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Posted: January 3, 2014

**CRYSTAL CITY COUNCIL
WORK SESSION AGENDA
Tuesday, January 7, 2014**

6:15 p.m.

Conference Room A

Pursuant to due call and notice given in the manner prescribed by Section 3.01 of the City Charter, the work session of the Crystal City Council was held at _____ p.m. on Tuesday, January 7, 2014 in Conference Room A located at 4141 Douglas Drive, Crystal, Minnesota.

I. Attendance

Council members

____ Hoffmann

____ Libby

____ Peak

____ Selton

____ Adams

____ Budziszewski

____ Deshler

Staff

____ Norris

____ Therres

____ Mathisen

____ Hansen

____ Revering

____ Norton

____ Serres

II. Agenda

The purpose of the work session is to discuss the following agenda item:

- Public Works Site Acquisition
- Joint Water Commission (JWC) financing plan

III. Adjournment

The work session adjourned at _____ p.m.

Auxiliary aids are available upon request to individuals with disabilities by calling the City Clerk at (763) 531-1145 at least 96 hours in advance. TTY users may call Minnesota Relay at 711 or 1-800-627-3529.



Memorandum

DATE: January 2, 2014

TO: Mayor and City Council
Anne Norris, City Manager

FROM: Charles Hansen, Finance Director

SUBJECT: Discuss Financing Options for JWC Emergency Water Supply

Background:

The Joint Water Commission (JWC) is planning to add wells as an emergency water supply backup. Currently the JWC purchases all of its water from the City of Minneapolis Water Department.

We have known for some time that the emergency water supply project and some other significant capital projects will impact the Water Fund budget for the next five years, but only had rough estimates of the cost. The JWC is now updating its capital improvement program which has firmed up the cost estimates. Current cost estimates are higher than the cost estimates we used in the 2014 Water Fund budget.

Crystal will pay a share of the capital costs based on the water used by Crystal customers compared to the total water used by all JWC customers. This share fluctuates from year to year since water usage changes over time. For the 2014 adopted budget, 27.4% was used as Crystal's share.

Capital Improvement Plan

The emergency water supply project is expected to cost the Joint Water Commission \$4,000,000 in 2014. Some smaller projects have also been added to the CIP and some projects moved from one year to another.

Financing the CIP using Golden Valley Bonds, Alternative #1

The City of Golden Valley is prepared to issue \$4,605,000 of bonds on behalf of the JWC to help finance the emergency water supply and other projects in the CIP. These bonds will have principal and interest payments running for 20 years with estimated annual debt service costs of \$350,000.

If the City of Crystal relies on these bonds to finance its share of the projects, it will be responsible for about 27% of the annual debt service costs. This scenario is depicted in the Alternative #1 budget. Debt service isn't listed separately, but is included in the annual JWC – Capital line.

In this scenario, Crystal's water rates can increase at the same pace over the next five years as proposed in the 2014 Adopted Budget. However, cash and investments will be about \$322,000 at the end of 2018, compared to about \$1,068,000 in the 2014 Adopted Budget.

Financing the CIP using cash to pay Crystal's share up-front, Alternative #2

The City Council had reservations about issuing bonds to pay for the Public Works Facility and many of the same arguments could be made regarding issuing bonds to pay for the JWC capital improvements. Crystal could use the Water Fund's cash on hand to pay its share (about \$1,215,000) of the bonds. In this case, Golden Valley would issue about \$3,390,000 in bonds and the debt service costs would be paid by Golden Valley and New Hope. Since Crystal wouldn't need to support the annual debt payments, its JWC – Capital cost would be about \$94,500 less per year than in the Alternative #1 budget.

The cash on hand scenario is shown in the Alternative #2 budget. The JWC – Capital line is \$1,215,000 higher in 2014 to reflect paying up-front. In the years 2015 onward, the JWC – Capital line is \$94,500 lower since Crystal doesn't have to support annual debt service payments. Impact on the cash & investments is substantial. Even with faster rate increases in 2016 through 2018, cash & investments fall to about zero at the end of 2018.

