

# ***City of Chaska 2023 Budget***



**2023 Annual Budget**

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

Submitted for your review is the proposed 2023 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. With COVID 19’s impact on our City operations generally now subsided, we have spent the better part of this year talking to the public about our largest challenge over the next decade which will be taking care of our existing City facilities and investing into improvements that will be needed to allow us to meet our service objectives moving into the future.

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 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. We also have put a high priority on 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 is put towards completing implementation of the recommendations of our Baker-Tilley Staffing Study which helped us identify staffing shortages we need to fill to keep our residents’ expected service levels sustainable as we continue to grow. 2023 will be the 3<sup>rd</sup> of 4 years planned to complete the implementation of these staffing recommendations.

Finally, as mentioned previously, an emphasis was placed in this budget on starting to address our City Facility needs for buildings supporting our General Fund services in the City. This includes our Police and Fire Services, our Municipal Services Campus, Chaska Library, and our City Hall. All these facilities are over 30 years old, with very little change occurring in these facilities as our community has grown. Not only do these facilities have deferred maintenance projects that need to occur, but none of them are large enough to handle our current staffing levels in the City, let alone our future needs as we continue to grow. As will be described throughout this budget document, the 2023 budget will be the first of 4-years of revenue increase that will be needed to support the debt service of rehabilitating and expanding these facilities which will take the better part of this decade to complete.

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 2023 to help our residents understand the decisions that were made for the 2023 budget year.

**2023 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 2023, we will see the largest single increase in taxable market values in the community that we have seen over the past 20 years. 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, a 2.80% increase in 2021, and a 4.90% increase in 2022.

For taxes payable 2023, we are seeing a 22.35% increase in our community's taxable market value, which is the largest increase in market values we have seen in the past 20 years. Much of this was driven by the strong housing market we have seen for the past two years but was also impacted by the new growth we have seen in the community over the past several years. Our tax capacity for 2023 is slated to grow 24.78% for taxes payable 2023, compared to 5.21% in 2022. The tax capacity measures the amount of value that is taxable within a community.

While we were experiencing challenges throughout of our organization in 2020-2021 because of COVID, we actually saw building activity increase during this time, both through robust growth with residential construction occurring, but also significantly more Commercial/Industrial development occurring in the community than we have seen for several years. This has included Industrial buildings in West Creek Industrial Park and the addition onto the 212 Medical Center. In 2023 we expect to see continued activity in our Commercial/Industrial development with the construction of Costco and additional Industrial Development. And while there may be a slowing in the single-family residential development because of the rising interest rates we have seen over the past several months, we do expect to see the construction of at least 3 major rental housing projects in the community, with two apartment buildings going up in the Clover Ridge neighborhood and one going up in the Hazeltine Plaza development. As we finish out 2022, we expect that permits will exceed the 2021 levels of \$1.5 million, reaching to approximately \$1.8 million. We expect to continue to see strong growth in 2023 in Commercial/Industrial and Apartment buildings, but perhaps a slowing of the single-family housing market. Because of that, we are budgeting for slightly less in permits for 2023, setting a number at \$1.1 million.

As the 2023 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 22.35% compared to the 4.90% increase we saw last year. This will bring our overall property values in the community to \$4.30 billion, a little over \$785 million higher than last year. 2.17% of this change came from new construction, with the rest being increased values on existing properties. This 2.17% increase is slightly higher than the 1.56% 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 2023 will be \$0. This number was over \$550,000 in 2015 and has gone down ever since

- Residential and Commercial building permits in 2022 increased significantly, with the City expecting to be approximately \$700,000 over budget in revenue. This follows 2021, where we saw permits numbers over the budget by around \$500,000. For 2023, we expect that building activity is going to continue to be strong in Commercial/Industrial and Apartments with a likely slowdown in single family housing construction. While we will end up seeing about \$1.8 million in revenue from permits in 2022, we are trying to be more conservative in setting our budget for next year and will set the budgeted revenue for permits at \$1.1 million
- We are continuing to see an increase in population, with a steady increase in the number of residential units being built in the community, especially rental units. We expect the population in Chaska to be just over 28,300 in 2023.
- 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, two industrial projects in Downtown Chaska approved for building in 2023 and work on a large Data Center on the Kelzer property in West Creek Corporate Center, and building of the Costco building, we do expect to see robust growth in our Commercial/Industrial development over the next year

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 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. The budget for 2023 continues with full investment into the CAMP to continue to keep up with these reinvestment needs.

During the 2020 budget, we did turn our attention to addressing the gaps we had identified in our staffing levels across the City in past years, and what we felt was needed to sustainably meet our service level expectations into the future. 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 for 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 were 16 employees short in being able to meet our current service level 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. We were able to start this Staffing program in 2020, needing to take a break in 2021 because of COVID challenges. However, in 2022, we did re-establish this program, implementing the 2<sup>nd</sup> of the 4 years recommended for full implementation, along with addressing public safety gaps (shortage of 3 Police Officers) that were not identified in the original study. These 3 Police Officers were spread into each of the remaining 3 years of the Staffing program implementation, with 1 new position being added each year.

The budget for 2023 has us funding the 3<sup>rd</sup> year of this program, with the program being supported by \$487,000 in additional tax levy and \$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 through our new Building Maintenance Staff. 2024 would be the final year of implementing this program.

For 2023, the new program that is being addressed is the Building Improvement Program for our General Fund facilities. As we have been discussing over the last several months both internally and through educational events for the public, is the need to reinvest in our General Fund facilities that are over 30 years old, are in poor condition, and are not sized properly to serve our growing community. When doing our initial study to explore our current needs, it was identified that the following 4 buildings are in serious need of reinvestment and expansion, without the proper resources being currently available to address these needs. The four General Fund facilities discussed, in order of their priority, include:

- Public Safety (Police and Fire)
- Municipal Services Building (Public Works, Water/Sewer, Storm Water, Electric)
- Chaska Library
- Chaska City Hall

Later in this document I will discuss the needs that we have found with these facilities, and the revenue needs we would have to properly address these deficiencies. As I will discuss, the program is one that we are laying out to be implemented over a 4-year period to help spread the additional tax burden needed to support the program over an extended period, with the first facility looking to be completed in 2025 (Public Safety Facility) and the final facility being completed in late 2028/early 2029 (City Hall Rehabilitation). This Building Improvement Program was where we spent the bulk of our discussion over the past year, and what we have been out educating the public on since early spring.

This Budget 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 need 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 and businesses 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 2023 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 2023 include:

- Implementing the third of the four-year implementation of our Staffing Gap plan, which requires an additional \$487,000 in tax levy
- Commit to continuing the \$1 million annual CAMP, which is already in the budget and does not require additional tax levy.
- Commit to the first of 4-years of ramping up revenues for our Building Improvement Program, which would add \$1.125 million of tax levy each of the next 4 years, along with \$400,000 of Utility Funds each of the next 4 years to support the ultimate \$6.1 million of estimated financing that would be needed to implement this entire program.

As we will discuss later in this budget, utilizing our base tax levy policy, and addressing these additional items above would have an impact on the Median Value Home in the community of \$17.50 per month, or \$212 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 and Building Improvement Programs. 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 2023 budget you see before you now:

- ***Support budgeting programs that help Chaska strengthen its mission of being "The Best Small Town in Minnesota"***
- ***Maintain existing high-quality service levels***
- ***Existing Levy Policy: Limit tax levy growth to capture only new real growth in community and inflation. Only increasing levy beyond this point if new service levels/assets are being added***
- ***Fully fund maintenance and replacement of our vehicles, equipment, and physical assets on a regular schedule to ensure sustainability of investments already made***
- ***Fund new programs only after existing, necessary programs are funded***
- ***Budget utilizing a plan that avoids draw-down of City's General Fund Reserves and builds these reserve levels to a targeted level***
- ***Fully fund levy needs of Street Reconstruction Program***
- ***Develop a budget plan that is sustainable from a resource perspective to support service levels that 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 four 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 allocated towards maintaining our aging facilities. Continuing to address our Staffing needs through the implementation of our Staffing Gap plan and establishing and starting to fund our Building Improvement Program will have significant impacts on being able to meet the service level expectations of our residents as we go into the future. Putting these resources in place now will also help us 25 years down the road when our City facilities will once again need additional major reinvestment. It will make sure we have an existing funding source to support these improvements-something that we had not created in the past and has made it financially difficult to address our current building needs.

As mentioned previously, instituting each of the above-described initiatives in 2023 would require an additional tax levy of \$487,000 for the Staffing Program, and an additional \$1.125 million to support the Building Improvement Program. On the Median-Valued Home in Chaska (\$370,700) the tax impact would be \$17.40 per month in additional costs, or \$209 over the course of the entire year. This would require approximate 20% increase in our tax levy. Given that we are seeing a 24.78% increase in our tax capacity for 2023, we would see an approximate 1.35% decrease in our tax rate. Assuming a 5% increase in tax levies from all other communities in the Twin Cities, we would still be in the bottom 24% (63 out of 84) lowest property tax levy per capita in the Metro Area. While this would move us from being 78<sup>th</sup> lowest property

tax per capita in 2022, it still shows that we can be very competitive with our property taxes while addressing these needs within our organization.

### **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. If we were to still have this policy for 2023, we would actually have our tax levy increase by 24.78% instead of just over 20% like we are proposing now.

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 (2.17% for 2023)
- Inflationary increases in the market. (~5% for 2023)
  - Total Base-line tax levy increase of 7.28% to keep current service levels constant
  - It should be noted above that the actual rate of inflation we have been seeing over the past year has been over 8%. However, we decided to cap it at 5% for budgeting purposes because we are addressing the addition of our Building Improvement Plan in 2023

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 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 2023 budget, the two new items that are being added is the \$487,000 going towards the third year of implementation of our Staffing Gap study, and the \$1.125 million towards the first year of our Building Improvement Program. The total new tax levy amount needed in 2023 to address these added programs would be \$1,612,000. 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 10 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. As mentioned before, while we expect to see some slowing in owner-occupied residential development in 2023, we expect we will continue to see robust Commercial/Industrial development, along with the addition of several residential rental projects.

While we have seen two years of very strong growth in 2021 and 2022, with building permit revenues being over \$1.5 million each of the two years, we are budgeting slightly less in 2023 at \$1.1 million since we do expect to see some slowdown in owner-occupied residential development. Below is a charge indicating what we think will happen with our population growth over the next 5 years due to expected growth:

Year	# of Households	# of New	Est. Pop.
2000	6,979	445	17,449
2001	7,394	415	17,746
2002	7,909	515	18,982
2003	8,378	469	20,107
2004	8,854	476	21,250
2005	9,122	268	21,893
2006	9,323	201	22,375
2007	9,553	230	22,927
2008	9,743	190	23,383
2009	9,767	24	23,441
2010	9,832	65	23,652
2011	9,907	75	23,777
2012	10,039	132	24,094
2013	10,173	134	24,415
2014	10,373	200	25,270
2015	10,523	150	25,255
2016	10,673	150	25,652
2017	10,823	150	25,975
2018	10,973	150	26,335
2019	11,123	150	26,695
2020	11,243	120	26,983
2021	11,468	225	27,523
2022	11,668	200	28,003
2023	11,818	150	28,363
2024	11,968	150	28,723
2025	12,118	150	29,083
2026	12,268	150	29,443
2027	12,418	150	29,803

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

Total revenues anticipated to fund the 2023 General Fund operating budget are \$24,635,215 which is an increase of 9.25% from our 2022 General Fund Revenues of \$21,724,729.

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 25.4% increase in property taxes, that is not the actual percentage of increase of our total property taxes. The total levy increase is 20.07%. 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 in the General Fund Revenue Chart is the increase of property taxes we have going into our General Fund as opposed to 2022. Again, our total property tax levy will be going up by 20.07% in 2023, with our tax rate going down by about 1.35%. As we have discussed, most of this increase is to address the start of implementation of our Building Improvement Program with the first phase going to the construction of a Public Safety Campus.

One additional thing to point out is in our Building Permit revenues. As mentioned previously, while we have seen actual permit amounts of over \$1.5 million the past two

years, we do think that there will be some slowdown, especially in residential building permits for next budget year. We still expect to see a high number of permits on the Commercial/Industrial side, as well as with rental housing, which will likely keep revenue for 2023 high, but not quite as high as it was in 2022. That is why we are budgeting it at \$1.1 million.

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 \$5.3 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 is occurring because of two main reasons. First, there is the next \$125,000 of funds from the Enterprise Funds to support the implementation of our Staffing/Building Maintenance Program discussed previously. Second, it will be these funds that help support a new Community Engagement Coordinator position that is being added in 2023 and will support all departments within the organization.

The chart below shows a summary of revenues for the 2023 budget year:

<b>General Fund Revenues</b>					
	2021	2022	2023		
	Actual	Budget	Budget	Increase	%Increase
<i>Property Tax</i>	\$7,692,331	\$8,429,549	\$10,573,388	\$2,143,839	25.4%
<i>Elec/GasFranchise Fees</i>	4,739,073	4,987,000	5,361,000	\$374,000	7.5%
<i>Other Franchise Fees</i>	311,830	296,000	305,000	\$9,000	3.0%
<i>License and Permits</i>	1,617,663	1,035,098	1,035,098	\$0	0.0%
<i>Other Revenues</i>	2,758,127	2,481,819	2,557,429	\$75,610	3.0%
<i>Admin Charges to Funds</i>	4,113,970	4,495,263	4,803,300	\$308,037	6.9%
<b>Total Revenue</b>	<b>\$21,232,994</b>	<b>\$21,724,729</b>	<b>\$24,635,215</b>	<b>\$2,910,486</b>	<b>13.4%</b>

Besides the funding of our general governmental services, the General Fund includes three major initiatives, including:

- Capital Asset Maintenance Program (CAMP)
- Staffing Gap Program/Building Maintenance Program
- Building Improvement Plan

I will talk in greater detail about each one individually below.

**1. Capital Asset Maintenance Program (CAMP)**

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.

As we discussed previously, between 2014-2017, the City worked to create our CAMP (aka CIP) to fund the replacement of major items in our General Fund. During this time we raised an additional \$1 million in revenue, which has since stayed in our budget to fully fund this program on an annual basis. The types of activities that this program funds includes replacing playgrounds, repaving trails, resurfacing roads, rehabbing parking lots, as well as other items that keep assets used by everyone in the community in good shape

With the CAMP fully funded, 2023 will bring several rehabilitation projects to the table, including:

- Street Overlay (Westin Ridge, Autumn Woods South, and Wildflower Lane)- \$480,000
- Remodel of City Square Park, including the rehabilitation of the Gazebo-\$500,000
- Trail Resurfacing (3 miles): \$60,000

## **2. 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. In addition to this, during the 2022 budget process, we did talk about one component of this program that we felt was not initially properly addressed, which was the Staffing levels with our Sworn Police Officers. It was decided that we were 3 Police Officers short, and that 1 would be added each of the remaining 3 years of implementing our Staffing Program. This added an additional \$336,000 to the overall program. Based on the recommended 4-year implementation of this plan to address these needs, this would have \$612,000 of additional resources added in 2023, with \$487,000 coming from additional tax levy and \$125,000 coming from Enterprise Fund Resources. 2023 would be the 3<sup>rd</sup> year of implementing this program, with one additional year left in 2024 to complete this program. Below is a list of the positions/building maintenance assets added in 2020 and 2022 (took a break in 2021 because of COVID), along with the proposed list of new positions for 2023.

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

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

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

- HR Generalist
- Assistant City Engineer
- Building Maintenance Worker (4<sup>th</sup> of 5)
- Additional Police Officer (#28)
- Allocation to Building Maintenance Budget: \$125,000

### **2023 Staffing Study Implementation Plan:**

- City Planner (2<sup>nd</sup>)
- Economic Development Coordinator
- Water/Sewer Maintenance Worker
- Park Maintenance Worker
- Additional Police Officer (#29)
- Allocation to Building Maintenance Budget: \$125,000

### **3. Building Improvement Program**

Since the City Council officially established it as a priority goal in 2021, reinvesting back into our Core Assets has been a focus of activity that the City has been working on over the past two years. This work and discussions have revolved specifically around the significant needs we have for improvements in our General Fund facilities, including:

- Public Safety (Police and Fire)
- Municipal Service Building (Public Works, Water/Sewer, Storm Water, Electric and Mechanics)
- New Library
- Remodeled City Hall

As we have discussed throughout this process, each of these facilities are over 30 years old (Fire Station is 27 years old in 2023), with little reinvestment being put back into these buildings over that time. These buildings have also not increased in size to accommodate new employees added as the community has grown, and they have not kept up from a space perspective to store all our equipment. Finally, these City facilities have not kept up with security measures that are now critical on public facilities to keep our employees and visitors safe.

To address this issue, the City hired architects from Leo A Daly and the construction management firm RJM Construction to complete the following tasks:

- Identify the square footage needs of every General Fund Department
- Develop a Concept Plan to address each of the department's needs
- Develop conceptual pricing to accomplish implementing these building recommendations

The findings of this study were presented to the Council in May, along with recommendations for how to fund these facility needs. The total estimated costs to

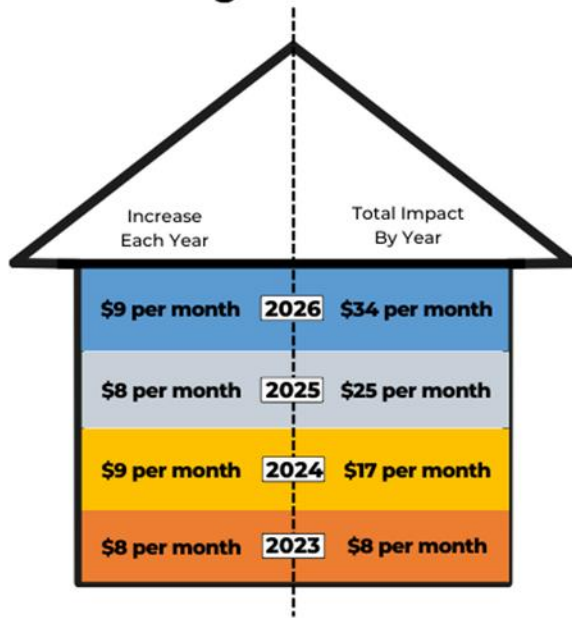
address the needs of each of these facilities was \$115 million, which would create an annual debt service need of a little over \$6.1 million per year, with \$4.5 million attributed to General Fund costs, and \$1.6 million attributed to costs of our Enterprise Funds (i.e., Electric, Water/Sewer, Storm).

As we have discussed during this process, one of the things that makes this issue difficult to address is both the fact that the original facilities were funded using 1-time dollars, and our tax levy has historically been very low, giving us few resources to reinvest back into these facilities as the needs have arisen. This means that to address this issue, we have needed to look at creating new resources unless we are willing to cut back on our existing services levels, which have also been traditionally leanly funded.

To address the funding of this program, but to not see the impact all come at once, Staff presented a recommendation to Council to increase the funding over a 4-year period, with the tax levy needing to increase by \$1.125 million for each of the next four years. Increasing this over a 4-year period would also match up with the pace at which we could even implement improvements to the plan, as we would only have the capacity to take on one facility each year. With this plan, all four buildings would be completed by late 2028/early 2029, with the priority going to our Public Safety facility, since it has the greatest immediate needs, and then our Municipal Services Building. The new Library would be the third building to be addressed, as we would need to move the library out of City Hall to pick up the needed space in this facility. The last piece of the project would be the remodeling of City Hall to pick up the spaces vacated by the library and Police Department.

