once again, the focus is on getting that fixed service charge set correctly to make sure that we are recapturing those costs that will occur regardless if someone uses our sewer service or not.

### Storm Sewer

Finally, with the Storm Sewer Utility, we did not include this in our overall Cost-of-Service study, mainly because this is a relatively new utility and we have been making

many changes to this over the past several years to get this set correctly based on the additional information we collect each year we have had this utility in existence. As we have discussed in detail, the activities have continued to increase in this fund, as there are both changing mandates from the State to follow, and heavy rain seasons that have put pressures on our Storm Water System. In 2018, to recognize the increased activities we were having in this fund, and to recognize that the work done in a River community such as Chaska is significantly more than a typical community, the methodology that Staff used to compare Chaska rates changed, with us comparing ourselves to other similar river communities in the State that have similar expenses in their Storm Water Fund. We feel that this has created a more accurate base to compare ourselves. Based on this activity load and comparisons to other similar communities, an increase in rates of 4.00% is being recommended for 2022, which would equate to a \$0.42 increase per month. This will keep us competitive with Cities our size and put us on the road to build our cash reserves to desired levels.

Again, 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 2022. As you will see, based on the recommendations above, the average user would see a 4.08% increase in all their Utility Rates for 2022, which translates into an increase of \$6.32 in increased costs each month for the average household in the community.

Utility Fund	Units/Month	2021 Bill	2022 Bill	Increase	% Increase		COS Revenue Target
Electric (kWh)	750	\$105.11	\$107.48	\$2.37	2.25%		2.50%
Water (Gal X 1,000)	4	\$15.20	\$16.64	\$1.44	9.47%		8.00%
Sewer (Gal x 1,000)	4	\$24.22	\$26.31	\$2.09	8.63%		7.35%
Storm Water	1	\$10.55	\$10.97	\$0.42	3.98%		4.00%
<b>Total</b>		<b>\$155.08</b>	<b>\$161.40</b>	<b>\$6.32</b>	<b>4.08%</b>		

As was mentioned above, two years ago the City of Chaska completed a comprehensive Cost-of-Service Study for three of our municipal utilities including our Water Fund. This was a follow up to the study that we completed a decade ago which brought some of the initial changes in our fund to introduce an inclining block rate structure and to get our rates to a point that we could start to build adequate cash reserves in this fund to be able to plan for future maintenance and improvement work that will be needed with our Water System. The intent of this most recent study was to reexamine how things have worked since that initial analysis, and to look at what we need to continue to plan for moving over the next 5-years to meet all our physical and financial objectives within this fund. It would be the plan in each of these utilities to complete a Cost-of-Service Study each 5 years to make sure that we are able to stay current with any changes we see in the fund.

The overall objective of this most recent analysis is:

- Identify all current and future operational needs, as well as timely maintenance of our existing system and new additions to our system needed to support future growth-making sure we have enough financial resources available to support the sustainability of our Water System, and to be able to have quantifiable data to support the accurate setting of our variable rates and service charges that support the fixed costs within our system

### **Findings of Water Cost of Service Study**

While a major reason we complete a financial analysis of our Water System on a regular basis is to give us confidence that we are generating enough resources to be able to ensure a sustainable system as we go into the future, another major objective that we try to achieve is making sure that not only are we collecting enough revenue, but that we are generating these revenues in an equitable way. We want to make sure that not only are our users that are trying to conserve water financially benefiting by conserving water, but that we also are setting our fixed charges in a way that makes sure everyone is paying their fair share whether they use the system or not as we do need to make sure it is always available to them whether they use the system or not.

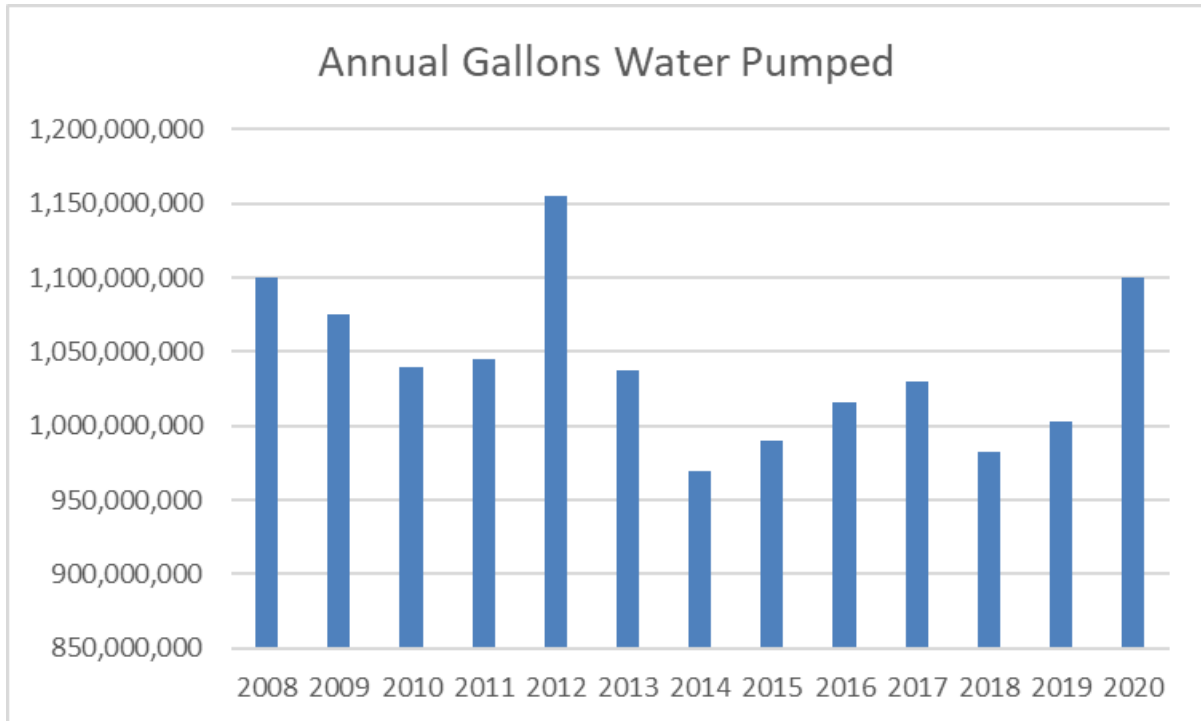
To that end, looking at the rate structures of our Water Utility was a major focus of this Cost-of-Service Study. The major findings of the Water Analysis were:

1. Water consumption by typical users has decreased over the past decade and our Tiered-Rate structure has not kept up with these changes
2. More focus needs to be put on increasing our service charge in the Water Fund, as opposed to our rates, as our fixed charges have not been adequately accounted for in the past

3. Our City facilities are not currently contributing fairly to our Water System costs and we should be changing this to make sure that we are not utilizing the Water Fund to subsidize our other Enterprises within the City

### Water Usage Continues to Drop

As mentioned previously, one trend that we have seen in water usage over the past decade is the overall decrease in water usage. As the Chart below illustrates, our water usage in 2008 was 1,100,000,000 gallons, compared to the usage in 2020 which was also 1,100,000,000 for the year. While the usage was the same, the number of users in our system was significantly higher, meaning that the usage per person was lower than in 2008.



This decrease in water usage has come mainly because of technology changes that have made water conservation much easier. This includes technology like low flow plumbing fixtures, as well as “smart” technology in lawn irrigation that only waters the lawn when it needs it.

As we are completed our Cost-of-Service Study, one thing that we found is that the average usage of water per household has dropped from around 7,000 gallons per month down to 4,000 gallons per month. While the study did not see a need to change the base rate drastically, it did recommend that we adjust the tiers in our rate structure to make sure that we are still providing a benefit to those who conserve water as opposed to those who utilize a higher-than-average amount. Our intent with our rate structure is that we do not penalize our average users, but that people only pay a higher rate if they are using more than what the average user would consume. The only way we can accomplish this is to decrease our first tier of water rates to capture what that new average has become. This will help ensure that the tiered structure is still meeting its purpose, which is to reward those who utilize an average amount of

water and to disincentivize through higher rates the usage of water above average amounts.

Current Structure (gallons)	Percent of bills ending in block	2021 Structure (gallons)	Group	Percent of bills ending in block
0 to 7,000	72%	0 to 2,000	Small home	8%
7,001 to 20,000	23%	2,001 to 5,000	Average home	42%
20,001 to 30,000	3%	5,001 to 8,000	Large home	28%
30,001 to 40,000	1%	8,001 to 12,000	Some sprinkling	10%
40,000 +	1%	12,001 to 40,000	More sprinkling	11%
		40,000 +	High use	1%

As you can see from the chart above, if we kept our current tier structure where we have it now, the first tier would go up to 7,000 gallons per month, which used to be our average use, and would have 78% of our users falling into this first tier. This means that someone could get the rate meant to reward users who use average to less water in their home, although they might use 3,000 gallons per month above the average.