	2014 Adopted Budget		Alternative #1 Budget		Alternative #2 Budget	
	Rate Increase from prior year	Estimated Year-end Cash Balance	Rate Increase from prior year	Estimated Year-end Cash Balance	Rate Increase from prior year	Estimated Year-end Cash Balance
2014	5.15%	\$2,306,030	5.15%	\$2,256,955	5.15%	\$1,041,955
2015	3.92%	\$1,916,023	3.92%	\$1,839,211	3.92%	\$700,486
2016	0.00%	\$1,923,890	0.00%	\$1,230,483	3.77%	\$283,484
2017	2.83%	\$1,482,436	2.83%	\$779,793	3.64%	\$53,619
2018	0.92%	\$1,068,192	0.92%	\$321,721	6.14%	-\$1,739

Conclusion:

Financing options are only one consideration in the emergency water supply project. The two alternatives presented are the ones that seemed to me to be most viable. If there are other ideas the City Council would like to investigate, I will work on them for presentation at a future meeting.

**WATER UTILITY RATE STUDY
2014 Adopted Budget**

PROFIT & LOSS	2013	2014	2015	2016	2017	2018
REVENUES						
Water usage charges	2,600,000	2,760,000	2,880,000	2,880,000	2,970,000	3,000,000
Fixed service charges	150,000	150,000	150,000	150,000	150,000	150,000
Penalties	57,000	60,000	60,000	60,000	60,000	60,000
Special Assessments	60,000	60,000	60,000	60,000	60,000	60,000
JWC reimbursement	12,000	12,000	12,000	12,000	12,000	12,000
Investment Income	27,000	23,300	34,590	38,320	48,097	44,473
Miscellaneous	57,000	57,000	59,000	59,000	59,000	59,000
State testing fee billed	50,000	50,000	50,000	50,000	50,000	50,000
TOTAL REVENUES	3,013,000	3,172,300	3,305,590	3,309,320	3,409,097	3,435,473
EXPENSES						
Salaries & Wages	230,449	235,494	241,381	247,416	253,601	259,941
Fringe Benefits	81,183	89,084	93,538	98,215	103,126	108,282
JWC - Operations	1,908,730	2,013,304	2,069,677	2,127,627	2,187,201	2,248,443
JWC - Capital	229,500	309,150	432,000	205,200	193,050	200,000
JWC 2 cents/1,000 gal. fee	12,000	12,000	12,000	12,000	12,000	12,000
Professional/Contractual	94,568	97,755	100,688	103,708	106,820	110,024
Utilities	4,200	4,140	4,264	4,392	4,524	4,660
Repair & Maintenance	38,100	37,800	38,934	40,102	41,305	42,544
Supplies	50,500	50,500	52,015	53,575	55,183	56,838
Communications & Printing	7,600	3,500	3,605	3,713	3,825	3,939
Insurance & Training	16,265	12,703	13,084	13,477	13,881	14,297
Depreciation	183,676	183,470	190,000	195,000	200,000	210,000
Admin. Service Charge	117,472	118,451	121,412	124,448	127,559	130,748
TOTAL EXPENSES	2,974,243	3,167,351	3,372,598	3,228,874	3,302,074	3,401,717
NET INCOME or -LOSS	38,757	4,949	-67,008	80,447	107,024	33,756
ENDING FUND BALANCE	7,494,888	7,499,837	7,432,830	7,513,276	7,620,300	7,654,056
CASH FLOW						
Cash & Investments, Beg. of Year	2,163,732	2,262,611	2,306,030	1,916,023	1,923,890	1,482,436
Net income	38,757	4,949	-67,008	80,447	107,024	33,756
Add back Depreciation	183,676	183,470	190,000	195,000	200,000	210,000
Deduct Capital Outlay	123,554	145,000	513,000	267,579	748,478	658,000
Cash & Investments, End of Year	2,262,611	2,306,030	1,916,023	1,923,890	1,482,436	1,068,192
Retail Rate per 1,000 gallons, Tier 1	4.05	\$4.30	\$4.50	\$4.50	\$4.65	\$4.70
Retail Rate per 1,000 gallons, Tier 2	4.45	\$4.70	\$4.90	\$4.90	\$5.05	\$5.10
Retail Rate per 1,000 gallons, Tier 3	4.85	\$5.10	\$5.30	\$5.30	\$5.45	\$5.50
Rate increase from prior year	2.11%	5.15%	3.92%	0.00%	2.83%	0.92%