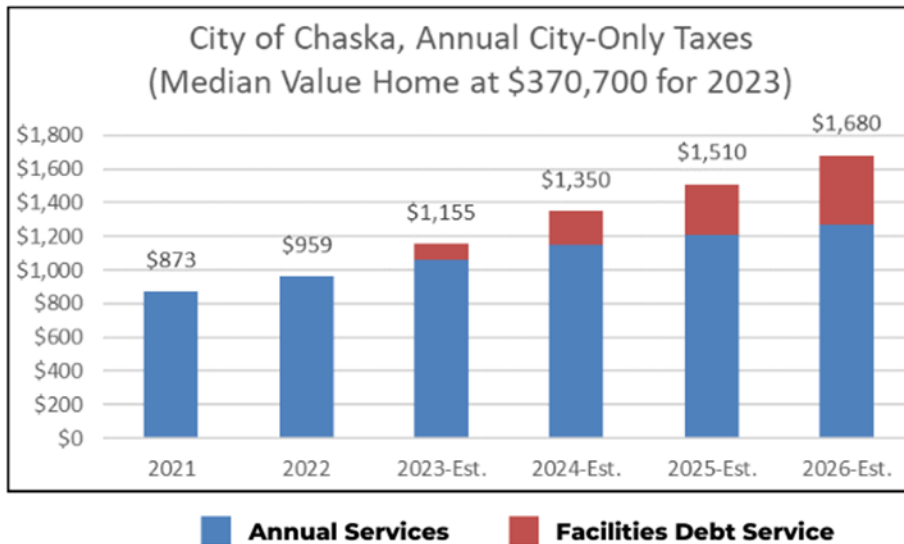
As the Council is aware, we have done a lot of public outreach over the summer months to educate our residents not only about the need, but what impact they could expect on taxes if we were to move forward with this plan. The plan would start at an \$8 monthly impact to the median-valued home in 2023, an additional \$9 per month in 2024, an additional \$8 per month in 2025 and the final year of the plan in 2026 would bring an additional impact of \$9 per month. At the end of 4 years, the monthly impact to a median-valued home would be \$34 per month, or \$408 per year. We would anticipate that this would put us about in the middle of the 84 Metropolitan Municipalities for tax levy per capita impact. Below are two charts we have been showing the public for the financial impact of the program:

## Funding the Facilities



Estimated monthly and annual amounts based on median valued home in Chaska = \$370,700

## Funding the Facilities



Adding the impact of the baseline tax levy increase (\$5/month) to the increase needed for the 3<sup>rd</sup> year of the Staffing Study Implementation (\$4.50/month) and the impact of the first year of the Building Improvement Plan (\$8/month), the total impact for a median-valued home (\$370,700) in Chaska for 2023 would be approximately \$17.40 per month for the tax levy needed to support the entire General Fund budget for 2023.

As mentioned previously, the Public Safety facility would be the first building to be addressed in this plan, with architectural planning occurring over the 2023 year and

construction planned to start the summer of 2024. We would anticipate being completed with the Public Safety facility in late 2025 if we are able to stick to this schedule.

### **Property Taxes:**

For 2023, to accomplish establishing our base-line budget, address implementing the third year of the Staffing Gap plan implementation, fully funding the CAMP, and starting the 1<sup>st</sup> year of the Building Improvement Program, the total tax levy needed would be \$15,216,147. 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 20.07% from the 2022 total tax levy.

This levy increase would be made up of 7.28% to support the baseline levy (5.11% for inflation and 2.17% for new growth in the community), in addition to \$489,000 that is needed for the third year of our Staffing Study implementation. Finally, an additional \$1.125 million of tax levy would be added for the first year of the Building Improvement Program. 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, \$333,951 represents a levy for tax abatement assistance provided in the past. This additional amount represents the 11<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 \$196,308 levy. Last year this levy was \$182,989. The amount levied for 2023 in the EDA Fund of \$196,308 represents the dollars supporting the operations of our Economic Development Activity and was included in the total tax levy amount of \$15,216,147.

In summary, the total levy will include:

- Continuation of dollars to support the Downtown Street Reconstruction Program
- \$14,685,888 being levied to support General Fund Operations, a portion of Street Reconstruction Debt Service, Mt. Pleasant Cemetery, and existing Equipment Acquisition Fund needs
- \$489,000 of additional levy (included in the total above) to support the third year of implementation on our Staffing Gap program
- \$1,125,000 to support the first year of the Building Improvement Program (included in total above)
- \$1,000,000 for our CAMP (included in total above)

- \$196,308 being levied in the Economic Development Authority Fund for operations
- \$333,951 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 2020, 2021 and 2022, along with the proposed 2023 levy:

	2020	2021	2022	2023	Increase	%
General/Equipment Acquisition/EDA/Tax Abatement	\$ 10,510,132	\$ 11,406,925	\$ 12,666,429	\$ 15,210,147	\$ 2,543,718	20.08%
Mt Pleasant	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	0.00%
Total Operating and Special Levy	\$ 10,516,132	\$ 11,412,925	\$ 12,672,429	\$ 15,216,147	\$ 2,543,718	20.07%

### **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 \$785,068,300 to \$4,297,171,400-an overall increase of 22.35%. The largest percentage increase that we saw in 2022 was in residential properties, with a 24.61% overall increase. 2.49% of that came from construction of new residential units in the community, with the other 22.17% coming from increasing values in existing residential units.

The other major area of increase we saw was in Apartment properties, with a 21.30% increase in market values. 0.24% of that growth came from new construction, meaning that 21.07 of the increase was experienced in existing Apartment buildings. This is consistent with what we have been seeing in the community with a lack of apartment units that are currently available. It should be noted that this lack of available rental units will change dramatically over the next two years, as we currently have 3 apartment projects and 1 rental townhome project that is moving forward that will bring nearly 500 new rental properties to our community. Commercial/Industrial also saw a large increase in 2022, with a total of a 14.05% increase. Undeveloped Agricultural land also saw an 8.55% increase, meaning that there was still demand for development property in the community.

Below is a summary of the Market Values for taxes payable 2023 (assessed 2022) as established by the County Assessor’s office:

## Chaska 2022 Assessment

	Residential	Commercial/Industrial	Apartment	Ag	Total
2022 EMV	\$3,295,947,000	\$631,025,600	\$281,134,600	\$89,064,200	\$4,297,171,400
2021 EMV	\$2,645,009,100	\$553,274,200	\$231,767,700	\$82,052,100	\$3,512,103,100
Total Value Change	\$650,937,900	\$77,751,400	\$49,366,900	\$7,012,100	\$785,068,300
New Construction	\$65,868,900	\$9,842,000	\$545,000	\$0	\$76,255,900
Market Change	\$585,069,000	\$67,909,400	\$48,821,900	\$7,012,100	\$708,812,400
% New Construction	2.49%	1.78%	0.24%	0.00%	2.17%
% Market Change	22.12%	12.27%	21.07%	8.55%	20.18%
2022 Total % Change	<b>24.61%</b>	<b>14.05%</b>	<b>21.30%</b>	<b>8.55%</b>	<b>22.35%</b>

Using the 2022 market values and the classification formulas established by the State, the County Auditor has calculated Chaska's 2022 (for taxes payable 2023) gross tax capacity to be \$49,483,043, an increase of 22.98%. 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 \$1,851,247 with Chaska's fiscal disparities contribution for 2023 being \$4,155,642 resulting in a net tax capacity of \$43,476,154 an increase of 24.78%.

	2022	2023	Increase	%
Gross Tax Capacity	\$40,238,279	\$49,483,043	\$9,244,764	22.98%
TIF	\$1,327,634	\$1,851,247	\$523,613	39.44%
Fiscal Disparities	\$4,068,058	\$4,155,642	\$87,584	2.15%
Other				
Net Tax Capacity	\$34,842,587	\$43,476,154	\$8,633,567	24.78%

Based on these estimates, Carver County has estimated Chaska's 2023 General Fund tax rate to be 31.197%. This is a decrease of 1.35% from 2022, where we had a tax rate of 31.625%. With the median value of home going up from \$298,500 to \$370,700 in the community, this would bring the median-valued home's City taxes from \$947 in 2022 to \$1,156 in 2023, or an increase of approximately 17.40 per month or \$209 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.

As we have discussed in previous years, Chaska has been in the lowest tax levies per capita of all Metropolitan cities for several years. As we move forward to implement the Building Improvement Program, this will impact Chaska's place in these rankings, but it will still be in the lowest taxed cities in the Twin Cities Metro Area. As we look at 2023, if you assumed that all other Cities have a 0% increase in their tax levies, Chaska would go from ranking 78<sup>th</sup> lowest out of 84 total Cities down to 56<sup>th</sup> lowest. However, if you assume that all other cities have a 5% increase, which most cities will be at this level or

higher, we would move to 64<sup>th</sup> lowest out of 84, which would put us in the lowest 24% of Metro Cities, which still makes Chaska very competitive.

The following chart illustrates the highlights of the most recent survey and assumes that Chaska would implement the full tax levy we have discussed during this report, but that all other cities would have a 0% increase:

Ranking	City	Taxes	Population	Tax Levy Per Capita
1	Golden Valley	\$27,927,443.00	22,334	\$1,250.45
2	Oak Park Heights	\$6,034,373.00	4,830	\$1,249.35
3	Wayzata	\$5,415,369.00	4,481	\$1,208.52
4	Mendota Heights	\$11,194,705.00	11,652	\$960.75
5	Hopkins	\$18,140,100.00	18,926	\$958.48
6	Minneapolis	\$415,119,275.00	434,346	\$955.73
7	Excelsior	\$2,188,937.00	2,360	\$927.52
8	Columbus	\$3,728,744.00	4,167	\$894.83
9	West St. Paul	\$18,657,430.00	20,882	\$893.47
10	St. Anthony Village	\$8,033,678.00	9,175	\$875.61

56	Chaska	\$15,216,147.00	27,931	\$544.79
57	Plymouth	\$43,654,569.00	81,184	\$537.72
58	Ramsey	\$15,312,856.00	28,520	\$536.92
59	Rosemount	\$14,026,345.00	26,133	\$536.73

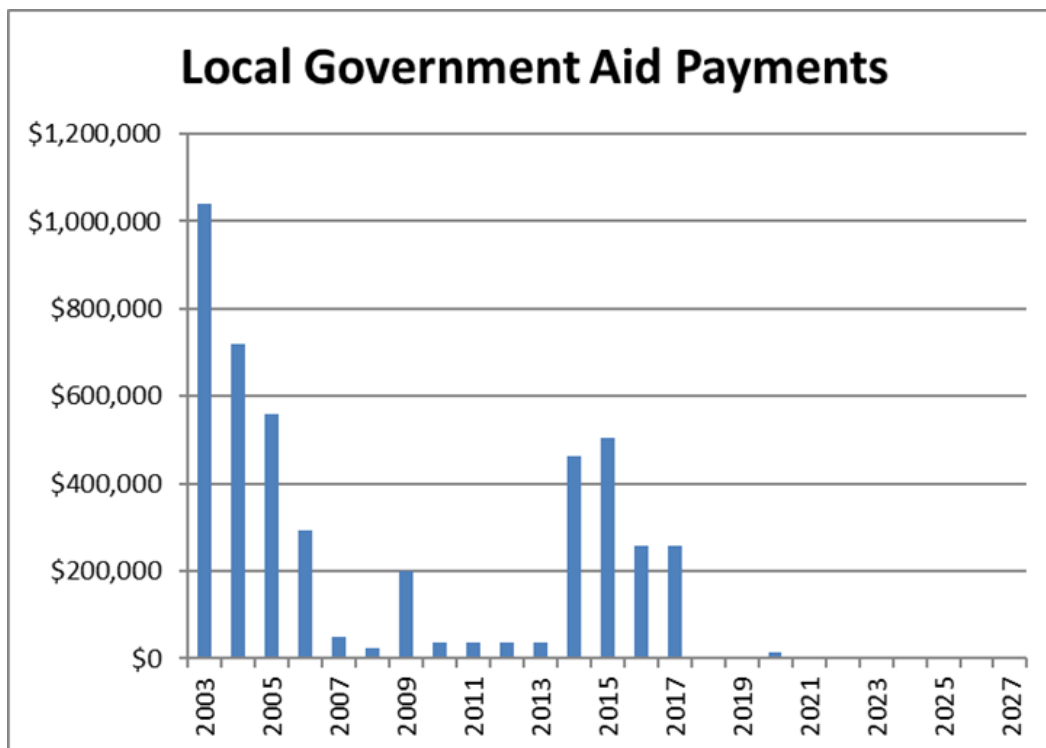
71	Chanhassen	\$12,663,076.00	25,936	\$488.24
72	New Brighton	\$11,481,450.00	23,705	\$484.35
73	Coon Rapids	\$30,990,539.00	64,128	\$483.26
74	Mounds View	\$6,178,870.00	13,133	\$470.48
75	North St. Paul	\$5,820,296.00	12,397	\$469.49
76	Cottage Grove	\$18,339,000.00	39,605	\$463.05
77	Falcon Heights	\$2,360,444.00	5,125	\$460.57
78	Arden Hills	\$4,472,680.00	9,897	\$451.92
79	St. Paul Park	\$2,442,807.00	5,507	\$443.58
80	Vadnais Heights	\$5,724,529.00	13,080	\$437.66
81	Anoka	\$7,811,653.00	18,041	\$432.99
82	Lauderdale	\$950,351.00	2,247	\$422.94
83	North Oaks	\$2,051,403.00	5,306	\$386.62
84	White Bear Lake	\$8,080,000.00	24,671	\$327.51

### Intergovernmental Revenues:

One significant change we experienced starting in 2018 and has continued into 2023 is the reduction of our Local Government Aid by approximately \$250,000, bring us down to nearly \$0 for the past 3 years. In 2020 the amount we had certified was \$14,171, with us receiving \$0 in 2021 and 2022. In 2023, we received notification that our certified amount is \$0, meaning this will be the third 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 why 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 soon. 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.



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 2023 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.

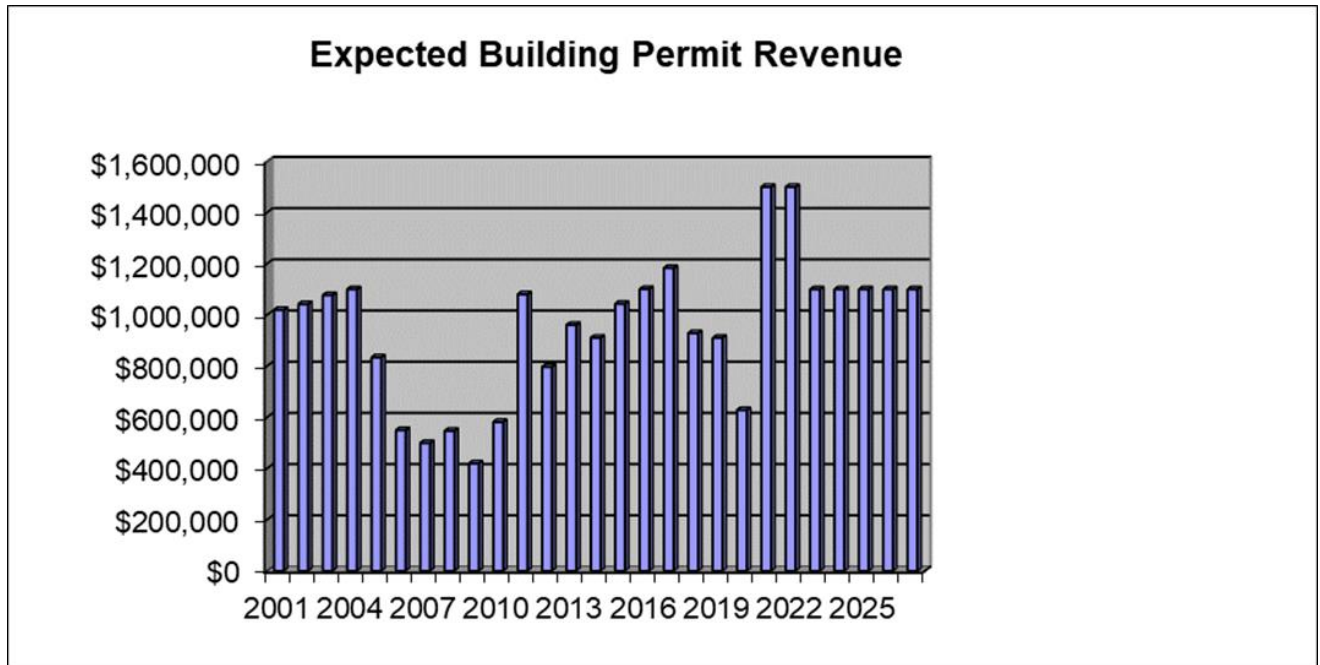
With the downturn in the economy in early 2020 due to the pandemic, we did see the permit revenue we expected to see be reduced significantly. While we continued to see relatively steady single-family residential development, we did see a big downturn in Commercial/Industrial activity, with only a few 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 and 2022, budgeting for approximately \$1 million over the course of each year, we did see a much larger than anticipated growth in residential activity, as well as growth in the Commercial/Industrial Market, in both 2021 and 2022. Although we budgeted just under \$900,000 in 2021, we ended the year with close to \$1.5 million in activity. In 2022, while we budgeted \$1.1 million in permit revenue, we expect that this number is going to be closer to \$1.8 million when we end the year.

While there are several projects that are likely going to be moving forward with construction in 2023, we do expect that most of these will be with larger Commercial/Industrial projects, with there being some slowdown because of interest rates rising on mortgages. The projects we expect to see pull permits include Costco, the residential development next to Costco, the apartment building at Hazeltine Plaza, the industrial Building on the old Chaska Building Center Site and continued work on the two Apartment projects in the Clover Ridge Neighborhood. So, while we will likely see a slowdown in owner-occupied residential units, there are enough C/I projects in the works that we will likely still see high levels of building permit activity.

Given the continued C/I work moving forward, but a likely slowdown in owner-occupied residential, we are recommending a slight decrease in our budgeted permits for 2023, bringing it down to \$1,035,000 million. By doing this, we think we are being more realistic to what we will actually see in 2023 because of a slowdown in the single-family residential units.

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.



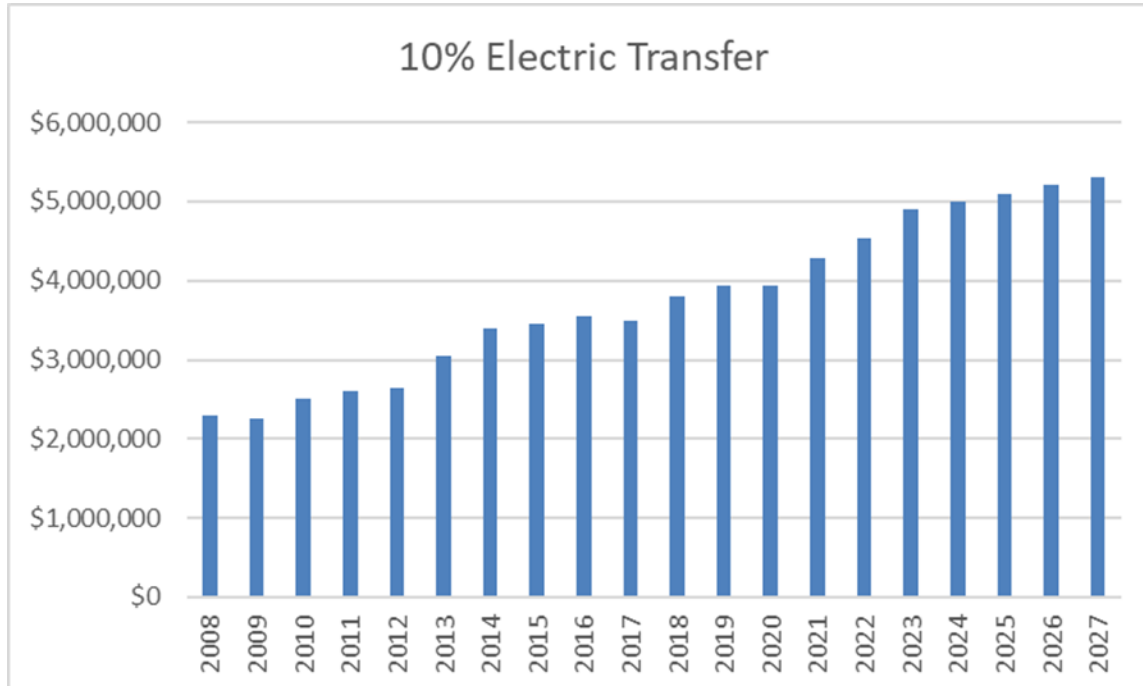
**Electric Fund Transfers**

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 2023, the total amount of Right of Way fee transfer and operational transfer is budgeted to be just under \$5 million.

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 2023 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 2023, 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 two industrial building in West Creek Corporate Center opening in 2023. 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 22% 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 2023, charges for services are programmed to be \$4,803,300 as compared to \$4,495,263 in 2022, or an increase of \$308,037. 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 \$375,000 for 2023 as we are implementing the third phase of our Staffing Study implementation. It should also be noted that there is an additional \$400,000 that will be brought in from the Utility Funds to support the 1<sup>st</sup> year of the Building Improvement Program. These funds need to support their fair share of the overall program and what they will be using. After 4 years of the program, the Utility Funds would need to support \$1.6 million of the total \$6.1 annual debt service needed to support this program. We would plan to add \$400,000 each of the 4 years of this program's implementation.

