

City of Chaska 2024 Budget



2024 Annual Budget

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

Submitted for your review is the proposed 2024 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. As we did during the 2023 budget process, we have continued to spend the better part of this year talking to the public about our largest current challenge, 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 services at levels that our residents expect, this budget seeks to continue our efforts to keep our Capital Asset Maintenance Program (CAMP) fully funded as we move into the future so that we continue to reinvest back into the assets that are aging in our community such as trails, roads, and parks. We also have put a high priority on making sure we are working towards keeping our General Fund Reserve balance 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-Tilly Staffing Study. 2024 will be the fourth and final year of implementing this Staffing Plan that helped us identify staffing shortages we needed to fill to keep our residents’ expected service levels sustainable as we continue to grow.

Finally, as we started in 2023, an emphasis was placed in this budget on implementing the plan to address our City Facility needs for buildings supporting our General Fund services in Chaska. 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 or equipment levels in the City, let alone our future needs as we continue to grow. As will be described throughout this budget document, the 2024 budget will be the second of four years of revenue increases that will be needed to support the debt service of rehabilitating and expanding these facilities which will take the rest of this decade to complete. 2024 will also mark the first facility in our Building Improvement Program that we plan to move forward to construct, with our Public Safety campus slated to start in the Spring of 2024 and be completed in the Fall of 2025. This facility will house both our Police and Fire Departments on the property that currently holds our Fire Department.

The following document will go through these discussions in detail, as well as lay out the data to show what we expect to see over the course of 2024 to help our residents understand the decisions that are being made for the 2024 budget year.

2024 Budget Environment

As we go into 2024, we are seeing market values in the community stabilize to levels that are more typical for a growing community. For taxes payable 2023, we saw an increase in our community's overall market value of 22.35%, which was the largest single year increase we had seen in over two decades.

For taxes payable 2024, we are seeing an 8.18% increase in our community's taxable market value, with 3.24% driven by new construction and the other 4.93% being driven by changes in existing properties values. The strongest growth we have seen in the City has been in the category of Apartments, which saw a 10.47% overall increase in value, with most of that being in existing apartment buildings. This growth was caused by a strong demand for additional apartment units in the community as the vacancy rate was very low. This led to the construction of over 600 rental units in Chaska which we expect to start coming on-line over the next few months.

Commercial/Industrial properties also saw strong growth at 10.14%, with 6.33% of that being with existing Industrial buildings. It was this demand which led to the construction of two additional industrial buildings in our new Chaska Creek Industrial Park, and additions to buildings in our North Industrial Park.

Residential saw the smallest change in property values for 2024, with existing residential properties only seeing a 2.75% increase in market values. This small amount of change in existing residential properties was likely due to the large increase we saw in 2023 in market values, when we saw the taxable values of properties catch up to the large increase in sales values we were seeing in Chaska a couple of years ago.

Our tax capacity for 2024 is slated to grow at a slower rate of 5.4% compared to 24.9% in 2023. The tax capacity measures the amount of value that is taxable within a community.

As we have seen since 2021, building activity in Chaska was very strong during 2023. This building activity has included the addition of two apartment buildings in the Clover Ridge Neighborhood, the construction of an additional apartment building in the Hazeltine Plaza development, and the addition of rental townhomes on the former site of Oak Ridge Conference Center, totaling over 600 rental units in all. In addition to this, we saw strong Commercial/Industrial development with the construction of Costco, the 5th floor addition to the 212 Medical Center's main building, the addition of an industrial building on the former Chaska Building Center site, and the completion of a second industrial building in the Chaska Creek Industrial Park. We also saw the addition of a significant amount of new owner-occupied residential units in three separate development areas in Southwest Chaska and in the westerly neighborhood addition to the Clover Ridge Neighborhood. As we finish out 2023, we expect that permits will exceed the 2021 and 2022 levels of \$1.5 million, reaching approximately \$2.8 million. For 2024, we are expecting to see some slowing in the market, with only two smaller industrial buildings currently approved. However, we do expect to continue to see a moderate pace of development for residential units. Because of that, we are budgeting for \$1.1 million in building permits.

As the 2024 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 8.18% compared to the 22.35% increase we saw in 2022. This will bring our overall property value in the community to \$4.58 billion, a little over \$351 million higher than last year. 3.24% of this change came from new construction, with the rest being increased values on existing properties. This 3.24% increase is slightly higher than the 2.17% increase in new construction we saw last year.
- Based on Legislative Changes made during the last session, while we will continue to see \$0 in Local Government Aid, we did receive a one-time allocation of \$1.22 million in Public Safety Aid to support Police and Fire services. We are not required to utilize these dollars all during the 2024 year, but the 2024 budget recommends formally allocating approximately \$400,000 of these dollars towards public safety expenses.
- Based on Legislative Changes during the last session, the State did create a Metro Sales Tax, with a portion of this sales tax coming back to each Metro Area City with the purpose of supporting the creation of more affordable housing stock. The allocation in 2024 for Chaska is estimated to be approximately \$258,000, with it going up to \$375,000 in 2025. These funds are anticipated to continue.
- While building permits in Chaska have been over \$1.5 million in 2021 and 2022, and close to \$2.8 million in 2023, we do not expect to see as robust growth in 2024, and therefore are setting our budget for permits to be at \$1.1 million for 2024.
- We are continuing to see an increase in population, with a steady increase in the number of residential units being built in the community, including 600 new rental units opening over the next 6 months. Based on this, we expect the population in Chaska to be just over 28,700 in 2024.
- Our Electric Revenue has continued to increase, as we have seen a significant amount of Economic Development activity occur in the last several 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. We expect the amount coming back to the General Fund in 2024 to be approximately \$5 million.

Tax Levy Establishment Policy

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 the 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 that 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, but instead helps make sure that we are

capturing this new value to contribute to the overall service need increases in the community caused by new growth. 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 the actual amount that is needed to support the direct cost of these new initiatives.

In this 2024 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 2024 include:

- Implementing the fourth and final year of our Staffing Gap plan, which requires an additional \$487,000 in tax levy.
- Commit to the second of four years of ramping up revenues for our Building Improvement Program, which would add \$1.125 million of tax levy each of the 4 years of the program, along with \$590,500 of Utility Funds each of the next 4 years to support the ultimate \$6.8 million of estimated annual debt service necessary 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 (\$379,100) of \$16.75 per month, or \$201 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 the direction of continuing to meet our Staffing needs throughout our General Fund 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 with 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 2024 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
- Utilize our 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, added during the 2019 budget process, in which we discussed the importance of resourcing our organization to a level that can sustain the service levels our residents have come to expect. Over the past five 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 in 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 finishing the implementation of our Staffing Gap plan, and continuing to fund our Building Improvement Program, will allow us to be 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 25-30 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 available to support these improvements.

As mentioned previously, instituting each of the above-described initiatives in 2024 would require an additional tax levy of \$487,000 for the Staffing Program, and an additional \$1.125 million in tax levy to support the Building Improvement Program. On the Median-Valued Home in Chaska (\$379,100) the tax impact would be \$16.75 per month in additional costs, or \$201 over the course of the entire year. This would require a levy increase of 19.3%. Given that we are seeing a 5.4% increase in our tax capacity for 2024, we would see an approximate 14.6% increase in our tax rate. Assuming a 5% increase in tax levies from all other communities in the Twin Cities (we have seen most cities above a 5% increase), we would be 55th lowest out of 84 cities in the Twin Cities Metro Area.

MAJOR INITIATIVES OVER PAST DECADE

During the recession period from 2008-2013, to navigate the financial impacts to our revenue collection that supported our budgeted activities, the City deferred many planned expenditures as a strategy to balance the budget. This was needed and allowed us not to increase the tax levy for four years during this recession period.

When the economy improved after 2013, the City was able to put more emphasis into the projects that we had to defer, which revolved around the reinvestment back into our existing infrastructure and assets, as well as making sure that we were staffing at a level that could sustain the level of services residents have come to expect in our community.

CAMP Program

This renewed emphasis on reinvestment back into our existing infrastructure was first demonstrated through the establishment of our Capital Asset Maintenance Program

(CAMP). 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 in this program, with a four-year plan for how to fully fund these needs. This four-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 2024 continues with full investment into the CAMP to keep up with these reinvestment needs.

Staffing Gap Program

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 in 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 as our community grows, 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 filled 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.

To work on filling our existing gap, we divided the implementation of this plan over a four-year period to spread the costs over multiple years so as not to have all the financial impact in one budget year. 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 second of the four 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 three Police Officers were spread into each of the remaining three years of the Staffing program implementation, with one new position being added each year. In addition to funding the positions through this program, \$500,000 was also added to the program to help fund the on-going maintenance of our City facilities as positions being added in this program included Building Maintenance Staff. Up until this point, Chaska had not had any dedicated Building Maintenance personnel on Staff, which was a real challenge with having aging facilities.

The budget for 2024 has us funding the fourth and final 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 final slate of new Staff identified in this program, but also the final addition of dollars to help support on-going maintenance of our City facilities through our new Building Maintenance Staff.

Building Improvement Program

In 2023, a new program was added to address necessary building improvements in our General Fund facilities. As we have been discussing over the last two years both internally and through educational events for the public, there is a significant need to reinvest in our General Fund facilities that are all over 30 years old, are in poor condition, and are not sized or designed properly to serve our growing community and the changes in services we have had to make to properly serve our residents.

When doing our initial study to explore our current needs, it was identified that the following four buildings need reinvestment and expansion, without the necessary 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. Also, to be discussed, the program is one that we are laying out to have the financial resources necessary collected over a four-year period to help spread the additional tax burden needed to support the program over an extended period.

The first facility in this program would be scheduled to be completed in 2025 (Public Safety Facility), with the final facility being completed in late 2030 (City Hall Rehabilitation). This Building Improvement Program is where we have spent the bulk of our budget discussions over the past two years, and what we have been out educating the public on since early spring of 2022. 2024 would be the second year of implementing the needed tax levy to support this program, with the City levying the first portion of this program in 2023. 2024 would also mark the start of construction on the first facility in this program, which is the Public Safety Facility. This would be slated to start construction in the spring of 2024 and be completed by the Fall of 2025.

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 8.18% (as it will for taxes payable 2024), the levy could also increase by 8.18% and have no impact on the tax rate in the community. This would mean that if someone's property did not change in taxable market value from one year to the next, that their City taxes would not see any increase.

While 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 increases are 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 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 declined for four straight years. This led to the City temporarily 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 would 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 four years, staying at an amount of \$4,880,354.

Finally, the 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 needs we have for additional resources to support the services we already provide.

It was during the 2014 budgetary process that the City Council made a permanent change to our tax levy establishment policy to learn from the issues we experienced during the Great Recession. The current tax levy policy, established in 2014, focuses specifically on looking at the two items that create increased cost pressures on our General Fund, if a primary objective is to keep a constant level of services in the community:

- New construction in the community (3.24% for taxes payable 2024)
- Inflationary increases in the market (~5% for 2024)
 - Total Base-line tax levy increase of 8.24% to keep current service levels constant
 - It should be noted above that the actual rate of inflation we have been seeing over the past two years has been over 5%. However, we decided to cap it at 5% for budgeting purposes because we are addressing the addition of our Building Improvement Plan again in 2024.

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 on the cost of providing our services regardless of whether 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 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 2024 budget, the two new items that are being added are the \$487,000 going towards the final year of implementation of our Staffing Gap study, and the \$1.125 million towards the second year of our Building Improvement Program. The total new tax levy amount needed in 2024 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 is increased demand 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 in 2010. 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 in 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 decade. 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 Park. Over this past year, we have seen a continued push in residential development, while also seeing a large increase in Commercial/Industrial activity. In 2023, we saw robust Commercial/Industrial development, along with the addition of several residential rental projects. This included the addition of three apartment buildings and rental townhomes, creating over 600 new rental units in the community. It also included the start of construction on the Costco building, the completion of two industrial buildings in our Chaska Creek Industrial Park, an addition onto the 212 Medical Center, along with new single family owner-occupied housing units being constructed.

While we have seen three years of very strong growth in 2021-2023, with building permit revenues being over \$1.5 million in 2021 and 2022, and permit revenue being close to \$2.8 million on 2023, we are expecting some slowdown in building in the community with our building permit revenues budgeted to be \$1.1 million in 2024. Below is a chart indicating what we think will happen with our population growth over the next 5 years due to expected growth:

Year	# of Housholds	# of New	Est. Pop.
2000	6,979	445	17,449
2001	7,394	415	17,746
2002	7,909	515	18,982
2003	8,378	469	20,107
2004	8,854	476	21,250
2005	9,122	268	21,893
2006	9,323	201	22,375
2007	9,553	230	22,927
2008	9,743	190	23,383
2009	9,767	24	23,441
2010	9,832	65	23,652
2011	9,907	75	23,777
2012	10,039	132	24,094
2013	10,173	134	24,415
2014	10,373	200	25,270
2015	10,523	150	25,255
2016	10,673	150	25,652
2017	10,823	150	25,975
2018	10,973	150	26,335
2019	11,123	150	26,695
2020	11,243	120	26,983
2021	11,468	225	27,523
2022	11,668	200	28,003
2023	11,845	177	28,170
2024	12,445	600	28,668
2025	12,595	150	30,228
2026	12,745	150	30,588
2027	12,895	150	30,948
2028	13,045	150	31,308

An analysis of General Fund revenues by major fund source:

Total revenues anticipated to fund the 2024 General Fund operating budget are \$28,848,773, which is an increase of 15.7% from our 2023 General Fund Revenues of \$24,936,489.

As you will find on the chart below, Property taxes are the largest source of increased income going into the General Fund budget. One item on this that may not be clear is while it shows a 26.1% increase in property taxes, that is not the actual percentage of increase of our total property taxes. The total levy increase is 19.3%. 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 Economic Development Authority (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 specifically into our General Fund in comparison to 2023. Again, our total property tax levy will be going up by 19.3% in 2024. Based on this, we would see an increase in our tax rate of 14.6%. As we have discussed, most of this increase is due to the implementation of our Building Improvement Program, with 2024 being the second of four years of tax levy increase needed to support this program.

One additional thing to point out is in our Building Permit revenues. As mentioned previously, while we have seen actual permit revenues in 2021 and 2022 be over \$1.5 million and in 2023 be close to \$2.8 million, we do think that there will be some slowdown in building for 2024. We are budgeting \$1.1 million for 2024. It should be noted that there are many projects that are in the process of building now and will require inspections in 2024 although they pulled their permits in 2023. We are going to be designating some of this 2023 permit revenue for 2024 since the work for these facilities will continue into this next year.

Finally, the other main source of income in our General Fund is our 5% Electric Payment for Right of Way usage and the operational transfer of an additional 5% from the Electric Fund, and our Gas Franchise Fees. These are budgeted to be over \$5,264,000 because of continued growth of electric/utility use in our community. Finally, we have our Administrative Charges to our different internal funds to provide administrative services to these funds, so they do not have to provide these services themselves. That fee is scheduled to be \$5,093,000 in 2024.

The chart below shows a summary of revenues for the 2024 budget year:

General Fund Revenues

	2022	2023	2024		
	Actual	Budget	Budget	Increase	%Increase
Property Tax	\$8,467,504	\$10,590,388	\$13,358,797	\$2,768,409	26.1%
Elec/GasFranchise Fees	4,742,904	5,361,000	5,264,000	(\$97,000)	-1.8%
Other Franchise Fees	307,061	305,000	314,150	\$9,150	3.0%
License and Permits	2,041,733	1,035,098	1,135,098	\$100,000	9.7%
Other Revenues	3,316,994	2,841,703	3,683,728	\$842,025	29.6%
Admin Charges to Funds	4,495,266	4,803,300	5,093,000	\$289,700	6.0%
Total Revenue	\$23,371,462	\$24,936,489	\$28,848,773	\$3,912,284	15.7%

An analysis of Major Programs in our General Fund Expenditures:

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 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 on 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 was discussed previously, between 2014-2017, the City worked to create our Capital Asset Maintenance Program (CAMP) 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 include 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 condition.

With the CAMP fully funded, 2024 will bring several rehabilitation projects to the table, including:

- \$500,000: Street Sealcoat/Overlay
- \$60,000: Trail Resurfacing (3 miles)
- \$225,000: Lion’s Park Playground Replacement

- \$225,000: Retaining Wall Replacement at intersection of Bavaria/Innsbruck Drives
- \$150,000: Expansion of Lion's Park Pickleball Courts (\$75,000 from Park Development Fund)

In addition to these items, we are also moving the dollars we had budgeted in 2023 for work to be completed on rehabbing City Square Park to 2024, which was budgeted at \$500,000.

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 of meeting our current service levels needs. We also determined that we had a missing component in our current organization of proper resources and staffing dedicated to Building Maintenance. This was 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 discuss one component of this program that we felt was not properly addressed initially, which was the Staffing levels in our Police Department with Sworn Officers. It was determined that we were three Police Officers short, and to address this, one Officer would be added each of the remaining three years of implementing our Staffing Program. This added an additional \$336,000 to the overall program.

As we discussed last year, 2024 is the last of four years for implementing our Staffing and Building Maintenance Plan. To fund this last year of the plan, \$612,000 of additional resources need to be added in 2024, with \$487,000 coming from additional tax levy and \$125,000 coming from Enterprise Fund Resources. Below is a list of the positions/building maintenance assets added in 2020, 2022 and 2023 (we took a break in 2021 because of COVID), along with the proposed list of new positions for 2024.

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 (4th of 5)
- Additional Police Officer (#28)
- Allocation to Building Maintenance Budget: \$125,000

2023 Staffing Study Implementation Plan:

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

2024 Staffing Study Implementation Plan:

- Building Maintenance Worker (5th)
- Storm Water Maintenance Worker
- Street Maintenance Worker
- Water/Sewer Maintenance Worker
- Payroll Support Specialist
- Patrol Officer (#30)
- 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 three 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 (The City owns the building, and Carver County operates the library)
- Remodeled City Hall

As we have discussed throughout this process, each of these facilities are over 30 years old (Fire Station is 28 years old in 2024), 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 in 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 of 2022, along with recommendations for how to fund each of these facility needs. The total estimated costs to address the needs of each of these facilities is currently \$121,500,000, which would create an annual debt service need of a little over \$6.86 million per year, with \$4.5 million attributed to General Fund costs, and \$2.36 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 one-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 need to create new resources unless we are willing to cut back on our existing services levels, which have also been traditionally leanly funded.

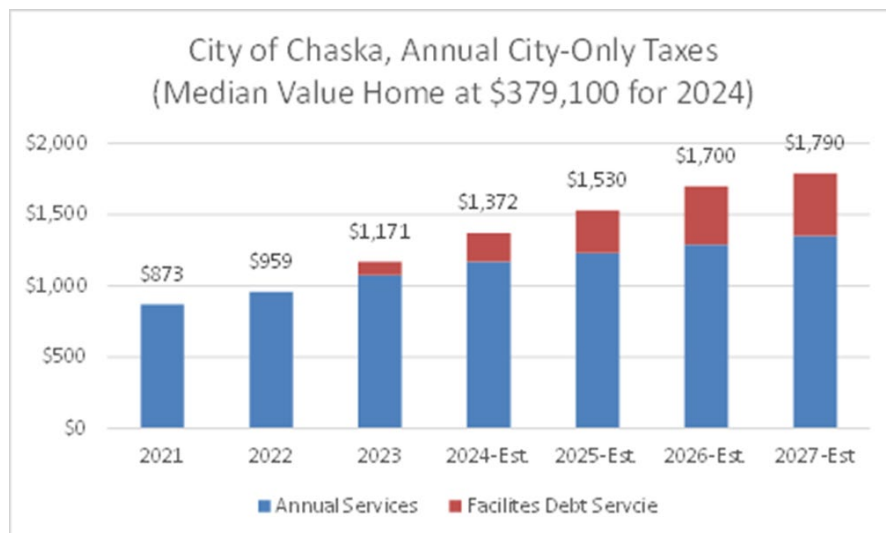
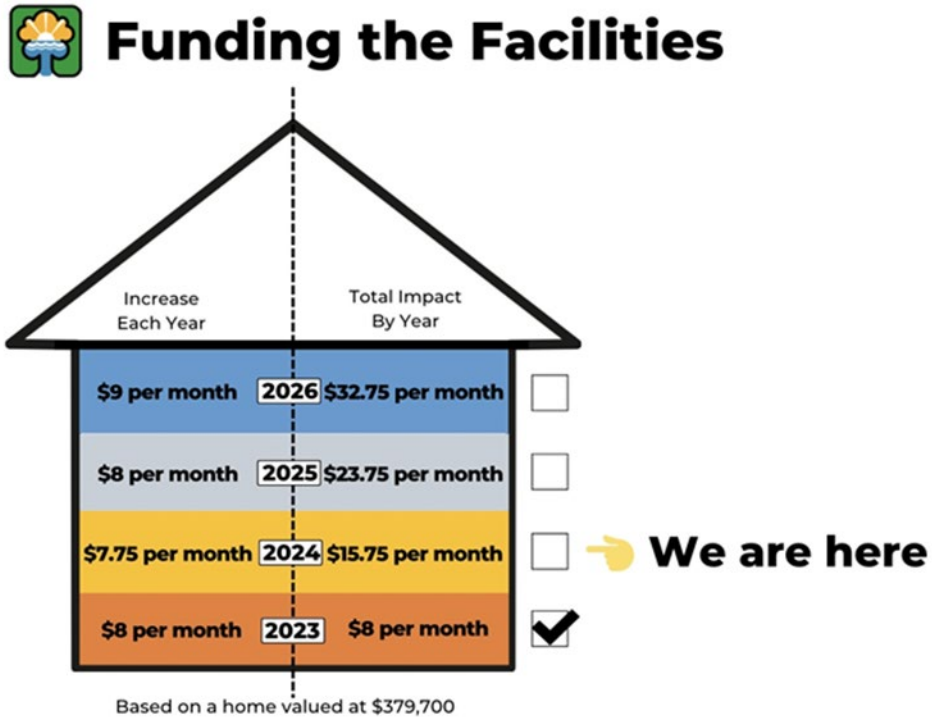
To address the funding of this program, but to not see the impact of this all come at once, Staff presented a recommendation to Council in 2022 to increase the funding over a four-year period, with the tax levy needing to increase by \$1.125 million each year over a four-year period. Spreading this cost out over several years would also recognize that we would not have the organizational capacity to work on each of these facilities at once, only having the organizational capacity to address one facility at a time.