Based on this, and a target of seeing an 8% increase in overall revenue in the Water Fund for 2022, the following is the tiered-rate structure that is being recommended for 2022:

Rate Tiers (Gallons)	2021 Rates	2022 Rates	Percent Increase
0-2,000	\$2.45	\$2.53	3.27%
2,001-5,000	\$2.62	\$2.71	3.44%
5,001-8,000	\$2.85	\$2.94	3.16%
8,001-12,000	\$3.17	\$3.27	3.15%
12,001-40,000	\$3.58	\$3.70	3.35%
40,001 & Above	\$4.59	\$4.74	3.27%

Looking at other cities across the Metro area, including surrounding cities such as Chanhassen, Waconia, Shakopee, and Carver, they have already made moves to change their tiered system to recognize this decrease in water usage. The change in the tiered structure was something we made in the 2021 budget, and we would recommend continuing this into the future.

### **Service Charges Not Set to Support True Fixed Costs**

The purpose of a service charge on a utility account is to make sure that we can capture all those fixed costs that we have regardless if someone uses any water or not. Some of these costs include Utility Billing, our Staffing and equipment costs and the cost of our facilities (i.e. debt service costs on our Water Treatment Plant). These are costs that we have regardless of the amount of water utilized, and to make sure that when people do want to utilize our water system it is available.

What the Cost-of-Service Study found was that we have been putting too much of these fixed costs into our water rates, which are meant to cover our variable costs (i.e. it costs less to treat less water than more water). Also, for just having the water system available, everyone who is hooked onto our system should have to contribute equitably to have access to this system based on the type of user they are.

Based on understanding what all our fixed costs are through this study, and looking at how it should be allocated equitably based on the type of user (i.e. a residential unit should pay less than a large industrial user because they will consume less of our water system), the following chart represents what the study represents for where we should go for our customer service charges.

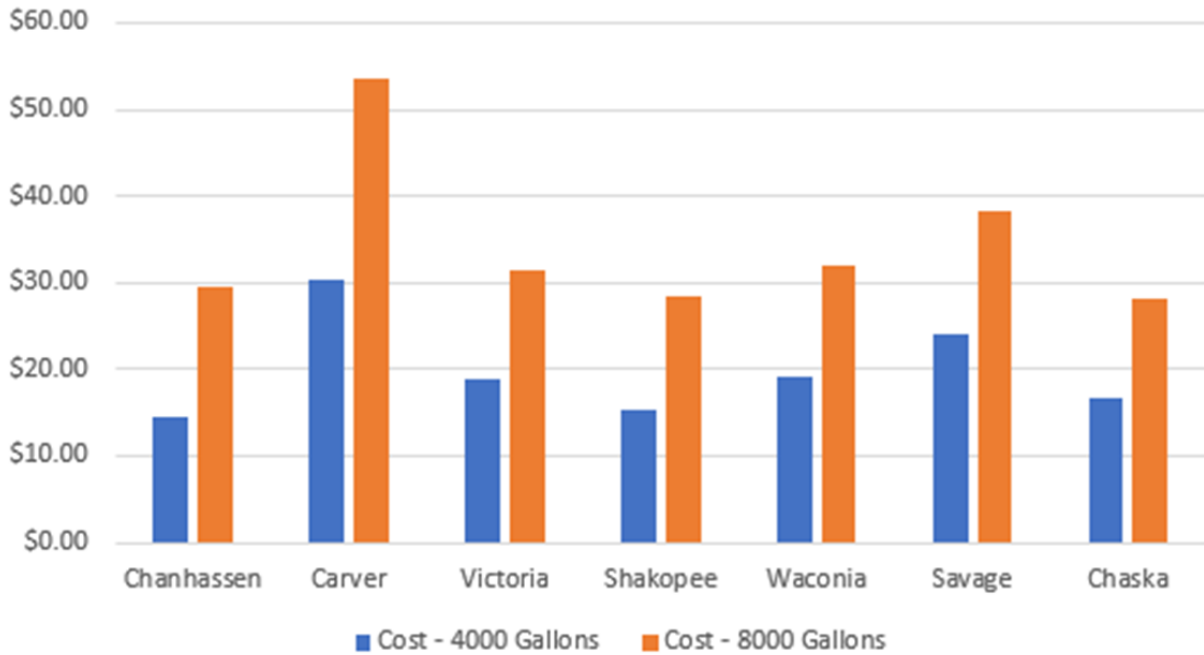
<b>COS Customer Charge</b>									
<b>Meter Size</b>	<b>5/8"</b>	<b>3/4"</b>	<b>1"</b>	<b>1.5"</b>	<b>2"</b>	<b>3"</b>	<b>4"</b>	<b>6"</b>	
<b>Total Customer COS</b>	<b>\$ 8.66</b>	<b>\$ 9.18</b>	<b>\$ 13.15</b>	<b>\$ 23.38</b>	<b>\$ 35.07</b>	<b>\$ 123.33</b>	<b>\$ 223.69</b>	<b>\$ 468.39</b>	
Total # Meters	5,812	468	498	299	90	29	11	3	
<b>5 Year Correction (\$/year change)</b>	<b>\$ 1.10</b>	<b>\$ 1.21</b>	<b>\$ 1.77</b>	<b>\$ 3.61</b>	<b>\$ 5.29</b>	<b>\$ 18.14</b>	<b>\$ 36.41</b>	<b>\$ 81.21</b>	
Current Customer Charge	\$ 3.15	\$ 3.15	\$ 4.30	\$ 5.35	\$ 8.60	\$ 32.65	\$ 41.65	\$ 62.35	
Year 1 (2021)	4.25	4.36	6.07	8.96	13.89	50.79	78.06	143.56	
Year 2 (2022)	5.35	5.56	7.84	12.56	19.19	68.92	114.47	224.77	
Year 3 (2023)	6.46	6.77	9.61	16.17	24.48	87.06	150.87	305.97	
Year 4 (2024)	7.56	7.97	11.38	19.77	29.78	105.19	187.28	387.18	
Year 5 (2025)	8.66	9.18	13.15	23.38	35.07	123.33	223.69	468.39	

As you will notice, it not only makes recommendations about where we should ultimately be, but also a five-year plan for how to get there to not cause too much change all at one. 2022 would be the second year of implementation of our Fixed Charge. While the study ultimately recommends moving up to \$8.66 for the total fixed charge, in 2022 we would recommend taking the second step, which would bring it up to \$5.35 per month for the average residential user.

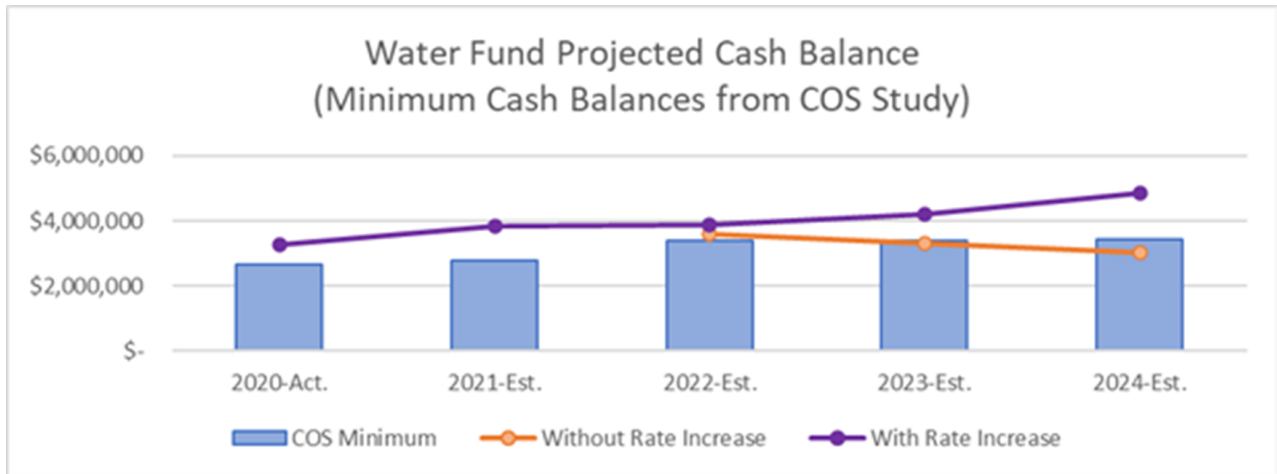
Based on looking at both our tiered rate structure and our fixed costs, while the water bill for the average user is going to go up by 9.47%, this will occur by them seeing approximately a 3.4% increase in their water rates (variable cost) with the remainder of the 9.47% total increase coming from an increase in the service fee costs.