### **General Fund Expenditures:**

General fund operating expenditures are forecast to be \$24,635,215 in 2023, which is an increase of 13.40% over the 2022 Operating Budget.

In preparing the 2023 budget the following general assumptions were used for the operating budget:

- *Utilize budgeting objectives developed*
- *Increase in the tax levy by 2.17% due to new growth and 5% for inflation*
- *Move to implement the third year of our Staffing Gap Study, adding \$487,000 to the total tax levy, and an additional \$125,000 from the Enterprise Funds to support the third year of the plan*
- *Implement the first year of the Building Improvement Program, adding \$1.125 million to the tax levy, and \$400,000 from the Utility Funds to support the first phase of this program.*
- *Continue with the implementation of our CAMP, with \$1 million allocated to improvements to our existing General Fund Assets in the City*
- *Personnel salaries up 3%, with employer benefit contribution seeing 6% increase in 2023.*
- *Assume continuation of our Street Reconstruction Program*
- *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 2023 for "Scholarships" to support large community activities utilizing our new banquet facility (\$1,000 per month)*
- *Fully fund the Equipment Replacement Schedule for 2023*
- *Assume we are building up our General Fund reserves*
- *All other items in budget to remain unchanged*

Department	2021	2022	2023	Increase	%Increase	Notes
	Actual	Budget	Budget			
Council	\$166,337	\$182,008	\$191,078	\$9,070	4.98%	
Communication	\$63,776	\$52,008	\$73,447	\$21,439	41.22%	<i>This is an increase for more comm. Outreach</i>
Administration	\$859,305	\$890,488	\$1,122,615	\$232,127	26.07%	<i>This is the increase for Comm. Eng. Coordinator</i>
Human Resources	\$354,787	\$462,916	\$462,885	-\$31	-0.01%	
Elections	\$10,902	\$38,905	\$13,906	-\$24,999	-64.26%	
Admin Serv-Finance	\$1,655,938	\$1,760,400	\$1,860,432	\$100,032	5.68%	
Admin Serv-IS	\$1,137,010	\$1,269,942	\$1,282,276	\$12,334	0.97%	
Legal	\$140,165	\$100,000	\$120,000	\$20,000	20.00%	<i>This has increased because more development</i>
Community Dev.	\$329,092	\$380,392	\$417,903	\$37,511	9.86%	
Engineering	\$541,933	\$547,244	\$635,216	\$87,972	16.08%	<i>Work in full year salary of new As. Eng from last year</i>
City Hall Bldg	\$241,868	\$203,720	\$216,612	\$12,892	6.33%	
Building Maint Div	\$478,586	\$681,240	\$761,846	\$80,606	11.83%	<i>Work in full year of Building Maint from last year</i>
Police	\$5,169,592	\$5,584,386	\$6,176,456	\$592,070	10.60%	<i>Addition of new officer and full salary from last year</i>
Fire	\$2,301,671	\$2,283,915	\$2,550,484	\$266,569	11.67%	<i>Addition of new Inspector plus new equipment</i>
Building Inspection	\$804,848	\$755,775	\$821,511	\$65,736	8.70%	
Public Works Admin	\$411,684	\$427,833	\$424,883	-\$2,950	-0.69%	
Streets	\$1,742,161	\$1,934,186	\$1,935,240	\$1,054	0.05%	
Snow Removal	\$331,313	\$267,799	\$284,555	\$16,756	6.26%	
MSB Building	\$220,768	\$236,164	\$211,196	-\$24,968	-10.57%	
Park Maintenance	\$621,315	\$1,149,376	\$1,281,432	\$132,056	11.49%	<i>Addition of new Park Maintenance Worker</i>
ISD 112 Maint	\$0	\$37,369	\$37,940	\$571	1.53%	
Tree Control	\$14,629	\$13,074	\$37,199	\$24,125	184.53%	<i>Additional treatments for Emerald Ash Borer</i>
Parks Admin	\$536,522	\$811,095	\$638,389	-\$172,706	-21.29%	
Parks Youth	\$178,545	\$64,996	\$193,905	\$128,909	198.33%	<i>Shifted expenses from Park Admin into Youth</i>
Park Senior	\$1,388	\$166,025	\$170,065	\$4,040	2.43%	
Parks Adult	\$56,917	\$63,662	\$69,758	\$6,096	9.58%	
Firemen's Park	\$108,926	\$104,983	\$123,425	\$18,442	17.57%	
Parks Skating Rink	\$1,071	\$11,629	\$12,481	\$852	7.33%	
Unallocated	\$905,973	\$1,243,199	\$2,508,080	\$1,264,881	101.74%	<i>These are additional dollars for Building Program</i>
<b>Total</b>	<b>\$ 19,387,022</b>	<b>\$ 21,724,729</b>	<b>\$ 24,635,215</b>	<b>\$ 2,910,486</b>	<b>13.40%</b>	

From a CAMP perspective, 2023 will mark the 7<sup>th</sup> year in a row that we have budgeted for \$1,000,000 being dedicated to this 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 2023, the following projects are planned to be undertaken:

- \$480,000-Street Sealcoat Program (Westin Ridge, Autumn Woods South, and Wildflower Lane)
- \$500,000-Remodel of City Square Park
- \$60,000-Trail Resurfacing (3 miles)

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 2023 budget process, while also keeping us in the lower quarter of all Cities in the Metro Area for tax levy per capita.

## **Specific Department 2023 Activities**

### **Administration**

For 2023, 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 an Economic Development Coordinator position. This would be the first position we have dedicated to Economic Development, with all Economic Development activities in the past having been completed by the Assistant City Administrator position. This will help provide the support needed for our increasing economic development activities.

In addition to this position, the Administration Department would also add the position of Community Engagement Coordinator. This is a position that is not being funded by tax levy, nor is a part of our Staffing Gap Analysis plan but is instead being added through support from all the departments in the City. This was a position that we identified as a desired action item coming out of the last Council/Department Head retreat and would be focused on coordinating our efforts for “people-centered” services, such as coordinating efforts of our Chaska Cares program, creating a Volunteer Corp, expanding our DEI work, and generally working to get our residents and businesses more engaged in the community. This was work that we started during COVID when our Parks and Recreation staff had more opportunity to do this work since we had long shutdowns of our recreational facilities allowing them more time to dedicate this. With things now being back to normal in our Parks and Recreation Department and there not being the Staff to help continue to lead these efforts, this position would be added to make sure we have someone dedicated to continuing and expanding these services within our organization.

### **Administrative Services**

Budgeted staffing levels for the Administrative Services Department will remain steady in 2023. 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, while we may see some slowdown in Single-family residential development, we do anticipate that this upcoming year will still be busy one for planning and building departments, as we expect to continue to see Commercial/Industrial projects continue to move forward and the planned residential rental projects continue to move forward with development. With us coming off a 2021 that saw \$1.5 million in building permit activity, and 2022 that will see close to \$1.8 million in building permit activity, we do think it will remain strong in 2023, but maybe not quite as strong as we have seen the last two years. We are staffed to handle this load of development, although the building department will be very busy. With there expected to be less single-family development in the community in 2023, we have tried to budget conservatively on our Building Permit revenue, budgeting approximately \$1.03 million for 2023.

The addition we have planned for the department in 2023 is a second City Planner position. This was identified in the Staffing Study. This is something that is needed given the level of our planning activities in Chaska. It is very unusual for a City with our level of activity to only have 1 planner. This will help get us to sustainable levels as we move forward through full development of our community. One final move we made in the budget for 2023 is to add dollars to increase Advertising and Printing costs to be able to provide increased notices and flyers/postcards for public engagement efforts we have discussed with the Planning Commission over the past year.

As part of the Staffing Study, in the Engineering Department we did add the Assistant City Engineer position in 2022, which has had an immediate impact on reducing the workload of our City Engineer to a reasonable level. There are no new positions planned for this department in 2023, although the addition of the 2<sup>nd</sup> Planner and Economic Development Coordinator positions will help as all three departments works closely together on projects.

## **Police**

As we discussed during the budget process in 2022, we identified a major need in this department to deal with the shortage of staff, especially in our shifts that are staffed at minimum levels. As we discussed last year, our policy stated 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 was not 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. As we discussed last year, to be able to meet these needs would take three additional officers. We added our 28<sup>th</sup> officer in 2022, and plan to add our 29<sup>th</sup> officer in 2023. The final of these three officers would be added in 2024 when we would plan to add our 30<sup>th</sup> officer. In addition to this Staffing addition, we also have \$10,000 programmed for the addition of a drone in our Public Safety Department, as well as a tactical robot for \$4,000 that would allow for entrance into a barricaded property to assess situations without putting officers or suspects in danger. We also have \$4,200 programed to be a member of the Twin Cities Fencing Consortium to address being able to get fencing if we had any public rioting in front of our Police Department, and we have \$10,200 programmed to purchase 12 sets of Protective Equipment for Mobile Field Force Officers.

## **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. In 2022 we added the position of Training Chief to be able to take on the increasing administrative task of coordinating all required training in our department. All 6 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 did move the existing position of Training Chief and funded it to allow for this to become a full-time position instead of a Paid-on-Call position. This has helped 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.

In 2023, we do have the addition of a 3<sup>rd</sup> rental inspection/FT Firefighter position. This position is needed because we will be adding over 500 new rental units in the community over the next 12 months, which increases the number of units to a level that is not sustainable from 2 inspectors. This 3<sup>rd</sup> position will be supported by the revenue we generate from additional rental licenses.

Finally, one addition that we are recommending for the 2023 budget is the addition of a 3<sup>rd</sup> pumper in our fleet. We have found that over the past few years, we have had 25% of the time that we have had at least one vehicle down, which has only left us with two major pieces of apparatus. We do have a pumper replacement scheduled already in 2026. We are moving that up to 2023 to purchase and then planning on keeping the oldest pumper we have in the fleet to a backup pumper instead of selling it. By doing this, it does not really affect our budget differently than planned until 2042 as that is when we would need to account for the added pumper in our replacement schedule, but it does provide us with the immediate backup of equipment right away so that we do not run the risk of not having enough apparatus in service to properly be able to respond to a call without Mutual Aid backup. The cost of this apparatus is \$1 million and would not be delivered until 2024 because of supply chain issues.

## **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. In 2022, we did move to add the 4<sup>th</sup> of the 5 planned Building Maintenance positions, with the last one being added in 2024. We also added an additional Storm Water Utility person in 2022 to help support that departments growing activities. We will still have 1 additional Storm water maintenance person we plan to add in 2024.

For 2023, we do have a Park Maintenance Worker identified in our Staffing Gap Analysis plan to hire, with that hire planning on coming on in the Spring before the summer season starts. In addition to this, we also have added an additional \$40,000 to the Public Works Department in 2023 to address the treatment of trees for the Emerald Ash

Borer, as this has become a large issue in our community. We cannot treat all trees, but we are focusing on the ones that are most significant to our overall community (i.e. City Square Park).

### **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 continued to have on that facility, and to recognize the large capital improvements we have had to address in this facility as the facility has aged. While we will still see the Administrative Fee come in from the CCC into the General Fund, it will now be supported by a transfer of funds from the Utility Department into our CCC Fund. The Staffing Study did not identify any gaps in our overall staffing levels for recreation, and Staffing levels will remain unchanged for 2023 and into the near future.

# Community Center Budget

For the Chaska Community Center, 2023 will be its 32nd 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 has not utilized 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 few 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 and we anticipate this issue will only get worse if we do not identify other funding sources to be able to properly fund not only the operations of the facility, but also the capital replacement and reinvestment back into the facility.

To put this in perspective, according to our last Comprehensive Annual Financial Report, the Statewide average for Park and Recreation expenditures per capita supported from tax levy is \$95 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 \$46 per capita in the 2021 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 major 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 approximately \$750,000 annually 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 has especially become 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 improvements. It has also not allowed us to replace things within the facility when they are needed, but has forced us to look at replacement only when it becomes an emergency, and we have no alternative but to replace the equipment that has failed.

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 these years-but also because we were limited to 25% capacity in the facility in the months going through 2021. In fact, things have only recently been able to get back to normal from an operations perspective as we moved the fitness equipment back into the Fitness Center this past Spring, removing them from the large lower gym where they had been placed to allow them to be spaced since the beginning of the pandemic. This especially had an impact on being able to program the facility, as a lot of our programs rely on big spaces in the facility, such as the gym, to be able to be held. This led to not only to several patrons dropping their memberships at the facility both because of uses being restricted in the facility, but also because some patrons continued to feel uncomfortable with working out in public spaces. We also had the expense of extending patron's memberships for the time periods that we were closed, which had a direct impact on our membership revenue at the facility.

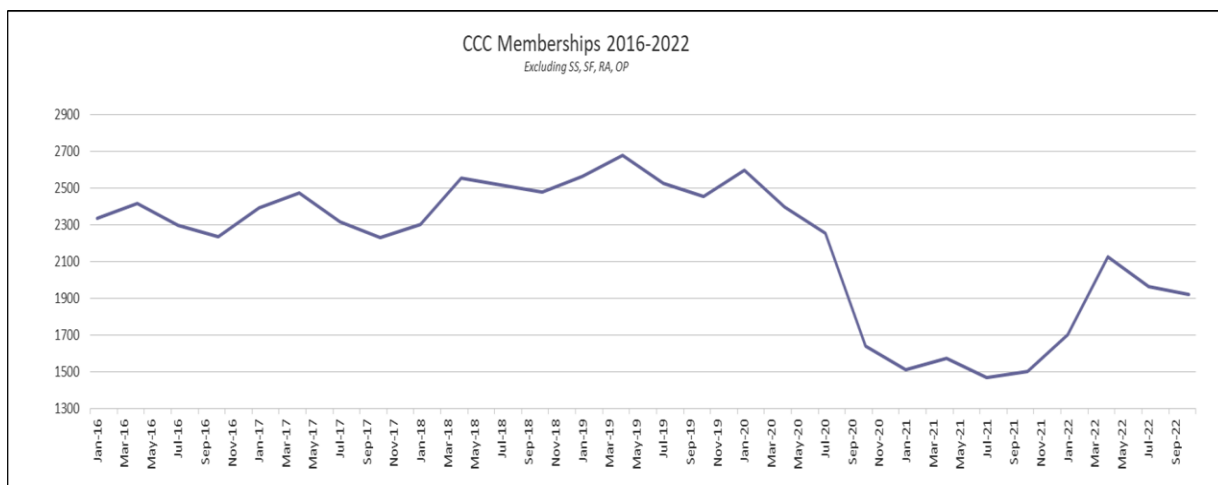
Our first closure came in the last week of March 2020, with us not being able to reopen the facility until July 7<sup>th</sup>. When we did open July 7<sup>th</sup>, it was at 25% capacity for four major areas of the facility, including the Fitness/Weight Center, Lap Swim, Open Swim, and the Ice Arena. 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.

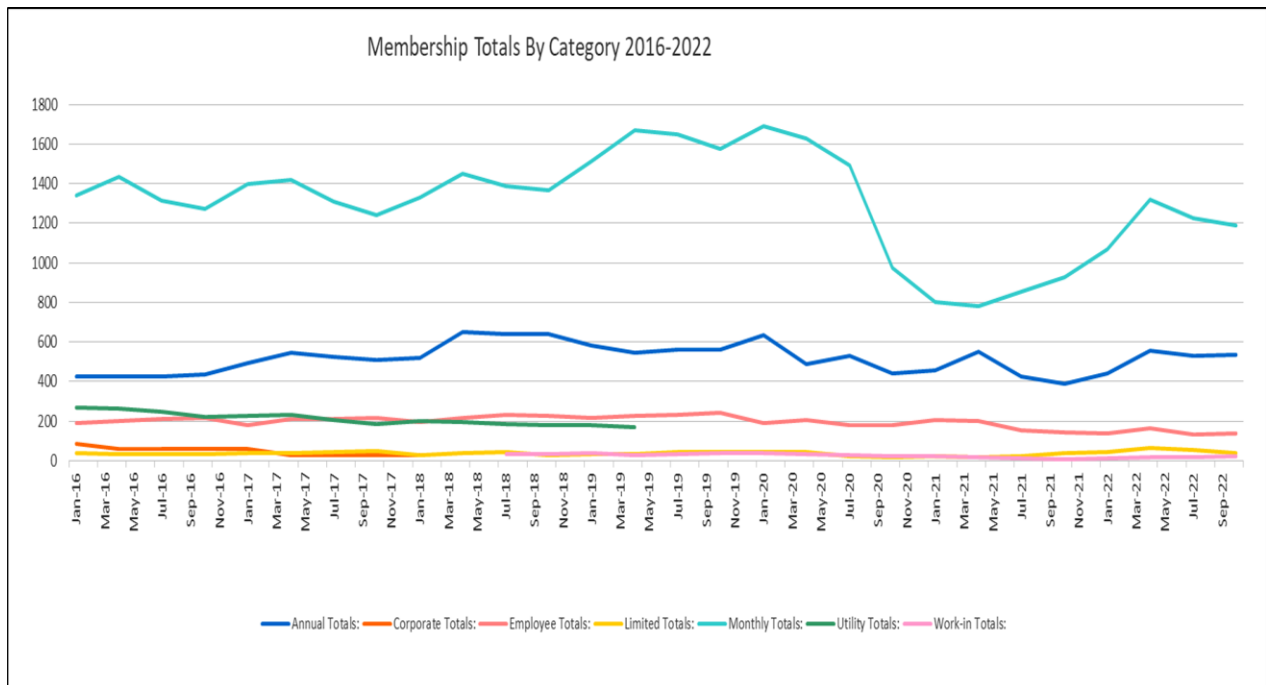
To help control expenditures during this time we had to furlough part-time staff, with our full-time staff moving into the roles of day-to-day operation of much of the facility while we waited to see things get back to normal.

During 2020 and 2021, these closures and patrons generally having concern about working out in a public space during the pandemic led not only to a 37.5% loss in membership revenue just based on the amount of time that we had to be closed, but also led to a loss of approximately 45% of our members who dropped their memberships until the pandemic was under control.

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 Street Reconstruction 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.

Over the Course of 2022, we did start to see memberships continue to improve, with us going from a low of 45% loss of memberships during the pandemic, to being about 28% below pre-pandemic levels by this current fall. One of the remaining challenges we had in 2022 was reclaiming the large gym space on the lower level. This space was utilized during the pandemic to house fitness equipment so that we could space them out farther away from each other. We were not able to move this equipment all back into the Fitness Center until late spring/early summer of this year. The significance of that is that it opened back up this large space for us to do more programming, as well as host things such as pickleball, basketball and volleyball leagues. These are all things that drive usage of the facility and people purchasing memberships. It is our hope that with this last phase of the facility now opened that we will be able to start to bring back the remaining people who dropped memberships during the pandemic.





The charts above follow the progress of both total memberships (top chart) and total memberships by category (bottom chart) we have seen in the CCC from the beginning of 2016 until now. As you will see in the charts, we saw our lowest membership level happen in July of 2021, with us being down to 1,471 memberships (down from the almost 2,700 total memberships at the beginning of the pandemic. We are currently back to just over 2,100 memberships, which is about 28% lower than where we were at the beginning of the pandemic. As you can see, right at the beginning of the pandemic, we were at the highest membership totals we had had in several years.

Again, our hope is that with the big gym now open that we will be able to get ourselves back to full capacity with the types of programming offerings that we are able to provide, and to accommodate popular activities in the CCC such as pickleball, basketball and volleyball that all do have an impact on the number of people we are able to attract for memberships to our facility.

While the impacts of COVID as still being felt in the CCC, we think that things are progressing in a positive way, and that we will continue to see improvement in 2023.

**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 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 a nearly impossible challenge 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 had to be able to be covered from other sources, such as our Electric Fund which annually pays 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 \$145,000,000 to replace if we were to start from scratch. We depreciate about \$750,000 of this facility annually but 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. This has become a major issue, as a facility this age has significant issues pop up every year if they are not able to be replaced on a proactive basis.

To illustrate this issue, below is a list of the improvements in the facility that are overdue for replacement. As you will see, this list totals close to \$2 million.