With this plan, all four buildings would be completed by late 2030, 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 City Hall to meet its current and future needs. The last piece of the project would be the remodeling of City Hall to pick up the spaces vacated by the library and the Police Department to address our current space needs. The following is the schedule that would be anticipated for each of the facilities in our current Building Improvement Plan:

- Public Safety Building: Start building in 2024-Complete in Fall of 2025
- Municipal Services Building: Start building in 2026-Complete in Fall of 2027
- Library: Start Building in 2028-Complete in Fall of 2029
- City Hall Remodel: Start and Complete in 2030

As the Council is aware, a significant amount of public outreach has been done to educate our residents not only on the need, but also the impact they could expect on taxes if we

were to move forward with this plan. The plan started in last year’s budget (2023) with an \$8 monthly impact to the median-valued home. For 2024, the median valued home can expect an additional \$7.75 per month. For 2025, the program would add an additional \$8 per month, and for 2026 the program would add an additional \$9 per month to the Median Valued Home. At the end of four years, the monthly impact on a median-valued home would be \$32.75 per month, or \$393 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 when the program is completed. Below are two charts we have been showing the public for the financial impact of the program:



As mentioned previously, the Public Safety facility would be the first building to be addressed in this plan, with the plans currently being completed and expected to have final approval in our Planning process in December. We would anticipate starting construction on this building in the Spring of 2024, with it being completed in the fall of 2025. We expect to get back bids to consider for this project in February.

Property Taxes:

For 2024, to accomplish establishing our base-line budget, address implementing the fourth and final year of the Staffing Gap plan implementation, fully funding the CAMP, and continuing with the second year of the Building Improvement Program, the total tax levy needed is \$18,154,194. 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 19.31% from the 2023 total tax levy.

This levy increase would be made up of 8.40% to support the baseline levy (5.16% for inflation and 3.24% for new growth in the community), in addition to \$487,000 that is needed for the last year of our Staffing Study implementation. Finally, an additional \$1.125 million tax levy would be added for the second 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, \$409,956 represents a levy for tax abatement assistance provided in the past for economic development activity. This additional amount represents the 12th 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 \$212,801 levy. Last year this levy was \$196,308. The amount levied for 2024 in the EDA Fund is included in the total tax levy amount of \$18,154,194.

In summary, the total levy will include:

- Continuation of dollars to support the Downtown Street Reconstruction Program Debt Service
- \$17,531,797 being levied to support General Fund Operations, a portion of Street Reconstruction Debt Service, Mt. Pleasant Cemetery, and existing Equipment Acquisition Fund needs
- \$487,000 of additional levy (included in the total above) to support the fourth and final year of implementation on our Staffing Gap program

- \$1,125,000 (included in the total above) to support the second year of the Building Improvement Program (included in total above)
- \$1,000,000 for our CAMP (included in total above)
- \$212,801 being levied in the Economic Development Authority Fund for operations
- \$409,596 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 2021, 2022 and 2023, along with next year’s 2024 levy:

	2021	2022	2023	2024	Increase	%
General/Equipment Acquisition/EDA/Tax Abatement	\$ 11,406,925	\$ 12,666,429	\$ 15,210,147	\$ 18,148,194	\$ 2,938,047	19.32%
Mt Pleasant	\$ 6,000	\$ 6,000	\$ 6,000	\$ 6,000	\$ -	0.00%
Total Operating and Special Levy	\$ 11,412,925	\$ 12,672,429	\$ 15,216,147	\$ 18,154,194	\$ 2,938,047	19.31%

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 value, excluding tax-exempt property, increased by \$351,323,500 to \$4,584,515,400-an overall increase of 8.18%. The largest percentage increase that we saw in 2023 was in apartment properties, with a 10.47% overall increase. 0.49% of that came from construction of new apartment units in the community, with the other 9.98% coming from increasing values in existing residential units. That is likely why we saw the construction of over 600 rental units in Chaska over the past 12 months.

The other major area of increase we saw was in Commercial/Industrial properties, with a 10.14% increase in market values. 3.81% of that growth came from new construction, meaning that 6.33% of the increase was experienced in existing Commercial/Industrial buildings. This increase in existing C/I property values is likely what led to the construction of more buildings in Chaska over the past 12 months as there was more demand for these units.

Residential properties saw less of an increase in 2023, with there being a 6.21% increase, and Undeveloped Agricultural land saw a 12.02% decrease, meaning that there is likely less demand at this point for purchase of undeveloped properties.

Below is a summary of the Market Values for taxes payable 2024 (assessed 2023) as established by the County Assessor’s office:

City of Chaska 2023 Assessments					
	Residential	Commercial/Industrial	Apartment	Ag	Total
2023 EMV	\$3,500,587,900	\$695,005,100	\$310,560,500	\$78,361,900	\$4,584,515,400
2022 EMV	\$3,295,947,000	\$631,025,600	\$281,134,600	\$89,064,200	\$4,297,171,400
Total Value Change	\$204,640,900	\$63,979,500	\$29,425,900	-\$10,702,300	\$351,323,500
New Construction	\$113,946,200	\$24,029,200	\$1,377,300	\$0	\$139,352,700
Market Change	\$90,694,700	\$39,950,300	\$28,048,600	-\$10,702,300	\$211,970,800
% New Construction	3.46%	3.81%	0.49%	0.00%	3.24%
% Market Change	2.75%	6.33%	9.98%	-12.02%	4.93%
2023 Total % Change	6.21%	10.14%	10.47%	-12.02%	8.18%

Using the 2023 market values and the classification formulas established by the State, the County Auditor has calculated Chaska’s 2023 (for taxes payable 2024) gross tax capacity to be \$53,264,767, an increase of 7.64%. 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 \$2,597,955 with Chaska’s fiscal disparities contribution for 2024 being \$4,825,430 resulting in a net tax capacity of \$45,841,382, or an increase of 5.44%.

	2023	2024	Increase	%
Gross Tax Capacity	\$49,483,043	\$53,264,767	\$3,781,724	7.64%
TIF	\$1,851,247	\$2,597,955	\$746,708	40.34%
Fiscal Disparities	\$4,155,642	\$4,825,430	\$669,788	16.12%
Other				
Net Tax Capacity	\$43,476,154	\$45,841,382	\$2,365,228	5.44%

Based on these estimates, Carver County has estimated Chaska’s 2024 General Fund tax rate to be 36.199%. This is an increase of 14.60% from 2023, where we had a tax rate of 31.588%. With the median value of home going up from \$370,700 to \$379,100 in the community, this would bring the median-valued home’s City taxes from \$1,171 in 2023 to \$1,372 in 2024, or an increase of approximately \$16.75 per month or \$201 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 one of 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 a good value within the entire Twin Cities Metropolitan Area. As we look at 2024, if you assumed that all other Cities have a 5% increase in their tax levies, Chaska would go from ranking 56th lowest out of 84 total cities down to 55th lowest. It should be noted that at least in Carver County, all cities have a proposed levy over 5% meaning that our ranking would likely be better than what is represented below.

Rank	City	2023 Levy	2024 Projected Levy	Population	Tax Levy Per Capita
1	Golden Valley	31,087,048	32,641,400	22,034	\$1,481
2	Oak Park Heights	6,337,260	6,654,123	4,776	\$1,393
3	Wayzata	5,879,345	6,173,312	4,437	\$1,391
4	Mendota Heights	11,947,424	12,544,795	11,658	\$1,076
5	Columbus	4,233,069	4,444,722	4,172	\$1,065
6	Minneapolis	442,754,385	464,892,105	436,934	\$1,064
7	Hopkins	18,766,224	19,704,535	18,608	\$1,059
8	Excelsior	2,331,074	2,447,628	2,335	\$1,048
9	Orono	8,387,000	8,806,350	8,447	\$1,043
10	St. Anthony Village	8,478,011	8,901,912	9,060	\$983

53	Prior Lake	16,863,956	17,707,154	27,855	\$ 636
54	Carver	3,851,980	4,044,579	6,371	\$ 635
55	Chaska	17,744,598	17,744,598	28,170	\$ 630
56	Lino Lakes	12,893,915	13,538,611	21,658	\$ 625
57	Maple Grove	41,203,200	43,263,360	71,230	\$ 607

76	Mounds View	\$6,479,782	\$6,803,771	12,965	\$ 525
77	Arden Hills	\$4,718,680	\$4,954,614	9,682	\$ 512
78	Vadnais Heights	\$6,461,264	\$6,784,327	13,270	\$ 511
79	St. Paul Park	\$2,654,073	\$2,786,777	5,498	\$ 507
80	Falcon Heights	\$2,474,298	\$2,598,013	5,379	\$ 483
81	Anoka	\$8,295,505	\$8,710,280	18,127	\$ 481
82	Lauderdale	\$1,010,172	\$1,060,681	2,221	\$ 478
83	North Oaks	\$2,182,645	\$2,291,777	5,195	\$ 441
84	White Bear Lake	\$9,955,000	\$10,452,750	24,689	\$ 423

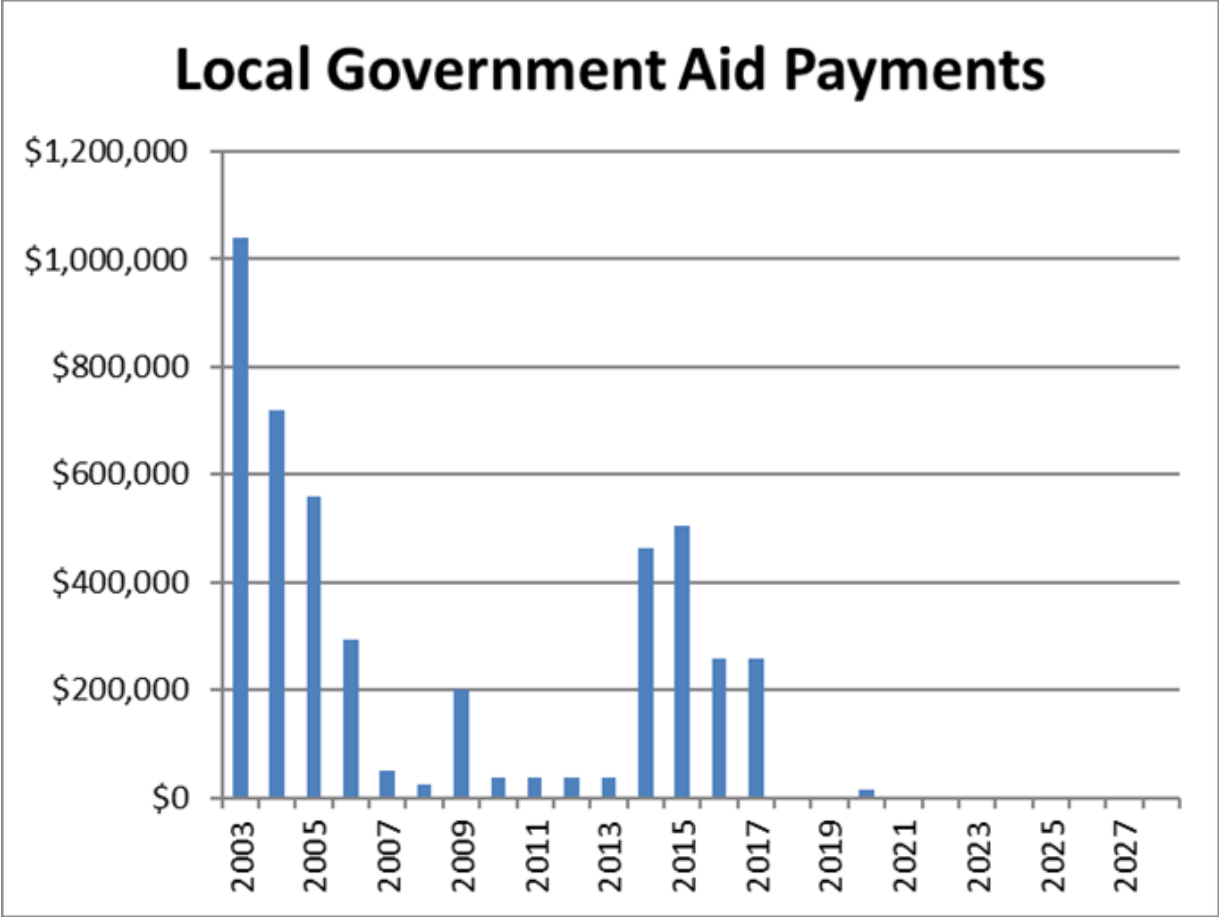
Intergovernmental Revenues:

One significant change we experienced starting in 2018 and has continued into 2024 is the reduction of our Local Government Aid by approximately \$250,000, bringing us down to nearly \$0. 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 last few 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. When this went away, 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, which we did not levy locally to replace it, 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 did receive 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 of local government aid, and what we expect to see in LGA over the next five-year period.



While we will not see any LGA from the State to support our General Fund Services, there are two new sources of income that the State created that directly impact cities.

First, the State created a one-time allocation of dollars to cities to support Public Safety activities. These are dollars that we will only receive once but are not dollars that we are required to utilize in any defined period. The Public Safety Aid the City of Chaska will receive equates to approximately \$1.2 million. For our 2024 budget, we have planned to utilize \$396,000. \$350,000 of this will go towards expediting the hiring of positions we already had budgeted to start in both Police and Fire in 2024, but now will allow them to be brought on sooner. By expediting these positions by a few months, that will allow us to be able to free up time from one Fire personnel and one Police personnel to be able to focus their efforts on helping guide the construction of our Public Safety Facility while not having to worry that their normal job duties are being completed. The other \$46,000 is being planned for the purchase of two Search and Rescue Drones, that we have been planning for some time to add, for use by both our Police and Fire Departments.

The other form of State Aid that we received, and will come on an annual basis, is from the Metro Sales Tax that was just implemented. While a portion of the Metro Sales Tax will go towards transit activities, the portion that will come to cities will go to support the building of more affordable housing within the entire Twin Cities Metropolitan Area. For the City of Chaska, we will receive \$258,000 in 2024, with that amount then going up to

\$375,000 in 2025 and every year thereafter. For 2024, we plan to utilize our allocation of dollars to do a market study to look at where we officially stand for affordable housing units in our community and to develop strategies for how to create additional units in our community to meet our goal of having 30% of our units be affordable when the community is fully built.

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.

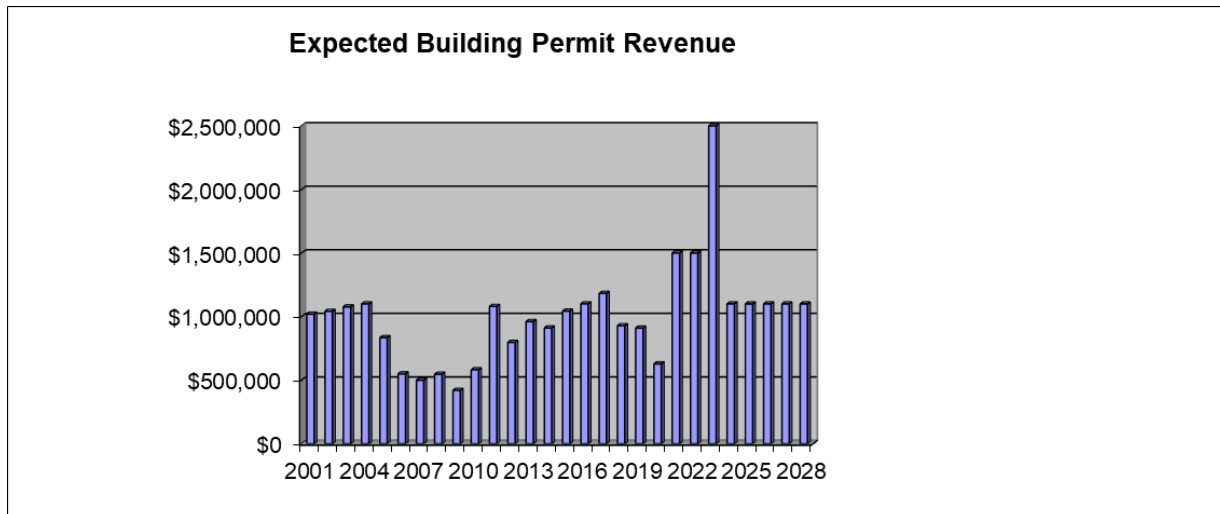
With the downturn in the economy in early 2020 due to the pandemic, we did see the permit revenue we expected to see be reduced significantly. While we continued to see relatively steady single-family residential development, we did see a big downturn in Commercial/Industrial activity, with only a few projects moving forward. In early July of 2020, we did amend our General Fund budget when we started to understand the impact it would have on our budgeted revenues, especially on 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. 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 ended up with approximately \$1.5 million of activity in that year as well.

In 2023, we have seen several projects move forward with construction including 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 two Apartment buildings in the Clover Ridge Neighborhood. We also saw a significant amount of single-family home development occurring throughout the year. While we had budgeted for \$1.1 million in permit revenue because we had anticipated some slowdown during the year, we will have permit revenue closer to \$2.8 million for the entire year—almost 3 times more than what we budgeted.

For 2024, we do anticipate that we will see a slowdown and see a more typical level of growth compared to the past three years of strong development we have experienced. For that reason, we are budgeting \$1,035,000 million in building permits for 2024.

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

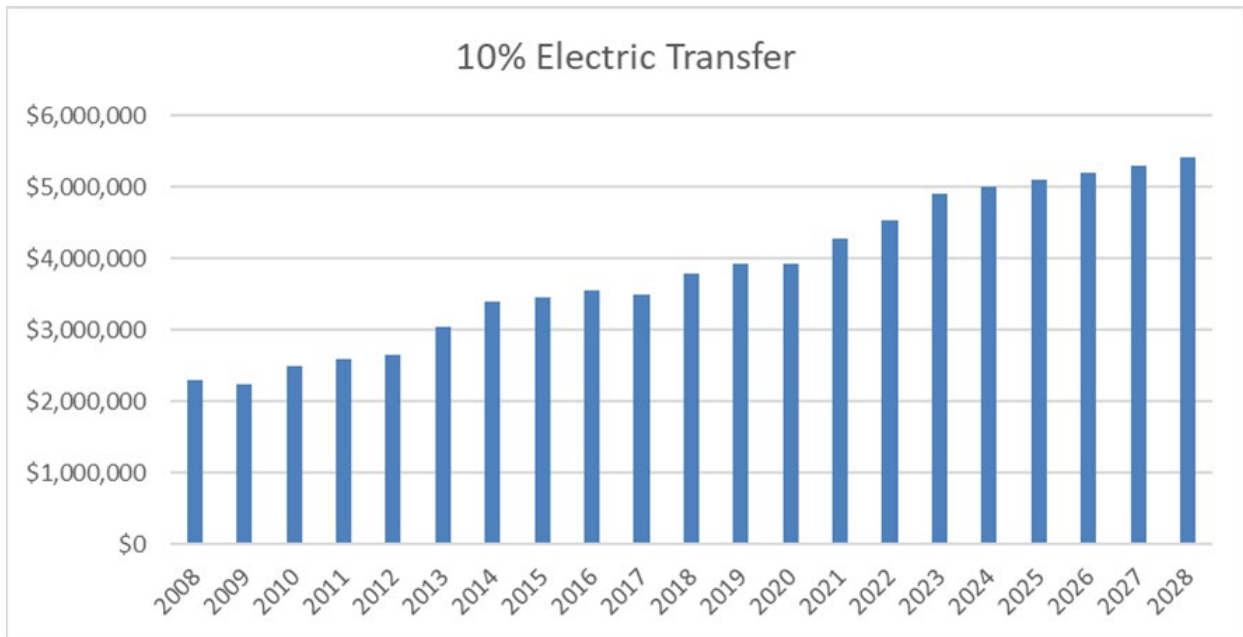


Electric Fund Transfers

The City has a formal policy of charging ourselves a Right of Way usage fee, which is 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 2024, the total amount of Right of Way fee transfer and operational transfer is budgeted to be just over \$5.3 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 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 to increase in 2024 as we start to see the loads come on from large projects we have added in the community over the past year, including three apartment buildings, new industrial and the addition onto the 212 Medical Center.