WATER UTILITY RATE STUDY
2014 Adopted Budget, Alternative #1
Participate in Golden Valley Bond Issue

PROFIT & LOSS	2013	2014	2015	2016	2017	2018
REVENUES						
Water usage charges	2,600,000	2,760,000	2,880,000	2,880,000	2,970,000	3,000,000
Fixed service charges	150,000	150,000	150,000	150,000	150,000	150,000
Penalties	57,000	60,000	60,000	60,000	60,000	60,000
Special Assessments	60,000	60,000	60,000	60,000	60,000	60,000
JWC reimbursement	12,000	12,000	12,000	12,000	12,000	12,000
Investment Income	27,000	23,300	33,854	36,784	30,762	23,394
Miscellaneous	57,000	57,000	59,000	59,000	59,000	59,000
State testing fee billed	50,000	50,000	50,000	50,000	50,000	50,000
TOTAL REVENUES	3,013,000	3,172,300	3,304,854	3,307,784	3,391,762	3,414,394
EXPENSES						
Salaries & Wages	230,449	235,494	241,381	247,416	253,601	259,941
Fringe Benefits	81,183	89,084	93,538	98,215	103,126	108,282
JWC - Operations	1,908,730	2,013,304	2,069,677	2,127,627	2,187,201	2,248,443
JWC - Capital	229,500	358,225	459,000	820,260	184,950	222,750
JWC 2 cents/1,000 gal. fee	12,000	12,000	12,000	12,000	12,000	12,000
Professional/Contractual	94,568	97,755	100,688	103,708	106,820	110,024
Utilities	4,200	4,140	4,264	4,392	4,524	4,660
Repair & Maintenance	38,100	37,800	38,934	40,102	41,305	42,544
Supplies	50,500	50,500	52,015	53,575	55,183	56,838
Communications & Printing	7,600	3,500	3,605	3,713	3,825	3,939
Insurance & Training	16,265	12,703	13,084	13,477	13,881	14,297
Depreciation	183,676	183,470	190,000	195,000	200,000	210,000
Admin. Service Charge	117,472	118,451	121,412	124,448	127,559	130,748
TOTAL EXPENSES	2,974,243	3,216,426	3,399,598	3,843,934	3,293,974	3,424,467
NET INCOME or -LOSS	38,757	-44,126	-94,744	-536,149	97,788	-10,073
ENDING FUND BALANCE	7,494,888	7,450,762	7,356,018	6,819,869	6,917,657	6,907,585
CASH FLOW						
Cash & Investments, Beg. of Year	2,163,732	2,262,611	2,256,955	1,839,211	1,230,483	779,793
Net income	38,757	-44,126	-94,744	-536,149	97,788	-10,073
Add back Depreciation	183,676	183,470	190,000	195,000	200,000	210,000
Deduct Capital Outlay	123,554	145,000	513,000	267,579	748,478	658,000
Cash & Investments, End of Year	2,262,611	2,256,955	1,839,211	1,230,483	779,793	321,721
Retail Rate per 1,000 gallons, Tier 1	4.05	\$4.30	\$4.50	\$4.50	\$4.65	\$4.70
Retail Rate per 1,000 gallons, Tier 2	4.45	\$4.70	\$4.90	\$4.90	\$5.05	\$5.10
Retail Rate per 1,000 gallons, Tier 3	4.85	\$5.10	\$5.30	\$5.30	\$5.45	\$5.50
Rate increase from prior year	2.11%	5.15%	3.92%	0.00%	2.83%	0.92%

WATER UTILITY RATE STUDY
2014 Adopted Budget, Alternative #2
Pay Emergency Water Supply Share Up-front