Capital Asset Current Passed Estimated Useful Life	
RTU St Francis 1	\$ 31,250.00
RTU St Francis 2	\$ 31,250.00
RTU St Francis 3	\$ 31,250.00
RTU St Francis 4	\$ 31,250.00
MUA 1 (Modine)	\$ 39,000.00
Scoreboards Arena 1	\$ 28,750.00
Scoreboards Arena 2	\$ 28,750.00
Dasher boards Arena 2	\$ 300,000.00
Gas Powered Ice Resurfacer - Zamboni	\$ 184,000.00
Dry Sauna Heater	\$ 13,000.00
Steam Room Boiler	\$ 19,500.00
Plated loaded weight equipment	\$ 36,280.20
Plates and free weights	\$ 17,250.00
Selecterize weight equipment	\$ 30,800.00
Leisure Pool Heat Exchanger	\$ 15,600.00
Tire curtain	\$ 24,000.00
Brick City Banquet Audio/Visual	\$ 26,400.00
Multi Purpose Chairs	\$ 86,250.00
Multi Purpose Tables	\$ 86,250.00
Red Maple Cubbards	\$ 18,000.00
White Oak Cubbards	\$ 18,000.00
Lower Gym Divider	\$ 60,000.00
Lower Gym Basketball Hoops	\$ 57,500.00
Upper Gym Basketball Hoops	\$ 55,200.00
Play Tunnel / Climbing Wall	\$ 84,500.00
Upper Corridor Carpet	\$ 31,030.00
Fitness Center Flooring	\$ 32,100.00
Lower Gym Flooring	\$ 312,500.00
Dance Studio Flooring	\$ 50,000.00
Arena 1 Painting	\$ 63,600.00
Arena 2 Painting	\$ 63,600.00
Theater Painting	\$ 10,600.00
Lower Gym Painting	\$ 47,700.00
<b>Current Asset Liability</b>	<b>\$ 1,965,160.20</b>

While this is the list of items that are overdue for replacement, and we would be wise to replace them now before they become an emergency, below is a list of the projects from this list that we plan on doing in 2023 that just cannot wait and need to be addressed now:

1. Replace RTU 1 and 2 over St. Francis (major mechanical)
  - \$62,500 for both
2. Replace Make up Air Handler (MAU) that supplies St. Francis space
  - \$39,000
3. Replace Arena Scoreboards in Arenas 1 and 2
  - \$57,500 for both
4. Replace Flooring in Arena 2 (peeling up-tripping hazard)
  - \$60,000
5. Replace 2<sup>nd</sup> gas powered Zamboni-Convert to Electric like first one
  - \$184,000 (able to get \$100,000 from our Electric rebate program)
  - Total of 2023 Replacements/Repairs=\$403,000
  - \$100,000 from Electric Rebate program, \$303,000 from Self-Insurance Fund Loan

As you will see, there are about \$403,000 of improvements we have no choice to make this year, compared to the almost \$2 million we should be doing. Every year we put off completing the things that we should do, it makes that issue exponentially worse as we continue to add to the list of improvements that should be made. It is also important to note that we also do not have the dollars in the Community Center Fund to support these improvements. \$100,000 is coming from our Electric Rebate Program, and \$303,000 is coming from our Self-Insurance Fund. We have had to piecemeal these solutions together each year to at least keep up with the basic things that need to be completed. This is not sustainable over time.

### **Community Center Master Plan**

As we first discussed during the budget process for 2022, we did move forward with establishing a Community Center Master Planning process to not only address how we keep the facility moving in the direction the community would like to see it moving into the future, but to also come up with a financial plan that can make this facility sustainable. As mentioned earlier, most municipal Community Center facilities are not self-supporting. They generate about 60% of their revenue from operational fees associated with the building, with 40% coming from some other source. For the first 20 years of the facility, we were able to sustain the operations of the facility from the operational revenue associated with the facility. In this respect, we have always been very successful operationally, as many facilities find it difficult to accomplish this. However, this because much more difficult to do as we aged because we did not have the dollars available to keep up with capital improvements to the facility without having to turn to other funds like the Electric and Self Insurance funds. It is the additional 40% of funding that comes from other sources on a regular basis in other municipal Community Center facilities that helps sustain them over time.

With the Community Center having had its 30<sup>th</sup> Anniversary in 2021, Council did move forward at the end of last year to hire an architect (Perkins and Will) to help guide this process, as well as established a Citizen Task Force to go through this process to come up with recommendations to the City Council both on where it thinks this facility should go in the future to keep it up to date from a conditions and amenity standpoint, but to also make recommendations to the Council on how this facility can be financially sustainable over time, including identifying alternative funding sources that could help the City achieve its goals for the facility over the long-run. It is expected that this process will be completed by mid-2023.

### **Membership Comparisons 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.

Prior to COVID starting as an issue in early 2020, the City had discussed a 5-year plan for how we get our membership rates to get closer to the average of other similar

municipal Community Centers in the Twin Cities. While we were able to start just the first piece of this plan in 2020, we did not move forward with anything else in the plan due to the impacts we were seeing from COVID.

With COVID now not being as large of an impact, especially as we move into 2023 and our entire facility is open and back to normal (i.e. Lower Big Gym is now fully open) we do think that we need to move this year to get our rates back closer to the average of other municipal facilities. Below are two charts (Annual and Monthly) showing how we currently compare to other municipal facilities, as well as what we are proposing for membership rates in 2023:

Annual Memberships	Initiation/ Admin Fee	Cancellation Fee	Adult		Senior		Youth		Family		Dual	
Chaska Comm Center Current			\$397	\$546	\$294	\$366	\$294	\$366	\$640	\$852		
Chaska Comm Center Proposed			\$440	\$524	\$330	\$396	\$330	\$396	\$825	\$990		
Shakopee			\$399	\$567	\$289	\$389	\$289	\$389	\$630	\$856	\$515	\$714
Eden Prairie			\$511	\$596	\$425	\$596	\$415	\$585	\$1,170	\$1,394	\$872	\$1,021
Shoreview			\$425	\$555	\$360	\$450	\$360	\$450	\$725	\$925	\$62	\$70
Waconia			\$440	\$495	\$330	\$385	\$330	\$385	\$660	\$715	\$550	\$605
<b>Average of Non-Chaska Facilities</b>			\$444	\$553	\$351	\$455	\$349	\$452	\$796	\$973	\$500	\$603
<b>Current Chaska vs Average</b>			89.46%	98.69%	83.76%	80.44%	84.36%	80.93%	80.38%	87.61%		
<b>Proposed Chaska vs Average</b>			99.15%	94.71%	94.02%	87.03%	94.69%	87.56%	103.61%	101.80%		

Monthly Memberships	Initiation/ Admin Fee	Cancellation Fee	Adult		Senior		Youth		Family		Dual	
Chaska Comm Center Current			\$36	\$49	\$26	\$33	\$26	\$33	\$58	\$77		
Chaska Comm Center Proposed			\$40	\$48	\$30	\$36	\$30	\$36	\$75	\$90		
Shakopee	\$30	\$50	\$37	\$50	\$26	\$35	\$26	\$35	\$58	\$77	\$47	\$65
Eden Prairie	\$20	\$10	\$43	\$50	\$36	\$50	\$36	\$50	\$98	\$117	\$73	\$85
Shoreview			\$41	\$51	\$35	\$45	\$35	\$45	\$70	\$84	\$62	\$70
Waconia	\$30		\$40	\$45	\$30	\$35	\$30	\$35	\$60	\$65	\$50	\$55
<b>Average of Non-Chaska Facilities</b>	\$27	\$30	\$40	\$49	\$32	\$41	\$32	\$41	\$72	\$86	\$58	\$69
<b>Current Chaska vs Average</b>			89.44%	100.00%	81.89%	80.00%	81.89%	80.00%	81.12%	89.80%		
<b>Proposed Chaska vs Average</b>			99.38%	97.96%	94.49%	87.27%	94.49%	87.27%	104.90%	104.96%		

As you will see in the charts above, our currently rates (left hand columns of each category) are generally about 10-20% lower for both month and annual membership rates. It should be noted that many of these facilities we compare to have tax levy support (usually around 40% of total budget), with the average of membership rates still being significantly lower than our membership rates. As you will see in our proposed rate structure, we would still generally be structured to be 5% lower than other facilities, except for single adult membership fees where we have always tried to be very close to market, and in our family memberships. The reason we are suggesting

that we bring up our family memberships slightly above average is because we need to start creating some separation from the rest of the membership to be able to start to offer Dual memberships, which has been offered at other municipal facilities, but currently is not being offered at the CCC. To have the Dual memberships make sense financially, we need the Family memberships to be slightly higher. We will start offering Dual memberships in 2024, but we would expect the time it will become very popular is in 2024 when we can create enough separation between the Family and Dual membership packages to show the real financial advantage.

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, we will have to keep in mind that only relying on membership and other fees will not be significant enough to keep up with our capital replacement needs. If we make our fees any higher, we will be uncompetitive with other municipal facilities, and it is not a fair comparison when we look at other facilities to compare rates because they are typically getting 40% of their revenue from something other than revenues derived from the facility itself. Looking at our current budget of approximately \$4.8 million, if we had 40% coming from another source, we would have close to \$850,000 of balance in our fund, which would cover our depreciation costs each year. This is something that will need to be explored further as part of our CCC Master Planning process.

### **Community Center Revenues**

While we are continuing to see improvement in the market, 2023 will continue to be another challenging year for the Community Center from a revenue perspective as well continue to try to bring back the remaining 28% of our memberships to the facility that have not returned. With all our space like the gym fully reopened, we do think this will allow us to return all the activities that we previously had in the facility, which we do think will help us attract more people to the facility.

As we went through the budget for this year, we looked at it from the perspective of if we saw little growth in our membership numbers but implemented our new rate structure so we would see the growth in revenue from this. We hope that by doing this that we are conservative on our revenue projections. A couple of areas we did plan for growth, however, is in our Swimming Lessons and our Summer Extreme Kids programs, as we do have a higher demand for these services than we can currently provide. We are looking at how we staff to accommodate a growth in these services to take advantage of more residents wanting to utilize these services.

As you will see in the chart below, we would recommend adopting a budgeted revenue number of \$4,761,062 for 2023. This would include not only the numbers for where we think we will grow going into 2023 in our operational budget, but also includes a loan of \$303,000 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. There would also be \$100,000 coming from the Electric Fund through our energy rebate program to support the replacement of our second Zamboni, which we would convert to electric like we did the first one last year. The \$303,000 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 RTU 1 and 2 over St. Francis (major mechanical)
  - \$62,500 for both
2. Replace Make up Air Handler (MAU) that supplies St. Francis space
  - \$39,000
3. Replace Arena Scoreboards in Arenas 1 and 2
  - \$57,500 for both
4. Replace Flooring in Arena 2 (peeling up-tripping hazard)
  - \$60,000
5. Replace 2<sup>nd</sup> gas powered Zamboni-Convert to Electric like first one
  - \$184,000 (able to get \$100,000 from our Electric rebate program)  
Total of 2023 Replacements/Repairs=\$403,000
  - \$100,000 from Electric Rebate program, \$303,000 from Self-Insurance Fund Loan

The total revenue for 2023 is budgeted to be \$4,761,062, which is an 8.94% from 2022. Below is a chart illustrating the Budgeted Revenues for 2023:

	<i>Actual</i>	<i>Budget</i>	<i>Budget</i>		<i>%</i>
<b>REVENUES</b>	<b>2021</b>	<b>2022</b>	<b>2023</b>	<b>Change</b>	<b>Change</b>
<i>Member/Admis/Rental</i>	\$1,028,525	\$1,633,031	\$1,840,873	\$207,842	12.73%
<i>Community Events</i>	\$518	\$3,060	\$3,274	\$214	6.99%
<i>Community Room</i>	\$36,110	\$69,854	\$75,000	\$5,146	7.37%
<i>Craft Rooms</i>	\$10,655	\$40,300	\$20,000	(\$20,300)	-50.37%
<i>Fitness Programs</i>	\$10,215	\$46,250	\$20,000	(\$26,250)	-56.76%
<i>Gym</i>	\$4,230	\$12,000	\$10,000	(\$2,000)	-16.67%
<i>Ice Arena</i>	\$662,207	\$1,129,881	\$1,004,867	(\$125,014)	-11.06%
<i>Maintenance</i>	\$20,020	\$25,500	\$37,285	\$11,785	46.22%
<i>Wellness-PT</i>	\$23,068	\$48,000	\$48,000	\$0	0.00%
<i>Senior Programs</i>	\$12,831	\$33,000	\$33,000	\$0	0.00%
<i>Adult Programs</i>	\$8,129	\$13,500	\$14,000	\$500	3.70%
<i>Teen Programs</i>	\$975	\$5,500	\$15,000	\$9,500	172.73%
<i>Pre/Youth Programs</i>	\$217,898	\$250,000	\$230,000	(\$20,000)	-8.00%
<i>Swimming Pool</i>	\$0	\$22,950	\$22,729	(\$221)	-0.96%
<i>Swim Lessons</i>	\$4,406	\$141,220	\$142,000	\$780	0.55%
<i>Theater</i>	\$64,802	\$56,343	\$49,227	(\$7,116)	-12.63%
<i>The Lodge</i>	\$6,412	\$13,000	\$20,000	\$7,000	53.85%
<i>Tot Time Preschool</i>	\$1,131	\$2,000	\$6,000	\$4,000	200.00%
<i>Vending</i>	\$0	\$10,000	\$11,000	\$1,000	10.00%
<i>Misc.</i>	\$43,888	\$0	\$166,787	\$166,787	
<b>Total Oper Rev</b>	<b>\$2,156,020</b>	<b>\$3,555,389</b>	<b>\$3,769,042</b>	<b>\$213,653</b>	<b>6.01%</b>
<b>Non-operating</b>					
<i>Self Insurance (CIP)</i>	\$0	\$350,000	\$303,000	(\$47,000)	-13.43%
<i>The Lodge Debt</i>	\$181,000	\$181,000	\$181,000	\$0	0.00%
<i>Electric fund</i>	\$296,000	\$284,104	\$508,020	\$223,916	78.81%
<b>Total Non oper</b>	<b>\$477,000</b>	<b>\$815,104</b>	<b>\$992,020</b>	<b>\$176,916</b>	<b>21.70%</b>
<b>TOTAL REV</b>	<b>\$2,633,020</b>	<b>\$4,370,493</b>	<b>\$4,761,062</b>	<b>\$390,569</b>	<b>8.94%</b>

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:

- St. Francis/Capable Kids-Receive approximately \$180,000 annually to lease space on the north end of the building
- Breakaway Academy: \$97,000 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/Chanhasen 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
- Arts Consortium of Carver County: \$9,954 in rent for gift shop space
- 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 in 2023 from the perspective of being strategic on where we spend dollars to keep our costs as low as possible, but to also make sure that we are investing into those areas that have the greatest return. As we have also discussed previously, while there are several capital reinvestment items that are due for replacement, we are focusing our efforts on addressing both the items in our facility that absolutely need replaced, and which can be continued to be used even as we make major reinvestment into our building following the completion of the Community Center Masterplan process.

If we look at the expenditure chart on the next page, you can see that we would budget planning to have our expenditures in 2023 be \$4,833,534. This would represent a 6.71% increase in our expenditures from our 2022 budget, representing a total increase in the budget of just over \$300,000. We would anticipate that we would see little changes in staffing, except for looking for times that we might traditionally be less busy to reduce staffing hours at places like our front desk. Typically, this is a function that we need to have at least two people staffing at busy times but could go down to 1 staff member in less busy hours. We would also see \$403,000 in Capital Improvements that was described earlier in this report that need to be made to the facility over the course of 2023. \$303,000 of that Capital Improvements would be funded through our Self Insurance Fund, with \$100,000 of the cost of replacing our second Zamboni coming from Energy Rebate dollars we need to spend from our Electric Fund covering the conversion of our current propane powered Zamboni to an electric ice resurfacing machine. This is the same of what we did in 2022 when we replaced our oldest Zamboni with an Electric machine utilizing our Energy Rebate dollars from the Electric Funds rebate program.

As we discussed above, we are still experiencing impacts from COVID, with us still being 28% below our membership numbers prior to the pandemic. With the reopening of our lower gym facility, this allows us to bring back additional uses to the Community Center such as pickleball, basketball, volleyball, and other recreational programs. These are all activities that help drive memberships to our facility.

While we do expect to see this have a positive impact on memberships in the facility and help drive increased revenue for the facility, in the short term there is still assistance the Community Center Fund will need to get back to normal operational numbers. To help address these short-term financial challenges we anticipate the Fund will have as we fully move out of COVID, we are planning to continue to support the Administrative Fee to the General Fund by bringing additional dollars from our Utility Fund into the CCC to support the General Fund services to the Community Center such as Payroll, IT, Human Resources and Finance. This will have the effect of addressing an approximate \$200,000 expense from the Community Center by bringing in additional resources to help support this expenditure.

While we would have like to fully reduce our expenditures to the amount of revenue we expect to see in 2023, 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 to provide the expected level of service to our patrons. 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. As it was throughout COVID, this will be a careful balance we will need to pay attention to with us continuing to look for opportunities to reduce costs during the year with it having a little impact on services as possible.

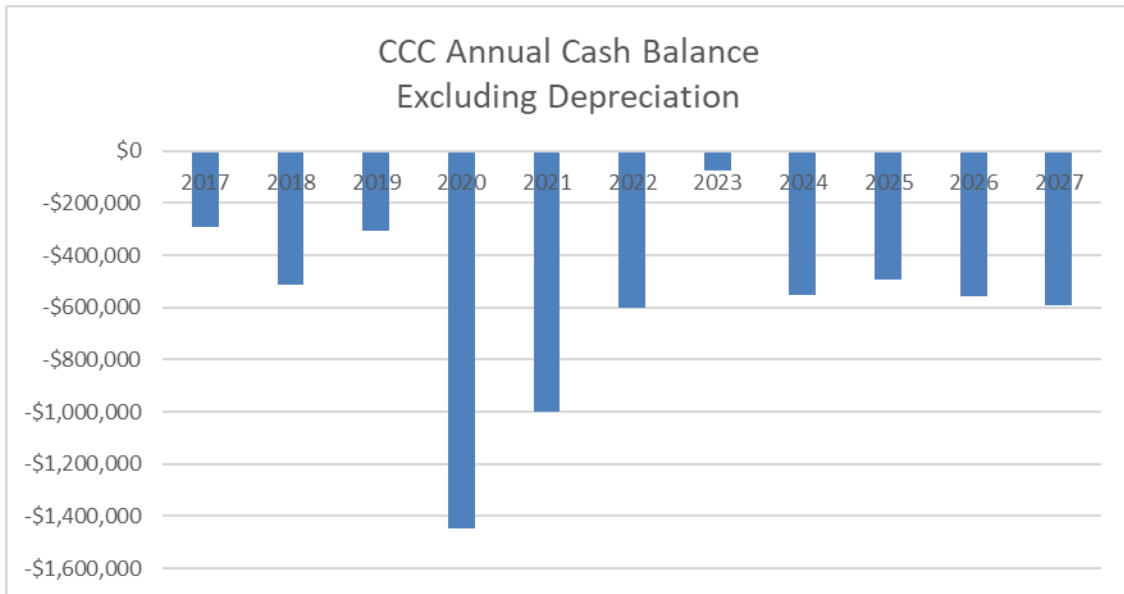
Again, one of our objectives of the CCC Master Plan will be to look at this issue in greater detail and to come up with sustainable ways to keep this facility not only in good order going into the future, but also financially sustainable.