Over time we will see a significant amount of industrial growth occur in territory that now belongs to Minnesota Valley Electric Cooperative. While that currently is in their territory, the right for them to maintain these future users in their service territory ends in 2040. At that time the City of Chaska would then move to acquire this territory, something that State Statue allows us to do. So, while these users will not initially be in our territory, they eventually will be, which will allow us to increase the amount of support from our Electric Utility into our General Fund significantly at that time.



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, Storm Water, etc.). For 2024, charges for services are programmed to be \$5,093,000 as compared to \$4,803,000 in 2023, or an increase of \$290,000. 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 \$500,000 in 2024 as we are implementing the fourth and final phase of our Staffing/Building Maintenance Study implementation. It should also be noted that there is an additional \$509,000 that will be brought in from the Utility Funds to support the second year of the Building Improvement Program, bringing the total to \$1,018,000 over 2023 and 2024. Our Utility Funds need to support their fair share of the overall program and what they will be using. After four years of the program, the Utility Funds would need to support \$2.36 million of the total \$6.86 million annual debt service needed to support this program. We plan to add \$509,000 each of the four years of this program’s implementation.

General Fund Expenditures

General Fund operating expenditures are forecast to be \$28,848,773 in 2024, which is an increase of 15.69% over the 2023 Operating Budget of \$24,935,638.

In preparing the 2024 budget the following general assumptions were used for the operating budget:

- *Utilize budgeting objectives developed*

- *Increase in the tax levy by 3.24% due to new growth and 5% for inflation*
- *Move to implement the fourth and final 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 fourth year of the plan*
- *Implement the second year of the Building Improvement Program, adding \$1.125 million to the tax levy, and \$509,000 from the Utility Funds to support the second phase of funding 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 increase of 6% in 2024*
- *Assume continuation of our Street Reconstruction Program and debt service payments associated with it*
- *Continue contract with City of Carver for shared recreational services, bringing in approximately \$79,881 to support our recreational services*
- *Continue with \$12,000 expense in 2023 for "Scholarships" to support large community activities utilizing our Event Center (\$1,000 per month)*
- *Fully fund the Equipment Replacement Schedule for 2024*
- *Continue building up our General Fund reserves (budget \$300,000)*
- *All other items in budget to remain unchanged*

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 2024 budget process, while also providing a good value for our residents who receive our services in the community.

Department	2022	2023	2024	Increase	%Increase	Notes
	Actual	Budget	Budget			
Council	\$168,882	\$191,078	\$199,486	\$8,408	4.40%	
Communication	\$48,732	\$155,139	\$354,330	\$199,191	128.40%	<i>Moved Comm. Coord and Comm. Eng. Coord here from Admin</i>
Administration	\$944,729	\$1,122,615	\$1,049,096	-\$73,519	-6.55%	
Human Resources	\$451,973	\$462,885	\$492,336	\$29,451	6.36%	
Elections	\$38,890	\$13,906	\$40,783	\$26,877	193.28%	<i>2024 is an election year-additional expenses for this</i>
Admin Serv-Finance	\$1,795,943	\$1,860,432	\$2,022,258	\$161,826	8.70%	<i>Addition of Payroll Specialist-Staffing Program</i>
Admin Serv-IS	\$1,273,463	\$1,282,276	\$1,318,518	\$36,242	2.83%	
Legal	\$248,097	\$120,000	\$140,000	\$20,000	16.67%	
Community Dev.	\$563,119	\$417,903	\$590,700	\$172,797	41.35%	<i>Full wage for Planner and Zoning Study Implement from grant</i>
Engineering	\$576,263	\$635,955	\$657,531	\$21,576	3.39%	
City Hall Bldg	\$219,034	\$216,612	\$235,505	\$18,893	8.72%	
Building Maint Div	\$619,849	\$761,846	\$967,283	\$205,437	26.97%	<i>Final add of dollars for maint buildings from Staffing Program</i>
Police	\$6,030,828	\$6,176,456	\$6,791,993	\$615,537	9.97%	<i>Addition of Patrol Officer #30 as part of Staffing Program</i>
Fire	\$2,328,090	\$2,550,484	\$2,929,751	\$379,267	14.87%	<i>Addition of Fire Chief #4-Operations Chief--Growth Position</i>
Building Inspection	\$929,197	\$821,511	\$1,030,044	\$208,533	25.38%	<i>Built in Full Wage of Inspector funded through grant last year</i>
Public Works Admin	\$403,409	\$424,883	\$459,911	\$35,028	8.24%	
Streets	\$1,915,641	\$1,935,240	\$2,056,646	\$121,406	6.27%	<i>Addition of Street Maintenance Worker-Staffing Program</i>
Snow Removal	\$341,014	\$284,555	\$322,861	\$38,306	13.46%	<i>Addition of Street Maintenance Worker-Staffing Program</i>
MSB Building	\$213,000	\$211,196	\$261,792	\$50,596	23.96%	<i>Addition of Fleet Maint. Software and Building Repairs</i>
Park Maintenance	\$1,471,379	\$1,281,432	\$1,506,325	\$224,893	17.55%	<i>Seen increases in fertilizer, fuel and utilities for park shelters</i>
ISD 112 Maint	\$28,252	\$37,940	\$38,199	\$259	0.68%	
Tree Control	\$53,671	\$64,968	\$85,293	\$20,325	31.28%	<i>Increased efforts because of Emerald Ash Borer Disease</i>
Parks Admin	\$895,047	\$722,923	\$771,513	\$48,590	6.72%	
Parks Youth	\$221,955	\$345,156	\$383,820	\$38,664	11.20%	<i>Shifting of true Park and Rec. dollars from CCC to General Fund</i>
Park Senior	\$195,680	\$207,565	\$226,278	\$18,713	9.02%	<i>Move Part-Time Senior Programmer to Full Time</i>
Parks Adult	\$79,665	\$79,779	\$87,210	\$7,431	9.31%	<i>Shifting of true Park and Rec. dollars from CCC to General Fund</i>
Firemen's Park	\$104,309	\$123,425	\$122,053	-\$1,372	-1.11%	
Parks Skating Rink	\$7,900	\$12,481	\$12,612	\$131	1.05%	
Unallocated	\$614,025	\$2,414,997	\$3,694,646	\$1,279,649	52.99%	<i>These are additional dollars for the Building Improve Program</i>
Total	\$ 22,782,036	\$ 24,935,638	\$ 28,848,773	\$3,913,135	15.69%	

Specific Department 2024 Activities

Administration

For 2024, the Administration Department plans to remain unchanged for Staffing levels. In 2023, we did add the Community Engagement Manager Position in the Administration Department, as well as the Economic Development Coordinator. Both were new positions to the organization. For the 2024 budget, one change that we did make was to move the Community Engagement Manager and Communications Coordinator positions out of Administration and into the Communications Department. This has no change in our budgeted expenses but moves them into a department that better fits what their day-to-day duties entail.

Administrative Services

For 2024, the Administrative Services Department has one new position budgeted as part of the Staffing Gap Plan. This would be the addition of a Payroll Support Specialist. With the City having over 160 full-time employees, and more than 300 employees when we include our part-time employees, it has made it difficult for one individual to be able to complete all the duties of a payroll cycle by themselves. This would also allow us to be able to have a trained backup in place should one of the payroll positions be out for any reason. Other than this, there are no planned changes for 2024.

Community Development

For 2024, we do not have any new positions planned for this department. Over the past year, we did add a second planner position that was part of the Staffing Gap plan. This has helped us spread the load of planning activities between two people and allowed us to start focusing on more proactive projects such as completing the overhaul of our Planning and Zoning ordinances-something that we identified as a priority over the past year and which we have received grant dollars from the Met Council to complete.

Police

As we are implementing the final year of our Staffing Gap plan, the Police Department does have the addition of Officer #30. With the addition of this officer, we will have addressed the shortage of officers that we had identified as part of our Staffing Gap analysis.

In addition to this new Officer, we will also be utilizing a portion of our Public Safety Aid from the State to acquire 2 Search and Rescue Drones. We have had the need for drones in the past, especially when searching for people in our woods and ravine system. In those cases, we have had to call on other agencies to help us with those searches. With these drones we will be certifying people on Staff in the Police, Fire and Communications Department to be able to pilot these drones, which will make these a tool that is useful for more than just the Police Department.

Fire Department

For 2024, the position that we have scheduled to start is Fire Chief #4 which is an Operations Chief. With the number of calls that we take as a department, and the training demands that we have, we felt we needed to separate the Operations responsibilities from the Training responsibilities. With the addition of this position, this will allow someone to focus on the day-to-day operations of the department, with the Training Chief then being able to focus solely on making sure that we properly train our fire personnel in the department. This will also allow our Fire Chief #1 to be able to step back from the day-to-day operations and focus on more of the strategic direction of the department.

Public Works

For the Public Works Department, there are two positions that are being added as part of the Staffing Gap plan in 2024. The first position is a Building Maintenance Worker, which would bring our total staff in this division up to five individuals. The second position that we have slated for the Public Works Department is the addition of a Street Maintenance Worker. With the addition of mileage of roads within the community, this position is needed both for the winter maintenance of roads with snow but to also work on general maintenance during the summer months. These positions will both add to our ability to complete the added work we have had in the community both with aging facilities and with the demands of new development.

Recreation

Although functionally, the Recreation Department, Community Center (CCC) 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. In 2024, 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. We are also budgeting dollars in the General Fund this year to pay for use of the Community Center when General Fund Recreational Programs are held in that facility. As we discussed during the Community Center Budget process, moving the General Fund Park and Recreation activities out of the Community Center Fund and into the General Fund where they belong is critical if we are going to have the Community Center be able to be financially sustainable. The Community Center cannot continue to subsidize General Fund Parks and Recreation activities and expect to be financially solvent.

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.

**Community
Center
Budget**

For the Chaska Community Center, 2024 will be its 33rd 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 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. As we have found through our Master Planning process for the facility, many city-owned community centers/recreation facilities 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. While the facility was able to meet those four objectives successfully, this has changed since COVID, as we still have not been able to regain the membership base we had prior to COVID. And while the facility was able to meet the first four objectives through most of its years of operation, it has never been able to effectively build sufficient cash balances to reinvest back into the facility, with it having never been able to sufficiently fund its depreciation on an annual basis, which is just under \$1 million per year. Later in this report I will discuss how we are planning to address this and make sure that the CCC is not only operationally self-supporting, but that it can also cover its depreciation costs on an annual basis so we can properly reinvest back into this facility to preserve for future users.

Community Center's Support of General Fund

Because the Chaska Community Center has not relied on any tax levy for support, it has had the effect of being a factor of what has kept our General Fund tax levy low in the past. This has occurred financially with the CCC taking on many of the City's general recreational services 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 tax contribution to recreation 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 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. We anticipate this

issue will only build if we do not identify a plan to properly fund the Community Center as well as the General Fund Park and Recreation Services independently.

This has become a major issue within the Community Center, as this facility has in essence subsidized General Fund Park and Recreation services, 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 \$865,000 annually without us being able to fund this depreciation. This means that as our asset has been consumed, we have not been able to properly reinvest back into the facility to deal with replacing and maintaining key aspects of this facility.

Also, as mentioned previously, most City-owned recreational facilities are supported through some other source of funds, with 40% being a common number that most communities will use. While that does not need to be tax dollars that support a facility like a Community Center, most communities will fund at least a portion of their recreational facilities through tax dollars.

In Chaska, this has been an issue that has existed from the initial construction of this facility with only \$100,000 annually dedicated from the Electric Fund coming into the CCC Fund to support capital replacements. This represents only 2% of the overall Community Center budget. It has especially become an issue as the Community Center has aged and we have been forced to use sources like the Electric Fund to take on some of these necessary improvements above and beyond the \$100,000 we have dedicated to this facility. It has also not allowed us to replace things within the facility when they are needed, but instead replace items when there is an emergency, and we have no alternative but to replace the equipment that has failed.

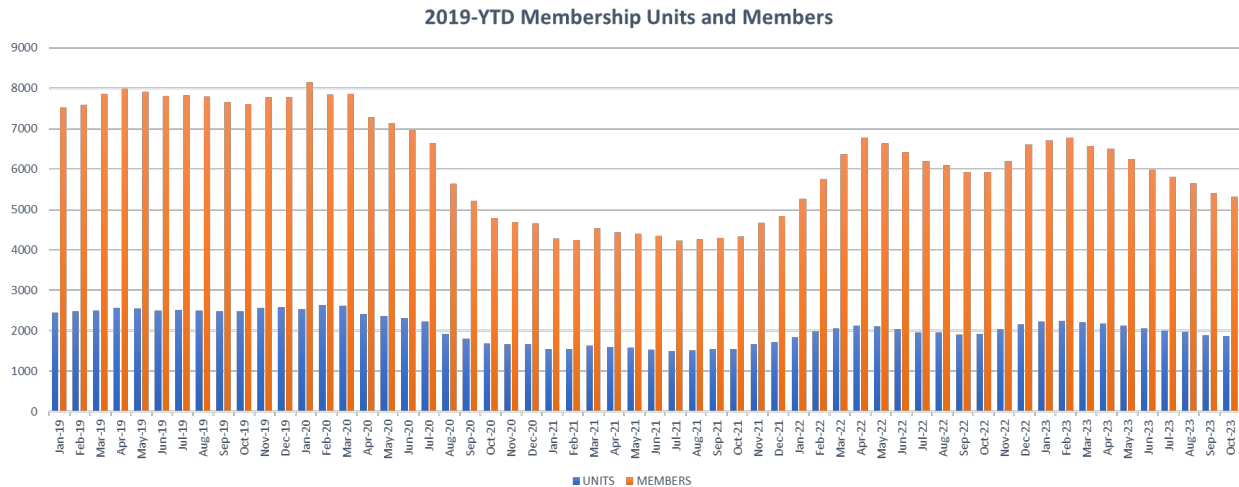
This is a key factor that was taken into consideration when putting together this budget and the ten-year financial plan for this facility.

Continued Impact of COVID 19 on Community Center

Of all our facilities within the City of Chaska, the Community Center has been hit the hardest financially by the impacts of the pandemic. This has been both because we were forced to close our facility twice through Executive Orders coming from the State (totaled 4.5 months of closure through 2020 and 2021), but also because we were limited to 25% capacity in the facility in the months going through 2021. In fact, operations did not get back to normal until the Spring of 2022 when we removed our fitness equipment from the large lower gym and moved this equipment back into the Fitness Center. 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. These spaces being closed, along with patrons not feeling comfortable working out in a group setting, led to many patrons dropping their memberships and being reluctant to come back.

As we moved into 2023, while memberships rebounded from their lowest point in February of 2021, we have still not seen memberships rebound back to where they were right before the pandemic started in January of 2020. As you will see in the chart below, in January of 2020, we have approximately 8,100 members. At our lowest point during the pandemic, our membership dropped to approximately 4,100, or nearly a 50%

decrease. Since that time, we did see memberships get up to close to 7,000 members in both the winter months of 2022 and 2023 but have never reached that 8,100 mark that existed prior to the pandemic. With our natural dips in the summer months, we have averaged about 27% lower than our peak of 8,100 members prior to the pandemic. Not surprisingly, this has created financial challenges for the Community Center as a facility, especially as the facility has aged and more dollars have to be put into capital replacements.



While the pandemic certainly started the decline in memberships that we have seen at the CCC, there are other circumstances that Staff does believe have also contributed to us not fully recovering in our membership numbers. One thing that has changed has been the ways people exercised during the pandemic that has continued until now. We have seen many more people who complete workouts in their homes, and there have been the rise of lower cost options such as Snap Fitness and Anytime Fitness that have filled a niche of people who only go to a recreational facility for the fitness equipment. Since Fitness is a major reason that patrons get memberships at our facility, this has had a negative impact.

A second issue that we have seen at the CCC has been the age and condition of the building and equipment we provide. With an aging facility it becomes important to be able to continuously reinvest back into the facility to keep people interested in becoming a member. That is why one of our recommendations for the 2024 budget will be to replace our Selecterized Weight Equipment and our Free Weights. Both items are dated and have not kept up with equipment that patrons could get at other fitness facilities.

In any case, we will continue to work over the course of 2024 to bring back prior members into our facility and to demonstrate the value that they receive for being a member of the Chaska Community Center compared to other options they may have in the market.

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. At the same time, we need to be cognizant of how our competition (other municipal facilities) are priced so that we do not have our membership pricing get too far out of the market.

In 2022, we did make some larger adjustments to our membership rates because we have become very low compared to our comparison facilities. As we move into 2023, we want to make sure that we keep up with the average of facilities we compare to in the market, so as not to lose ground on the changes we made last year. However, we also want to make sure that we are providing our patrons with competitive rates.

Based on that objective, we are recommending that the rates for membership go up by 4% for 2024, which is slightly below inflation. Below are charts comparing where we fall with this 4% increase with both our monthly and our annual membership rates:

MONTHLY BILLING	FEE	YOUTH-SINGLE		ADULT-SINGLE		DUAL		HOUSEHOLD		SENIOR-SINGLE		SENIOR DUAL	
		Resident	Regular	Resident	Regular	Resident	Regular	Resident	Regular	Resident	Regular	Resident	Regular
Eden Prairie	\$20.00	\$38.42	\$54.18	\$47.27	\$55.15	\$80.75	\$94.55	\$108.34	\$129.03	\$39.39	\$55.15	\$64.02	\$94.55
Shakopee	\$30.00	\$26.24	\$35.60	\$37.35	\$50.47	\$47.44	\$65.54	\$58.54	\$77.72	\$26.24	\$35.60		
Williston	\$30.00			\$48.00	\$60.00	\$67.00	\$83.00	\$77.00	\$96.00	\$33.00	\$43.00	\$48.00	\$60.00
Waconia	\$30.00	\$30.00	\$35.00	\$40.00	\$45.00	\$50.00	\$55.00	\$60.00	\$65.00	\$30.00	\$35.00	\$40.00	\$45.00
Maplewood	\$50.00	\$40.00	\$40.00	\$73.00	\$73.00	\$124.00	\$124.00	\$135.00	\$135.00				
Shoreview		\$34.00	\$43.00	\$40.00	\$49.00	\$60.00	\$69.00	\$68.00	\$81.00	\$34.00	\$43.00		
Eagan	\$25.00			\$40.00	\$45.00	\$71.00	\$81.00	\$89.00	\$101.00	\$33.00	\$37.00	\$56.00	\$63.00
Chaska CURRENT	\$29.00	\$30.00	\$36.00	\$40.00	\$48.00			\$75.00	\$90.00	\$30.00	\$36.00		
Chaska 4% Increase	\$29.00	\$31.20	\$37.44	\$41.60	\$49.92	\$62.40	\$78.00	\$78.00	\$93.60	\$31.20	\$37.44		
Average		\$33.73	\$41.56	\$46.52	\$53.95	\$71.46	\$81.73	\$85.13	\$97.82	\$32.61	\$41.46	\$52.01	\$65.64
Current Rate % Below Avg		11%	13%	14%	11%			12%	8%	8%	13%		
4% Increase % Below Avg		8%	10%	11%	7%	13%	5%	8%	4%	4%	10%		

ANNUAL PRE-PAID	FEE	YOUTH-SINGLE		ADULT-SINGLE		DUAL		HOUSEHOLD		SENIOR-SINGLE		SENIOR DUAL	
		Resident	Regular	Resident	Regular	Resident	Regular	Resident	Regular	Resident	Regular	Resident	Regular
Eden Prairie		461.01	650.11	567.28	661.83	969.04	1,134.56	1,300.09	1,548.30	472.73	661.83	768.23	1,134.56
Shakopee		291.69	392.62	402.71	572.00	519.80	720.65	635.87	863.98	291.96	392.00		
Williston				545.00	690.00	769.00	961.00	882.00	1,090.00	385.00	481.00	545.00	693.00
Waconia		330.00	385.00	440.00	495.00	550.00	605.00	660.00	715.00	330.00	385.00	440.00	495.00
Maplewood		480.00	480.00	876.00	876.00	1,488.00	1,488.00	1,620.00	1,620.00				
Shoreview		350.00	425.00	410.00	525.00	625.00	760.00	700.00	880.00	350.00	425.00		
Eagan				435.00	490.00	774.00	882.00	973.00	1,103.00	360.00	403.00	612.00	688.00
Chaska CURRENT		330.00	396.00	440.00	528.00			825.00	990.00	330.00	396.00		
Chaska 3% Increase		343.20	407.88	457.60	549.12	686.40	823.68	858.00	1,029.60	343.20	407.88		
Average		382.54	466.55	525.14	615.69	\$813.55	935.89	\$967.28	1,117.18	364.95	457.97	591.31	752.64
Current Rate % Below Avg		14%	15%	16%	14%			15%	11%	10%	14%		
4% Increase % Below Avg		10%	13%	13%	11%	16%	12%	11%	8%	6%	11%		

As you will see from the charts above, our current rates are generally about 8-15% lower for both monthly and annual membership rates. As you will also see in our proposed rate structure, we would still generally be 4-13%. One thing that is different from our rate structure in 2023 is that we will be offering Dual Membership options for our patrons. This allows a family of two people to be able to purchase a membership together without having to purchase a Family Membership. This is something that we have never offered that other similar facilities have. We do think it will be popular especially with our AOA members instead of them having to purchase two single memberships. As you will see from the chart above, our Annual Dual Membership rate is 16% below for residents, with our monthly being 13% lower for residents. We think that this will be perceived as a good deal for those in the past who have hesitated to purchase a membership if there were only two in their family. For any of our membership options, one thing that should be noted is that many of the facilities we compare to have tax levy support (usually around 40% of total budget). While we do not have that current financial support from outside of the facility, our memberships have remained very competitive.