While the Cost-of-Service study does adjust our rates to accommodate our future needs, it does so in a way that keeps our rates competitive with surrounding communities. Below is a chart which illustrates our proposed rate changes (all-in cost) compared to other communities assuming they see a 0% increase in 2022:

### City Water Rate Comparisons



It should be noted that in our Cost-of-Service study, that the recommended minimum cash reserve in our Fund at the end of 5-years should be about \$3.75 million. While we were projecting last year that we would only be up to about \$2.5 million after the 5-years have ended, unusually hot and dry summers in 2020 and 2021 have brought up our cash balances fast than we had anticipated, with us now projecting that we will be at about \$4.4 million as illustrated in the chart below:



It should be noted that if we didn't see any rate increase as anticipated by the Water Cost of Service Study that we would not meet those recommended minimum cash balances.

## 2022 Budget

Based on the changes described above Water Fund Revenues for 2022 are budgeted to be \$4,380,540 compared to the 2021 budget of \$3,930,840, or a 11.44% increase in revenue.

While some of this growth in revenue will come from some increased usage in the community due purely to growth in Chaska, most of the increases we will see in revenue will come from the changes we make to the rate structure which puts a larger burden on those who utilize an above-average amount of water, which is the intent of a tiered-rate structure. The average water user will see an overall increase of 9.47% in 2022 on their bills, with those who have seen lower bills in the past although they utilize a larger amount of water not continuing to see the benefit of getting a lower rate even though they use a higher-than-average amount of water. In this way, it makes sure that our rate system is set equitably and that our average to lower users are not having to subsidize those who use more than an average amount of water.

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

<b>Water</b>	Actual	Budget	Budget	
	2020	2021	2022	% Change
<b>Revenues</b>				
Metered	\$4,850,308	\$3,378,040	\$3,871,040	14.59%
Other	\$74,617	\$46,800	\$44,500	-4.91%
Transfers In	\$485,000	\$506,000	\$465,000	-8.10%
<b>Total</b>	<b>\$5,409,925</b>	<b>\$3,930,840</b>	<b>\$4,380,540</b>	<b>11.44%</b>
<b>Expenses</b>				
Pumping	\$233,074	\$511,970	\$388,282	-24.16%
Treatment	\$343,115	\$322,742	\$324,341	0.50%
Distribution	\$825,573	\$901,097	\$1,455,621	61.54%
Administration	\$944,431	\$968,276	\$936,256	-3.31%
Depreciation	\$834,491	\$0	\$0	0.00%
Debt Service	\$487,423	\$1,030,472	\$1,088,055	5.59%
Tranfers Out	\$702,737	\$117,000	\$117,000	0.00%
Other	\$3,645	\$1,900	\$1,911	
<b>Total</b>	<b>\$4,374,489</b>	<b>\$3,853,457</b>	<b>\$4,311,466</b>	<b>11.89%</b>

For 2022, we are projecting that we will generate \$3,871,040 in metered sales. This is 14.59% higher than the metered sales we budgeted in 2021.

Total water expenses for 2022 are programmed to be \$4,311,466. This compares with \$3,853,457 budgeted in 2021. This is a 11.89% increase in expenditures from 2021.

The following are the major activities we are planning for in the 2022 year:

- Continue with normal Well-maintenance schedule with Wells 4 being rehabbed in 2022 at \$125,000
- Chaska Town Course Booster Station being rehabbed for \$100,000
- Construction of New Water Treatment Plant at Well #7 in 2022 to meet current and future water demand needs-total cost of \$6 million
- Repainting of Hundertmark Water Tower at total cost of \$1,600,000
- Continued contribution of \$70,000 per year from the Water Fund to our Street Reconstruction Program
- Replace all our equipment on the normal cycle

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 2021, with our payment budgeted for \$1,088,055.

### **Personnel Services:**

As we discussed at length in the General Fund section of this report, in 2019 we worked to complete a Staffing Analysis to identify where we might have any current gaps in funding. Currently the Water and Sewer staffing consists of the Superintendent, Foreman and seven maintenance employees. The Staffing Study determined that if we were to be a full strength now, that we would have two additional Maintenance Workers shared between the Water and Sewer Department. As part of the implementation strategy there was a plan to fill this gap over the next 4 years. Because of the economic conditions due to the pandemic in 2021, we did delay implementing the staffing study last year City wide and are planning on filling the two Water/Sewer Maintenance Working positions in 2023 and 2024.

Based on this budget that is being proposed, we would see a \$69,074 increase in our Fund Balance, with us continuing to meet our goal of getting to our minimum cash-balance level of at least \$3.25 million by the end of 2024.

### Cost-of-Service Study Findings

Just like in the Water Fund, the Sewer Fund was also part of the overall Cost-of-Service Study for our utilities. As the study found, 91% of our Sewer System is depreciated, with several old sewer pipes in our community that need being replaced (many of which we are replacing as we reconstruct our streets). The main finding of the Sewer Fund's portion of the Study found that we have fallen behind on our monthly service charges to be able to capture the fixed costs we have in our system.

Just like in the Water Fund, there are several fixed costs that we have in our system that we need to pay for regardless if someone is using our Sewer system or not. They are costs that need to be covered just to provide access to our system when it is needed. These costs include Utility Billing, Staffing and Equipment Costs and things like buildings and their upkeep. They do not include things like our Met Council Sewer Treatment Charge, which is a variable cost based on the amount of sewage our City uses in the past year.

Just like in the Water Fund, it is important that people contribute to these fixed costs, whether they use the system or not to make sure that there is equity in how our system is paid for, and that the users of our system are not subsidizing those who might need access to the system but may not use it.

Unlike the Water Fund, where we are just starting to increase our fixed rates to get them to the level they need to be to support the fixed costs of our system, we did start working on the Sewer Fund 3 years ago by adding a service charge, where we did not have one at all prior to 2019. The focus of this Cost-of-Service Study was what we should do over the next several years to get our service fee to the desired level. Below is a chart illustrating the recommendations:

<b>COS Customer Charge</b>		<b>38 Meters</b>		<b>54 Meters</b>	
<b>Meter Size</b>	<b>Residential : Class 1</b>	<b>Commercial : Class 2</b>	<b>Industrial : Class 3.1 (5/8", 3/4" &amp; 1")</b>	<b>Industrial : Class 3.2 (1.5" and above)</b>	
<b>Total Customer COS</b>	<b>\$ 8.23</b>	<b>\$ 15.65</b>	<b>\$ 26.93</b>		
<b>3 Year Correction (\$/year change)</b>	<b>\$ 1.08</b>	<b>\$ 3.55</b>	<b>\$ (7.69)</b>	<b>\$ -</b>	
Current Customer Charge	\$ 5.00	\$ 5.00	\$ 50.00	\$ 50.00	
Year 4 of 6 (2021)	<b>\$ 6.08</b>	<b>\$ 8.55</b>	<b>\$ 26.93</b>	<b>\$ 50.00</b>	
Year 5 of 6 (2022)	<b>7.15</b>	<b>12.10</b>	26.93	50.00	
Year 6 of 6 (2023)	<b>8.23</b>	<b>15.65</b>	26.93	50.00	

Just like in our Water Fund, a greater emphasis is being placed in this study on getting the service charges set correctly than on our usage rates, which the Study found were

not that far off from where they should be. To that extent, while the average user will see an increase of 8.63% in 2022, most of this will come through the Service Charge. Below is the expected Sewer Bill for the average user to illustrate this point:

Average Home	Units/Month	2021 Bill	2022 Bill	Increase	% Increase
Sewer					
Service Charge	1x/month	\$6.08	\$7.15	\$1.07	17.60%
Water (Gal x 1,000)	4	\$18.14	\$19.16	\$1.02	5.62%
Total		\$24.22	\$26.31	\$2.09	8.63%

The one thing to take note out of in the Cost-of-Service Study is that it assumed that our Fee from the Met Council goes up by 4% per year. If it went up higher than this, we would need to take that into account on our annual rate per 1,000 gallons, as this is the largest single cost we have in our Sewer Fund.

The other item to note is that if we follow the recommendations of this Cost-of-Service Study, we can expect that after 2024 we should have the Reserve Balance of this Fund at about \$250,000, which is below the minimum recommended amount from this study of approximately \$2.1 million. Our plan after we get the fixed charge fully implemented would then be looking at how we focus on getting the rates properly set to work on increasing the cash balances. With us not having any fixed charge in the Sewer Fund prior to 2019, we wanted to make sure we focus on that first and to not have too drastic of an impact on our Sewer rates trying to deal with too many issues at once. We will have to address this as we move into the future, however, since this system is 91% depreciated.