Below is a list of the Expenditures budgeted for 2023:

<b>EXPENSES</b>	<b>Actual 2021</b>	<b>Budget 2022</b>	<b>Budget 2023</b>	<b>Increase</b>	<b>%</b>
<i>Admin</i>	\$ 641,604	\$ 840,236	\$ 919,524	\$ 79,288	9.44%
<i>Events</i>	\$ 2,178	\$ 5,000	\$ 5,200	\$ 200	4.00%
<i>Craft Rms</i>	\$ 137	\$ -	\$ -	\$ -	0.00%
<i>Well-Studio</i>	\$ 42,482	\$ -	\$ -	\$ -	0.00%
<i>Front Desk</i>	\$ 102,379	\$ 141,433	\$ 195,678	\$ 54,245	38.35%
<i>Well- Prog</i>	\$ 8,279	\$ 19,517	\$ 9,022	\$ (10,495)	-53.77%
<i>Gym</i>	\$ 4,674	\$ -	\$ -	\$ -	0.00%
<i>Ice Arena</i>	\$ 272,041	\$ 297,093	\$ 212,217	\$ (84,876)	-28.57%
<i>Maintenance</i>	\$1,350,699	\$1,329,929	\$1,369,553	\$ 39,624	2.98%
<i>Personal Train</i>	\$ 27,964	\$ 39,177	\$ 39,005	\$ (172)	-0.44%
<i>Wellness Add</i>	\$ 125,131	\$ 192,926	\$ 276,860	\$ 83,934	43.51%
<i>Play/Daycare</i>	\$ 38,900	\$ 64,104	\$ 74,650	\$ 10,546	16.45%
<i>Swim Pool</i>	\$ 395,362	\$ 536,487	\$ 580,662	\$ 44,175	8.23%
<i>Theater</i>	\$ -	\$ 7,565	\$ 7,603	\$ 38	0.50%
<i>Lodge</i>	\$ 133,151	\$ 4,450	\$ 4,350	\$ (100)	-2.25%
<i>Tot Time</i>	\$ 899	\$ 1,800	\$ 4,321	\$ 2,521	140.06%
<i>Gen Facility</i>	\$ 74,920	\$ 362,060	\$ 429,120	\$ 67,060	18.52%
<i>Senior Programing</i>	\$ 15,678	\$ 36,500	\$ 37,500	\$ 1,000	2.74%
<i>Adult Programming</i>	\$ 5,546	\$ 10,326	\$ 10,021	\$ (305)	-2.95%
<i>Teen Programming</i>	\$ 843	\$ 16,051	\$ 7,596	\$ (8,455)	-52.68%
<i>Prescl/Youth Program</i>	\$ 191,816	\$ 157,219	\$ 152,102	\$ (5,117)	-3.25%
<i>Vending</i>	\$ 3	\$ -	\$ -	\$ -	0.00%
<i>Depreciation</i>	\$ 789,068	\$ -	\$ -	\$ -	0.00%
<i>Debt Service</i>	\$ 131,960	\$ 467,750	\$ 498,550	\$ 30,800	6.58%
<i>Other</i>	\$ 4,140	\$ -	\$ -	\$ -	#DIV/0!
<b>Expenses</b>	<b>\$4,359,854</b>	<b>\$4,529,623</b>	<b>\$4,833,534</b>	<b>\$ 303,911</b>	<b>6.71%</b>

Based on our forecasted Revenues and Expenditures for 2023, we are estimating that the facility will have a deficit of \$72,472. This gap would be supported through the Self Insurance Fund if we were to experience this in 2023.

Below is a chart that illustrates what happens over the 5-year period to Fund Balances. After our Master/Visioning Plan is completed in 2023, 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 we have talked about previously, the deficit we experienced during the Pandemic (202-2022) was able to be supported by Federal Assistance we received as a City. While these dollars could not go directly into the CCC Fund, they did come into the City to free up dollars in other areas that could help support the CCC as we recovered. Beyond the pandemic years, you can see that what we have experienced as deficits have been in the \$200,000-\$400,000, which represents the capital reinvestment we have had to make back into our facility over the past several years, especially as original equipment in the building has failed and needed replaced. As we look at the Master Planning process, we will need to make sure that we find a way to cover our annual depreciation costs, which are approximately \$750,000 per year, to make sure we address the items that need to be replaced in the facility. We can only be financially sustainable in this Fund over the long term if we have these annual replacement costs for equipment covered. It will not be sustainable over time to only focus on the operational costs of this Fund.

# Town Course Budget

*The mission of the Chaska Town Course is to develop and operate a quality municipal golf course serving as a community recreational resource and as a community gathering place, that 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 into the future, while still providing a great value to our patrons.

As we look into the future, keeping up with Capital Reinvestment 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 dropped approximately 1.9 million golfers between 2012 and 2017 but 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. Since 2020, this number has increased an additional 300,000 golfers to bring the total up to 25.1 million in 2022. 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 5 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 three years seeing rounds of approximately 40,000 rounds. Our two highest years for usage were 2021 with 42,500 rounds, and this past season that saw 39,610 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 2022 golf season, we can see that the actual percentage was 46% residents, with 54% non-residents playing the course. The percentage of non-resident golf was slightly higher in 2022 than the 52% in 2021, but still is close to that 50/50 split we have been seeing the past several years. 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 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. This will be described in greater detail further in this report, but we have been going through this transition over the past 2 seasons with a lot of success.

### **2022 Chaska Town Course Season**

As with all our City operations, COVID 19 had impact on the operations of the Town Course during both 2020 and 2021. 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 have come out of the pandemic, we are seeing that the new golfers attracted to the game have not dropped off and continue to use the Town Course as they did during the height of the pandemic.

As we discussed during the budget processes during the pandemic, 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 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. For 2022, we saw 39,610 rounds of golf, which was the second highest total in the 25-year history of the CTC. Without experiencing the wet and cool weather we experienced in the Spring months we think that 2022 would have seen as many rounds as 2021 did.

We found in 2020, 2021 and 2022 that two factors greatly influenced the success of the Town Course during these seasons. First, we had very good weather the majority of all three seasons, with it being both hot and dry each of these 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. With not as much COVID impact in 2022, we simply found that the number of golfers increased during the pandemic, and they have stuck with golf as we came out of the pandemic. As mentioned previously, the golf industry in general has grown by over 2,700,000 golfers since 2017, with 800,000 of those coming after COVID began. When we complete financials for the 2022 year, we expect that we will see another growth in fund balance of between around \$700,000, which is like what we saw in 2021.

#### *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 enough 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 it 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 2020, 2021 and 2022 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 funding depreciation and add approximately \$200,000 to the Fund Balance. In 2022, we will see all our depreciation being funded, with an additional \$350,000 being added to the cash reserves. These increases were 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,

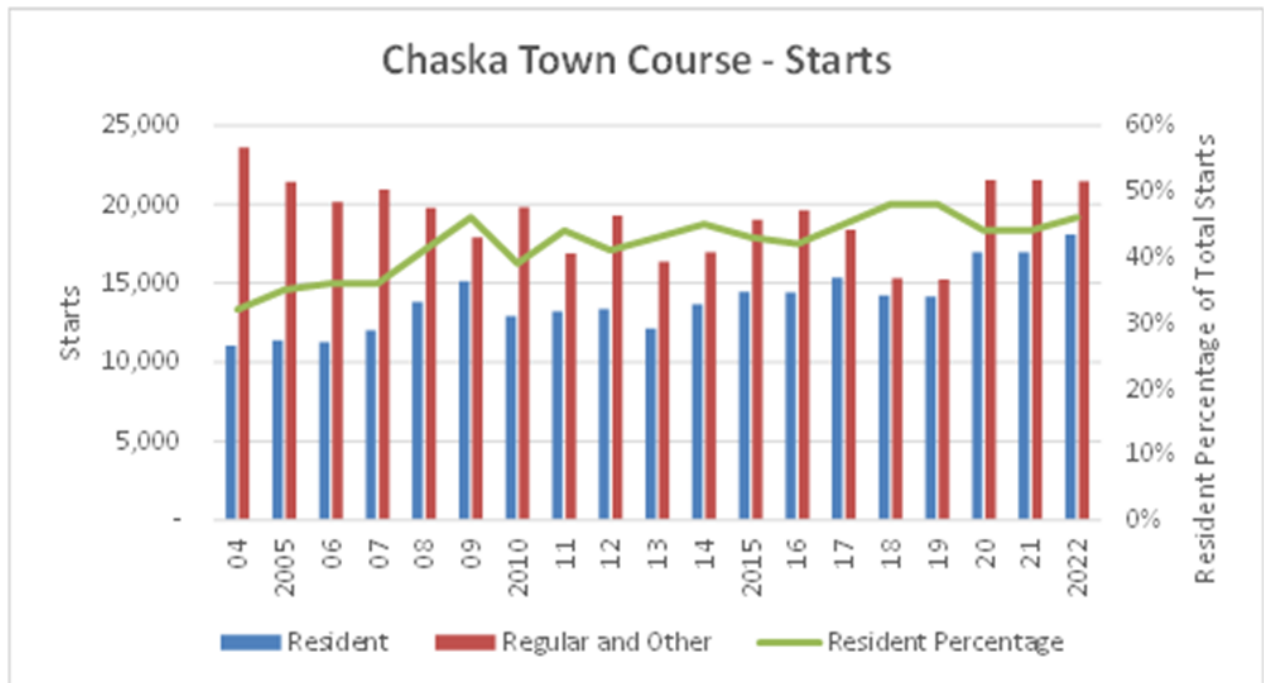
we included approximately \$200,000 in work to replace the sand and drainage system in our bunkers to help improve the play on the course. In 2016, we also made a significant reinvestment back into the kitchen of the Clubhouse to make it more usable for Oak 19 to operate their business, which has been 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 prices 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 but have started to become more competitive during COVID as other high-end courses in the Twin Cities have significantly increased their rates. 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 the budgets for the Chaska Town Course over the past three years 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 seeing a large discount from our regular rates. When we started this discussion, residents were seeing close to a 40% discount on 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 multi-year implementation to allow patrons to ease into this change (we started in 2020 and we are anticipating that we will complete this transition by 2028)
- 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 implementation period that we have resident rates set based on the following guidelines:
  - Target that resident discounts are set at 25% of the Regular Rate for Weekdays and 20% of the Regular Rate for Weekends
  - 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
  - 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. 2023 would be the fourth year of implementation, with our rounds increasing significantly during the first three years of implementation. For 2023, the changes to the rates to reflect this plan would be as follows:

- Resident Weekdays: Up \$4 to \$51 (\$72 with Cart)-Represents 36.25% discount
- Resident Weekends: Up \$3 to \$59 (\$80 with Cart)-Represents 26.25% discount
- Non-Resident Weekdays: Up \$2 to \$74 (\$95 with Cart)
- Non-Resident Weekends: Up \$2 to \$80 (\$101 with Cart)
- No changes to our Cart Rates-remain at \$21 for 2023 as they were in 2022 (we were scheduled for a cart rate change, but do not want to implement that until 2024 when we have our new fleet of carts delivered and ready for use)

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**

<b>Top Public 18 Hole</b>	<b>WD 18 Hole GF</b>	<b>WE 18 Hole GF</b>	<b>18 Hole Cart</b>	<b>Twilight GF</b>	<b>Twilight Cart</b>
Edinburgh	\$60.00	\$60.00	\$19.00	\$35.00	\$14.00
Stoneridge	\$74.00	\$94.00	\$15.00	\$74.00	\$15.00
The Wilds	\$87.00	\$87.00	\$18.00	\$51.00	\$18.00
Meadows at Mystic	\$110.00	\$130.00	Included	\$80.00	Included
Rush Creek	\$125.00	\$125.00	\$20.00	\$69.00	\$20.00
Troy Burne	\$96.00	\$96.00	\$22.00	\$69.00	\$22.00
Legends	\$125.00	\$125.00	Included	\$90.00	Included
Average	\$96.71	\$102.43	\$18.80	\$66.86	\$17.80
Proposed 2023 CTC Non-Resident	\$74.00	\$80.00	\$21.00	\$57.00	\$16.00
Proposed 2023 CTC Resident	\$51.00	\$59.00	\$21.00	\$45.00	\$16.00

### **Comparisons to Area Golf Courses**

<b>Local Public 18 Hole</b>	<b>WD 18 Hole GF</b>	<b>WE 18 Hole GF</b>	<b>18 Hole Cart</b>	<b>Twilight GF</b>	<b>Twilight Cart</b>
Ridges at Sand Creek	\$42.00	\$47.00	\$16.00	\$35.00	\$8.00
Stonebrooke	\$79.50	\$87.50	Included	\$69.00	Included
Deer Run	\$59.00	\$59.00	\$17.00	\$40.00	\$10.00
Dahlgreen	\$43.00	\$48.00	\$19.00	N/A	N/A
Bluff Creek	\$45.00	\$51.00	\$17.00	\$38.00	\$12.00
Average	\$53.70	\$58.50	\$17.25	\$45.50	\$10.00
CTC Resident	\$51.00	\$59.00	\$21.00	\$47.00	\$16.00

As you can see above, these changes would make us very competitive to both the High-End and Local 18-hole golf courses, still making our course a very good deal for both residents and non-resident play.

### **Revenue Projections for 2023**

Based on the changes that we are recommending for rates next year, for 2023, we are forecasting total revenues of \$4,074,400. This compares to the actual revenues we expect for Year-End 2022, which was \$2,977,696, for an increase of 33.13%. While this is a large percentage increase, it is important to point out that \$1,251,000 of this is coming from Bond and Self Insurance Fund dollars being put into the fund to support equipment replacement and two major capital improvement projects, including replacing cart path surfaces on holes 1-10 and replacement of our cart fleet. Without this, the revenues are actually being budgeted slightly lower than 2022 to try to be conservative on golf-round expectations.

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. 2022 had just about 39,000 rounds, which makes it the second most amount of annual play we have seen on the course since it opened. 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 800,000 players back since COVID began. For this reason, we are recommending budgeting based on 34,000 rounds being played in 2023 like we saw in 2022.

Based on this assumption, along with the proposed rate increased for 2023, the total 2023 revenues would be budgeted to come from the following sources:

<i>Revenues</i>	Actual 2021	Budget 2022	Expected 2022	Budget 2023	Change	Change
Green fees	\$ 1,878,355	\$ 1,664,000	\$ 1,873,937	\$ 1,776,000	\$ 112,000	6.73%
Driving range	\$ 165,616	\$ 185,000	\$ 172,257	\$ 155,000	\$ (30,000)	-16.22%
Member fees	\$ 82,554	\$ 75,000	\$ 91,089	\$ 80,000	\$ 5,000	6.67%
Sale of supplies	\$ 320,381	\$ 305,547	\$ 279,807	\$ 300,000	\$ (5,547)	-1.82%
Concessions	\$ 49,647	\$ 80,000	\$ 85,169	\$ 50,000	\$ (30,000)	-37.50%
Cart rental	\$ 440,124	\$ 437,000	\$ 427,937	\$ 430,000	\$ (7,000)	-1.60%
Misc	\$ 77,886	\$ 313,853	\$ 47,500	\$ 1,283,400	\$ 969,547	308.92%
<b>Total revenues</b>	<b>\$ 3,014,563</b>	<b>\$ 3,060,400</b>	<b>\$ 2,977,696</b>	<b>\$ 4,074,400</b>	<b>\$ 1,014,000</b>	<b>33.13%</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 60% of our revenue. Our strategy has been to have green fees for non-residents consistent with the market for other high-end public courses, while at the same time offering a course for our residents of higher quality and challenge compared to any other area course, at a price that is very competitive. As mentioned previously, based on our efforts to reduce the resident discounts to a reasonable amount over a multi-year period (plan to end in 2028), 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 2023 budget:

- Resident Weekdays: Up \$4 to \$51 (\$72 with Cart)-Represents 36.25% discount
- Resident Weekends: Up \$3 to \$59 (\$80 with Cart)-Represents 26.25% discount
- Non-Resident Weekdays: Up \$2 to \$74 (\$95 with Cart)
- Non-Resident Weekends: Up \$2 to \$80 (\$101 with Cart)
- No changes to our Cart Rates-remain at \$21 for 2023 as they were in 2022 (we were scheduled for a cart rate change, but do not want to implement that until 2024 when we have our new fleet of carts delivered and ready for use)

Based on this, the projected Green Fees revenue for 2023 would be \$1,776,000, which would be a decrease of 5% from the actual 2022 Greens Fee Revenue. This budgeted revenue is a decrease from our actual in 2021 and 2022 revenues because we do not think that it would be prudent to budget at the 42,500 rounds we saw in 2021 and the 38,600 rounds we saw in 2022. 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 2023 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 2023 as we do not want to make this next adjustment until our new fleet of carts come in in 2024. Based on this, the total revenue in 2023 for cart rentals would be \$430,000.

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 \$172,257 for 2022. For 2023 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. It should be noted that one of the improvements we made to the Driving Range in 2022 was the addition of mats on a concrete slab at the back of the driving range. We plan to use these in early and wet parts of the season to keep our Driving Range in good condition, which could increase the use of this amenity during the entire season.

Pro Shop sales have continued to be strong with 2022 expected to see around \$300,000 of sales. In 2023 we are proposing a budget of \$300,000 for Pro Shop sales, as we have seen that be relatively stable over the past 3 years.

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

After completing an RFP Process, the City Council did choose to go with the new vendor, Oak 19 Grill. While the Town Course did have to undergo approximately \$150,000 in upgrades to the kitchen prior to the 2016 season to be able to handle a new vendor come into the facility, and to increase offerings to our Patrons, Oak 19 has been a very positive addition to the Chaska Town Course, as we illustrated through their record-breaking first and second years of service. In 2016, Oak 19 had over \$650,000 in sales, making it the highest grossing year for food service in the Town Course's history. We saw very similar sales occurring during the 2017 season. In 2018, despite not being able to open the entire month of April because of weather, they still were able to exceed their budgeted revenue to the City and had the peak months during the summer be record sales for them over the past 3 years. 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 three years. This has also helped them address the difficulty in getting service staff the past few 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 in 2021, 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. 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 generated approximately \$85,000 for lease revenue from the restaurant for 2022 and we are budgeting \$50,000 for 2023 to keep our projections conservative.

## **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 three 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 2022. This is also something that we confirm through our Decision Resources Community Survey, which we just completed a little over three 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 2022, 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 early summer of 2023.

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 2021 expenses were \$1,018,874, with them being \$1,093,687 in 2022. We are budgeting \$1,099,024 for 2023. This would bring the total Clubhouse expenses up by 12.90% for 2023.

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 had approximately \$320,000 of equipment replaced in 2022. In 2023, we once again will be selling Equipment Certificates to finance the following pieces of equipment:

- Fairway Mower: \$55,000
- Toro GTX Vehicle: \$32,000
- Workman: \$32,000
- Sidewinder: \$42,000
- Bunker Rake: \$22,000

- Spray Unit/Vehicle: \$49,000
- Beverage Cart: \$7,000
- Green Triplex (for Loop): \$62,000
- We will put our Rental Cart Replacement on order this year, but will not receive them or pay for them until we receive them in 2024: \$400,000

Besides these equipment purchases, we do have resurfacing of the Cart Paths on Holes 1-10 scheduled, with that being a cost of \$550,000 we plan to finance internally through our self-insurance fund. With these cart paths completed, we would then have all our cart paths resurfaced in time for the 2024 US Amateur Tournament. In addition to this, the Clubhouse also needs re-roofed for a cost of \$230,000. We plan to take whatever is not covered through this year's budget from the reserves in our CTC Fund to eliminate financing costs. Because of this, we will see a \$146,351 deficit for the 2023 year but will still have close to \$600,000 remaining in our cash reserve funds.

Total budgeted expenses for the golf course operation in 2023 are \$4,220,751, or an increase of 41.06% increase from 2022. 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 10 holes of cart paths and replacing the Clubhouse roof in 2023.

The following is the proposed Expenditure Budget for 2023:

Expenses	Actual 2021	Budget 2022	Expected 2022	Budget 2023	Change	Change
Course Maintenance	\$1,005,683	\$1,639,354	\$1,193,250	\$2,617,127	\$977,773	59.64%
Course Admin/Clubhouse	\$1,018,874	\$973,443	\$1,093,687	\$1,099,024	\$125,581	12.90%
Merchandise	\$217,072	\$175,155	\$243,014	\$225,000	\$49,845	28.46%
Debt Service (Equip)	\$30,399	\$204,200	\$204,200	\$279,600	\$75,400	36.92%
Transfers Out/Debt Service	\$0	\$0	\$0	\$0	\$0	0.00%
Misc	\$7,509	\$0	\$0	\$0	\$0	0.00%
Depreciation	\$487,144	\$0	\$0	\$0	\$0	0.00%
<b>Total Expenses</b>	<b>\$2,766,681</b>	<b>\$2,992,152</b>	<b>\$2,734,151</b>	<b>\$4,220,751</b>	<b>\$1,228,599</b>	<b>41.06%</b>

As mentioned previously, based on this budget, we would expect to see a decrease in the Fund Balance of \$146,351, as we are going to be using some of our cash reserves in the fund to pay for the re-roof of our Clubhouse facility.

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 5-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.

# Utility Fund Overview

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

- *Providing the necessary resources for each utility to assure continuation of quality 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 2022, is in the results and implementation of the most recent 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 our entire utility system.

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 2023, although some utilities may see larger individual changes than others. Below is a chart that illustrates our total increase for all utilities in 2023 for an average residential user. As you will see, they will experience a 6.47% overall increase, which would result in an actual increase of \$11.43 per month for the total utility bill.