One thing to note on our memberships, as we look 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 higher than the market, we will be uncompetitive with other municipal facilities. The solution to addressing our long-term capital needs will need to come from outside of the facility if it is to be successful, as simply raising rates to cover our costs may have the opposite effect by decreasing our memberships and users if membership rates and user fees are too high. We will discuss that more later in this section of the budget.

CCC Master Plan: Addressing Aging Facility Creates Additional Needs

While the effects of the COVID pandemic continue 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. Over the past year we have been looking at these issues through our Community Center Masterplan Process. The focus of these discussions has been both around what we envision the Community Center to be as we move into the future, but also how we structurally fix the financial issues that have kept the CCC from being financially sound in the past. While it is easy to focus on the vision for what we would like the facility to become, it is important that we address the current financial needs first to make sure we have a solid foundation on which to build our community center of the future when we reach that point.

To address this first issue of creating a sound financial foundation for the facility, we need to be able to understand what we have not been able to address just through revenue derived from the Community Center itself. As we have mentioned previously, one number that we know we need to be able to fund annually is the depreciation of the facility. At this point in time, depreciation is \$865,000. The other number we need to understand is the average amount of deficit we have run in the facility to be able to balance the budget on an annual basis. This number has run around \$500,000, with a good portion of that funding equipment repair and replacement we cannot avoid and needs to be completed.

It should be noted that the Chaska Community Center originally cost us \$22.5 million to construct in 1991. With all the additions we have put onto the facility, our Master Plan process has determined it would be over \$145,000,000 to replace if we were to start from scratch. Again, we currently depreciate \$865,000 of this facility annually but have never had a mechanism to properly reinvest back into this asset with dollars generated from the facility 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 \$2.1 million.

Capital Assets Currently Passed Estimated Useful Life	
RTU St Francis 3	\$31,250.00
RTU St Francis 4	\$31,250.00
Dasher Boards Arena 2	\$300,000.00
Dry Sauna Heater	\$13,000.00
Steam Room Boiler	\$19,500.00
Plate Loaded Weight Equipment	\$36,280.00
Plates and free weights	\$17,250.00
Selecterize weight equipment	\$308,000.00
Leisure Pool Heat Exchanger	\$15,600.00
Tire Curtain - Theater	\$24,000.00
Theater Lighting	\$66,000.00
Brick City Banquet Room Audio/Visual	\$26,400.00

Brick City Banquet room divider	\$30,000.00
Multipurpose Chairs	\$15,000.00
Multipurpose Tables	\$20,000.00
Forklift	\$45,000.00
Red Maple Cupboards	\$18,000.00
White Oak Cupboards	\$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
Arena 1 sounds system	\$166,000.00
Spin Bikes	\$16,640.00
Water Softeners Arena	\$20,000.00
Current Asset Liability	\$2,105,500.00

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 2024 that either cannot wait and need to be addressed now or are items we should be doing to help attract and retain our current members:

1. Replace Roof Top Units #3 and #4 over St. Francis Addition: \$64,000 for both
 - This is necessary as we are finishing up doing Units #1 and #2 now
2. Replace Selecterized and Free Weight Equipment: \$165,000
 - This is very aged equipment that is not keeping up with what other clubs are offering. Most equipment now works multiple muscles instead of one machine per muscle group
 - Free Weights are original
3. Needed Roof Repairs: \$66,000
 - This would not address the whole roof-just key areas that need to be fixed

As you will see, there are about \$295,000 in improvements we have no choice but to make this year or should be able to attract and retain members. This compares to the \$2.1 million we should be doing. Every year we put off completing the things that we should do makes that issue exponentially worse as we continue to add to the list of improvements that should be made.

Strategy for Addressing Financial Issues Moving Forward

Know that this will continue to be an issue unless we develop a long-term strategy to address, Staff has been exploring strategies for not only how to fill this financial gap, but how to spread it out over time so as not to have a dramatic impact on our residents and

patrons at any given time. Specifically, the plan that has been developed has been looking at this as a 10-year implementation, with the goal of trying of creating at least \$1.5 million in annual income that can accumulate in the fund to support both operations and capital reinvestment.

In the short term, which we define as 2024 and 2025, we would see filling the budget gap for these years from the Self Insurance Fund, as the issues we are currently facing are largely due to the COVID Pandemic. While we would see these dollars filling the gap in 2024 and 2025, we would not see these as long-term dollars that would support the facility going into the future. Instead, they would serve to cover gaps until we replace them with permanent funding.

As we move into the years 2026-2029, we would then start to add Utility dollars from the Electric, Water and Sewer Funds. Specifically, we would recommend adding \$100,000 per year through each of these four years until we reach an amount of \$400,000, at which point the Utility dollars would be capped. In addition to this, we have debt service coming off in the Community Center after 2027 when The Lodge Addition is fully paid. This debt service totals \$220,000 per year. Instead of these dollars coming into the Community Center going away, we would keep this \$220,000 coming into the Community Center Fund. However, now it would go to help annually fund our depreciation. The second debt service in the Community Center is \$240,000 for the Pool and Ice Arena Improvements we did, which comes off after 2032. Again, we would keep these dollars coming into the Community Center from the Electric Fund going into the future but use it to fund depreciation instead of the debt service it was funding before.

The last part of the strategy would be implemented over the period from 2027-2034. During this period, we would be moving forward each of those years to remove the portions of the Community Center budget that should be funded through our General Fund Parks and Recreation Services. We would do this by increasing our Tax Levy in the General Fund by \$100,000 per year in each of these years to allow us to move over \$100,000 of expenses that should be associated with the General Fund Park and Recreation services instead of Community Center functions. This would have an impact of approximately 0.5% or less each year to the tax levy, while making sure that we get our General Fund recreation services moved to the correct fund so our Community Center if not subsidizing this cost. This would have the effect of removing \$800,000 of expense from the CCC over this time and getting it funded in the proper location.

At the end of this 10-year plan, we would have approximately \$1.7 million of impact (either expenses getting reclassified in the proper location or new revenues) to the Community Center Fund, providing it with the proper amount of dollars to be able to keep the facility we have in as good of shape as possible. It will also create a good financial foundation on which to reinvest back into the CCC when we tackle the other part of the Community Center Master Plan which is implementing our vision for where we want this facility to go into the future.

2024 Community Center Revenues

While we plan to continue to see improvement in the market, 2024 will continue to be a challenging year as we focus on how to rebuild the remaining lost memberships that we saw from prior to the COVID pandemic. With all our spaces reopened, and programs back to normal, we think this will greatly help in attracting back members. We also plan on adding to our programming options, and increasing capacity in the programs that tend to be our most popular. Finally, by offering a new option of Dual Memberships instead of only having the option of a Family membership for those with only two in their family, we hope that this can attract new members to our facility that may not have considered it before.

Our revenue projections for the 2024 Budget include:

- Increasing our membership rates by 4% and adding a Dual Rate Membership option
- Increasing our Ice rental rates by 4%
- Increasing our Room Rental rates by 20% as our rental rates have been well below market for similar spaces in similar venues
- Increasing our Swim Lesson fees by 20%, as we have been very low compared to our main competitors (i.e. our new resident rates will be \$126 for 8 weeks compared to \$240 at Goldfish and \$325 at Foss Swim School for the same number of weeks). Along with this, we will also be doubling the number of swim lesson offerings we have as our lessons in the past always fill and have a waiting list
- The CCC will be offering an After School Extended Stay offering similar to the Club Care at the School District. The School District is not able to meet the demand that they have for this service now. We will be working with the School District to have children bused to the CCC after school and picked up by parents after work. We have budgeted an addition of \$73,000 in revenue, with a net of \$55,000 after expenses

Besides the specific areas mentioned above, we do plan to continue other operations like what we saw in 2023. As you will see in the chart below, we would recommend adopting a budgeted revenue number of \$4,966,212 for 2024. This number includes the addition of \$389,000 from the Self Insurance Fund to help fill the gap we are projecting for 2024, especially with the \$295,000 in Capital Improvements we are planning for 2024 that were listed above in this report. Below is a chart listing the expected revenues by area expected in 2024. One thing that should be noted is that in areas with large changes, many of these are being driven by us recategorizing revenues into consolidated areas. The overall increase in revenue is a 9.28% increase. If you were to remove the \$389,000 coming from the Self Insurance Fund into the CCC, the revenues would only be a 0.72% increase from what they were in 2023.

	<i>Actual</i>	<i>Budget</i>	<i>Budget</i>		<i>%</i>
REVENUES	2022	2023	2024	Change	Change
<i>Member/Admis/Rental</i>	\$1,376,195	\$1,551,407	\$1,636,072	\$84,665	5.46%
<i>Community Room</i>	\$78,107	\$75,000	\$90,000	\$15,000	20.00%
<i>Craft Rooms</i>	\$17,456	\$20,000	\$24,000	\$4,000	20.00%
<i>Fitness Programs</i>	\$18,235	\$20,000	\$75,000	\$55,000	275.00%
<i>Gym</i>	\$5,878	\$10,000	\$35,000	\$25,000	250.00%
<i>Ice Arena</i>	\$803,311	\$1,004,867	\$966,273	(\$38,594)	-3.84%
<i>Maintenance</i>	\$22,068	\$37,285	\$38,031	\$746	2.00%
<i>Wellness-PT</i>	\$33,613	\$48,000	\$80,000	\$32,000	66.67%
<i>Play & Daycare Room</i>	\$9,703	\$63,274	\$114,000	\$50,726	80.17%
<i>Swimming Pool</i>	\$24,750	\$22,729	\$35,000	\$12,271	53.99%
<i>Swim Lessons</i>	\$74,149	\$142,000	\$219,240	\$77,240	54.39%
<i>Theater</i>	\$83,014	\$49,227	\$56,700	\$7,473	15.18%
<i>The Lodge</i>	\$3,643	\$20,000	\$20,400	\$400	2.00%
<i>General Facility Revenue</i>	\$220,683	\$100,000	\$0	(\$100,000)	-100.00%
<i>Vending</i>	\$0	\$11,000	\$11,000	\$0	0.00%
<i>Misc.</i>	\$48,715	\$669,113	\$361,972	(\$307,141)	-45.90%
Total Oper Rev	\$2,819,520	\$3,843,902	\$3,762,688	(\$81,214)	-2.11%
Non-operating					
Self Insurance (CIP)	\$0	\$0	\$389,000	\$389,000	#DIV/0!
Utility Funds	\$470,000	\$700,420	\$814,524	\$114,104	16.29%
Total Non oper	\$470,000	\$700,420	\$1,203,524	\$503,104	71.83%
TOTAL REV	\$3,289,520	\$4,544,322	\$4,966,212	\$421,890	9.28%

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 Utility Funds. 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: \$106,830 annually to lease space in the lower level of the building
- Alphabet Junction Preschool: \$48,000 per year
- ISD #112: Makes payments to the City of Chaska in the amount of \$44,700 annually to support the debt service for adding onto the building to make Girls Locker Rooms for the Chaska/Chanhassen Girls Hockey Program. This continues for 15-years and started in 2020
- Arts Consortium of Carver County: \$9,954 in rent for gift shop space
- Utility Fund Transfers to the Community Center to support the following:
 - \$100,000 annually from Electric Fund since the facility opened in 1991 to help offset the costs of improvements in the building

- \$182,000 annually from Electric Fund supporting the Debt Service for The Lodge-debt is retired in 2027.
- \$240,000 annually from Electric Fund to support the Debt Service for the Pool/Ice Renovations
- \$292,524 annually from the Electric, Water and Sewer Funds to support the Administrative Fee due from the CCC to the General Fund and to support the discounted Electric Fees to the facility from the Electric Fund
- \$389,000 from Self Insurance Fund to support the Capital Improvements being made in facility in 2024, along with some operational support

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, classes, and purchased from our vending machines.

Expenditures

From an expenditure perspective, we are approaching the budget in 2024 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 repaired (i.e. RTU units above St. Francis Wing and Roof Repair), and replacements that we think can help add amenities to the building to help attract and retain membership (i.e. Replacement of Selecterized Equipment and Free Weight Equipment).

If we look at the expenditure chart below, you can see that we are budgeting to have our expenditures in 2024 be \$4,965,262. This would represent a 7.55% increase in our expenditures from our 2023 budget, or an increase of \$348,468. We would anticipate that we would see little changes in staffing, except in the following two areas:

- Reduction in Part-Time Staffing hours at the Front Desk
- Reduction of \$104,000 in Part-Time Facility Attendant Hours

Both areas we can make cuts without having significant impact to customer experience because of changes on how we have staffed Full-time staff in these areas.

To assist the Community Center as we try to build back up our membership to pre-pandemic levels, we are also looking to reduce expenditures to the Fund that other funds can help support. Specifically, we are planning to support the payment of the Administrative Fee to the General Fund and continue discounts on Electric Rates to the Community Center to keep this Fund's costs as low as possible. These expenses are both covered through our Utility Funds as I previously described.

While we would like to fully reduce our expenditures to the amount of revenue we expect to see in 2024, we feel that this would not be possible without significantly impacting the reasons people join the Community Center with a membership. Unfortunately, many of our costs are fixed costs, and are necessary to provide the expected level of service to

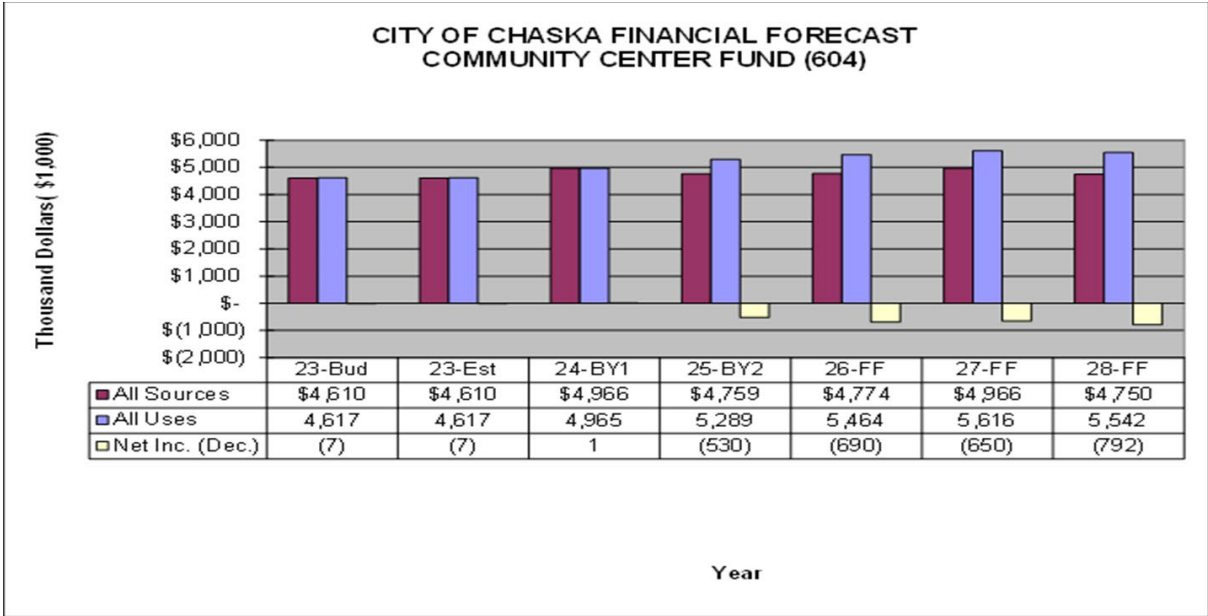
our patrons. Cutting some of these services would provide a lesser product to our patrons and could negatively impact us on the revenue side of the budget.

Below is a list of the Expenditures budgeted for 2024:

EXPENSES	Actual 2022	Budget 2023	Budget 2024	Increase	%
<i>Admin</i>	\$ 990,193	\$ 919,524	\$ 944,884	\$ 25,360	2.76%
<i>Front Desk</i>	\$ 181,345	\$ 195,678	\$ 185,157	\$ (10,521)	-5.38%
<i>Well- Prog</i>	\$ 14,583	\$ 9,022	\$ 12,000	\$ 2,978	33.01%
<i>Ice Arena</i>	\$ 252,955	\$ 212,217	\$ 237,459	\$ 25,242	11.89%
<i>Maintenance</i>	\$1,601,259	\$1,369,553	\$1,621,393	\$ 251,840	18.39%
<i>Personal Train</i>	\$ 40,951	\$ 39,005	\$ 38,141	\$ (864)	-2.22%
<i>Wellness Add</i>	\$ 204,062	\$ 276,860	\$ 304,908	\$ 28,048	10.13%
<i>Play/Daycare</i>	\$ 82,462	\$ 74,650	\$ 108,024	\$ 33,374	44.71%
<i>Swim Pool</i>	\$ 506,774	\$ 580,662	\$ 633,138	\$ 52,476	9.04%
<i>Theater</i>	\$ 1,153	\$ 7,603	\$ 7,641	\$ 38	0.50%
<i>Lodge</i>	\$ 3,321	\$ 4,350	\$ 4,372	\$ 22	0.51%
<i>Gen Facility</i>	\$ 67,267	\$ 429,120	\$ 311,230	\$ (117,890)	-27.47%
<i>Depreciation</i>	\$ 865,041	\$ -	\$ -	\$ -	0.00%
<i>Debt Service</i>	\$ 117,142	\$ 498,550	\$ 556,905	\$ 58,355	11.70%
<i>Other</i>	\$ 7,372	\$ -	\$ 10	\$ 10	
Expenses	\$4,935,880	\$4,616,794	\$4,965,262	\$ 348,468	7.55%

Based on our forecasted Revenues and Expenditures for 2024, we are estimating that the facility will in essence break even, with the budget showing a gain of \$950.

As was discussed in detail earlier in this section of the budget, the bigger issue that we need to focus on is not just balancing the budget for 2024, but looking at how we have a plan in place to address the larger systemic issues of funding the Community Center into the long term. Below is a chart that illustrates what we would anticipate would happen to the Community Center Fund over the 5-year period if we were to leave this issue unaddressed.



That is why the 10-year plan laid out in this section of the budget is critical to the sustainability of the Community Center over time. If we follow this plan and not only introduce new revenue into the Community Center, but also focus on removing the items in the Community Center Fund that should be supported through the General Fund, we can make this Fund sustainable. It will take discipline to this plan to achieve this goal, but if followed will lead to a facility that we can make sure is available and in good condition for future generations to come.

Town Course

The mission of the Chaska Town Course is to develop and operate a quality municipal golf course serving as a community resource and as a community gathering place, that is viewed as a top facility in the Twin Cities, helping also attract visitors to our community.

Budget

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 changing over the past couple of years as we have put more focus into making this a sustainable facility and have started to generate cash balances that have allowed us to reinvest back into the course. This will be discussed in greater detail later in this section.

COVID's Impact on the Golf Market

In 2018 and 2019, the Chaska Town Course had just over 29,000 rounds for the year. While these were not great weather years that did impact the number of rounds played, it also signified a greater trend we were seeing where the number of golfers was declining in general. This was true not only at the Town course, but was 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.

While the COVID pandemic negatively impacted our other recreational facilities in the City, one positive trend that we and other golf courses saw during the pandemic was the increase of golfers coming back to the game as well as some picking it back up new for the first time. In 2020, the number of golfers nationwide increased by 500,000 players in just one year, bringing the total up to 24.8 million. Since 2020, this number has continued to increase, with an additional 300,000 golfers coming new to the game, bringing the total number of golfers in the U.S. up to 25.1 million in 2022.

While the Chaska Town Course has always been a popular facility for golfers across the Twin Cities, the Town Course also benefited from this increase of golfers, seeing our rounds go from an average of about 32,000 rounds per year to our 5-year average being 37,000 rounds. Since 2020 our rounds have been over 38,000 rounds per year with the rounds being close to or above 40,000 rounds for two of those years. Industry-wide, it appears that this is a permanent change to the number of golfers in the market, as rounds

have not decreased since the pandemic ended. This is a positive change that has helped us to meet our objective of generating fund balances to be able to reinvest back into our course.

Resident vs Non-Resident 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. Finishing up the 2023 golf season, we saw for the first time in the Town Course's history that we had more resident golfers than non-resident golfers. The percentage in 2023 was 51% resident with 49% being non-resident. 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 over 50% of our golfers continue to have this level of discount will not be financially sustainable. This is something that we started discussing during the 2020 budget process and which we discussed with some of our most-loyal resident 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 in this report, as we have been going through a transition over the past 3 seasons with a lot of success.