**2022 Budget**

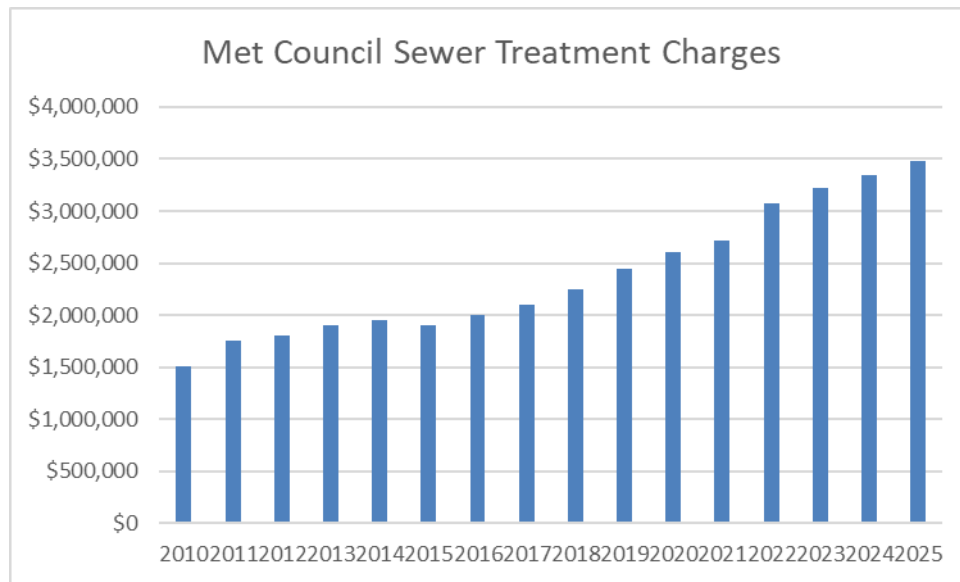
Sewer Fund revenues for 2022 are anticipated to be \$5,179,150, an 5.84% increase over the budget in 2021. As mentioned previously, the increase in this revenue is coming from the continued implementation of our Sewer service fee, which is scheduled to be increased through 2023 based on the schedule listed on the previous page. This is when the total service fee will reach \$8.23 per month for a residential customer. This fee was established to break out the fixed costs that we have in our sewer service, regardless of whether someone uses their sewer service.

Another major increase for revenue is because of the sales revenue needed to support the increase in retail sewage rates because of an increase to our Metro Waste Fees for 2022. Unlike other utility services we provide, we know at the beginning of the year exactly what we will be charged by Metro Waste in the following year for treatment of our sewer. It is a fixed cost based on past usage of the system. The amount Met Council will charge for 2022 is \$3,072,288, which is an increase of 13.23% from 2021. As mentioned previously, the average residential user will see an increase of 8.63% or \$2.09 per month for their sewer usage.

Metro Waste treats all the sewage for not only Chaska, but each of the Cities in the Twin Cities Metropolitan Service Area. It is the largest single driver of costs for our

sewage service, as what we do locally is only to collect the waste and get it over to their Sewage Treatment Plant in Shakopee (Blue Lake Treatment Plant).

The following is a chart illustrating the cost increases we have seen since 2010, and what we expect as we look out over our planning horizon:



**Expenses:**

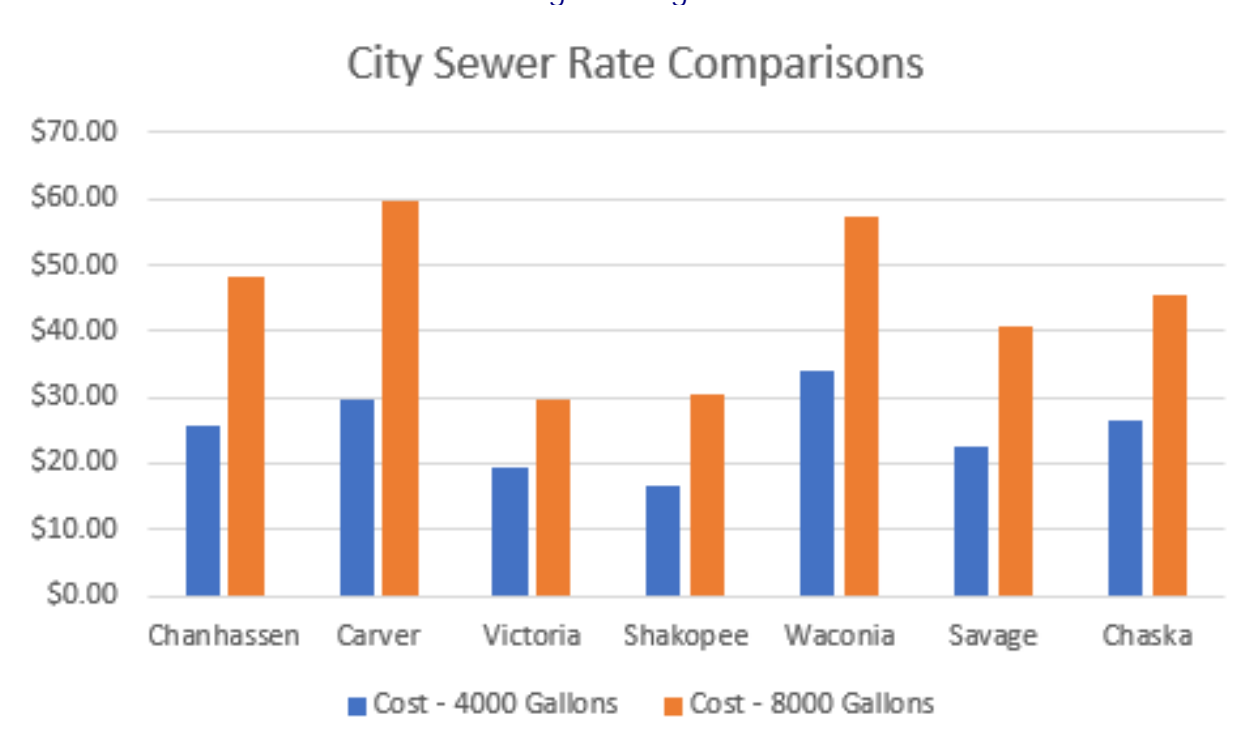
Sewer expenses are anticipated to be \$5,485,750 for 2022, an increase of 2.67% from 2021.

The major improvements scheduled for 2022 will revolve around our regular maintenance activities for Inflow and Infiltration (I and I) and Lift Station scheduled maintenance. Our allocation towards improvements in our I and I program for 2022 is \$50,000, with \$10,000 going towards restoration work on one of our Lift Stations in 2022 in the Autumn Woods North neighborhood. We will also have \$50,000 per year going to our Sewer Lining Program to help extend the life of our existing infrastructure and will be doing normal replacement of our scheduled equipment in 2022.

As has been discussed previously, the City of Chaska completed a Staffing Analysis over the past year that helped quantify any gaps that we have in our existing service levels. One of the gaps identified was in our Water and Sewer Departments, where it was determined we are currently 2 positions short within the two department. While we had planned on adding this first position in 2021 with the second position being added in 2023, we did decide as a part of last year’s budget process to delay implementation of the second year of our Staffing Study. We are now planning to fill these two positions in 2023 and 2024.

As it has in the past, the Sewer Fund will continue to contribute annually towards our Street Reconstruction Program in Downtown Chaska, as much of the work needed in this area of the community is the complete replacement of our utility systems. This amount will be \$110,000 in 2022 as it is planned to be going into the future.

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:



Based on our total expenditures and revenues, we are budgeting that there is a decrease of \$306,600 in the Sewer Fund for 2022. This decrease in Fund Balance was planned to help ease our customers into the new service charge. 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 after 2023 when the service charge is fully implemented.

Below is a chart illustrating our revenues and expenses budgeted for 2022, along with comparisons to the past two years:

<b>Sewer</b>	Actual	Budget	Budget	
	2020	2021	2022	% Change
<b>Revenues</b>				
Metered Sales	\$5,485,618	\$4,694,750	\$5,172,450	10%
Other Revenues	\$13,604	\$6,700	\$6,700	0%
Total	\$5,499,222	\$4,701,450	\$5,179,150	10%
<b>Expenses</b>				
Pumping	\$56,841	\$25,829	\$25,960	1%
Treatment	\$2,675,539	\$2,713,317	\$3,072,288	13%
Collection	\$644,237	\$715,047	\$898,653	26%
Administration	\$923,287	\$949,500	\$924,388	-3%
Transfers Out	\$675,908	\$177,000	\$177,000	0%
Depreciation	\$134,977	\$0	\$0	0%
Debt Service	\$123,746	\$216,113	\$387,461	0%
Other	\$0	\$0	\$0	
Total	\$5,234,535	\$4,796,806	\$5,485,750	14%

### Cost-of-Service Study Findings

As with both the Water and Sewer Utilities, the City also completed a Cost-of-Service Study in the Electric Department to again assure that we are planning financially for the future to help this continue to be a sustainable utility.