Utility Fund	Units/Month	2022 Bill	2023 Bill	Increase	% Increase		COS Revenue Target
Electric (kWh)	750	\$122.82	\$126.12	\$3.30	2.69%		3.82%
Water (Gal X 1,000)	4	\$16.64	\$18.60	\$1.96	11.78%		8.00%
Sewer (Gal x 1,000)	4	\$26.31	\$31.69	\$5.38	20.45%		20.87%
Storm Water	1	\$10.98	\$11.77	\$0.79	7.19%		7.34%
Total		\$176.75	\$188.18	\$11.43	6.47%		

### 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 2023, 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 11.78% for our average residential users, which equates to \$1.96 per month. Included in that overall rate increase, 8% would be the actual increase to the rates (variable costs) with their being a 20.56% increase in our Service Charge (fixed costs). So, while the overall increase is 11.78%, 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 2022, including the Energy Adjustment Clause, averaged 5% lower than Xcel for residential customers. This result is about 2% lower than the 7% difference we saw in 2021. However, Xcel continues to increase their rates because of capital reinvestment they are needing to make into their system, and because of increasing renewable energy requirements from the State, which our wholesale power provider, MMPA, has already met its ultimate requirements. While the State recently was not going to allow Xcel to go forward with its full request for power rate increases, they had already put in place a large increase in 2022 that keeps us competitive with Xcel overall.

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 the Cost-of-Service study for 2023 was to continue to increase our fixed customer service charge to more properly allocate our costs. However, we also need to pay attention to the market as well as we set these rates. While the COS Study points towards continuing to put more emphasis on our customer service charge, we found through comparison that if we went any higher with our service charge now, we would be getting out of the market with Xcel. For this reason, it was recommended not to increase the service charge from 2022 and to only focus on the rates. We will talk more about this in the section of the report on the Electric Fund below.

### 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 2023 is scheduled to go up by 20.84% to \$3,712,603. This is a fixed charge that we know before the budget year has begun and one that we have no control over. It is based on Chaska's actual share of the sewer treatment costs for Met Council based on the actual usage of the system last year.

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 20.45%, with the actual usage rates going up by 22.44% (\$4.30 increase) and the service charge going up by 15.10% (\$1.08 increase). It should be noted that this was the final year of implementing our Service Charge increase in the Sewer Fund, as it was implemented over the last 6-year period. This coming year, a follow up study will be completed to make sure that it was set properly and to make sure that we know how to approach both the rates and service charge going into the next 5-year period.

### 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 7.19% is being recommended for 2023, which would equate to a \$0.79 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 total bill increase in 2023 for all our City utilities. As you will see, based on the recommendations above, the average user would see a 6.47% increase in all their Utility Rates for 2023, which translates into an increase of \$11.43 in increased costs each month for the average household in the community.

Utility Fund	Units/Month	2022 Bill	2023 Bill	Increase	% Increase		COS Revenue Target
Electric (kWh)	750	\$122.82	\$126.12	\$3.30	2.69%		3.82%
Water (Gal X 1,000)	4	\$16.64	\$18.60	\$1.96	11.78%		8.00%
Sewer (Gal x 1,000)	4	\$26.31	\$31.69	\$5.38	20.45%		20.87%
Storm Water	1	\$10.98	\$11.77	\$0.79	7.19%		7.34%
Total		\$176.75	\$188.18	\$11.43	6.47%		

# Water Fund Budget

As was mentioned above, three 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 every 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.

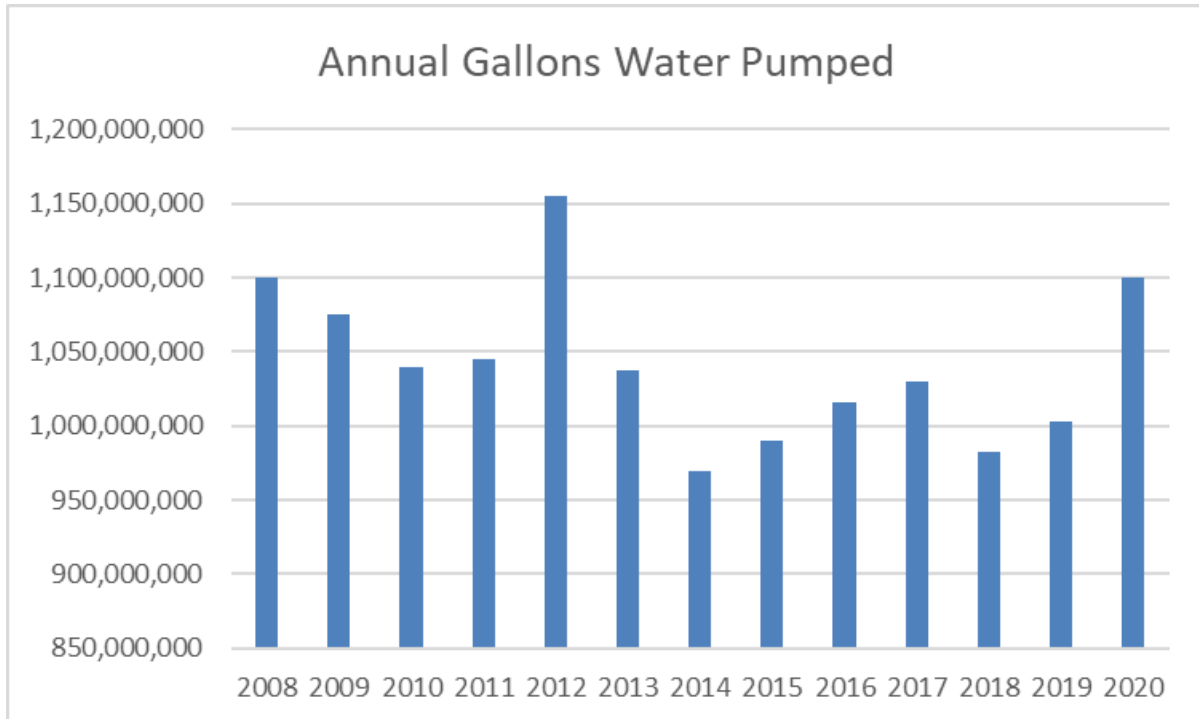
To that end, looking at the rate structures of our Water Utility was a major focus of this Cost-of-Service Study. The major findings of the Water Analysis were:

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 (this is the data that was utilized in our later Cost of Service Study) 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 is lower than it was 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 now 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 be using 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 2023 (identified in the COS Study), the following is the tiered-rate structure that is being recommended for 2023:

Rate Tiers (Gallons)	2022 Rates	2023 Rates	Percent Increase
0-2,000	\$2.53	\$2.74	8.00%
2,001-5,000	\$2.71	\$2.93	8.00%
5,001-8,000	\$2.94	\$3.18	8.00%
8,001-12,000	\$3.27	\$3.54	8.00%
12,001-40,000	\$3.70	\$4.00	8.00%
40,001 & Above	\$4.74	\$5.12	8.00%

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.

**COS Customer Charge**

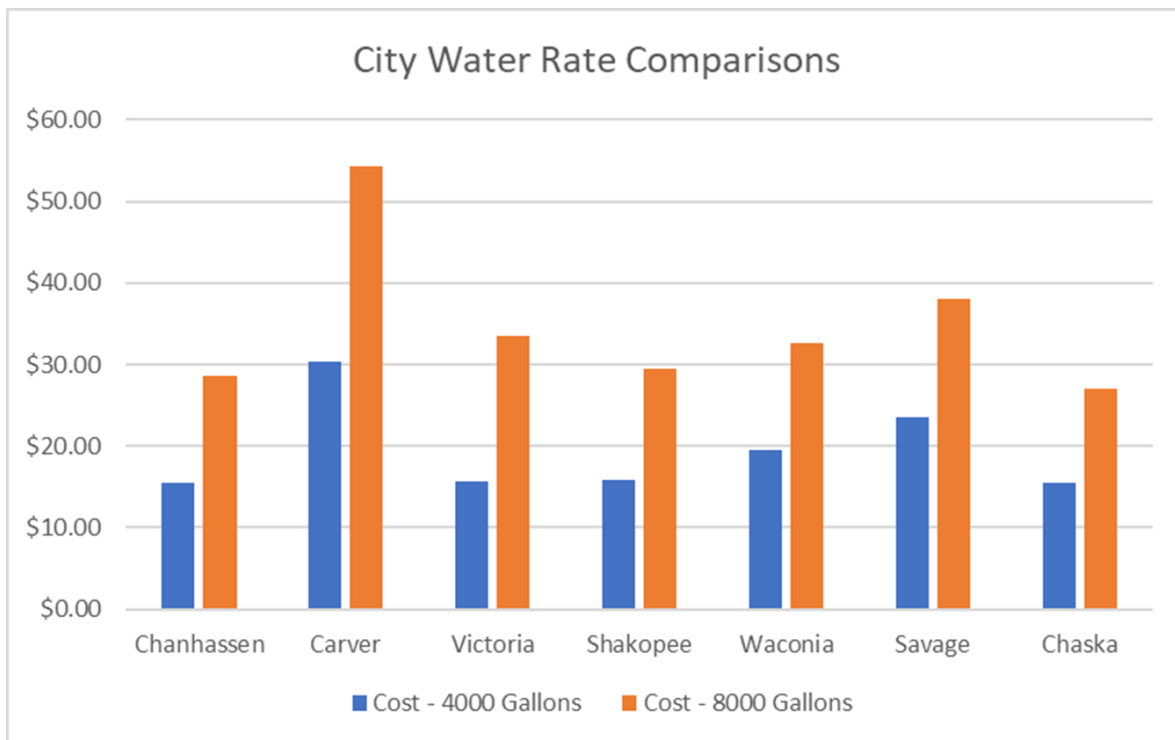
Meter Size	5/8"	3/4"	1"	1.5"	2"	3"	4"	6"
<b>Total Customer COS</b>	<b>\$ 8.66</b>	<b>\$ 9.18</b>	<b>\$ 13.15</b>	<b>\$ 23.38</b>	<b>\$ 35.07</b>	<b>\$ 123.33</b>	<b>\$ 223.69</b>	<b>\$ 468.39</b>
Total # Meters	5,812	468	498	299	90	29	11	3
<b>5 Year Correction (\$/year change)</b>	<b>\$ 1.10</b>	<b>\$ 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. 2023 would be the third year of implementation of our Fixed Charge. While the study ultimately recommends moving up to \$8.66 for the total fixed charge, in 2023 we would recommend taking the third step, which would bring it up to \$6.45 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 11.78%, this will occur by them seeing approximately an 8% increase in their water rates (variable cost) with the remainder of the 11.78% total increase coming from an increase in the service fee costs. The chart on the next page helps illustrate this.

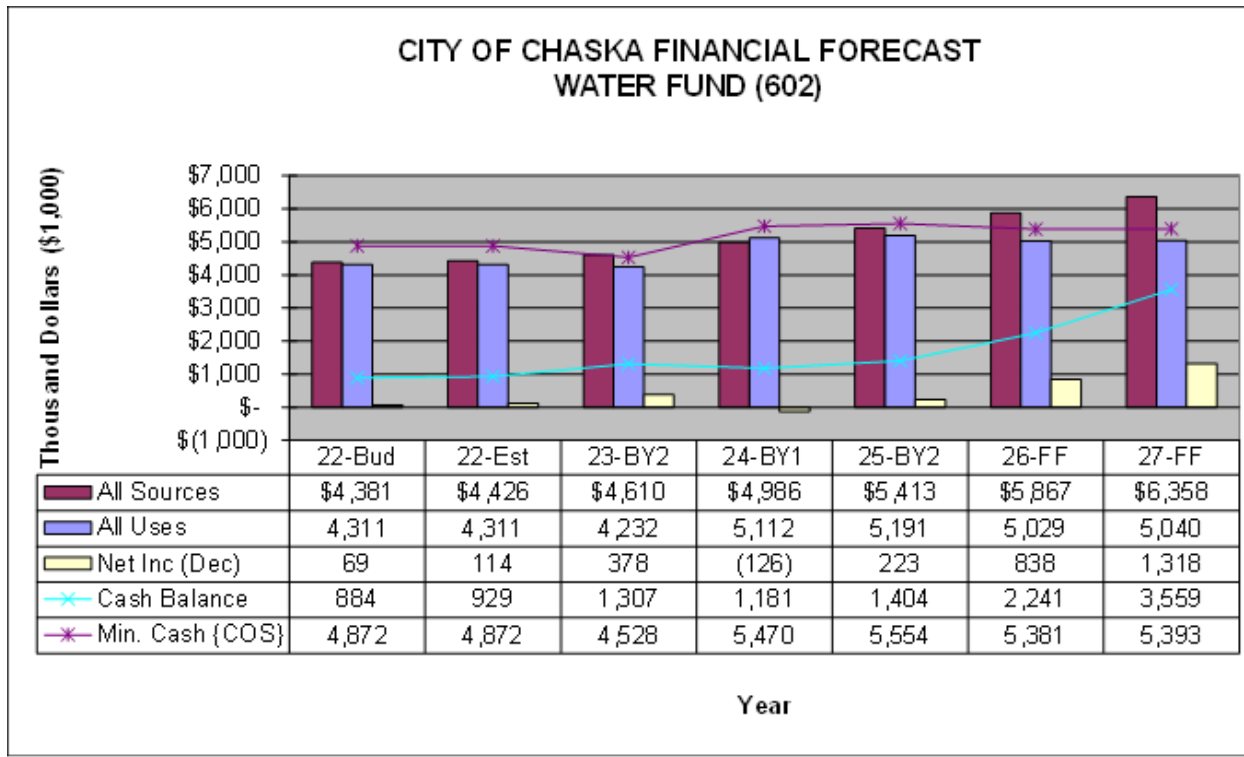
Average Home	Units/Month	2022	2023	Increase	% Increase
Water					
Cust. Charge	1x/month	\$5.35	\$6.45	\$1.10	20.56%
Water (Gal X 1,000)	4	\$10.48	\$11.34	\$0.54	8%
State Water Fee	1x/month	\$0.81	\$0.81	\$0	0%
Total		\$16.64	\$18.60	\$1.96	11.78%

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 2023:



It should be noted that based on our Cost-of-Service study, that the recommended minimum cash reserve in our Fund at the end of 5-years should be about \$5.3 million. As you will see on the following chart, while we anticipate that we will still be short of this goal in the next 5-years, we are heading in the right direction to meet this goal and are projecting that we will see close to a \$4 million reserve by the end of 2027:

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.



### **2023 Budget**

Based on the changes described above Water Fund Revenues for 2023 are budgeted to be \$4,610,140 compared to the 2022 budget of \$4,380,540, or a 5.24% 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 11.78% in 2023 on their bills, which represents a \$1.96 per month increase. With the new rate structure being focused on 4,000 gallons of water per month being the average instead of 7,000 gallons, this will mean that those who use an amount between these numbers will see a higher impact on their bill than they did in the past because they are using more than what the average use is. In this way, it makes sure that our rate system is set equitably and that our average 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>	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>	
	2021	2022	2023	% Change
<b>Revenues</b>				
Metered	\$5,874,440	\$3,871,040	\$4,169,040	7.70%
Other	\$55,150	\$44,500	\$41,100	-7.64%
Transfers In	\$506,000	\$465,000	\$400,000	-13.98%
<b>Total</b>	<b>\$6,435,590</b>	<b>\$4,380,540</b>	<b>\$4,610,140</b>	<b>5.24%</b>
<b>Expenses</b>				
Pumping	\$285,431	\$388,282	\$421,896	8.66%
Treatment	\$359,922	\$324,341	\$358,984	10.68%
Distribution	\$830,462	\$1,475,621	\$1,251,007	-15.22%
Administration	\$963,765	\$936,256	\$994,366	6.21%
Depreciation	\$867,400	\$0	\$0	0.00%
Debt Service	\$295,063	\$1,088,055	\$968,630	-10.98%
Tranfers Out	\$151,140	\$117,000	\$234,855	100.73%
Other	\$1,540	\$1,911	\$1,922	0.58%
<b>Total</b>	<b>\$3,754,723</b>	<b>\$4,331,466</b>	<b>\$4,231,660</b>	<b>-2.30%</b>

For 2023, we are projecting that we will generate \$4,169,040 in metered sales. This is 7.70% higher than the metered sales we budgeted in 2022.

Total water expenses for 2023 are programmed to be \$4,231,660. This compares with \$4,331,466 budgeted in 2022. This is a 2.30% decrease in expenditures from 2022. This decrease is due mainly to the fact that we have less capital improvement expenses than we did in 2022.

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

- Continue with normal Well-maintenance schedule with Wells 5 and 9 being rehabbed in 2023 at \$125,000 per well
- Addition of 1 Water/Sewer Maintenance Worker as was planned for in our City-wide Staffing Study
- Construction of New Water Treatment Plant at Well #7 in 2023 to meet current and future water demand needs-total cost of \$6 million to be financed in 2024
- Continued contribution of \$70,000 per year from the Water Fund to our Street Reconstruction Program
- Replace all our equipment on the normal cycle, which includes a replacement pickup truck for \$55,000. The Water Fund will contribute half with the Sewer Fund contributing the remainder of the cost
- New: Contribution of \$60,000 for the Building Improvement Program (first year of 4 years of contribution to contribute towards overall \$1.6 million Utility contribution

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 2023, with our payment budgeted for \$968,630.

**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 in 2021 City wide and moved out the filling of the two Water/Sewer Maintenance Working positions in 2023 and 2024. As mentioned previously, one of these two positions is in the budget for 2023.

Based on this budget that is being proposed, we would see a \$378,480 increase in our Fund Balance, with us continuing to meet our goal of getting our cash reserves in the fund up to the amount recommended in our Cost-of-Service Study.

# Sewer Fund

## **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 4 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:

COS Customer Charge			38 Meters		54 Meters	
Meter Size	Residential : Class 1	Commercial : Class 2	Industrial : Class 3.1 (5/8", 3/4" & 1")	Industrial : Class 3.2 (1.5" and above)		
<b>Total Customer COS</b>	\$ 8.23	\$ 15.65	\$ 26.93			
<b>3 Year Correction (\$/year change)</b>	\$ 1.08	\$ 3.55	\$ (7.69)	\$ -		
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		

As you will see in the chart above, 2023 is the last year of implementation of our ultimate Sewer Customer Service Charge, with it being the 5<sup>th</sup> year since we started implementing it in 2019. For a residential user, we have been working over the past 5 years to get our service fee up to the recommended \$8.23 per month for the typical residential user, with 2023 being the year that we would reach this target.

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. However, one difference between the Water Fund and the Sewer Fund is that the Sewer Fund has most of its variable costs controlled external to our organization with the Met Council providing all treatment of our sewer through their regional plants. So, while our Water Fund’s variable rates can be relatively stable and predictable because we control the entire system, the Sewer Fund’s variable rate are often very unpredictable, volatile, and out of our control. It is also impacted by the way multiple cities utilize the sewer system-not just ours.

For 2023, our Met Council rate is going up by 20.84% which is very high compared to past years. While the Met Council has done little to change the rate of increase of their overall system, our rate is mainly going up due to Chaska’s usage being a much larger percentage of the entire system. This is mainly due to growth, but also has been impacted by dry years as other communities who may have had a large impact on Inflow and Infiltration going into the system (clean rainwater that leaks into the system), these cities have not had this happen to a large extend because of the lack of rainfall we have seen the past two summers. The result is that most of the impact to Met Council’s system has been being impacted by growth of which cities like Chaska have seen a large amount of growth.

Below is the expected Sewer Bill for the average user to show both the impact of the last year of our Service Charge implementation, but also the impact from the Met Council treatment rate increase:

Average Home	Units/month	2022	2023	Increase	Percent Increase
Sewer					
Service Charge	1 x/month	\$7.15	\$8.23	\$1.08	15.10%
Water (Gal x 1,000)	4	\$19.16	\$23.46	\$4.30	22.44%
Total		\$26.31	\$31.69	\$5.38	20.45%

The other item to note is that if we follow the recommendations of this Cost-of-Service Study, we can expect that after 2027 we should have the Reserve Balance of this Fund at about \$225,000, which is below the minimum recommended amount from this study of approximately \$3.5 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. With the Met Council rate being so large this year, we also did not want to have any more impact on the actual usage rates. We will have to address this as we move into the future, however, since this system is 91% depreciated. We will be in a much better position with the Service Charges fully implemented.