2023 Chaska Town Course Season

2023 was a good year for the Chaska Town Course, as we saw 38,500 rounds throughout the season. This was coming off 2022 where we saw 39,610 rounds of golf being played. In 2023, we would have been over 40,000 rounds but did not reach that amount because we needed to close the course early for replacement of our Cart Paths.

As mentioned previously, this has been the level of use we have seen at the CTC since the Pandemic started, as our 5-year average number of annual rounds went from around 32,000 to 37,000 rounds per year. If you look at just the four years since the pandemic started, the average has gone to 39,790. Again, this has not just been with the Town Course, but has been with golf courses in general across the industry.

Besides continuing to see new golfers come to the Town Course, we were also helped by great weather and turf conditions throughout the summer. 2023 was another hot and dry year, which meant that there were few days that we did not see our golf course running near capacity. Based on this high usage, we estimate that we will end the season

with an increase of over \$500,000 in cash balance which we will use to continue to build our Fund Balance to take care of necessary reinvestment back into the course.

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 keep 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 this move in 2014 took away the need for the Town Course to contribute directly towards its annual debt service from its initial construction, the Town Course continued to meet the annual operational needs of the course but continued to struggle to generate significant enough reserves to go towards its future capital replacement needs. Specifically, it was not meeting its need to support the depreciation of the facility which is just under \$500,000 per year.

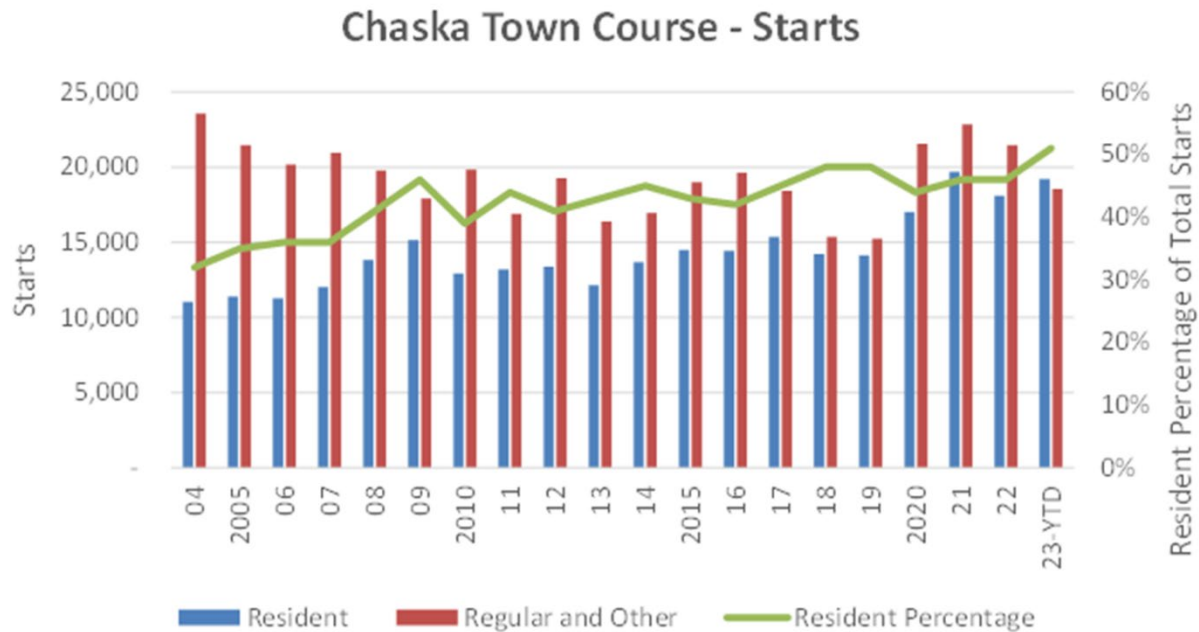
Not being able to meet its Depreciation obligations, and therefore not having the funds to properly reinvest back into the facility was a big reason that we started looking at the issue of resident vs regular rates. With over 50% of our patrons receiving a significant discount, we knew it would be difficult to keep the Town Course financially sustainable over the long term and reinvest back into the things that are important to keep up the high-quality reputation the course has had since it's opening.

Resident vs Regular Rates

As discussed above, one of the largest items that Staff focused on while putting together the budgets for the Chaska Town Course over the past four years has been 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 now see that residents play 51% of the rounds during the season.

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 was not something we could continue to do if we wanted 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, while also being cognizant of how changes can positively affect the financial sustainability of the Chaska Town Course going into the future.

This discussion with these 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 the transition to our new rate structure. Through these conversations we were also able to recognize 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 structurally approach 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. 2024 would be the fifth year of implementation, with our rounds increasing significantly during the first four years of implementation. For 2024, the changes to the rates to reflect this plan would be as follows:

- Resident Weekdays: Up \$4 to \$55 (\$76 with Cart)-Represents 32.93% discount
- Resident Weekends: Up \$4 to \$63 (\$84 with Cart)-Represents 23.17% discount
- Non-Resident Weekdays: Up \$2 to \$76 (\$97 with Cart)
- Non-Resident Weekends: Up \$2 to \$82 (\$103 with Cart)

- No changes to our Cart Rates-remain at \$21 for 2024 (our rates for carts are very comparable to average for high-end courses, so we do not recommend changing them)

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 having four more years to implement this overall plan.

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

Comparisons to High-End Courses

Top Public 18 Hole	WD 18 Hole GF	WE 18 Hole GF	18 Hole Cart	Twilight GF	Twilight Cart
Edinburgh	\$49.00	\$60.00	\$20.00	\$35.00	\$15.00
Stoneridge	\$70.00	\$89.00	\$21.00	\$73.00	\$16.00
The Wilds	\$94.00	\$94.00	\$18.00	\$57.00	\$18.00
Meadows at Mystic	\$89.00	\$110.00	\$21.00	\$64.00	\$16.00
Rush Creek	\$125.00	\$125.00	\$20.00	\$69.00	\$20.00
Troy Bume	\$105.00	\$105.00	\$24.00	\$79.00	\$20.00
Legends	\$109.00	\$110.00	\$21.00	\$79.00	\$16.00
Average	\$91.57	\$99.00	\$20.71	\$65.14	\$17.29
Current 2023 CTC Non-Residents	\$74.00	\$80.00	\$21.00	\$57.00	\$16.00
Proposed 2024 CTC Non-Resident	\$76.00	\$82.00	\$21.00	\$59.00	\$16.00
Current 2023 CTC Resident	\$51.00	\$59.00	\$21.00	\$46.00	\$16.00
Proposed 2023 CTC Resident	\$55.00	\$63.00	\$21.00	\$49.00	\$16.00
% Discount for Resident vs Non-Resident	32.93%	23.17%			

Comparisons to Area Golf Courses

	WD 18 Hole GF	WE 18 Hole GF	18 Hole Cart	Twilight GF	Twilight Cart
Ridges at Sand Creek	\$43.00	\$48.00	\$17.00	\$36.00	\$8.00
Stonebrooke	\$63.00	\$78.00	\$21.00	\$38.00	\$10.00
Deer Run	\$59.00	\$59.00	\$17.00	\$40.00	\$10.00
Dahlgreen	\$45.00	\$49.00	\$20.00	\$45.00	N/A
Bluff Creek	\$50.00	\$57.00	\$18.00	\$46.00	\$12.00
Average	\$52.00	\$58.20	\$18.60	\$41.00	\$10.00
CTC Resident	\$55.00	\$63.00	\$21.00	\$51.00	\$16.00

As you can see above, these changes would make us very competitive for 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. In fact, we have become a better deal compared to other courses since COVID, as other courses have been much more aggressive in increasing rates since there is such a high demand with new golfers.

Revenue Projections for 2024

Based on the changes that we are recommending for rates next 2024, we are forecasting total revenues of \$3,192,400. This compares to the budgeted revenues for 2023 of \$4,074,400, or a decrease of 21.65%. It is important to point out that the reason there is such a large decrease in revenue is because we sold bonds last year to replace our entire Golf Cart fleet. If we were to take away this revenue, we would see that our operational revenue is budgeted to be about 5% greater than where we ended the season in 2023.

As we discussed previously, the past 4 seasons have been very good for golf, with the 5-year average going from 32,000 to 37,000 rounds. Even though the average is at 37,000 rounds, we used 35,000 rounds as the number we budgeted to so we could be conservative on our assumptions.

Based on this assumption, along with the proposed rate increased for 2024, the total 2024 revenues would be budgeted to come from the following sources:

<i>Revenues</i>	Actual 2022	Expected 2023	Budget 2023	Budget 2024	Change	Change
Green fees	\$ 1,881,815	\$ 1,926,896	\$ 1,776,000	\$ 1,984,000	\$ 208,000	11.71%
Driving range	\$ 172,597	\$ 178,875	\$ 155,000	\$ 170,000	\$ 15,000	9.68%
Member fees	\$ 94,389	\$ 98,916	\$ 80,000	\$ 95,000	\$ 15,000	18.75%
Sale of supplies	\$ 324,401	\$ 334,630	\$ 300,000	\$ 300,000	\$ -	0.00%
Concessions	\$ 51,151	\$ 52,815	\$ 50,000	\$ 50,000	\$ -	0.00%
Cart rental	\$ 429,583	\$ 410,527	\$ 430,000	\$ 430,000	\$ -	0.00%
Misc	\$ 86,272	\$ 21,653	\$ 1,283,400	\$ 163,400	\$ (1,120,000)	-87.27%
Total revenues	\$ 3,040,208	\$ 3,024,312	\$ 4,074,400	\$ 3,192,400	\$ (882,000)	-21.65%

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 62% 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 2024 budget:

- Resident Weekdays: Up \$4 to \$55 (\$76 with Cart)-Represents 32.93% discount
- Resident Weekends: Up \$4 to \$63 (\$84 with Cart)-Represents 23.17% discount
- Non-Resident Weekdays: Up \$2 to \$76 (\$97 with Cart)
- Non-Resident Weekends: Up \$2 to \$82 (\$103 with Cart)
- No changes to our Cart Rates-remain at \$21 for 2024

Based on this, the projected Green Fees revenue for 2024 would be \$1,984,000, which would be a decrease of 11.71% from the budgeted 2023 Greens Fee Revenue, but only 2.96% above where we ended 2023.

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 2024 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 2024 as our rates are very close to average for other high-end courses already. Based on this, the total revenue in 2024 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 \$178,875 for 2023. For 2024 we are proposing that we budget the number at 170,000, as we would like to be conservative. It should be noted that one of the improvements we made to the Driving Range in 2023 was the addition of mats on a concrete slab at the back of the driving range. We plan to use these in the 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 2023 expected to see around \$335,000 of sales. In 2024 we are proposing a budget of \$300,000 for Pro Shop sales, as we have seen that they have been relatively stable over the past 4 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 chose 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 4 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 due to the pandemic, 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 for the last four years. This has also helped them address the difficulty in getting service staff over 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 generating approximately \$53,000 for lease revenue from the restaurant for 2023 and we are budgeting \$50,000 for 2024 to keep our projections conservative.

Operating Expenses

For the Chaska Town Course to be considered a high-end public facility, 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 2023.

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 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 true ownership of the course and a commitment to the facility's quality.

The budget anticipates staffing levels the same as in 2023, 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 2024.

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 2023 expenses were \$1,159,038, with them being budgeted for \$1,208,856 in 2024. This would bring our Clubhouse expenses up by 9.99% in 2024.

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 2024, the following equipment is scheduled for replacement:

- Sidewinder: \$42,000
- Rotary Mower: \$15,000
- 4wd Pickup: \$55,000
- Large Spreader: \$8,000
- Beverage Cart: \$9,000
- Green’s Triplex (for The Loop but financed with CTC Equipment): \$62,000

The following is the proposed Expenditure Budget for 2024:

Expenses	Actual 2022	Expected 2023	Budget 2023	Budget 2024	Change	Change
Course Maintenance	\$1,124,590	\$1,415,056	\$2,617,127	\$1,230,287	-\$1,386,840	-52.99%
Course Admin/Clubhouse	\$1,212,204	\$1,159,038	\$1,099,024	\$1,208,856	\$109,832	9.99%
Merchandise	\$210,037	\$308,977	\$225,000	\$226,125	\$1,125	0.50%
Debt Service (Equip)	\$26,027	\$21,376	\$279,600	\$331,700	\$52,100	18.63%
Transfers Out/Debt Service	\$0	\$0	\$0	\$0	\$0	
Misc	\$21	\$1	\$0	\$0	\$0	
Depreciation	\$483,760	\$0	\$0	\$0	\$0	
Total Expenses	\$3,056,639	\$2,904,448	\$4,220,751	\$2,996,968	-\$1,223,783	-28.99%

As mentioned previously, based on this budget, we would expect to see an increase in our Fund Balance of \$195,432.

Given the fact that our Depreciation is approximately \$480,000 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.

One final note on the Town Course Budget for 2024 is that next summer we will be hosting the U.S. Amateur Golf Tournament in conjunction with Hazeltine National. To host this, we will need to close the course for the one week prior to the event and grow

out the ruffs for the month prior to the event. While we will lose revenue for this week, it is a tremendous honor to be used as a host facility for this event, as it is one of golf's major tournaments. It demonstrates the quality of the course, and we think over time it will help drive more people to want to play the Town Course as it did after the 2006 U.S. Amateur. It will continue to give the Chaska Town Course National recognition.

Utility Fund

Overview

The Utility Fund Budgets are broken down into four 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 the past few years, 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. We also used this study to identify new additions to our system that will be 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 is that it provides us with 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 to 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 2024, although some utilities may see larger individual changes than others. Below is a chart that illustrates our total increase for all utilities in 2024 for an average residential user. As you will see, they will experience a 3.94% overall increase, which would result in an actual increase of \$7.40 per month for the total utility bill.

Utility Fund	Units/Month	2023 Bill	2024 Bill	Increase	% Increase		COS Revenue Target
Electric (kWh)	750	\$126.12	\$127.92	\$1.80	1.43%		2.00%
Water (Gal X 1000)	4	\$18.60	\$20.22	\$1.62	8.71%		8.00%
Sewer (Gal X 1000)	4	\$31.29	\$34.77	\$3.48	11.12%		15.00%
Storm Water	1	\$11.77	\$12.27	\$0.50	4.25%		4.25%
Total		\$187.78	\$195.18	\$7.40	3.94%		

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, 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 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 of actual water usage, 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 2024, 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 8.71% for our average residential users, which equates to \$1.62 per month. Included in that overall rate increase, 4.6% would be the actual increase to the rates (variable costs) with there being a 17.02% increase in our Service Charge (fixed costs). So, while the overall increase is 8.71%, 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 required 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 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. I will also discuss in the Water Fund's section of the budget how the percentage increase in our variable water rates went up by a higher percentage the more water that one uses, with the lowest users seeing a 4.3% increase and our highest users seeing a 6.1% increase. 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 2023, including the Energy Adjustment Clause, averaged 6.14% lower than Xcel for residential customers. This result is about 1.14% lower than the 5% difference we saw in 2022. This will be something that we continue to watch, as both Chaska Electric and Xcel are going to have to make major investments in the future to meet new electricity standards created by the State that will require us to have 60% of our energy from carbon free sources by 2030, and 100% from carbon free sources in 2040. This will clearly have a cost associated with it, as this standard is significantly higher than the standard we had before (and had already met) of having 25% of our electricity from renewable sources by 2025. This will make it critical to have our wholesale power provider (MMPA) not only focus on how we

can meet the standards that have been set but do it in a way that keeps us competitive with Xcel in the long term.

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 2024 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 to 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. We had this same finding as we were reviewing the 2023 budget. For this reason, it is recommended not to increase the service charge from 2023 (which has not changed in the last two budget cycles) 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 the 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 2024 is scheduled to go up by 12.32% to \$4,170,000. 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. We started making changes to our Sewer Service Charge six years ago, and after six years we were able to implement the ultimate service charge being recommended. After this action we have been taking for the last several years, we think our service fee has been properly set for 2024 and are recommending no increase for next year. As for our rates, based on the increase in the Met Council treatment charges and the internal costs we must incur to maintain our own collection system, it is recommended for 2024 that the rates for sewer go up by 11.12%. This makes sure that we are not using our Sewer Fund reserves to subsidize any needed increase in our costs for sewer service. For the average user, this would have their bill going up by \$3.48 per month.

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 of Minnesota 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 waterfront communities in the State that have similar expenses in their Storm Water Fund. We feel that this has created a more accurate base to compare ourselves. Based on this activity load and comparisons to other similar communities, an increase in rates of 4.25% is being recommended for 2024, which would equate to a \$0.50 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 the following sections, below is a breakdown of what a typical resident can expect for total bill in 2024 compared to 2023 for all our City utilities. As you will see, based on the recommendations above, the average user would see a 3.94% increase in all their Utility Rates for 2024, which translates into an increase of \$7.40 in increased costs each month for the average household in the community.

Utility Fund	Units/Month	2023 Bill	2024 Bill	Increase	% Increase		COS Revenue Target
Electric (kWh)	750	\$126.12	\$127.92	\$1.80	1.43%		2.00%
Water (Gal X 1000)	4	\$18.60	\$20.22	\$1.62	8.71%		8.00%
Sewer (Gal X 1000)	4	\$31.29	\$34.77	\$3.48	11.12%		15.00%
Storm Water	1	\$11.77	\$12.27	\$0.50	4.25%		4.25%
Total		\$187.78	\$195.18	\$7.40	3.94%		

Water Fund

As was mentioned above, four 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 was completed three years ago which brought some of the initial changes in our fund to the current block rate structure and to get our rates to a point that we could start to build adequate cash reserves to be able to plan for future maintenance and improvement work that will be needed within 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 several years to meet all our physical and financial objectives within this fund. It is the plan in each of these utilities to complete a Cost-of-Service Study every 5 years to make sure that we can 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

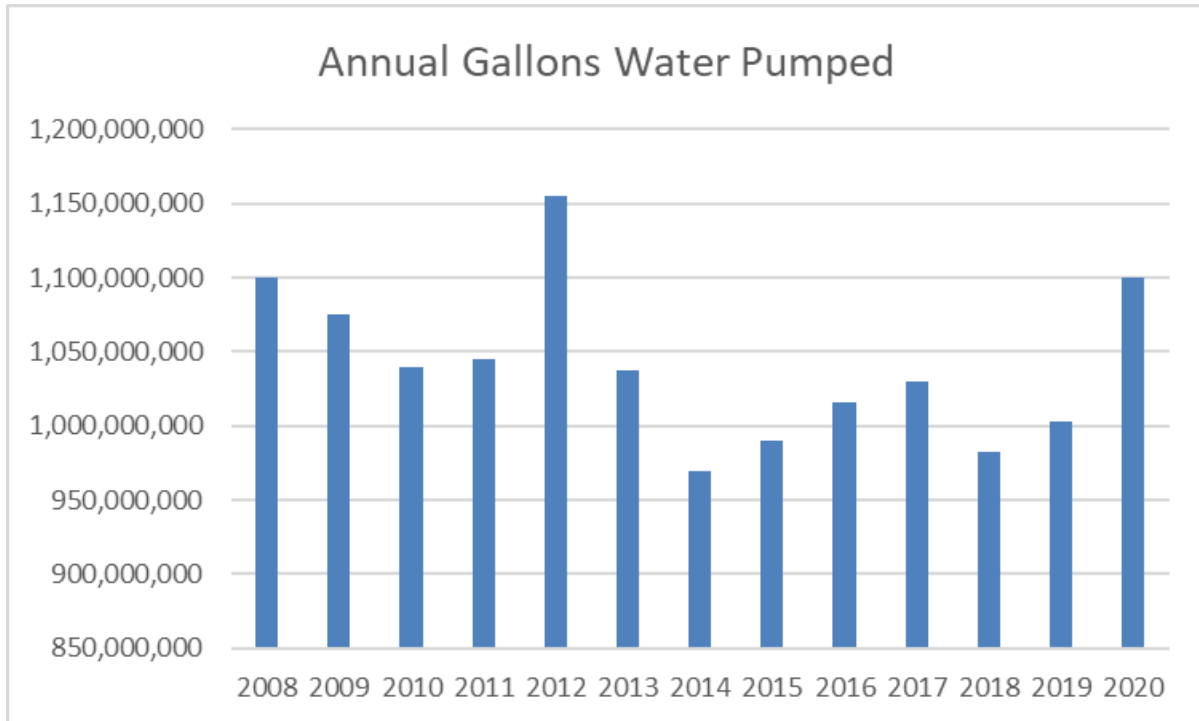
While a major reason we complete a financial analysis of our Water System on a regular basis is to give us confidence that we are generating enough financial resources to be able to ensure a sustainable system as we go into the future, another major objective that we try to achieve is making sure that 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 making the choice to conserve 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 water always available to our residents 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 several years 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 covering our fixed costs 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 technological 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 completed our Cost-of-Service Study, one thing that we found is that the average usage of water per household 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 of water. 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 use 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 had it when this latest study was completed (the first tier would go up to 7,000 gallons per month) 78% of our users would fall into this first tier. This means that someone would get the benefit of a rate meant to reward users who use less than average water in their home, although they might be using 3,000 gallons per month above the average. Based on this, in 2021 we changed the tiered structure of our rates to what was recommended in our Cost-of-Service Study.