As with the other two utilities, a major finding of this department’s study was that our Service Charge to support fixed costs of our utility has not been set at an adequate level in the past, and that our City Facilities need to work towards paying full rate on utilities, so these other funds are not being subsidized by our Utility Departments. Besides making sure that we have adequate cash reserves, and that we maintain our minimum restricted cash balances in the fund to support the covenants of our bonds used to support financing activities in this Fund, a final finding of this study also found that we need to move away from having an unpredictable discount for our senior users and instead move to a predictable credit which will more equitably treat our users whether they are large or average users.

As mentioned above, it was found in this study that our customer service charges have not been set adequately to recover the fixed costs of our utility that do not change regardless of how much energy one customer uses. We have instead been putting too much of the emphasis on the actual rates, which should instead be set to address the variable costs of our electric utility so those who use more are paying equitably for this service.

Below is a chart illustrating the recommendations for service charges the Cost-of-Service study is recommending for our Electric Utility:

Customer Class	2017 Rates	2018 Rates	2019 Rates	2020 Rates	2018 COS	2021 COS	Difference
Residential and Water Heating Electric	\$ 9.40	\$ 9.75	\$ 9.95	\$ 10.30	\$ 13.68	\$ 14.74	\$ 4.44
Senior Citizen Residential Electric	8.40	8.75	8.95	9.25	13.68	14.74	5.49
On & Off Peak Electric Space Heating Rate	5.70	5.90	6.00	6.20	13.68	14.74	8.54
General Service - Below 20 KW Demand	17.70	18.35	18.70	19.35	28.22	30.39	11.04
Large General Service - 20 KW Demand & Above	52.00	53.90	55.00	56.95	135.54	145.96	89.01

Customer Class	Current Rates	Annual Change	Year 1	Year 2	Year 3	Year 4	Year 5
Residential and Water Heating Electric	\$ 10.30	\$ 0.89	\$ 11.19	\$ 12.07	\$ 12.96	\$ 13.85	\$ 14.74
On & Off Peak Electric Space Heating Rate	\$ 6.20	\$ 1.71	\$ 7.91	\$ 9.61	\$ 11.32	\$ 13.03	\$ 14.74
General Service - Below 20 KW Demand	\$ 19.35	\$ 2.21	\$ 21.56	\$ 23.77	\$ 25.98	\$ 28.19	\$ 30.39
Large General Service - 20 KW Demand & Above	\$ 56.95	\$ 17.80	\$ 74.75	\$ 92.55	\$ 110.35	\$ 128.16	\$ 145.96

As can be seen from this chart, the study ultimately recommends that we raise our service charges up to \$14.74 per month for a residential user. This is up from the \$11.20 that we currently charge. However, to mitigate the impact of this focus on our service charge, the cost-of-service study recommended that this service charge increase be implemented over a 5-year period as is illustrated in the chart to help mitigate the impacts of change, with 2022 going up to \$12.10 per month for a residential customer.

What this change will mean is that more emphasis on our rate increase in Electric for 2022 will come from the Service Charge changes than it will from the actual energy charge changes. The overall impact will be a 2.25% increase. Below is the bill from an average residential user:

Average Home	Units/Month	2021 Bill	2022 Bill	Increase	% Increase
Electric					
Service Charge	1x/month	\$11.20	\$12.10	\$1.07	8.04%
Energy (kWh)	750	\$85.88	\$87.35	\$1.47	1.71%
EAC* (kWh)	750	\$8.03	\$8.03	\$0.00	
<b>Total</b>		<b>\$105.11</b>	<b>\$107.48</b>	<b>\$2.37</b>	<b>2.25%</b>

\*Energy Adjustment Charge (EAC) is pass-through: \$0.0107 per kWh

The other major finding of the Electric Cost of Service study was looking at our Senior Discount. Prior to 2021, the City has a 10% discount for seniors who say they have fixed-income needs. The intent of this program is to provide a discount to those who may not be able to afford as much because of being on a fixed income. However, in practicality, because it is difficult to verify income, we can see houses that have very large usage requesting this discount, which potentially provides them with a discount that they do not need.

Instead of approaching the discount in this way, the Study recommends providing a credit equal to what a typical low-income user might see as a discount on their bill if they received our current 10% discount. In that respect, if someone requests this who may not really need this discount, they will be capped at receiving only the credit that meets the needs of our lower-income user, without seeing a 10% discount on what could be a large bill.

To help ease into this transition, we are recommending that this come over a 3-year period, with the transition being set up as follows:

- 2020 (Current): 10% Discount, \$0 credit
- 2021 (year 1): 5% Discount, \$3 credit
- 2022 (year 2): 0% Discount, \$6 credit

As you can see from the chart above, we did start this transition in 2021, going to a 5% discount and \$3 credit. In 2022, we would fully implement this by eliminating the discount and going to a \$6 credit. By setting it up this way, we hope to be able to not negatively impact our seniors that need this discount and meet the intent of who it is trying to help, and that it does not provide a discount where one is not needed.

Finally, as a part of the Cost-of-Service study, it indicates that by the end of this 5-year period, that we should have a minimum cash balance in this Fund of about \$13.5 million. If we are to follow the recommendations of the Cost-of-Service Study, it would say that we should be able to end this 5-year period with an Electric Fund Cash Balance of \$19 million, which includes not only our requirement for cash on hand for our bond covenants but also our unrestricted cash balances.

**2022 Budget**

For 2022, Electric Fund revenues are anticipated to be \$43,308,700. This compares to the \$40,716,500 we had budgeted for revenue in 2021, which is an increase of 6.37%. Much of this growth in revenue is coming from the new development and expansions that we are seeing in the community which is driving our overall load in the system.

As part of the 2022 budget process, one of the items that Staff has continued to look at is the affect that new large users in our system will have on our overall electric sales, not only for 2022, but for the years included in our 5-year forecast. Over the past several years, we have seen large growth in our electric usage not only because of the additions of large data center facilities in the community, but also because of several existing Industrial customers on the north end of the community expanding. We have also started to see a large push for additional Commercial/Industrial property in the community, which will continue to grow our load throughout the community, including the addition of Costco and the planned addition to the 212 Medical Center. One thing to note, however, is that our electric utility will not see growth from Industrial development on the property south of Engler Road, as it is currently within MN Valley Electric Cooperative’s service territory. While they do currently own this territory, we are doing the economic analysis to see if it would make sense for us to consider purchasing this territory as this will be where we see most of the C/I development in the community over the next 20 years. We do continue to see strong growth in residential development, which we expect will continue over the next several years. Below is a chart looking at our anticipated revenue for 2022.

	Actual	Budget	Budget		
	2020	2021	2022	Change	% Change
Electric Sales	\$43,530,387	\$40,700,000	\$43,292,000	\$2,592,000	6.37%
Other Revenue	\$176,842	\$16,500	\$16,700	\$200	1.21%
Total Revenue	\$43,707,229	\$40,716,500	\$43,308,700	\$2,592,200	6.37%

To develop our 2022 revenue budget, we did utilize the following assumptions:

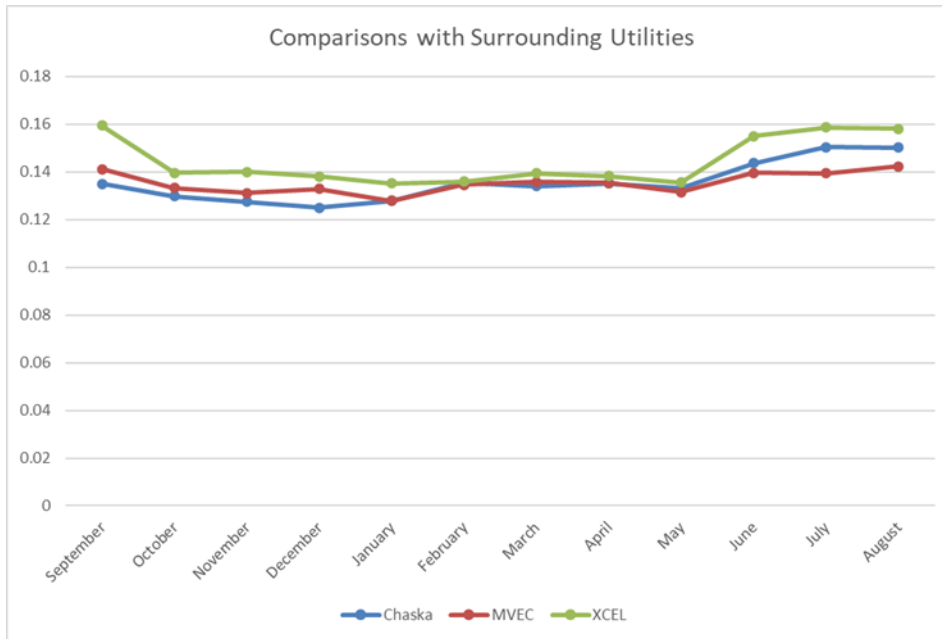
- Implement second phase of Cost-of-Service Study recommendations