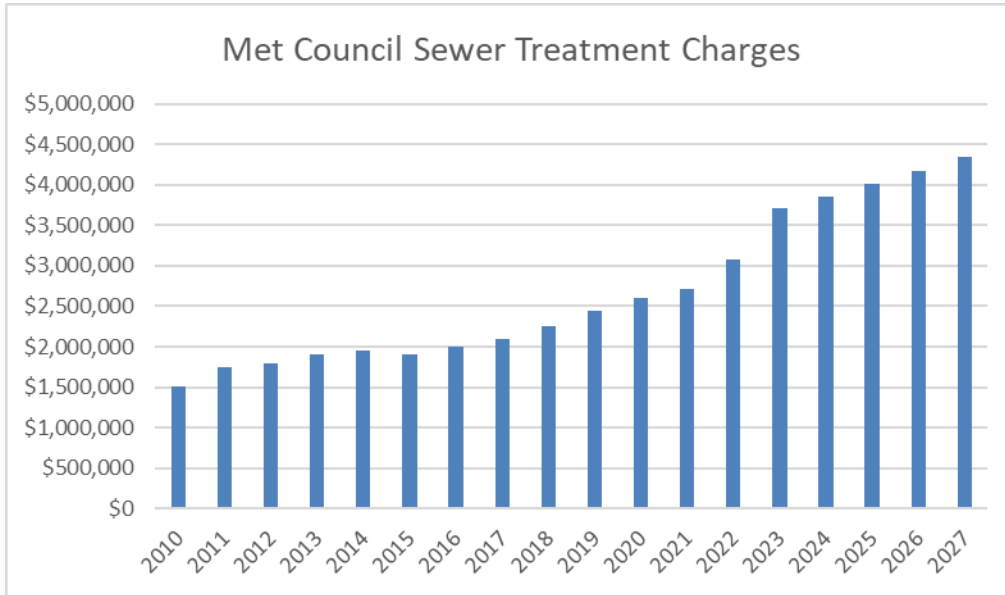
### **2023 Budget**

Sewer Fund revenues for 2023 are anticipated to be \$6,333,550, a 22.29% increase over the budget in 2022. As mentioned previously, a portion of the increase in this revenue is coming from the continued implementation of our Sewer service fee, with 2023 being the last year of implementation of this recommended rate from the Cost-of-Service Study. 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.

The other 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 2023. 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 2023 is \$3,712,603, which is an increase of 22.91% from 2022. This large increase is due mainly to the fact that we are a growing system and are using a larger share of the total treatment plant use that the Met Council operates. As mentioned previously, the average residential user will see an increase of 20.45% or \$5.38 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 \$6,333,550 for 2023, an increase of 15.04% from 2022.

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 2023 in the Autumn Woods East 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 2023. In 2023, we also have \$450,000 going towards the rehabilitation of the Yellow Brick Road Lift Station, with its formal abandonment just occurring. We had multiple years of contribution from the Sewer fund going into this major project. This is the share coming from 2023.

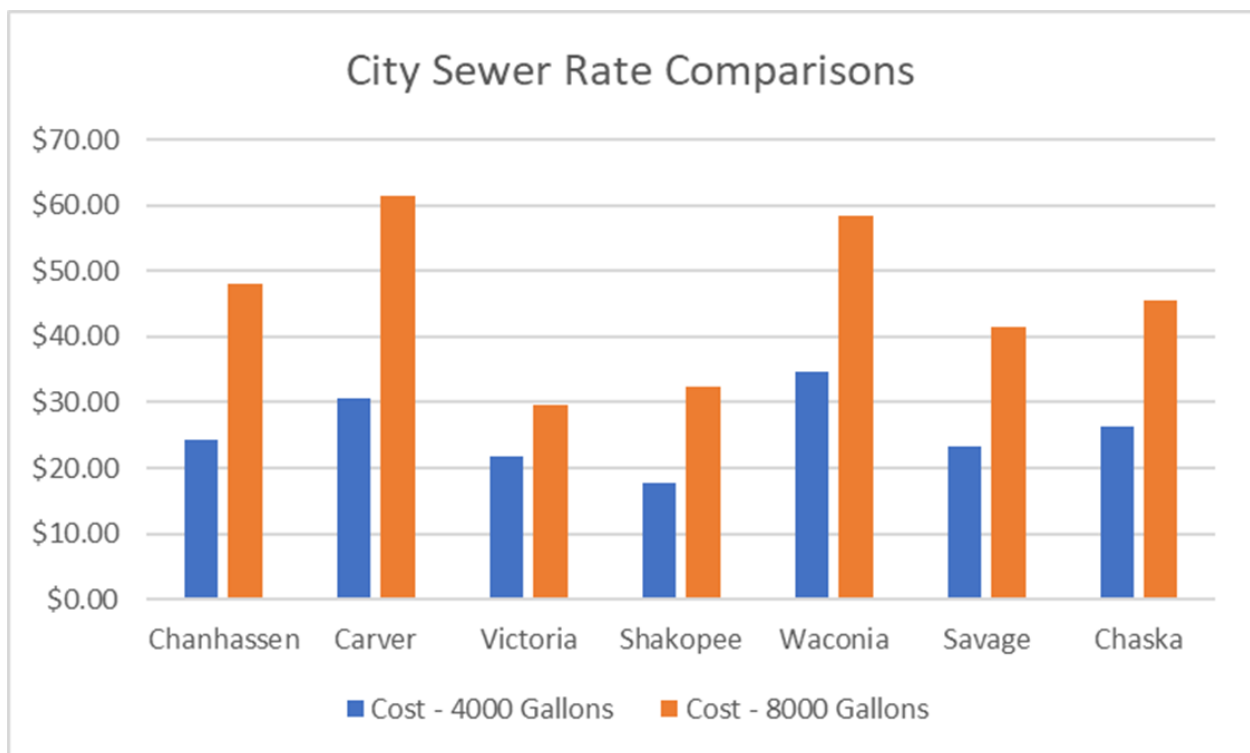
As has been discussed previously, the City of Chaska completed a Staffing Analysis in 2019 that helped quantify any gaps that we have in our existing service levels. One of the gaps identified was in our Water and Sewer Departments, where it was determined we are currently 2 positions short within the two department. While we had planned on adding this first position in 2021 with the second position being added in 2023, we did decide because of COVID to delay the added positions to address the financial realities of the pandemic. We are now planning to fill one of these positions in 2023 and one in 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.

We also have the Sewer Fund contributing to the shared equipment that we utilize between the Water and Sewer Departments. In 2023 we have a truck replacement scheduled for \$55,000, with half coming from the Sewer Fund.

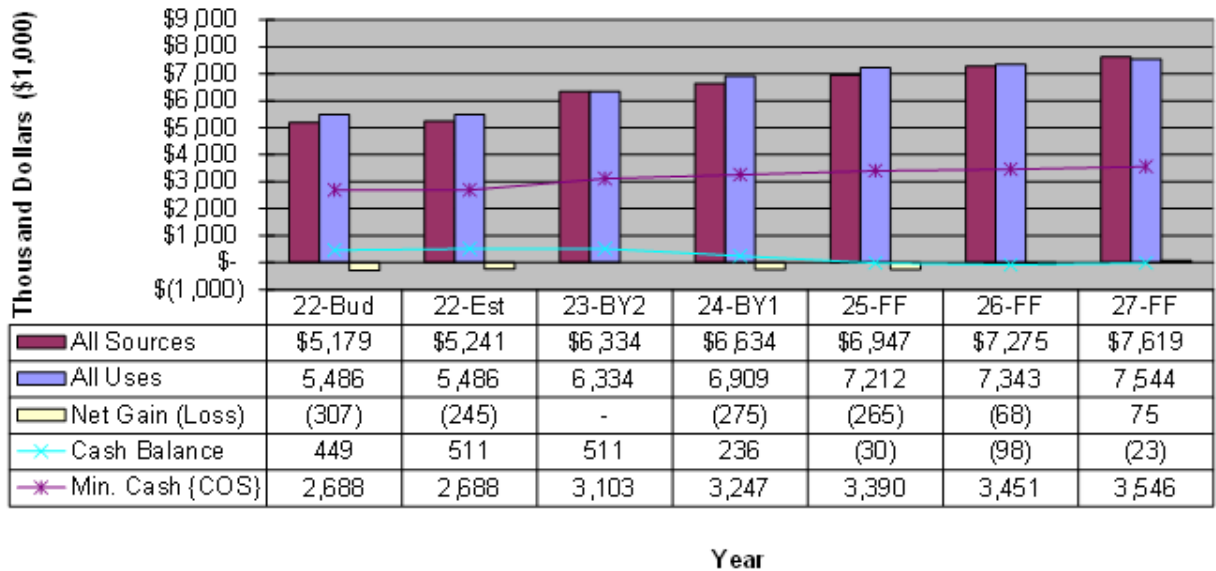
Finally, as we discussed in the Water Fund, we do have the Sewer Fund contributing \$60,000 this year to the Building Improvement Program. Both the Water and Sewer Funds will each continue to contribute \$60,000 additionally every year for the three years to follow 2023, bringing the total in each fund to \$240,000. This will help contribute to the overall \$1.6 million the Utility Funds together will contribute to the overall Building Improvement Fund, as the buildings that our utilities impact are included in this program.

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 assuming that each other City is seeing a 0% increase, which is likely not the case:



Based on our total expenditures and revenues, we are budgeting that the Sewer Fund will balance its budget in 2023. Below is a chart illustrating our projections over the next 5-years:

**CITY OF CHASKA FINANCIAL FORECAST  
SEWER FUND (603)**



As we discussed before, we will have to focus on getting the cash reserve balances up in this fund in the future. However, we wanted to first prioritize getting a Service Fee fully implemented and in place before we started really addressing the rates, especially with there being such a large increase in the Met Council Sewer Treatment Charge. With the service fees now fully implemented after 2023, we will begin to be able to focus more on the rate structure and focus on getting our cash balances built up to healthy levels. Below is a chart illustrating our revenues and expenses budgeted for 2023, along with comparisons to the past two years:

Sewer	Actual	Budget	Budget	
	2021	2022	2023	% Change
<b>Revenues</b>				
Metered Sales	\$7,541,185	\$5,172,450	\$6,328,450	22.35%
Other Revenues	\$811	\$6,700	\$5,100	-23.88%
Total	\$7,541,996	\$5,179,150	\$6,333,550	22.29%
<b>Expenses</b>				
Pumping	\$22,427	\$25,960	\$25,092	-3.34%
Treatment	\$2,713,317	\$3,072,288	\$3,712,603	20.84%
Collection	\$703,614	\$918,653	\$895,764	-2.49%
Administration	\$967,086	\$924,388	\$983,044	6.35%
Transfers Out	\$214,582	\$177,000	\$327,855	85.23%
Depreciation	\$155,723	\$0	\$0	0.00%
Debt Service	\$115,495	\$387,461	\$389,192	0.45%
Other	\$0	\$0	\$0	0.00%
Total	\$4,892,244	\$5,505,750	\$6,333,550	15.04%

# Electric Fund Budget

## 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 \$12.10 that we currently charge. While we should be moving into Year 3 of the plan and increasing our Service Charge fees to \$12.96 per month for a residential customer, we are recommending that we not increase our service fees at all in 2023 because doing so would take us out of the market for what Xcel currently charges for their Service Charge. With Electric we need to not only be concerned about the recommendations of a COS Study, but we also need to be cognizant of our major competitive market and not get ourselves too high on any component of our bill. We will keep an eye on this market moving forward and look again in 2024 about whether we should continue to move forward with implementation of these recommendations.

From a usage rate perspective (variable costs), we are recommending that we increase our rates by 3.82% to be able to keep up with our increased activities in the fund both because of high growth in the community and the reinvestments we make back into our existing system. It should be noted that back in early November when we first presented the Electric Budget presentation, we were recommending at the time that we thought their needed to be an 8.42% increase in rates due to the increases we were expecting from our wholesale power supplier MMPA. However, since that time MMPA has been able to acquire through the market a supply of Natural Gas credits at a very reasonable price, thus allowing to control our input costs in 2023 at a better price than what we were seeing in 2022 when Natural Gas prices quickly were increasing. Having this locked-in advantage allows us to reduce our recommended rate increase by almost 5%, bringing the recommended rate increase to 3.83%. For the average user, this will decrease their expected bill by about \$5 per month compared to what we projected in early November. Below is a sample utility bill for the average residential user in Chaska for 2023 based on these recommendations:

Average Home	Units/ Month	2022	2023	Increase	Percent Increase
Service Charge	1x/ Month	\$12.10	\$12.10	\$0.00	0%
Energy (kWh)	750	\$99.05	\$102.35	\$3.30	3.33%
EAC* (kWh)	750	\$23.77	\$23.77	0.00	0%
Total		\$122.82	\$126.12	\$3.30	2.69%

The other major finding of the Electric Cost of Service study was looking at our Senior Discount. Prior to 2021, the City had 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 saw houses that have very large

usage requesting this discount, which potentially provided them with a discount that they do not need.

Instead of approaching the discount in this way, the Study recommended 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.

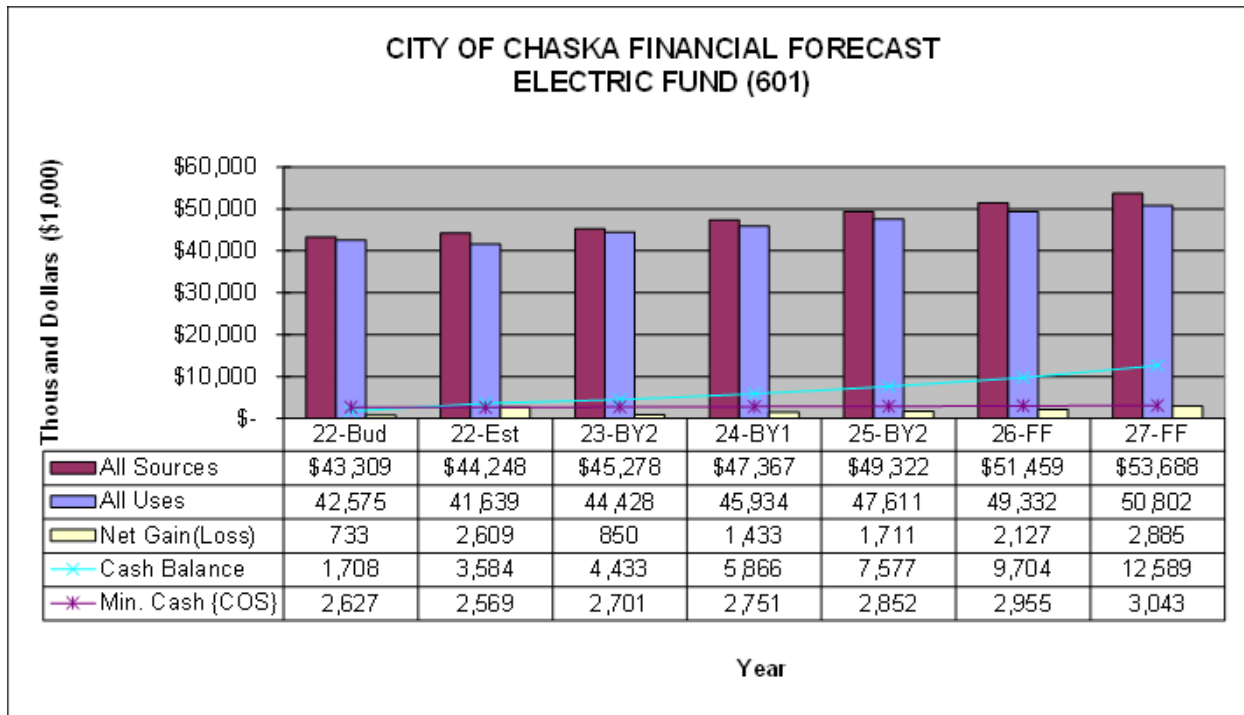
To help ease into this transition, in 2021 we recommended that this come over a 3-year period, with the transition being set up as follows:

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

In 2022, we fully implemented this discount by going to a \$6 credit. The 2023 and future budgets are all set up assuming the Senior Discount structured this way. 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 those 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 in 2022. 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. As you will see in the chart below, if we implement the recommendations of the budget for this year, we project to be close to \$12.5 million in Cash reserves by the end of 2027 which is moving us in the right direction but with still more work to be done.

**CITY OF CHASKA FINANCIAL FORECAST  
ELECTRIC FUND (601)**



**2023 Budget**

For 2023, Electric Fund revenues are anticipated to be \$45,277,700. This compares to the \$43,308,700 we had budgeted for revenue in 2022, which is an increase of 4.55%. 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 2023 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 2023, 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 when they open in the fall of 2023. 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. Based on an existing contract we are not allowed to repurchase this territory until after 2040, but we are looking at whether there may be options to look at acquiring this territory earlier. We do continue to see growth in residential development, although we expect that this will be somewhat slower in 2023 because of increases in mortgage rates. Below is a chart looking at our anticipated revenue for 2023.

	Actual	Budget	Budget		
	2021	2022	2023	Change	% Change
Electric Sales	\$49,214,932	\$43,292,000	\$45,277,000	\$1,985,000	4.59%
Other Revenue	\$84,722	\$16,700	\$700	-\$16,000	-95.81%
Total Revenue	\$49,299,654	\$43,308,700	\$45,277,700	\$1,969,000	4.55%

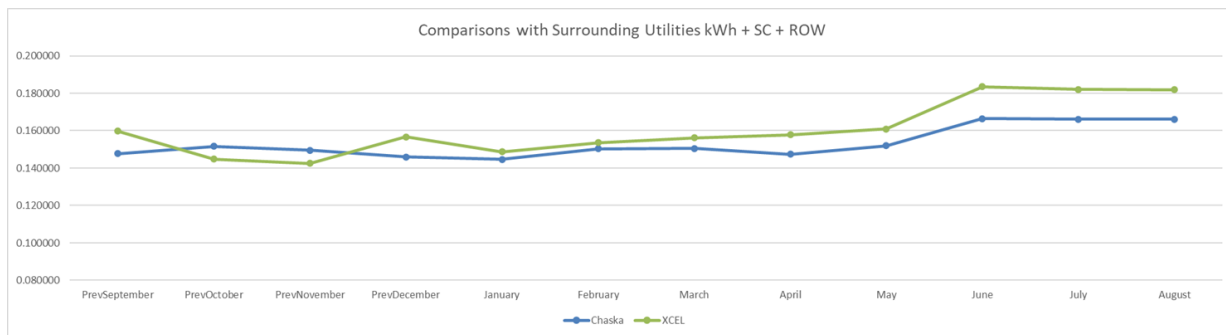
To develop our 2023 revenue budget, we did utilize the following assumptions:

- Continue implementing our Cost-of-Service Study recommendations, although we do recommend not moving to the third year of our Service Fee implementation as we do think this would take us out of the market for what Xcel is currently charging for their monthly service charge
- Total impact of retail rate changes to the average residential user of 2.69% (this is down from the expected impact when first reviewing the budget in November because MMPA was able to lock into good natural gas pricing for the year at the end of November)
- Continued Economic Development activity in Commercial/Industrial will drive robust growth
- Single Family residential will slow down some, but will be somewhat offset by the ~500 units of rental residential that are being added in Chaska over the next 12 months (buildings currently under construction)
- Normal weather
- Wholesale electric costs from MMPA seeing 0% change in 2023-3.82% increase in our retail rates to address the several capital improvement project to support new growth and investing back into our system in 2023

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 2022, we did see total bills for residential users that averaged 5% lower than Xcel. While this is slightly lower than the 7% spread we saw in 2021, we do expect to see this spread continue to grow, as Xcel did recently implement some rate changes. While their current request from the State for the next 2-years was recently denied, we expect that they will be back in in the next 12 months looking at what they will have to do in future years to keep up with their capital reinvestment into their aging infrastructure across the State and meeting their renewable energy requirements. As of December of 2022, MMPA has now met all its renewable energy requirements that need to be accomplished by 2025.

In the past, much of MMPA's ability to keep lower pricing than Xcel can be attribute to relatively stable Natural Gas market. As we saw in the second half of 2022, these natural gas prices did rise quite a bit, which impacted both MMPA and Xcel with their Energy Adjust Charges. While all electricity bills were high across the Country, we were able to keep a competitive edge because of the diversity of our generation portfolio. As mentioned previously, MMPA was able to recently lock into fixed Natural Gas rates for 2023 at a very good rate, allowing us to lower impacts to our customers from where we thought we might be in 2023 and to create more predictability.

Below is a graph showing our total residential bill compared to Xcel in 2022:



Again, this chart shows over a 12-month period that we have been approximately 5% lower than Xcel. We hope to remain that way through 2023, as the agency is working to keep both the energy rates and EAC charges at least 10% below Xcel throughout the year.

Electric Fund expenses for 2023 are projected to be \$44,428,200 compared to the budget of \$42,575,427 in 2022, for a total increase of 4.35%.