With the rate structure now reset, and the Cost-of-Service Study recommending a revenue target of 8% for the 2024 year to keep up with our on-going and anticipated costs, below is the rate structure that is being recommended for 2024:

Rate Tiers (Gallons)	2022 Rates	2023 Rates	Percent Increase
0-2,000	\$2.74	\$2.86	4.4%
2,001-5,000	\$2.93	\$3.07	4.8%
5,001-8,000	\$3.18	\$3.35	5.3%
8,001-12,000	\$4.00	\$4.24	6.0%
12,001-40,000	\$3.70	\$3.89	5.1%
40,001 & Above	\$5.12	\$5.43	6.1%

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. This is a change that most cities have made, especially if they need DNR permits to seek new water sources within their communities.

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 of 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"	
Total Customer COS	\$ 8.66	\$ 9.18	\$ 13.15	\$ 23.38	\$ 35.07	\$ 123.33	\$ 223.69	\$ 468.39	
Total # Meters	5,812	468	498	299	90	29	11	3	
5 Year Correction (\$/year change)	\$ 1.10	\$ 1.21	\$ 1.77	\$ 3.61	\$ 5.29	\$ 18.14	\$ 36.41	\$ 81.21	
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	

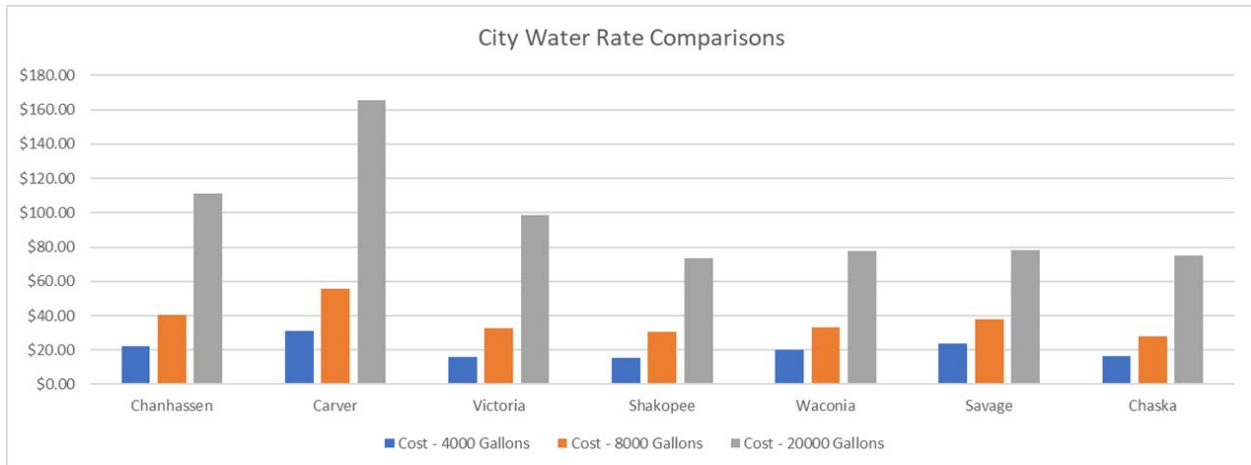
As you will notice, it not only makes recommendations about where we should ultimately be, but also sets a five-year plan for how to get there so as not to cause too much change all at once. 2024 will be the fourth year of implementation of our Fixed Service Charge. While the study ultimately recommends moving up to \$8.66 for the total fixed charge, in 2024 we would recommend taking the fourth step, which would bring it up to \$7.56 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 8.71%, this will occur by them seeing approximately an 4.6% increase in their water rates (variable cost) with 17.02% being the increase to their service charge. The chart on the next page helps illustrate this.

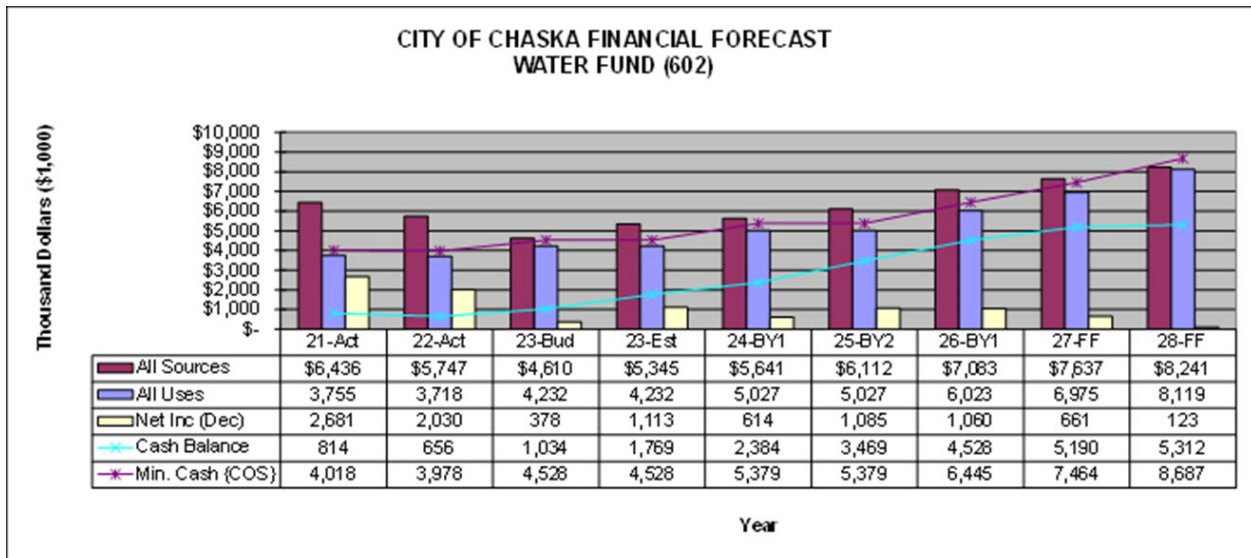
Average Home	Units/Month	2023	2024	Increase	% Increase
Service Fee	1 x per month	\$6.46	\$7.56	\$1.10	17.0%
Usage Fee	4,000 gallons	\$11.72	\$12.28	\$0.56	4.8%
State Water Fee	1 x per month	\$0.81	\$0.81	\$0.00	0.0%
TOTAL		\$18.99	\$20.65	\$1.66	8.7%

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 2024:



It should be noted that based on our Cost-of-Service study 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 that goal within the 5-years from when the study was completed that we are heading in the right direction to meet this goal and are projecting that we will be at \$5.3 million in reserves by the end of 2028:



2024 Budget

Based on the changes in rates described above, the Water Fund Revenues for 2024 are budgeted to be \$5,640,940 compared to the 2023 budget of \$4,610,140, or a 22.36% 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 8.71% in 2024 on their

bills, which represents a \$1.62 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 users do not have 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:

Water	Actual	Budget	Budget	
	2022	2023	2024	% Change
Revenues				
Metered	\$5,205,117	\$4,169,040	\$5,189,000	24.47%
Other	\$77,174	\$41,100	\$49,940	21.51%
Transfers In	\$465,000	\$400,000	\$402,000	0.50%
Total	\$5,747,291	\$4,610,140	\$5,640,940	22.36%
Expenses				
Pumping	\$309,944	\$421,896	\$503,110	19.25%
Treatment	\$442,654	\$358,984	\$467,487	30.23%
Distribution	\$850,913	\$1,251,007	\$1,159,399	-7.32%
Administration	\$969,956	\$994,366	\$1,064,875	7.09%
Depreciation	\$889,582	\$0	\$0	0.00%
Debt Service	\$133,831	\$968,630	\$1,161,000	19.86%
Tranfers Out	\$117,000	\$234,855	\$330,850	40.87%
Other	\$3,834	\$1,922	\$351,933	18210.77%
Total	\$3,717,714	\$4,231,660	\$5,038,654	19.07%

Total water expenses for 2024 are programmed to be \$5,038,654. This compares with \$4,231,660 budgeted in 2023. This is a 19.07% increase in expenditures from 2023. This increase is due mainly to several new wells that we need to drill in 2024 to keep up with our increasing water demand. It is also due to our need to replace our AMI Meter and Reading System (being done in Electric at same time), and due to rehabilitation work that we need to do on the Old Water Treatment Plant facility which still houses one of our high-performance wells for the City.

The following are the major activities we are planning for in the 2024 year:

- Addition of 2 maintenance Staff members in 2024 to be shared with the Sewer Department (one position is part of the Staffing Study Plan and one is a position needed because of growth in the community)

- Continue to contribute \$70,000 annually towards our Street Reconstruction Program
- Replacement of Unit #87 (pickup truck) for \$27,500 (Water portion of cost shared with Sewer)
- Complete normal Well Maintenance with Well #9 scheduled for 2024 for \$125,000
- Complete rehab work to the Old Water Treatment Plant building and Well for \$350,000
- Contribution of additional dollars to Building Improvement Program for 2nd year of the program-this eventually builds up to \$370,000 coming from the Water Fund by the end of the 4th year
- Drilling of Wells #10, #11 and #12 (\$3,150,000) to come from the Water Trunk Fund
- Replacement of our Meter system with a debt service for \$185,000 a year for a 10-year period starting in 2024

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 from our rate revenue with the other 50% coming through a transfer from our Water Trunk Funds, which are supported through development. This continues in 2024, with our payment budgeted for just over \$900,000.

Based on this budget that is being proposed, we would see a \$602,286 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
Cost-of-Service Study Findings
Fund

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 to be replaced (many of which we have replaced as we complete the reconstruction of our downtown 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 of 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, as well as things such as our facilities 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 has used 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 just started increasing our fixed rates in 2021, we started making this change in the Sewer Fund in 2019, as we had no service charge in place in our Sewer Fund prior to that time. In fact, as you will see in the chart below, we finished the ramp up of our service charge in this current budget year (2023)

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)	
Total Customer COS	\$ 8.23	\$ 15.65	\$ 26.93		
3 Year Correction (\$/year change)	\$ 1.08	\$ 3.55	\$ (7.69)	\$ -	
Current Customer Charge	\$ 5.00	\$ 5.00	\$ 50.00	\$ 50.00	
Year 4 of 6 (2021)	\$ 6.08	\$ 8.55	\$ 26.93	\$ 50.00	
Year 5 of 6 (2022)	7.15	12.10	26.93	50.00	
Year 6 of 6 (2023)	8.23	15.65	26.93	50.00	

With the ramp of this service charge now complete, we would normally recommend that we increase it by at least inflation each year to make sure we do not fall behind over time. However, as we will discuss shortly, because of the large increase we are going to be experiencing from the Met Council for sewer treatment rates in 2024, we are recommending that we do not change our service charge for next year and wait until 2025 before we make any change.

Just like in our Water Fund, a greater emphasis was placed on the Cost-of-Service Study on getting the service charges set correctly than on our usage rates, which the Study

found were not far from where they should be. However, one significant difference between the Water Fund and the Sewer Fund is that the Sewer Fund has most of its variable costs controlled by factors external to our organization. This is because the Met Council provides all treatment of our sewer through their regional plant infrastructure. 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 rates are often much more unpredictable and volatile. It is also impacted by the way multiple cities utilize the sewer system-not just ours.

For 2024, our Met Council rate is going up by 12.32%, which is lower than the 20.84% increase we experienced in 2023. Of this total increase in rate, 7.79% is coming from a general increase in rates that the Met Council has imposed on all the communities it serves. The remaining 4.53% of the rate increase is due to the increased flows that we are seeing coming out of Chaska, most of which is attributable to new growth.

One of the objectives that we have of our Sewer Fund is that we do not subsidize any of our rate increases from reserves that we have in the Sewer Fund, as this would negatively impact our ability to utilize these reserves to continue to reinvest back into our system which in many areas of the City is very aged. If we were not to subsidize the rate increase from the Met Council, this would mean that our rates would need to increase by 15.05%. Based upon that increase in rates, below is what the bill for an average user would look like both with the service charge and the usage charge included:

Utility Fund	Units/Month	2023 Bill	2024 Bill	Increase	% Increase
Sewer (Gal X 1000)	4	\$31.29	\$34.77	\$3.48	11.12%

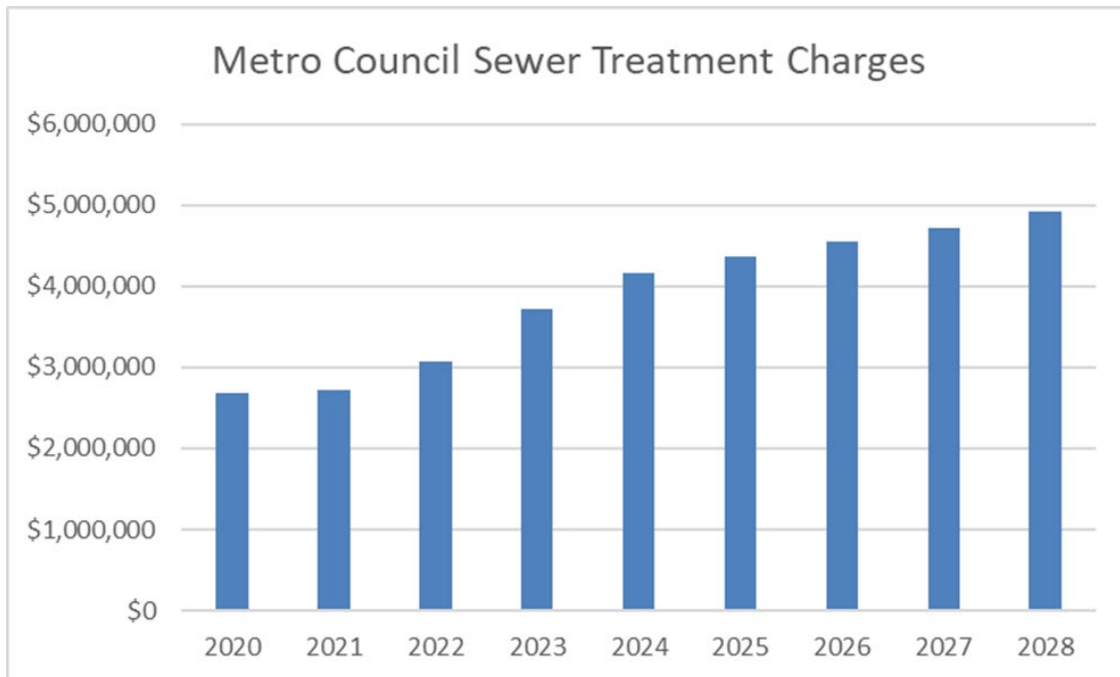
As you can see above, while the rate would go up by 15.05%, because we are not increasing the service charge, the actual impact to the average user would be 11.12% or an additional \$3.48 per month.

2024 Budget

Sewer Fund revenues for 2024 are anticipated to be \$7,568,550, a 19.50% increase over the budget in 2023. As mentioned previously, this change in revenue is mainly due to the increase in our rates, as we are proposing to keep our service fee constant in 2024. And while our rate increase is 15.05% to support the 12.32% increase we will see from the Met Council for our Sewer Treatment rates, the larger increase in revenue is coming from the fact that we have new and larger users that were added to our system over the past year. The Met Council fee for 2024 is scheduled to be \$4,170,000 compared to \$3,712,603 in 2023. As mentioned previously, the average residential user will see their bill increase by 11.12% or \$3.48 per month for their sewer usage.

Metro Waste treats all the sewage for not only Chaska, but for each of the Cities in the Twin Cities Metropolitan Service Area. It is the largest single factor of costs for our sewage service, as what we do locally is only to collect the waste that then gets transported to the Treatment Facility in Shakopee (Blue Lake Regional Treatment Facility).

The following is a chart illustrating the cost increases we have seen since 2020, and what we expect as we look out over our planning horizon:



Expenses:

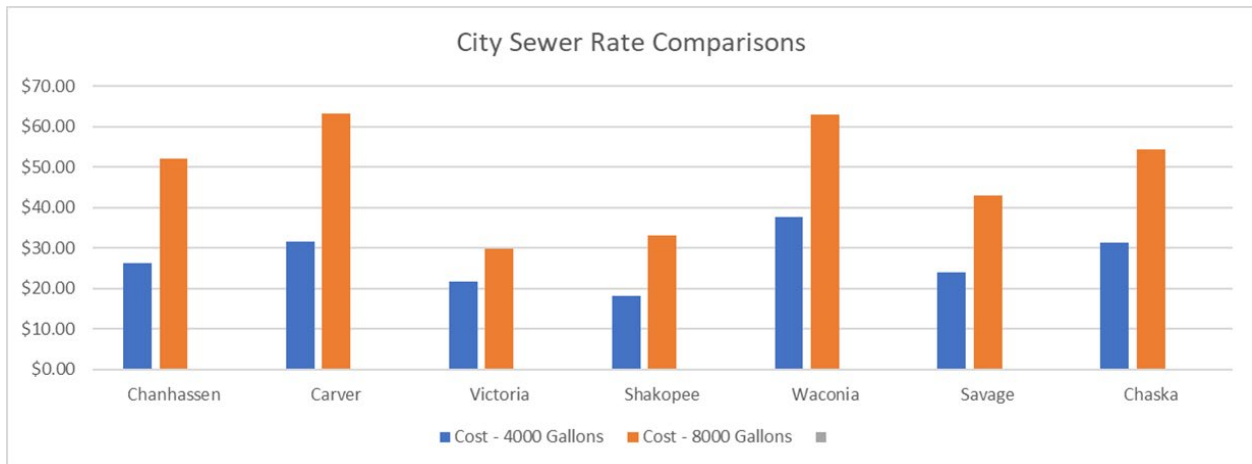
Sewer expenses are anticipated to be \$7,218,166 for 2024, an increase of 13.97% from 2023.

Besides our costs for treatment of our sewer through the Met Council, the major costs for 2024 revolve around our improvement schedule. Below is a list of the improvements that we have scheduled for the 2024 budget year:

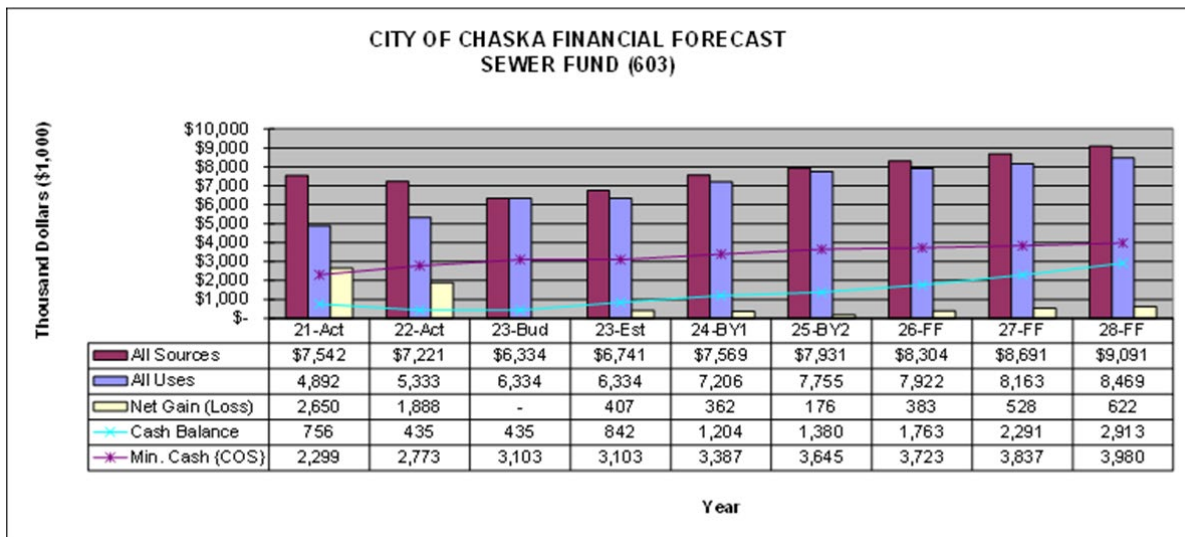
- Addition of two maintenance Staff members in 2024 to be shared with the Water Department (One position was identified as part of the Staffing Study-the other position is one needed to accommodate growth)
- Contribution of \$110,000 annually towards our Street Reconstruction Program
- Continue to put \$125,000 annually towards our Inflow and Infiltration Reduction Program (helps reduce our costs over time by not allowing clean water to get into our system and have to be treated)
- Continue \$125,000 annually towards our Sewer Lining Program (helps to keep pipes in good condition without having to excavate our road/trail surfaces)
- \$10,000 towards the rehabilitation of the Hazeltine Bluff Lift Station
- Replacement of Unit #87 pickup truck for \$27,500 (Sewer portion of the cost shared with Water)
- Replacement of the RST/Camera for \$20,000
- Contribution towards the Building Improvement Program, getting it up to \$370,000 per year by 2028 (just like water) to support debt service on buildings attributable to our Utility Funds

- Replacement of our AMI Meter System with debt service being \$185,000 per year for 10 years (do in conjunction with Water and Electric Departments)

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 2024. Below is a chart illustrating our projections over the next 5-years:



As we discussed before, we will have to focus on getting the cash reserve balances up in this fund in the future. With us now being completed with implementing the initial Sewer service charge this past year, we have now been able to focus on our rates and the expenses we will have over time. As you will see in the chart below, we are planning to see approximately a \$350,000 increase in Fund balance in 2024, which we show in our

5-year forecast (above) will lead to an increase in our Fund balance of approximately \$2.9 million by 2028. While that is still short of the \$3.9 million we would like to eventually see, this fund is heading in the right direction, and we would expect we will continue to build on this in future budgets.