- Total impact of retail rate changes to the average residential user of 2.25%, with most of this impact coming from increasing our customer service charge
- A total of 135 residential units added in the community over the year
- Continued Economic Development activity in Commercial/Industrial will drive robust growth
- Normal weather
- Wholesale electric costs from MMPA seeing 2.5% change in 2022

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 compared well to this market. Looking at 2021, we did see total bills for residential users that averaged 7% lower than Xcel, and approximately equal to Minnesota Valley Electrical Cooperative. While this is slightly lower than the 9% spread we saw in 2020, we do expect to see this spread continue to grow, as Xcel recently submitted a rate increase request to the State of Minnesota for over a 21% increase, with an interim rate increase for 2022 of over 9%. As for Mn Valley, with them serving the future Industrial Area of our community, having our pricing be closer to theirs will be strategically a good position to be in.

Much of MMPA's ability to keep lower pricing than Xcel can be attribute to relatively stable Natural Gas market. 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, 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. It should be noted that for 2022, there is expected to be some raw fuel volatility, which could see our Energy Adjustment Clauses have higher increases than we have seen in the past several years. This is a pass-through cost for Chaska Electric, with us simply passing along the actual cost to our end users. While this is something that will likely impact most electric utilities, it is one for our customers to keep in mind as markets have been somewhat volatile for natural resource costs.

Below is a graph showing our total residential bill compared to Xcel and Minnesota Valley in 2021:



Again, this chart shows over a 12-month period that we have been approximately 7% lower than Xcel and about equal in retail pricing to Minnesota Valley Electric Cooperative.

Electric Fund expenses for 2022 are projected to be \$42,575,427 compared to the budget of \$440,715,925 in 2021, for a total increase of 4.57%.

As mentioned previously, a primary factor in seeing our expenditures more in 2022 than in 2021 has to do with the fact that we will see a wholesale price increase from MMPA of 2.5%.

As in 2021, there is approximately \$611,000 programmed for System Improvement work in 2022. A major portion of this work in 2021 will be with the conversion of overhead to underground service in the community. Also, with the completion of our AMR System installation in 2015, just like in our Water and Sewer utilities, we have continued with Software as a Service (SAS) server solution to be able to store all new data available off our new system. This has a \$15,000 annual cost to the Electric Utility.

Finally, it should be noted that from a Personnel Standpoint, we do have programmed in 2022 to move an existing ground-worker into an apprentice lineman position. We also have a few currently vacant positions we will be moving to fill in 2022, including the Electric Director position.

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 also now has 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 recently opened a Solar generation facility in the City of Buffalo and is now looking at purchasing into other Wind Farm facilities in the State. It should be noted that our residents do have the option of purchasing up to 100% of their energy from renewable sources by paying an additional \$3 per month. We currently have 627 customers choosing to do this, which represents a 6.3% penetration of our residential market. Chaska continues to lead all MMPA communities in the usage of this program.

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 several different sources.

### **Personnel:**

Currently we have eleven line workers, along with our Electric Director, Assistant Electric Director, General Operations Manager, a Foreman, and Technical Support Staff serving this division budgeted. As mentioned previously, for 2022 we do see moving a current ground worker position into an Apprentice Line worker position and we will be moving to fill currently vacant positions.

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 is 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. It is planned that we would continue to see all these dollars going into the CCC in the future to assist with any new debt service as the bonds on The Lodge and our CIP program are paid off and we need to do additional improvements within this facility. This year, the Electric Fund will continue being a part of contributing \$200,000 to the General Fund to address the City building up its General Fund Reserves, something that was started in 2021. This \$200,000 is coming from not just Electric, but Water and Sewer as well.

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 \$1,000,000 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 \$1,300,000 annually going into the future. 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 address projects on a case-by-case basis. This will help make sure that we are also not taking our focus off 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:**

The Electric Fund has Debt Service payments for two projects it has completed within the past few years. The first is for the construction of the West Creek Substation, with this being financed in 2020 and going for 20 years. The second was for the construction of the new North Industrial Substation as well as new switch gear at West Creek Substation. Both projects were completed to increase both capacity and reliability of our electric system, especially as we are seeing growth in usage from our existing Industrial customers on the north end of the community. This debt was sold in 2018 and goes for 20 years. The annual debt service in the Electric Fund is \$835,654, which is nearly the same as it was for 2021.

Based on this, the following would be the expenditures for 2022:

	Actual	Budget	Budget		
	2020	2021	2022	Change	% Change
Purchased Power	\$28,434,599	\$25,901,000	\$26,859,000	\$958,000	3.70%
Trans/Distribution	\$2,222,336	\$3,073,063	\$3,117,170	\$44,107	1.44%
Load Conservation	\$598,138	\$669,919	\$675,973	\$6,054	0.90%
Admin System	\$3,056,005	\$3,350,308	\$3,496,184	\$145,876	4.35%
Admin Billing	\$660,442	\$598,821	\$685,446	\$86,625	14.47%
Franchise Fee	\$3,934,820	\$4,400,000	\$4,672,000	\$272,000	6.18%
Depreciation	\$1,217,143	\$0	\$0	\$0	0.00%
Debt Service	\$389,018	\$830,814	\$835,654	\$4,840	0.58%
Transfer	\$1,786,000	\$1,892,000	\$2,234,000	\$342,000	18.08%
Other	\$319	\$0	\$0	\$0	0.00%
<b>Total</b>	<b>\$42,298,820</b>	<b>\$40,715,925</b>	<b>\$42,575,427</b>	<b>\$1,859,502</b>	<b>4.57%</b>

Based on the budget as proposed, the Electric Fund would increase its Fund Balance by \$733,273, and that we are on target to meet or exceed our minimum cash balance amounts recommended for the fund by 2025.

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 enough to complete all necessary activities.

As the City of Chaska established our Storm Water Utility Fund, the City identified several 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 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 the work that needed to be completed as part of the Storm Water management activities, to develop an estimate on what all 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 were 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. However, it also helped expose what work needed to be done in the future to address increasing intensity of rain events to be prepared to protect the community.

### **2022 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 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 were for Storm Water Management activities and based on our low position in the cost of our Storm Water Fee, in 2012 the Council decided 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 have continued to realize that the activities that we thought were one-time activities to address the issues coming out of the summer of 2014 are activities that we will likely never see go away. We also recognized that 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 Minnesota River, than there would be in a non-river community.

During the budgeting process for the 2018 budget, we did begin 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 were needing 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

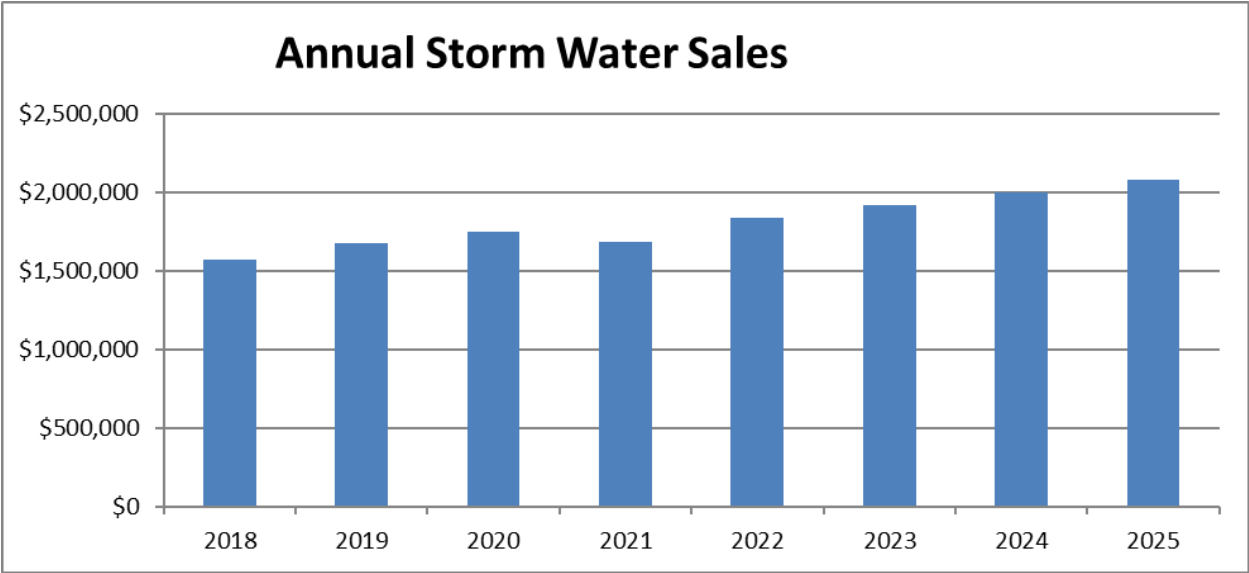
other Cities with similar types of Storm Water services that needed to be provided if we were to truly set our rates at the right amount. We used these new comparisons, along with a projection that if we did not increase our rates that we would find ourselves in a \$900,000 deficit over a 5-year period with the work that we needed to complete, to establish our new base rate of \$9.50 per month. We adjusted off that rate in 2019 to bring the rate up to \$9.79, in 2020 brought this rate up to \$10.14, and last year increased it to \$10.55 per month. All these rates were below the average of our comparable cities.