As mentioned previously, a primary factor in seeing our expenditures more in 2023 than in 2022 has to do with the fact that we have many Capital Improvement/Expansion projects needing to be completed in 2023-largely because of the amount of growth we are seeing in the community. Below is a list of the Capital Improvement Projects we have scheduled for 2023. The numbers below represent the City's 60% of project costs we pay for with new developments coming in (the other 40% is the responsibility of the Developer):

- ▶ DEL WEBB DEVELOPMENT (NEW SERVICE): \$140,000
- ▶ WEST CREEK FEEDERS (NEW FEEDER TIES): \$215,000
- ▶ PEAVY/41 ROUNDABOUT (NEW FEEDER TIES): \$115,000
- ▶ CANTISSIMO APARTMENT (NEW SERVICE): \$60,000
- ▶ THE HARVEST KUSSKE ADDITION (NEW SERVICE): \$60,000
- ▶ HIDDEN MAPLES (NEW SERVICE): \$40,000
- ▶ STRUCTURES INC (NEW SERVICE): \$60,000
- ▶ CHASKA TECH CENTER (NEW SERVICE): \$60,000
- ▶ HAZELTINE PLAZA APARTMENTS (NEW SERVICE): \$70,000
- ▶ WEST CREEK APARTMENTS (NEW SERVICE): \$60,000
- ▶ COSTCO/CONTINENTAL PROJECT (NEW SERVICE): \$200,000
- ▶ HIGHWAY 41/61 RECONSTRUCTION: \$50,000

This represents a cost of \$1,130,000 in 2023.

Finally, it should be noted that from a Personnel Standpoint, we do have programmed in 2023 the filling of a vacant lineworker position who will start at an Apprentice level. We also program to keep two temporary Grounds People positions budgeted in 2023 to support all the work we will have to do to complete the list of projects on the previous page, while keeping our existing system functioning at a high level.

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, 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 has positioned 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 recently opened another Wind Farm in Beaver Creek on the South Dakota Border. With this now opening in December of 2022, we will have over 40% of our energy from renewable sources, which exceeds our State requirements.

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 646 customers choosing to do this, which represents a 6.8% penetration of our residential market. Chaska continues to lead all MMPA communities in the usage of this program and is up from the 6.3% penetration in 2021.

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 lineworkers, 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 2023 we do see moving a see filling a vacant Lineworker position at an Apprentice level, but that is included in the

Staffing number above. We also will continue to employ 2 temporary Grounds People positions in 2023 to help with all the construction projects programmed for 2023.

From an equipment perspective, we do have two new pieces of equipment that we have programmed to purchase, including:

- Boring Machine: \$290,000
- Trailer to Transport Boring Machine: \$100,000

We will finance both pieces of equipment with Equipment Certificates. These two pieces of equipment will help us reduce the amount of contracting that we currently must do to complete work requiring a boring machine. It is also something we anticipate will be utilized with other departments in the MSB building thus helping them to reduce some of the contracting costs.

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 \$220,000 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.

As we have discussed in the past 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.

Finally, as we discussed in the Water and Sewer Funds, the Electric Fund is scheduled to contribute \$220,000 this year to the Building Improvement Program in 2023. The

Electric Fund will continue to contribute \$220,000 additionally every year for the three years to follow 2023, bringing the total in this Fund to \$880,000 by the end of the 4-years. This will help contribute to the overall \$1.6 million the Utility Funds together will contribute to the overall Building Improvement Fund, as the buildings that our utilities impact are included in this program.

**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 \$730,450, which is 15.82% less than in 2022. This is based on the pre-existing debt schedule that exists for everything in the Electric Department we have financed.

Based on this, the following would be the expenditures for 2023:

	Actual	Budget	Budget		
	2021	2022	2023	Change	% Change
Purchased Power	\$33,163,485	\$26,859,000	\$27,292,000	\$433,000	1.61%
Trans/Distribution	\$2,277,517	\$3,117,170	\$4,176,430	\$1,059,260	33.98%
Load Conservation	\$582,439	\$675,973	\$482,350	-\$193,623	-28.64%
Admin System	\$3,300,221	\$3,496,184	\$3,788,627	\$292,443	8.36%
Admin Billing	\$671,369	\$685,446	\$696,633	\$11,187	1.63%
Franchise Fee	\$4,282,660	\$4,672,000	\$4,902,000	\$230,000	4.92%
Depreciation	\$1,530,105	\$0	\$0	\$0	0.00%
Debt Service	\$273,482	\$835,654	\$703,450	-\$132,204	-15.82%
Transfer	\$1,892,000	\$2,234,000	\$2,386,710	\$152,710	6.84%
Other	\$0	\$0	\$0	\$0	0.00%
<b>Total</b>	<b>\$47,973,278</b>	<b>\$42,575,427</b>	<b>\$44,428,200</b>	<b>\$1,852,773</b>	<b>4.35%</b>

Based on the budget as proposed, the Electric Fund would increase its Fund Balance by \$849,500 in 2023, which will keep us on our journey to build our cash balance in the Fund to the recommended levels of our Cost-of-Service Study.

# Storm Water Fund Budget

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

### **2023 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 Fees compared to other surrounding municipalities, 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 the continued increases in the amount of Storm Water Work that municipalities are now required to take on, and especially because of large projects we have needed to continue to undertake to deal with the storm water issues we did experience during the large rains of 2014, we continued to realize that the activities that we thought were one-time activities to address the issues coming out of the summer of 2014 were activities that we would likely never see go away. We also recognized that there are significantly more issues to address with 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 in 2018, 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

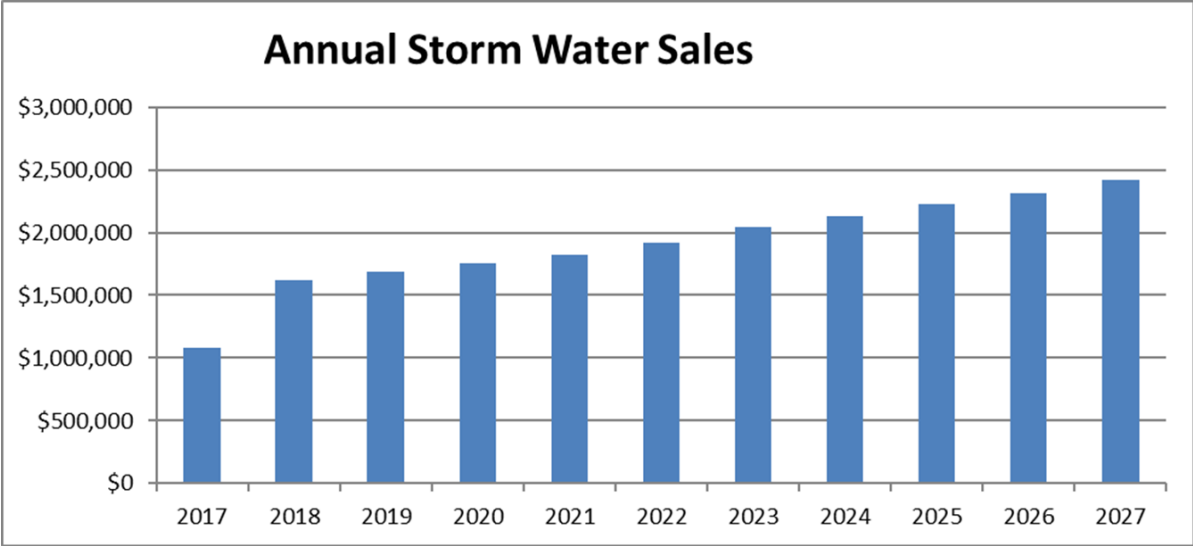
needing to undertake. While we always had looked at the surrounding communities as a comparison, we realized it was probably more important to compare ourselves to other Cities with similar types of Storm Water services that needed to be provided if we were to truly set our rates at a proper amount. 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 knew needed to be completed, to establish our new base rate of \$9.50 per month. We have adjusted off that base rate with annual changes ever since.

Below is a survey of 2022 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:

Eden Prairie	\$18.13
Moorhead	\$10.21
Shakopee	\$8.12
Carver	\$10.32
Edina	\$10.96
Waconia	\$19.26
Red Wing	\$11.50
Minnetonka	\$7.74
Chaska	\$10.98
Average	\$12.03

As can be seen above, the average of these communities is at \$12.03 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 \$11.77 per residential unit per month, which would be a 7.19% increase for 2023. This rate increase meets our needs for the upcoming year, starts building up necessary reserves in the fund, 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. Even if they all saw a 0% increase in 2023, we would be \$0.26 per month less than our comparable cities.

Based on this new rate, and assuming we would need approximately a 4.25% 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:



**2023 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 \$212,000 annually to the Street Reconstruction program. These dollars go towards addressing 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. We continue to build in these dollars for the Street Reconstruction Program into the budget as we move into the future.

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 \$280,000 towards supporting 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 2023 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 have no new equipment that we are schedule to purchase in 2023, 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 2023. 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 COVID, this position will not be slated until the 2024 budget.

One thing to note from a staffing perspective is that the Utility Billing Department does support the billing for the Storm Water System. Because of this, 10% of the costs of UB are allocated to the Storm Water Fund. In 2023 this will be approximately \$115,715.

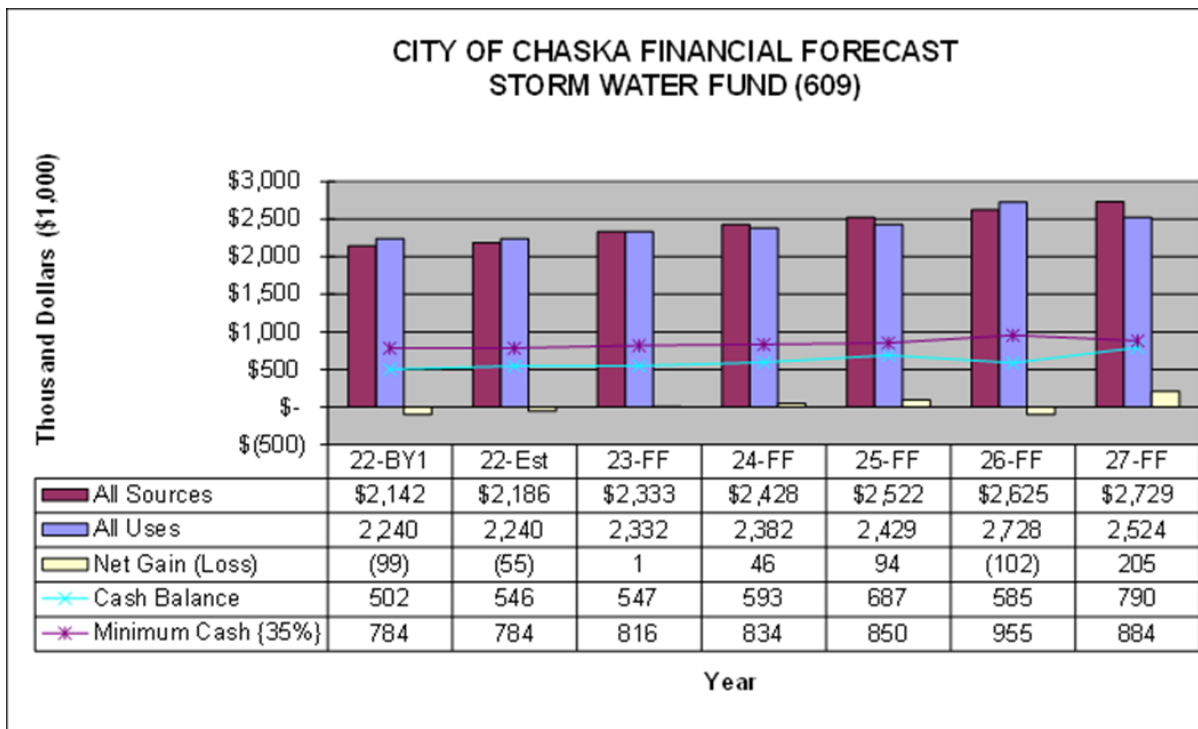
Finally, as we discussed in the Water, Sewer and Electric Funds, the Storm Water Fund is scheduled to contribute \$40,000 this year to the Building Improvement Program in 2023. The Storm Water Fund will continue to contribute \$40,000 additionally every year for the three years to follow 2023, bringing the total in this Fund to \$160,000 by the end of the 4-years. This will help contribute to the overall \$1.6 million the Utility Funds together will contribute to the overall Building Improvement Fund, as the buildings that our utilities impact are included in this program.

Based on the changes to our rate structure and our planned projects for 2023, below is a breakdown of the revenues and expenditures for 2023:

	2021	2022	2023		
<b>Revenues</b>	<b>Actual</b>	<b>Budget</b>	<b>Budget</b>	<b>Change</b>	<b>% Change</b>
Storm Water Fees	\$4,549,441	\$1,920,000	\$2,108,000	\$188,000	9.79%
Other	\$380,767	\$221,502	\$224,755	\$3,253	1.47%
<b>Total</b>	<b>\$4,930,208</b>	<b>\$2,141,502</b>	<b>\$2,332,755</b>	<b>\$191,253</b>	<b>8.93%</b>
<b>Expenditures</b>					
Transfer Out	\$331,137	\$246,000	\$252,000	\$6,000	2.44%
Transmission/Distribution	\$406,789	\$926,377	\$903,853	-\$22,524	-2.43%
Administration	\$518,236	\$589,523	\$641,236	\$51,713	8.77%
Utility Billing	\$79,927	\$63,820	\$115,715	\$51,895	81.31%
Depreciation	\$223,663	\$30,000	\$30,000	\$0	0.00%
Debt Service Support	\$77,072	\$283,920	\$288,239	\$4,319	1.52%
Other	\$9,727	\$100,500	\$101,003	\$503	0.50%
<b>Total</b>	<b>\$1,646,551</b>	<b>\$2,240,140</b>	<b>\$2,332,046</b>	<b>\$91,906</b>	<b>4.10%</b>

The Storm Water Fund is budgeted to increase from our Fund Balance in 2023 by \$1,000, bringing our Fund Balance up to approximately \$547,000.

During the 5-year period, we will be looking at how we can increase the Fund balance to get it up to the minimum 35% recommended amount over the next 5-years. As you can see below, the Fund gets very close to the recommended amounts over the next 5 years:



# 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 (CEC) was 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 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 also was impacted significantly during this pandemic period, having to be shut down by Executive Order twice, which had a significant impact on revenues that we were 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> of that year.

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 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. At the end of 2020, our actual gap was about \$400,000, which was supported through our Self-Insurance Fund.

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. In 2021, the membership did grow back to about 855. In 2022 we are at around 893 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. In 2021, we grew back up to 764 allowing us to continue to move in a positive direction. In 2022 we did stay relatively constant at 760 league members, although we have 977 rostered curlers (we have some playing more than one league). So, in general, we have been able to build back much of the lost membership that occurred during COVID.

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 saw a good rebound in activity, with an increase in revenue up to about \$300,000 for the year. For 2022, we expect that we will end the year at about \$400,000 in lease revenue, which is actually greater than what we were experiencing in 2019 before COVID.

Finally, from an Event Center perspective, business has been coming back very strong, 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 saw a lot of business come back during 2021, with it generating around \$96,000. In 2022, we expect that we will generate about \$140,000 in revenue in the Event Center, even though we only budgeted \$122,300.

One 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 funds which freed up dollars to help support these funds in the two years they saw a loss.

## **2022 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 2023, we can look at the experience of 2022, which we saw things in the restaurant back close to normal. We are budgeting \$390,122 although we are expecting to see around \$400,000 of revenue generated from the lease revenue by the end of 2022.

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 continued to be full through the heart of our two Winter seasons.

As mentioned previously, while we saw a loss of members during COVID, we have built a lot of that membership back up, with their now being about 893 members of the facility. With that, we have been able to get our Leagues back up to 760 unique members curling in our leagues, with 977 rostered curlers overall (some play in more than one league). Because of this, we are budgeting \$502,778 in Curling Revenue, which is nearly identical to the \$500,000 we expect to generate by the end of 2022.

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 \$2,300 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. As mentioned previously, even though we were at about \$122,000 in 2019 for revenue from the Event

Center, we expect that by the end of 2022 we will be at approximately \$140,000 in revenue. That is why we are budgeting \$153,300 in 2023. Also, our rates have traditionally be low compared to other similar facilities. In 2023, we are recommending increasing our rates by generally \$50 per category. Below would be the recommended rates for the Event Center in 2023:

Friday	2022 Non-Resident	2022 Resident	2023 Non-Resident	2023 Resident
May-October	\$1,900	\$1,700	\$1,950	\$1,750
November-April	\$1,650	\$1,450	\$1,700	\$1,500
Saturday				
May-October	\$2,300	\$2,000	\$2,350	\$2,050
November-April	\$2,050	\$1,750	\$2,100	\$1,800
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, with our expected number at the end of 2022 being \$250,000. It is this amount of \$250,000 that we are recommending we budget for the 2023 year.

The final revenue source we have coming in is \$1,572,352 from the Community Building Fund to support the debt service on the construction of this project. This is something that has been set up separate from the operations of the Fund since the very beginning of operations in 2015.

Based on this, we are recommending that the adopted revenue budget we have for 2023 will be \$2,868,552, which is 3.55% higher than in 2022.

Below is a chart reflecting the actual revenue number for 2021, as well as the budgeted revenue for the 2022 budget year, along with the proposed regular budget for 2023 and the planned budget we will be working from.

Revenues	Actual 2020	Actual 2021	Budget 2022	Budget 2023	Change	%Change
Event Center Rental	\$31,945	\$96,405	\$122,300	\$153,300	\$31,000	25.35%
Curling Center Leagues/Memberships	\$344,499	\$370,764	\$498,378	\$502,778	\$4,400	0.88%
Corporate Curling Events	\$89,090	\$128,963	\$200,000	\$250,000	\$50,000	25.00%
Restaurant Lease	\$176,124	\$319,047	\$380,122	\$390,122	\$10,000	2.63%
Community Fund Transfer (Debt)/Interest	\$1,573,692	\$1,582,240	\$1,569,538	\$1,572,352	\$2,814	0.18%
Other Revenue	\$0	\$180	\$0	\$0	\$0	0.00%
<b>Total Operating Revenues</b>	<b>\$2,215,350</b>	<b>\$2,497,599</b>	<b>\$2,770,338</b>	<b>\$2,868,552</b>	<b>\$98,214</b>	<b>3.55%</b>

## **2023 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 budgeted for 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. As we did have this position vacant for some time over the past year we did once again contract for this position but are now bringing it back in house as it creates better value and allows us to utilize this position for other activities in the facility. By having this position, we 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.

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 and 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 \$230,000 per year, with the costs within the restaurant area being approximately \$50,000 per 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 2023, below is the expenditure budget that we would suggest for 2023.

Expenditures	Actual 2020	Actual 2021	Budget 2022	Budget 2023	Change	% Change
Administration/General Facilities	\$648,553	\$699,691	\$751,040	\$748,368	-\$2,672	-0.36%
Event Center	\$115,497	\$117,879	\$120,599	\$142,795	\$22,196	18.40%
Curling Center	\$259,418	\$273,936	\$382,003	\$326,744	-\$55,259	-14.47%
Crooked Pint	\$79,068	\$58,669	\$63,330	\$61,910	-\$1,420	-2.24%
Other	\$0	\$1	\$0	\$0	\$0	0.00%
Depreciation	\$628,588	\$628,588	\$0	\$0	\$0	0.00%
Debt Service	\$465,509	\$438,380	\$1,581,692	\$1,584,506	\$2,814	0.18%
<b>Total Operating Expenses</b>	<b>\$2,196,633</b>	<b>\$2,217,144</b>	<b>\$2,898,664</b>	<b>\$2,864,323</b>	<b>-\$34,341</b>	<b>-1.18%</b>

Based on this budget, would have a slight gain in the Fund, but would basically break even. We do think, however, that since these numbers are based on 2022 experience, and that we have not taken into consideration any real increase from rate increases to be conservative, that we could see our 2023 budget year come out better than expected. Below are the 5-year projections for the facility. To keep the facility in great shape and not fall behind in capital projects, we have included everything that is needed in the projected future budgets. As part of our discussions in 2023, we are going to be looking at the idea of naming rights for the facility which could help accomplish keeping up with these improvements, so we see our facility in as good of a condition in the future as it is now. Long-term capital reinvestment for the major systems like mechanical were built into the Community Building Fund to make sure that before we utilize those funds on a different project that we are fully funding the replacement of major items in the building before we spend dollars in the Community building Fund on other projects.

**CITY OF CHASKA FINANCIAL FORECAST  
CURLING AND EVENT CENTER (FUND 610)**  
**(Est. Net Cash does not include \$5,251,000 in unfinanced  
construction costs from 2015)**