Sewer	Actual	Budget	Budget	
	2022	2023	2024	% Change
Revenues				
Metered Sales	\$7,031,756	\$6,328,450	\$7,563,450	19.52%
Other Revenues	\$189,636	\$5,100	\$5,100	0.00%
Total	\$7,221,392	\$6,333,550	\$7,568,550	19.50%
Expenses				
Pumping	\$23,289	\$25,092	\$31,014	23.60%
Treatment	\$3,072,276	\$3,712,603	\$4,170,070	12.32%
Collection	\$795,132	\$895,764	\$1,010,831	12.85%
Administration	\$958,928	\$983,044	\$1,030,939	4.87%
Transfers Out	\$177,000	\$327,855	\$399,112	21.73%
Depreciation	\$197,971	\$0	\$0	0.00%
Debt Service	\$108,469	\$389,192	\$576,200	48.05%
Other	\$163	\$0	\$0	0.00%
Total	\$5,333,228	\$6,333,550	\$7,218,166	13.97%

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, supporting the fixed costs of our utility, had not been set at an adequate level to support all fixed costs associated with running our Electric Utility. We also determined that our City Facilities needed to work towards paying full rates on their utilities, so these funds are not being subsidized by our Electric Department. 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 the bonds used to support financing activities in this Fund, a final finding of this study was that we needed 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 and provide support to those who need it most.

Service Charge

As mentioned above, it was found 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 only the variable cost of our utility, which is the actual amount of energy a customer uses.

Below is a chart illustrating the recommendations for service charges the Cost-of-Service study recommends 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 charge for residential users up to \$14.74 per month. This is up from the \$12.10 that we currently charge and have charged for the past two years. While we should be moving into Year 4 of our COS Study for establishing our service charge, we are once again recommending that we do not change our service charge for 2024, as this could bring us out of the market with our main competitor, which is Xcel Energy. With Electric we need to not only be concerned about the recommendations of a COS Study, but we also need to be cognizant of the 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 2025 to 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 just under 2%, which will have the effect of increasing the average user's bill by 1.43% in 2024. While our wholesale energy provider MMPA has budgeted a 0%

increase in both rates and demand, we do have the need to increase our rates to be able to keep up with the capital investment we are needing to make into the community because of growth, and to properly maintain the assets that we must keep them in good condition going into the future. Below is a sample utility bill for the average residential user in Chaska for 2024 based on these recommendations:

Average Home	Units/Month	2023 Bill	2024 Bill	Increase	% Increase
Electric					
Service Charge	1x/month	\$12.10	\$12.10	\$0.00	0.00%
Energy (kWh)	750	\$90.25	\$92.05	\$1.80	1.99%
EAC* (kWh)	750	\$23.77	\$23.77	\$0.00	0.00%
Total		\$126.12	\$127.92	\$1.80	1.43%

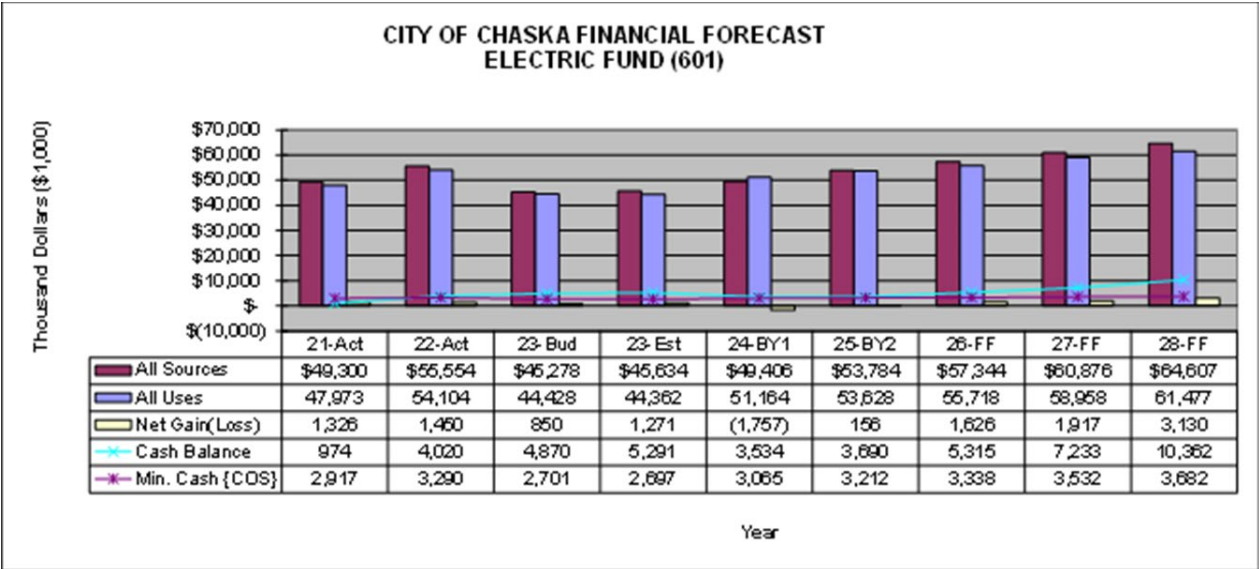
The other major finding of the Electric Cost of Service study was looking at our Senior Discount. Prior to 2021, the City had a 10% discount for seniors who say they have fixed-income needs. The intent of this program was to provide a discount to those who may not be able to afford as much because of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

To help ease into this transition, we phased this credit in over a 3-year period, with the final year being in 2022. As you will see in the chart below, seniors who apply for this credit now just receive a \$6 credit on their bill instead of a 10% discount. If someone who did not need this credit now were to somehow receive it, it would cap them at a \$6 credit instead of 10% of their bill, which could be a much higher number.

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

Finally, as a part of the Cost-of-Service study, it indicated that we should be working to continue to build the cash balance in the Electric Fund, with a goal of trying to get it close to \$19 million. As you will see in the chart below, while we do continue to anticipate building our cash balance in the fund, and get it to over \$10 million by the end of 2028 (which is above the 35% target we set for all other funds), we will still need to continue to work at building the cash balance in this fund beyond the 5-years identified in this planning period. However, with that being said, we do anticipate building our cash balance in each of these years, which will only increase more if we are able to attract large Commercial/Industrial users and expansions to our community.



2024 Revenues

For 2024, Electric Fund revenues are anticipated to be \$49,406,111. This compares to the \$45,277,700 we had budgeted for revenue in 2023, which is an increase of 9.12%. Much of this growth in revenue is coming from the new development and expansion that we are seeing in the community which is driving our overall load in the system. This includes the 600 new units of rental that we will see come on-line in 2024, the new addition to the 212 Medical Center, Costco, and the additional Industrial Buildings that have either just come on-line or are expected to by this summer.

As part of the 2024 budget process, one of the items that the Staff has continued to look at is the effect that new large users in our system will have on our overall electric sales, not only for 2024, 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.

One thing to note, however, is that our electric utility will not see growth from Industrial development on the property south of Engler Boulevard, as this area is currently within MN Valley Electric Cooperative’s service territory. Based on an existing contract, we are not allowed to repurchase this territory until after 2040, which we plan on doing and is currently allowed through State Statute. While we know that we can plan on this acquisition for 2040, we are looking at whether there may be options to look at acquiring this territory earlier as there are large capital improvements that Mn Valley will have to make in this area to serve our new industrial load, and they will only have about 15 years left in the territory to recoup these costs. These are discussions that we plan to have with Mn Valley as we are starting to see development especially on the property just west of the 212/County Road 44 Interchange.

For 2024, while we do expect to see growth continue, we do not expect it to be as robust as it was in 2023. However, much of what was being built in 2023 will come online in 2024 which will increase our electric load. Below are the projections that we have for the 2024 budget.

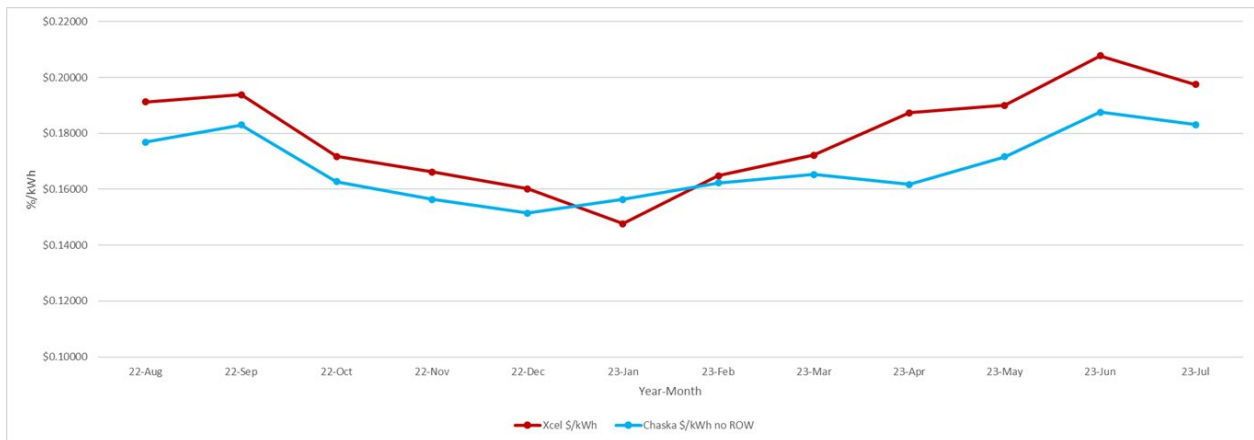
	Actual	Budget	Budget		
	2022	2023	2024	Change	% Change
Electric Sales	\$55,241,580	\$45,277,000	\$49,053,200	\$3,776,200	8.34%
Other Revenue	\$312,689	\$700	\$352,900	\$352,200	50314.29%
Total Revenue	\$55,554,269	\$45,277,700	\$49,406,100	\$4,128,400	9.12%

To develop our 2024 revenue budget, we did utilize the following assumptions:

- Continue implementing our Cost-of-Service Study recommendations, although we do not recommend changing our Service Charge 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 1.43%
- Continued Economic Development activity, although not as robust as in 2023
- Single Family residential will slow down some, but will still be at levels comparable to a typical year
- Wholesale electric rates and demand from MMPA seeing 0% change in 2024

The City’s objective is to maintain electricity rates that are competitive with Xcel Energy. As we have seen over the past 12 months, Chaska’s residential rates have compared well to this market. Looking at 2023, we did see total bills for residential users that averaged 6% lower than Xcel. This is slightly better than the 5% spread we saw in 2022. We expect to only see a 1-2% increase in rates from Xcel in 2024 since they had their full request in their most recent rate case denied. This is one reason it was important to keep our rates as low as possible for 2024. We expect that for 2025 that Xcel will once again seek rate increases through the State since they were denied the full request this time around and now will have to invest in significant infrastructure to be able to meet the new Carbon Free Energy requirements implemented during this last legislative session by the state.

Below is a graph showing our total residential bill compared to Xcel in 2023:



2024 Expenses

Electric Fund expenses for 2024 are projected to be \$51,219,687 compared to the budget of \$44,428,200 in 2023, for a total increase of 15.29%.

A primary factor in seeing our expenditures increase in 2024 compared to 2023 has to do with the many Capital Improvement/Expansion projects needing to be completed in 2024- largely because of the amount of growth we have seen in the community. Below is a list of the Capital Improvement Projects we have scheduled for 2024. 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):

- Ermak Foundry (Reconductoring): \$30,000
- Annual Fuse Cabinet Replacing: \$100,000
- Crosstown 500 to 750 (Reconductoring): \$100,000
- West Creek Feeders (New Feeder Ties): \$115,000
- Costco Project New Service: \$100,000
- New Feeder Ties through Community: \$300,000 (Seeking Federal Grant)
- The Harvest (Kusske Parcel) New Development: \$60,000
- Well #7 New Service: \$60,000
- Wells #8 and #9 New Service: \$100,000
- Rivertown Heights New Development: \$50,000
- Former Tree House Site Development: \$50,000
- Public Safety Facility New Development: \$80,000
- Chaska Yards New Development: \$50,000
- GeoDigital Software Purchase: \$105,000

This represents a cost of \$1,300,000 in 2024.

In addition to the work listed above, we will also be taking on the replacement of our AMI Meter Reading system in 2024. This system will be replaced in conjunction with the Sewer/Water Department and will be replacing the AMI Meter system that we installed in 2015 for all 3 departments. It should be noted that we would not expect to be doing this work at this time, given it has been less than 10 years since we installed our current AMI Meter system. While the system is less than 10 years old, it has not worked properly since initial installation and has only gotten worse. We have tried to have the original vendor fix the issues we have experienced, with them only getting worse. We are currently in arbitration to try to recover a good portion of the dollars that we originally invested in this system, but need to move forward at the same time with installing a new system as it is critical to the functioning of our utility. The Electric Fund has \$3 million budgeted between 2024 and 2025 to complete this process, with us expecting to see this work start in the first quarter of 2024.

Besides these items, below is a list of the items that are budgeted for the Electric Fund in 2024:

- Addition of 1 Apprentice Line Worker starting on April 1: \$75,000 in 2024
- Partner with the Stormwater Department to purchase a Vector Truck to be used with the boring rig purchased in 2023: \$350,000 per department

- Continued contribution towards the Community Building Fund of \$1.3 million (grows by 4% per year)
- Continued contribution of \$240,000 towards debt service of Community Center Ice/Pool project, \$270,000 towards The Lodge debt service and \$100,000 annual made to the Community Center for annual repairs
- Contribution towards the Building Improvement Program-Builds up to \$1,260,000 contribution by Electric by 2028
- \$244,000 annually contribution that goes towards the debt service of The Loop capital improvements
- 5% Franchise Fee for use of General Fund Right of Way
- 5% General Fund contribution to support General Fund operations

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 on 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 the 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 on for 20 years. The annual debt service in the Electric Fund is \$711,000, which is 1.07% more than in 2023.

Based on this, the following would be the expenditures for 2024:

	Actual	Budget	Budget		
	2022	2023	2024	Change	% Change
Purchased Power	\$27,957,968	\$27,292,000	\$29,909,000	\$2,617,000	9.59%
Trans/Distribution	\$2,670,771	\$4,176,430	\$7,551,509	\$3,375,079	80.81%
Load Conservation	\$623,341	\$482,350	\$487,589	\$5,239	1.09%
Admin System	\$3,803,020	\$3,788,627	\$4,063,736	\$275,109	7.26%
Admin Billing	\$732,684	\$696,633	\$803,153	\$106,520	15.29%
Franchise Fee	\$4,279,210	\$4,902,000	\$4,798,000	-\$104,000	-2.12%
Depreciation	\$1,573,140	\$0	\$0	\$0	0.00%
Debt Service	\$259,074	\$703,450	\$711,000	\$7,550	1.07%
Transfer	\$2,234,000	\$2,386,710	\$2,895,700	\$508,990	21.33%
Other (EAC)	\$9,971,141	\$0	\$0	\$0	0.00%
Total	\$54,104,349	\$44,428,200	\$51,219,687	\$6,791,487	15.29%

Based on the budget as proposed, the Electric Fund would decrease its Fund Balance by approximately \$1.8 million in 2024. This decrease in Fund Balance is due mainly to needing to complete the AMI Meter Replacement program, as we are unable to finance this project. While this does decrease the Fund Balance in 2024, we would expect to see this start to grow again in 2025 and continue to increase the fund balance throughout the 5-year planning horizon.

One final note on the Electric Fund that will impact all Electric utilities in the State over the next several years are the new mandates that the State of Minnesota put in place for renewable energy requirements. While the standards up until now were for 25% of our energy coming from renewable sources by 2025 (we are now at 43%), the new standard will require 60% of our energy to not only be renewable but come from Carbon free sources by 2030. By 2040, 100% of our energy will need to come from Carbon-free sources. This is something our power agency (MMPA) is currently working on, as well as every other utility in the State. While hitting the 2030 goals seems feasible at this time while keeping electric costs competitive, the 2040 standards will cause a challenge for all utilities in the State. This will be a requirement that will dominate the work of what we do as a power agency at MMPA for the next several years and will undoubtedly change the way we get energy going into the future, especially as we reach for the 2040 mandate. We will continue to discuss this in budgets going into the foreseeable future.

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 Storm Water Management requirements at both the State and Federal level, Chaska, along with other communities across the country, needed to look at their surface water management practices differently, and generate the resources 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 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 paid through Trunk Funds paid through our development agreements)
- 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. We also estimated what future costs would likely be for replacement of infrastructure in our system as it aged. 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 contributes for surface water runoff in 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 requirements 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 communities not located on a body of water. 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 the increasing intensity of rain events to be prepared to protect the community.

2024 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. We increased this fee slightly each year between 2012-2018.

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 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 were becoming the norm and that our stormwater system was not sized properly to accommodate this "new normal" for rainfall we were experiencing. We also recognized that there were significantly more issues to address with Storm Water being a river community with a flood control system, than there would be in a non-river community.

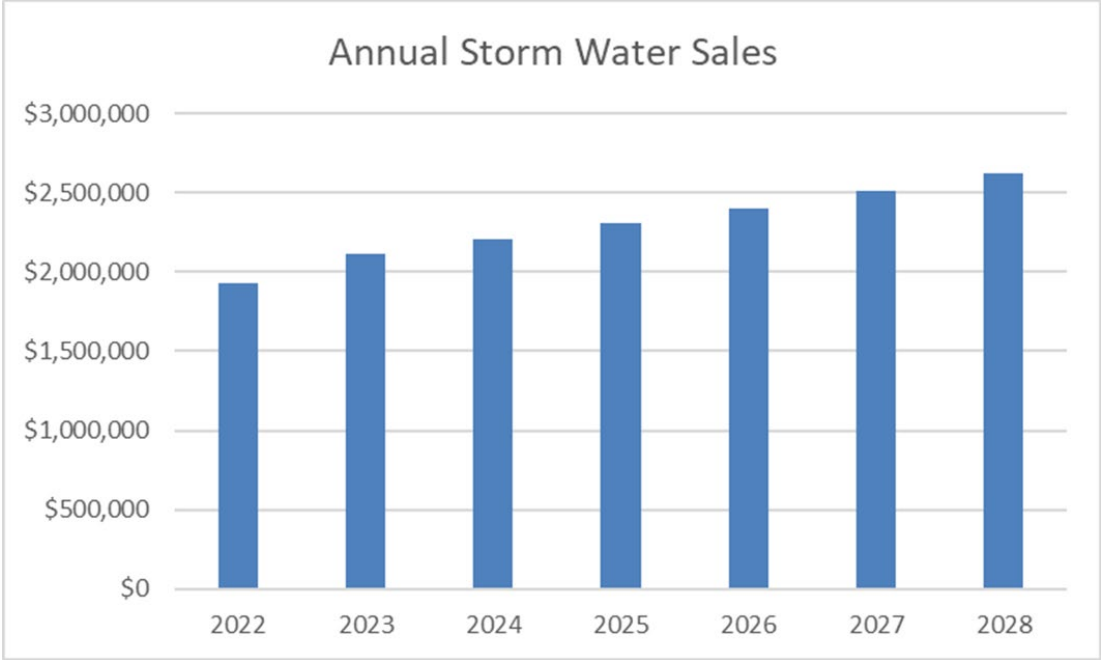
During the budgeting process in 2018, we did begin to realize that as we compared our rates to other cities, that we were likely not comparing ourselves to the right communities to truly give an "apples to apples" comparison of the work we were needing to undertake. While we always had looked at the 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 the proper level. 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 2023 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:

Minnnetonka	\$7.97
Shakopee	\$8.28
Moorhead	\$10.21
Carver	\$10.84
Chaska	\$11.77
Edina	\$11.84
Red Wing	\$12.00
Waconia	\$21.19
Average	\$11.76

As can be seen above, the average of these communities is at \$11.76 per month per residential unit. Based on the needs of our system for the upcoming year, along with comparing to these other communities, Staff recommended that the rate go to \$12.47 per residential unit per month, which would be a 4.25% increase for 2024. 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 2023 rates even if we assume they have no change in their rates for next year. Assuming each of these cities saw a 3% increase for 2024, we would find our rate being within \$0.35 of the average of all comparison cities.

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



2024 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 effect 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 \$246,000 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 included when these roads were originally 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 both for new projects and to support the debt service of projects that have already been completed.

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. \$200,000 is also budgeted each year towards supporting capital improvements in our system. For 2024 this will include completing the work that we have done restoring the McKnight Wetland Complex north of McKnight Park. Not only did this work help improve deteriorated wetlands in this area, but it also created financial value by providing us with a bank of wetland credits that we can use in future development projects. These could be City projects where it helps reduce our wetland costs, or private projects where we are able to sell credits to private developers.