Below is a survey of 2021 monthly rates of the cities around the State that we feel are good comparisons based on the types of work that we need to complete and that have similar circumstances and types of systems to maintain:

Moorhead	\$10.21
Shakopee	\$8.04
Carver	\$9.83
Edina	\$13.53
Waconia	\$16.75
Eagan	\$6.37
Red Wing	\$11.50
Winona	\$7.00
Chaska	\$10.55
Average	\$10.42

As can be seen above, the average of these communities is at \$10.42 per month per residential unit. Based on our needs in the system for the upcoming year, along with comparing to these other communities, Staff does feel that the rate needs to go to \$10.97 per residential unit per month, which would be a 4.00% increase for 2022. This rate increase meets our needs for the upcoming year and keeps us in line with the average of these other community's 2021 rates even if we assume they have no change in their rates for next year.

Based on this new rate, and assuming we would need approximately a 4% annual increase to keep up with our needs over the next 5-years, the following chart illustrates what would happen during the 5-year period with anticipated Storm Water Sales:



**2022 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 requirements. 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 coming years, 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 has contributed \$200,000 annually to the Street Reconstruction program. In 2021 and through the entire 5-year period, we programmed this to go to \$246,000 to accommodate bridge replacement work that will occur on the 6th Street Bridge as part of this past summer’s identified street reconstruction project. It also goes to address the addition of a storm water system into our downtown streets,

something that was not accommodated when these roads were initially built over 70 years ago. This \$246,000 is built into the 2022 Storm Water Budget just like it was in 2021.

To be able to address the ever-increasing areas that we need to address through our Storm Water system, the budget includes an \$70,000 allocation toward storm water maintenance, and an additional \$80,000 towards the consulting engineering fees to help support the design of our future improvements in the City, and \$250,000 toward support capital improvements in our system. As we look at the necessary activities coming up over the next several years, it will include the following items in the 2022 budget

- 2022 and 2023: Complete the restoration of the McKnight Wetland Complex. \$100,000 per year is allocated from 2021, 2022 and 2023 towards this project, which will provide us with value in the future with additional wetland credits for development. We plan to keep this \$100,000 in the budget in the future to add to the \$250,000 we already have built in for Capital Improvements to the system
- 2022: Replacement of original pumps in Oak Street Pump House at a cost of \$300,000 (which we will finance). This is where the majority of our Storm Water makes it out of the City.

We have no new equipment that we are schedule to purchase in 2022, although we are preparing for the replacement of our Jetter Vac Truck in 2025 for \$425,000 and the replacement of our Sweeper Truck for \$250,000 in 2026. These will be our two largest equipment replacements coming up in the new future.

The functions of inspections and reporting are mainly completed through our Engineering Department and through contract Engineering services. We now have a Storm Water Coordinator position that has been added. This position was hired in 2019 with the position helping to take workload off our City Engineering Department as it relates to other areas of our City as well as having more dedicated personnel towards dealing with the planning and reporting on our MS4 requirements with the State.

There are no additional Staff changes proposed for 2022. It should be noted that in our City-wide Staffing study that the Storm Water Department was determined to be short one maintenance worker position. This position was originally scheduled to be brought on in 2022. With the Staffing Study implementation being pushed back one year because of economic conditions, this position will not be slated until 2023. Based on the changes to our rate structure and our planned projects for 2022, below is a breakdown of the revenues and expenditures for 2022:

	2020	2021	2022		
<b>Revenues</b>	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>	<b>Change</b>	<b>% Change</b>
Storm Water Fees	\$1,743,505	\$1,834,000	\$1,920,000	\$86,000	4.48%
Other	\$2,064,673	\$222,488	\$221,502	-\$986	-0.45%
<b>Total</b>	<b>\$3,808,178</b>	<b>\$2,056,488</b>	<b>\$2,141,502</b>	<b>\$85,014</b>	<b>3.97%</b>
<b>Expenditures</b>					
Transfer Out	\$668,586	\$246,000	\$246,000	\$0	0.00%
Transmission/Distribution	\$394,218	\$832,882	\$926,377	\$93,495	10.09%
Administration	\$489,413	\$521,207	\$589,523	\$68,316	11.59%
Utility Billing	\$60,659	\$63,500	\$63,820	\$320	0.50%
Capital Outlay	\$0	\$0	\$0	\$0	0.00%
Depreciation	\$181,081	\$30,000	\$30,000	\$0	0.00%
Debt Service Support	\$84,496	\$192,789	\$283,920	\$91,131	32.10%
Other	\$144,540	\$292,789	\$100,500	-\$192,289	
<b>Total</b>	<b>\$1,938,497</b>	<b>\$1,986,378</b>	<b>\$2,240,140</b>	<b>\$253,762</b>	<b>11.33%</b>

The Storm Water Fund is budgeted to decrease from our Fund Balance in 2022 by \$98,638, bringing our Fund Balance up to approximately \$400,000.

During the 5-year period, we will be looking at how we can increase the Fund balance to get it up to the minimum recommended amount of around \$750,000 by 2024. We do have some major improvements we are making over the next two years that are trending this down, but we do feel that over the next few years we will be able to achieve this minimum balance.

# 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, 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 and Town Course. 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.

### **Impacts of COVID Pandemic**

Very similar to what we experienced in the Community Center, the Curling and Event Center have also been impacted significantly during this pandemic period, having to be shut down by Executive Order twice, which has had a significant impact on revenues that we have been able to generate in the facility in both 2020 and 2021.

Just like the Community Center, the CEC was closed in late March due to an Executive Order from the State of Minnesota. During this time, all components of our building were closed, including Crooked Pint who did not see enough activity from their takeout service to make it economically viable to keep the restaurant open during this time.

We were able to reopen the facility in mid-July, with all three components of the building being limited in capacity. The restaurant was able to reopen at 50% capacity, the Event Center was able to be at 50% capacity, and the Curling was limited in the number of people that could be in the space. With the Event Center, even though it was allowed to be at 50%, we also needed to demonstrate we could meet the social distancing requirements, which did limit the number of seats to 80 of our total 300 seats. With the Curling Center we were able to meet our spacing requirements and keep leagues moving forward as normal based on distancing practices we implemented as part of the leagues, with us being able to start by offering a second Summer Session that started on August 3<sup>rd</sup>.

All components of the building were able to move forward with activities going into the Fall, with the Curling Center being able to start the Winter 1 session. However, in late November we once again had to close the facility due to an Executive Order from the State of Minnesota. This closure affected us the first couple months of 2021, with the restaurant being completely closed and no activities occurring in the Event Center. We were able to continue with Curling Leagues throughout the Winter, with us seeing about a 22% decrease in both memberships and League Play.

To address the economic realities of this pandemic on the operations of the CEC, we did go through a budget amendment process in early July 2020 to readjust our revenue projections and to cut back on some staff costs associated with the facility through furloughing of our part-time staff. This budget amendment resulted in a \$690,000 loss being identified for 2020. While we did receive Federal Cares assistance, we were not able to utilize those dollars to replace lost revenue, and there expect that we will likely have to utilize dollars from our Self Insurance Fund to help cover the gap.

For 2021, we expected to see direct impacts from COVID through the middle of the year, as when we set the budget for 2021 in late December of 2020, vaccines were not yet available. As they became available to the broader public in the late 1<sup>st</sup> quart and 2<sup>nd</sup> quarter of the year, we did start to see restrictions slowing come off. It was not until the beginning of Summer that we saw all restrictions from the State be removed, with any restrictions being put in place being at our own discretion.

During COVID, we did initially see our membership go from 974 members down to 755 members. We currently are at around 855 members, meaning that we have made good strides to getting back to normal operations. From a League perspective, we went from 900 league participants down to 756 in 2020. We have now grown back up to 764 allowing us to continue to move in a positive direction.

From a restaurant perspective, there were several months that it was closed completely, with it being required to operate at 50% capacity up until early summer of this year. In 2020, that meant that our lease revenues were cut by more than 50%, going from \$380,000 down to about \$175,000. In 2021 we have seen a good rebound in activity, with an expectation that we will be up to about \$300,000 in activity for the year.

Finally, from an Event Center perspective, business has been coming back, with many people having to postpone their weddings and major events during the worst times of the pandemic. We lost virtually all our business, going from \$122,000 in 2019 down to \$32,000 in 2020. We have seen a lot of business come back during 2021, with it expected that we will generate around \$90,000 by year-end and continue to grow into next year.

One real positive thing that occurred during 2021 was that the City did receive approximately \$3 million of Federal Aid to support us through COVID. The amount of loss that we saw between the Community Center and the Curling Center were right around \$3 million in total loss, with the Curling Center being approximately \$700,000 of that loss over the two-year period. While we cannot put these funds directly into the CEC or CCC, we will be able to use these dollars in our other utility funds which will free up dollars that can then be transferred over to both funds to help address those deficits.

## **2020 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 our "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 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.

As we looked at establishing the budget for 2022, one thing that we did was to look back to 2019 as being a year to budget our revenues from as we are getting back to normal but did not experience the normal growth we would have likely seen over the past two years. In 2019, the amount generated from this lease was \$380,000. 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. Also, during the initial closing in the Spring for the pandemic, the Crooked Pint did implement changes, including a management change which has had a very positive impact on feedback we are now receiving from patrons. As we are looking to 2019 as a guide for our 2022 budget, for 2022 budget, we are budgeting for \$380,122. We think this is very realistic as the 2021 lease revenue will come in at about \$300,000 and that was after having to be closed for the first couple months of 2021 and being limited in capacity to 50% until the beginning of summer.

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 2019 season, we increased the number of members to 974 members and the Leagues continue to be full through the heart of our two Winter seasons. It should be noted that we currently have 78% of our members or are non-residents, with 22% being residents. In this sense, this facility has helped attract out of town visitors to our downtown area on a weekly basis, which was a major objective of this overall project.

As mentioned previously, the impact of COVID on Curling League participants is that it has dropped them down by about 16% down to 756 people in 2020. We did grow this back to 764 league members during the current 2021 Winter 1 League. We do think that there are still some that have not returned with the pandemic continuing to linger. Also, we are starting to see Corporate Events starting to come back much stronger as we get closer to the Holidays, which has been a major source of income in the past. Based on this, we are budgeting \$698,378 in revenue in this area of operation for 2022, which is slightly lower to the \$738,791 we generated in 2019 to recognize that it may take a little longer to get Corporate Curling events back to their pre-pandemic level.

The third major source of revenue in the CEC is from the Event Center itself. For the event center, we generate revenue off 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 \$400 for 4 hours on a Sunday-Thursday block, all the way to \$1,800 for an 8-hour block on a Saturday for non-residents.

Again, we are seeing activity increase relatively quickly in this area, as people who have delayed major events are anxious to move forward with them. We do think it is feasible to get back to our 2019 numbers of approximately \$122,000, as we will end 2021 with close to \$90,000 in revenue and we did not even have the entire year to be able to book events. At the same time, we have found that our rates have likely been lower than they should be as we look at comparable facilities and are recommending an increase in our rates based on the chart below. Based on this change, and the increased amount of activity, we do think that the \$122,300 that we have budgeted for 2022 is feasible to attain. 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 and we have budgeted in the General Fund to continue this into 2022.

Friday	2021 Non-Resident	2021 Resident	2022 Non-Resident	2022 Resident
May-October	\$1,800	\$1,600	\$1,900	\$1,700
November-April	\$1,550	\$1,900	\$1,650	\$1,450
Saturday				
May-October	\$2,200	\$1,900	\$2,300	\$2,000
November-April	\$1,950	\$1,650	\$2,050	\$1,750
Sunday				
4 hours	\$475	\$400	\$475	\$400
8 hours	\$775	\$700	\$775	\$700
Hourly				
Less than 8 hours	\$100	\$90	\$100	\$90

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 can utilize whatever caterer they want to for their event, with the caterer’s fee being equal to 17% of their gross sales for outside vendors and a 12% fee for use of the 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 it takes more staff resources to be able to manage the outside vendor.

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 \$45 per person. If a corporate event is held on the weekend, the fee is \$50 per person. Food is something that is provided separately from

Crooked Pint, but they can order and be served directly in the Curler’s Lounge Space. The total revenue generated for this service in 2019 was \$245,947 which was significantly above our original budget for that year. Unfortunately, with people not gathering employee groups because of COVID, this has had a major impact on the Corporate Events over the past two years, but especially in 2020 where we only saw \$89,000 in activity. As mentioned above, we have seen this business just start to pick up in the 4<sup>th</sup> quarter of this year, with us expected to end the year close to our budget of \$123,000. We expect this will grow back in 2022, but not quite to the levels we saw in 2019. That is why we are budgeting \$200,000 in Corporate Events for 2022.

The final revenue source we have coming in is \$1,581,692 from the Community Building Fund to support the debt service on the construction of this project.

Based on this, we are recommending that the adopted revenue budget we have for 2022 will be \$2,770,338.

Below is a chart reflecting the actual revenue number for 2020, as well as the budgeted revenue for the 2021 budget year, along with the proposed regular budget for 2022 and the planned budget we will be working from.

Revenues	Actual 2019	Actual 2020	Budget 2021	Budget 2022	Change	%Change
Event Center Rental	\$121,975	\$31,945	\$69,880	\$122,300	\$52,420	75.01%
Curling Center Leagues/Memberships	\$491,633	\$343,991	\$388,971	\$498,378	\$109,407	28.13%
Corporate Curling Events	\$245,947	\$89,090	\$123,000	\$200,000	\$77,000	62.60%
Restaurant Lease	\$379,420	\$176,124	\$300,000	\$380,122	\$80,122	26.71%
Community Fund Transfer (Debt)	\$1,484,099	\$1,573,692	\$1,573,947	\$1,581,692	\$7,745	0.49%
Other Revenue	\$1,316	\$507	\$1,157	-\$12,154	-\$13,311	-1150.48%
<b>Total Operating Revenues</b>	<b>\$2,724,390</b>	<b>\$2,215,349</b>	<b>\$2,456,955</b>	<b>\$2,770,338</b>	<b>\$313,383</b>	<b>12.75%</b>

## 2022 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 4 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 provide this service more cost-effectively and do it to the unique service standards we have for the building and the different functions we have hosted within the building.

During the pandemic, we did furlough many of our part-time staff to help reduce overall costs. While we will still look for these opportunities to keep costs down until we are fully functioning at a normal level, our budget for 2022 does anticipate we will bring

back more of our part-time staff so that we do not burn out our full-time staff by having them be responsible for too many shifts.

Our full-time staff consists of our Curling Manager, our Curling Ice Maker, the Event Center Manager, our Facility Coordinator Position, as well as our full time Custodian. 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 \$170,000 per year, with the costs within the restaurant area being approximately \$50,000 per year. We have this number going up this year due to the increase in utility costs and the anticipation of the building being fully open during the entire year.

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”, the EDA and our expired TIF District #4, 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 2022, below is the expenditure budget that we would suggest for 2022.

Expenditures	Actual 2019	Budget 2020	Normal Budget 2021	Planned Budeget 2021	Change	% Change
Administration/General Facilities	\$610,345	\$691,769	\$725,250	\$725,250	\$0	0.00%
Event Center	\$110,646	\$129,751	\$117,343	\$116,343	-\$1,000	-0.85%
Curling Center	\$443,385	\$298,254	\$335,607	\$293,257	-\$42,350	-12.62%
Crooked Pint	\$131,147	\$74,963	\$58,525	\$58,525	\$0	0.00%
Other	\$85	\$0	\$21,020	\$1,255	-\$19,765	-94.03%
Depreciation	\$628,588	\$5,000	\$5,000	\$5,000	\$0	0.00%
Debt Service	\$489,965	\$1,589,077	\$1,586,101	\$1,586,846	\$745	0.05%
<b>Total Operating Expenses</b>	<b>\$2,414,161</b>	<b>\$2,788,814</b>	<b>\$2,848,846</b>	<b>\$2,786,476</b>	<b>-\$62,370</b>	<b>-2.19%</b>

Based on this budget, we would anticipate a deficit of \$102,048 which we expect because we are still building back from the pandemic. As mentioned last year, if we need to, these funds can come out of the Self Insurance Fund. To this point, we have had that option to get through the pandemic but have not had to use it.