For 2024, we do have 1 piece of equipment that we will be purchasing. This is a Jetter Vector Truck that we will be purchasing for \$700,000. While this equipment will be purchased through the Stormwater Fund, half of this cost will be supported through the Electric Fund as they will also be utilizing this vehicle as they utilize their new boring machine. Sharing this cost between departments helps justify purchasing this equipment for the City and will help us reduce significant contracting costs we have had in the past to help clean out our storm water catch basins and manholes.

The functions of inspections and reporting in the past were mainly completed through contract Engineering services. We now have a Storm Water Coordinator position that resides in our Engineering Department that was added in 2019. This position not only completes much of the work our consulting engineers once did, but it also takes work off our City Engineering Department as it relates to other areas of our City.

As part of our Staffing Study, there is one position that is planned to be added for 2024 to the Storm Water Fund. This position is a Storm Water Maintenance Worker. With the addition of this Staff person, we will now be properly staffed for a system our size.

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 2024 this cost is \$113,758.

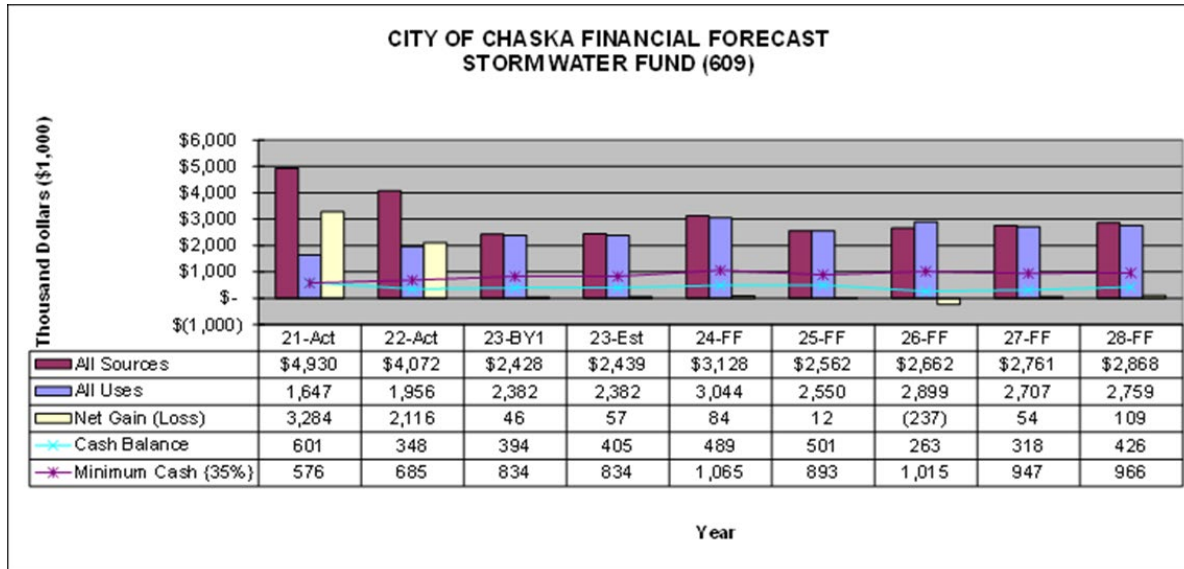
Finally, as we discussed in the Water, Sewer and Electric Funds, the Storm Water Fund is scheduled to contribute an additional \$40,000 to the Building Improvement Program in 2024. This will bring the total up to \$80,000, with the final amount coming from the Storm Water Fund being \$160,000 when the ramp up of funding for the program is complete. These dollars will help support the overall \$2.36 million that will be needed each year to support the debt service of this program.

Based on the changes to our rate structure and our planned projects for 2024, below is a breakdown of the revenues and expenditures for this next year:

	2022	2023	2024		
Revenues	Actual	Budget	Budget	Change	% Change
Storm Water Fees	\$3,649,327	\$2,108,000	\$2,912,000	\$804,000	38.14%
Other	\$422,739	\$224,755	\$216,000	-\$8,755	-3.90%
Total	\$4,072,066	\$2,332,755	\$3,128,000	\$795,245	34.09%
Expenditures					
Transfer Out	\$246,000	\$212,000	\$246,000	\$34,000	16.04%
Transmission/Distribution	\$570,379	\$903,853	\$1,626,775	\$722,922	79.98%
Administration	\$706,001	\$641,236	\$680,187	\$38,951	6.07%
Utility Billing	\$78,565	\$115,715	\$113,758	-\$1,957	-1.69%
Depreciation	\$267,481	\$30,000	\$0	-\$30,000	-100.00%
Debt Service Support	\$71,618	\$288,239	\$296,000	\$7,761	2.69%
Other	\$15,690	\$141,003	\$81,600	-\$59,403	-42.13%
Total	\$1,955,734	\$2,332,046	\$3,044,320	\$712,274	30.54%

The Storm Water Fund is budgeted to increase our Fund Balance in 2024 by \$84,000, bringing our Fund Balance up to approximately \$489,000.

During the 5-year period, we will continue to look 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 does not accumulate as much as we would like to see over the 5 years. However, this projection also assumes we pay cash for all equipment replacement scheduled in 2025. Our 5-year projection shows the cash balance without financing this equipment as being very close to where we are now.



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 were constructed as one project, the CEC runs as a separate Enterprise 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 an Enterprise, the Chaska Curling and Event Center has three main components in the building, including the 300 seat Event Center and catering kitchen, the 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.

The largest impact that we saw was in revenue received from the restaurant, as they were closed during a good portion of the pandemic period, meaning we saw no rent revenue. We also saw significant impacts on our Event Center, as most events that were planned during this period were either postponed, cancelled, or were reduced in scope. The Curling portion of the operations saw the least amount of impact as we were able to hold leagues taking proper precautions, although at a reduced number of

participants. In general, we saw about a \$400,000 loss in revenue in each of these two years, with the Self Insurance Fund supporting this loss.

While we did experience significant impacts during this time, we were able to recover relatively quickly after State restrictions were lifted, and by 2022 saw most of our operations return to normal.

2024 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 and the Economic Development Authority, 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, Crooked Pint is responsible for providing all food service within the facility, Staff, inventory, Point of Sales system, and liquor license. While 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 and alcohol sales. Their lease expires after 2024, with them having two options to renew. Should they decide to renew, which they indicated they will, their lease would go to 8.25% of all food and alcohol sales in 2025.

As we looked at establishing the budget for 2024, one of the things that we considered was the fact that 2023 may not be the best number to base our projected rent from in 2024. That is because Highway 41 was closed for about a 6-month period, which Crooked Pint did report negatively affected their sales. For that reason, we looked more at 2022 as an indicator for what we can expect in 2024. In 2022, the facility did generate \$393,327 in lease revenue. For this reason, we are budgeting \$402,000 in lease revenue for 2024.

The second major source of revenue is Curling Membership and League fees. As mentioned previously, while we saw a loss of members during COVID, we have built much of that membership back, with there now being about 839 members of the facility. With that, our Leagues have 705 unique members curling in our leagues, with 905 rostered curlers overall (some play in more than one league). Because of this, we are budgeting \$429,867 in Curling Revenue, which is slightly less than what we budgeted in 2023.

The third major source of revenue in the CEC is from the Event Center itself. For the event center, we generate revenue from 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, all the way to renting it for non-profit fundraisers. Depending on the day, fees can be as low as \$350 for 4 hours on a Sunday-Thursday block for residents, all the way to \$2,350 for an 8- hour block on a Saturday for non-residents.

Below are the rates that are adopted for the 2024 year, along with a comparison to other municipal facilities to show where we fall compared to the market. It should be noted that while we are above average for weekend time periods, we have no issues selling space in these time periods. The most difficult period we have to sell is Monday-Thursday.

	Regular Rate				Resident Rate				Room Capacity
	M-Th	Friday	Saturday	Sunday	M-Th	Friday	Saturday	Sunday	
Maple Grove	535	630	1,039	630	483	578	934	578	250
Brooklyn Park	750	1,000	1,150	1,000	650	850	950	850	375
Minnetonka	525	1,175	1,450	1,000	400	850	1,025	825	250
Plymouth	975	1,125	1,700	975	800	1,000	1,350	800	350
Shoreview	1,000	1,465	1,820	1,000	855	1,300	1,600	855	300
Coon Rapids	1,020	1,440	1,920	960	970	1,330	1,760	860	230
Eagan	900	1,650	1,950	1,100	900	1,650	1,950	1,100	350
Chaska	775	1,950	2,350	775	700	1,750	2,050	700	300
Chaska 2024 Rates	775	1,975	2,375	775	700	1,750	2,050	700	300
Average	815	1,212	1,576	952	723	1,080	1,367	838	
Current Rate % Below Avg	4.9%	-60.9%	-49.2%	18.6%	3.1%	-62.1%	-50.0%	16.5%	

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. 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 \$50 per person, with a minimum fee of \$500. 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 is budgeted to be \$225,000.

The final revenue source we have coming in is \$1,721,922 from the Community Building Fund to support the debt service on the construction of this project, as well as help support the reinvestment back into equipment and infrastructure in the facility as it continues to age. This amount increases by 4% annually, with the base going towards the debt service on the building, and the annual inflator going towards capital reinvestment. For 2024, the capital reinvestment is a replacement dehumidification unit that we need to get replaced soon as the equipment is now almost 10 years old.

Based on this, we are recommending that the adopted revenue budget we have for 2024 will be \$2,954,774, which is 3.01% higher than in 2023.

Below is a chart reflecting the actual revenue number for 2022, as well as the budgeted revenue for the 2023 budget year, along with the proposed budget for 2024:

Revenues	Actual 2022	Budget 2023	Budget 2024	Change	%Change
Event Center Rental	\$169,591	\$153,300	\$175,985	\$22,685	14.80%
Curling Center Leagues/Memberships	\$541,438	\$502,788	\$429,867	-\$72,921	-14.50%
Corporate Curling Events	\$298,914	\$250,000	\$225,000	-\$25,000	-10.00%
Restaurant Lease	\$393,327	\$390,122	\$402,000	\$11,878	3.04%
Community Fund Transfer (Debt)	\$1,523,159	\$1,632,762	\$1,721,922	\$89,160	5.46%
Other Revenue	\$169	-\$60,420	\$0	\$60,420	-100.00%
Total Operating Revenues	\$2,926,598	\$2,868,552	\$2,954,774	\$86,222	3.01%

2024 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 are currently budgeting for 4 full-time employees within the CEC facility office 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.

Our full-time staff consists of our Curling Manager, our Curling Ice Maker, the Curling and Event Center Coordinator and our Curling and Event Center Supervisor. Each is 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 efficiency of being able to provide some shared staff both with the Park and Recreation Department out of the General

Fund and the Community Center staff. 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, electricity, gas, and garbage. Within the Event Center, Curling Center and general common areas of the facility, our Utility costs are approximately \$232,000 per year, with the costs within the restaurant area being approximately \$60,000 per year.

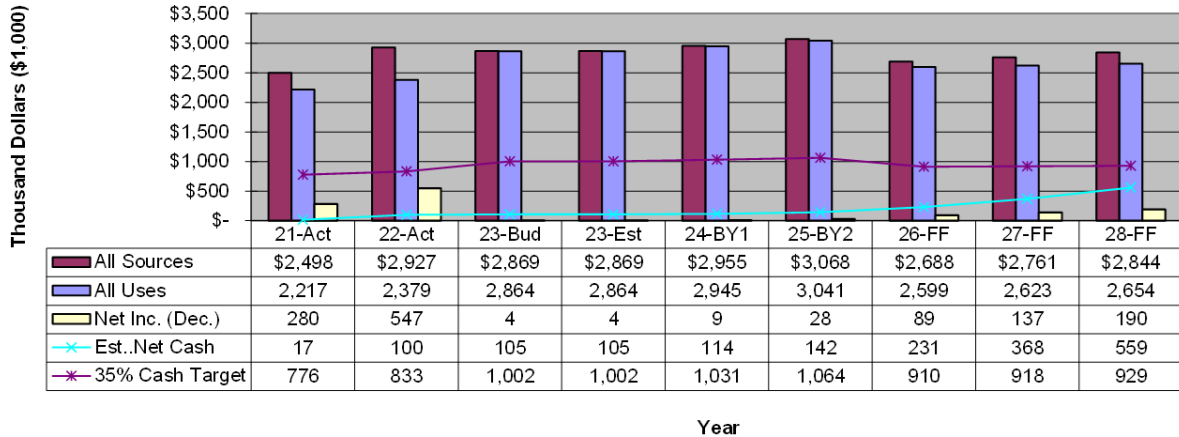
The only other thing to mention as part of the CEC budget is that all debt service is included in the overall budget for the entire project, including the Firemen’s Park redevelopment components. Because this debt service is covered through dollars accumulated in our “Community Building Fund” and the EDA, 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 an expense related to day-to-day operations. Based on the total Revenue and Expense budget for 2024, below is the expenditure budget for 2024.

Expenditures	Actual 2022	Budget 2023	Budget 2024	Change	% Change
Administration/General Facilities	\$806,058	\$784,709	\$937,025	\$152,316	19.41%
Event Center	\$124,157	\$142,795	\$33,361	-\$109,434	-76.64%
Curling Center	\$358,655	\$290,181	\$329,384	\$39,203	13.51%
Crooked Pint	\$53,970	\$61,910	\$65,890	\$3,980	6.43%
Other	\$29,928	\$0	\$450	\$450	0.00%
Depreciation	\$568,348	\$0	\$0	\$0	0.00%
Debt Service	\$438,380	\$1,584,506	\$1,579,363	-\$5,143	-0.32%
Total Operating Expenses	\$2,379,496	\$2,864,101	\$2,945,473	\$81,372	2.84%

It should be noted that while not included as a part of our budget for 2024, we continue to explore whether sponsorships or naming rights for the building may be an opportunity for us, specifically to help generate another source of revenue that could be put back into capital replacements in the building as we move through the years. We are currently working with a group called The Superlative Group to seek out these opportunities and should know by the end of 2024 if this is even an opportunity for us and if it is, whether we should move forward with this opportunity. This could be another significant source of annual revenue if we were able to generate a naming rights sponsor.

With the CEC being nearly 10 years old, we are now starting to focus on regular reinvestment into this facility. For this reason, we are starting to focus on building up cash reserves in our CEC Fund. Below is a 5-year forecast for this fund, and what we expect to happen from a financial perspective. As you will see, we do plan on trying to build up this fund balance, with it projected to be a little over \$550,000 by 2028. We will need these dollars as we continue to replace things in the facility, such as the carpet in the Event Center, which is scheduled to be replaced in 2025.

**CITY OF CHASKA FINANCIAL FORECAST
CURLING AND EVENT CENTER (FUND 610)**



The Loop Golf Budget

For nearly 50 years, the Chaska Par 30 was a small Executive Course that the City of Chaska owned and operated. Being a remnant of the development of Hazeltine National Golf Course and designed by Robert Trent Jones, it was a unique course that offered opportunities for many in Chaska to take up golf. Not only was the course inexpensive in price for patrons to play, but it also provided opportunities for those that may not have the skill or desire to play on a high-end course, such as the Chaska Town Course, the opportunity to go out and get exposed to the game of golf.

In its early years, the Chaska Par 30 attracted over 30,000 rounds per year and was a source of income for the City to be able to reinvest back into the facility. However, as the course aged, the Chaska Town Course was added in the community, and additional Executive Courses around the area opened, its rounds dropped to around 14,000-15,000 rounds per year making it very difficult to not only operate without outside support, let alone be able to reinvest back into the facility. With the City facing a very large decision of whether to reinvest back into the course with the needed replacement of the irrigation system, which would have been over \$750,000, the City needed to evaluate whether it made financial sense to make this investment back into the Course if it likely would not increase rounds and financially support itself.

It was at this time that a group of individuals who started a non-profit called *The Learning Links of Chaska* approached the City with an idea to completely rebuild the course, but to do it in a way that no other course in the Country had deliberately tried to do yet, which was to make it a course physically accessible to all. The concept was to take the land that the Par 30 sat on and redesign it in a way that any person could play it, whether they had a physical disability or not, whether they were a child or senior, whether they were a brand-new golfer or an expert and that each of these

individuals would find it fun to play at this facility. *The Learning Links* group committed that if the City would agree to move forward with developing such as course that they would do significant fundraising to help support the construction of this facility, and work with the course to help facilitate the programming of it with different groups looking to introduce those with physical disabilities to the game of golf.

With a total development cost of just over \$3.5 million, *The Learning Links of Chaska* raised \$750,000 to support the efforts of reinvesting back into this course, which has been rebuilt over the past two summers, with the Clubhouse and Maintenance Facilities now being completed. With work now wrapping up, the course will open for public play in the Spring of 2024, making this the first year we are adopting an operating budget for this facility.

The Loop Objectives

As part of developing the budget for The Loop, the Council did adopt the following objectives for this facility:

- Provide a high-quality golf experience to the residents of Chaska and visitors of all abilities
- Be viewed as a golf course facility with innovative design that breaks down barriers for people of all abilities to play
- Provide another opportunity to create a premier Community Gathering Location in our community
- Assume that we are providing adequate resources for The Loop to support all operations of a high-quality golf course, including adequate and well-trained staff and well-maintained equipment
- Ensure that we are operating a golf course that can be financially sustainable and generate enough reserves to continue to reinvest back into the facility in

It is these objectives that we utilized to put together the budget for the 2024 year.

2020 Budgeted Revenue

In determining the revenues for this upcoming year, we need to look at two factors. First, we must make assumptions on the number of rounds that we expect to see on the course for the year, as well as play on the Minnalayas Green. Second, we need to determine what we should set the rate at for 2024.

From a rate perspective, we utilized the area Executive Courses as a benchmark on where to set our fees. The one thing that we did take into consideration is that the quality of course that we will be providing here is at a higher level than other Executive Courses in the area, and that the main users of our course will be Seniors and Juniors. Based on that, we set the rates as follows:

- Juniors: \$15
- Seniors: \$17
- Adults: \$22
- Minnalayas Green: \$5

Based on this, the following is a comparison to other Executive Courses in the area:

Course	Junior	Senior	Adult
Halla Greens	\$15.00	\$17.00	\$22.00
Braemar Executive	\$12.00	\$19.00	\$19.00
Waters Edge	\$20.00	\$20.00	\$20.00
Orono	\$12.00	\$16.00	\$20.00
Glen Lake	\$14.00	\$14.00	\$18.00
Average	\$14.60	\$17.20	\$19.80
The Loop Proposed Rate	\$18.00	\$18.00	\$23.00
Minnalayas Proposed Rate	\$5.00	\$5.00	\$5.00

As for assumptions on the usage of the course, we assumed that we will have 24,500 rounds in 2024. To give a sense of how this compares to the Par 30, in its last year of operation we had 17,000 rounds. Finally, we are budgeting that we have 17,100 patrons utilizing the Minnalayas Green during the summer. This is an amenity of The Loop that can be used independently of the golf course facility itself, and can be programmed for leagues and games, and well as be utilized by families as a “mini-golf” course.

While we do expect that programming will be a source of income in the future, we are not budgeting for that for the first year as we want to get a good sense of how the facility operates and what is popular before we block off too many programmed times.

Based on the assumptions above, we budget that we will have \$1,002,900 in revenue for 2024.

Budgeted Expenditures

From an expenditure perspective, there are two things that will drive the costs that go into the course from an operational standpoint. First is the staffing that we will need both in the clubhouse and for maintenance. The other expenditure will be for the equipment and supplies we will need to operate and maintain the facility.

From a staffing standpoint, we program that we will need 2 full-time Greenskeepers, along with the support of approximately 2,200 hours of part-time maintenance staffing to keep the course in good condition. The main difference from the Par 30 is that we only had 1 full-time Greenskeeper as there was less to maintain than we have at The Loop.

From a Clubhouse perspective, we plan to have a Clubhouse Manager position, which will be a 9-month full-time position. To support this person, we will have programmed

5,040 hours of part-time support through the summer to make sure that we always have 2 people scheduled to work in the clubhouse at any given time.

From an equipment perspective, we plan on utilizing the Town Course maintenance equipment that is scheduled to be replaced to maintain The Loop. While this equipment is too old to continue maintaining a course the size of The Town Course, it will work fine for The Loop. The only piece of equipment that we need to purchase is 1 Greens Triplex for \$62,000. We have that programmed into the budget for this year.

Besides these items, all other expenditures such as supplies, utilities and insurance will be like what we use at both the Town Course and what we experienced at the Par 30.

Based on this, the total expenditures we are budgeting for 2024 is \$997,411. Below is a chart showing our revenues and expenditures we are budgeting for the year:

	Budget
	2024
Green Fees	\$489,500
Minnalayas Fees	\$85,500
Transfer In/Learning Link	\$405,000
Other	\$22,900
Total Revenue	\$1,002,900
Maintenance	\$384,264
Administration	\$228,647
Merchandise	\$15,000
Other	\$0
Debt Service	\$369,500
Total Expenses	\$997,411
Net Income (loss)	\$5,489

Based on the budget above, we would anticipate that we generate a small increase in our fund in 2024 of \$5,489. It should be noted that for 2025 we will have a much better sense of how the facility operates and what opportunities and challenges exist that we have not identified yet. We would expect that after this first year of operation that we will see the budget for this facility change to reflect what we have learned.