PROFIT & LOSS	2013	2014	2015	2016	2017	2018
REVENUES						
Water usage charges	2,600,000	2,760,000	2,880,000	3,000,000	3,120,000	3,330,000
Fixed service charges	150,000	150,000	150,000	150,000	150,000	150,000
Penalties	57,000	60,000	60,000	60,000	60,000	60,000
Special Assessments	60,000	60,000	60,000	60,000	60,000	60,000
JWC reimbursement	12,000	12,000	12,000	12,000	12,000	12,000
Investment Income	27,000	23,300	15,629	14,010	7,087	1,609
Miscellaneous	57,000	57,000	59,000	59,000	59,000	59,000
State testing fee billed	50,000	50,000	50,000	50,000	50,000	50,000
TOTAL REVENUES	3,013,000	3,172,300	3,286,629	3,405,010	3,518,087	3,722,609
EXPENSES						
Salaries & Wages	230,449	235,494	241,381	247,416	253,601	259,941
Fringe Benefits	81,183	89,084	93,538	98,215	103,126	108,282
JWC - Operations	1,908,730	2,013,304	2,069,677	2,127,627	2,187,201	2,248,443
JWC - Capital	229,500	1,573,225	364,500	725,760	90,450	128,250
JWC 2 cents/1,000 gal. fee	12,000	12,000	12,000	12,000	12,000	12,000
Professional/Contractual	94,568	97,755	100,688	103,708	106,820	110,024
Utilities	4,200	4,140	4,264	4,392	4,524	4,660
Repair & Maintenance	38,100	37,800	38,934	40,102	41,305	42,544
Supplies	50,500	50,500	52,015	53,575	55,183	56,838
Communications & Printing	7,600	3,500	3,605	3,713	3,825	3,939
Insurance & Training	16,265	12,703	13,084	13,477	13,881	14,297
Depreciation	183,676	183,470	190,000	195,000	200,000	210,000
Admin. Service Charge	117,472	118,451	121,412	124,448	127,559	130,748
TOTAL EXPENSES	2,974,243	4,431,426	3,305,098	3,749,434	3,199,474	3,329,967
NET INCOME or -LOSS	38,757	-1,259,126	-18,469	-344,424	318,613	392,642
ENDING FUND BALANCE	7,494,888	6,235,762	6,217,293	5,872,870	6,191,483	6,584,125
CASH FLOW						
Cash & Investments, Beg. of Year	2,163,732	2,262,611	1,041,955	700,486	283,484	53,619
Net income	38,757	-1,259,126	-18,469	-344,424	318,613	392,642
Add back Depreciation	183,676	183,470	190,000	195,000	200,000	210,000
Deduct Capital Outlay	123,554	145,000	513,000	267,579	748,478	658,000
Cash & Investments, End of Year	2,262,611	1,041,955	700,486	283,484	53,619	-1,739
Retail Rate per 1,000 gallons, Tier 1	4.05	\$4.30	\$4.50	\$4.70	\$4.90	\$5.25
Retail Rate per 1,000 gallons, Tier 2	4.45	\$4.70	\$4.90	\$5.10	\$5.30	\$5.65
Retail Rate per 1,000 gallons, Tier 3	4.85	\$5.10	\$5.30	\$5.50	\$5.70	\$6.05
Rate increase from prior year	2.11%	5.15%	3.92%	3.77%	3.64%	6.14%

Utility Funds (Funds 505, 510, 515 and 520)
Multi-Year Capital Improvement Plan
2014 Adopted Budget

Project Description	2014	2015	2016	2017	2018
Water, Sewer & Storm Drainage (40%, 40%, 20%)					
Utility building - new public works facility		1,000,000			
Total	0	1,000,000	0	0	0
Water (100%)					
Replace Sensus meter servers	70,000				
Water Main replacement/relining				600,000	600,000
Water mains & hydrants in street reconstruction projects		38,000	49,079	73,478	
Gate valve replacement	75,000	75,000		75,000	
Replace #436 - 1996 portable streamer			8,500		
Replace #447 - 2002 tandem dump truck			210,000		
Replace #427 - 2004 Chevy 3/4 ton truck					40,000
Replace #434 - 1996 air compressor					18,000
Water Total	145,000	113,000	267,579	748,478	658,000
Sewer (100%)					
Reline deteriorated sanitary sewers	450,000	300,000	450,000	300,000	450,000
South Lift #9 - force main lining	650,000				
Replace sewer mains within street reconstruction projects		105,110	144,947	217,006	
Truck mounted manhole lifter	8,000				
Sanitary sewer maintenance software	20,000				
Replace truck #449 - 2000 televising van		175,000			
Replace computer and printer			2,500		
Replace Maryland lift pumps			20,000		
Replace #426 - 1996 trailer mounted vactor			130,000		
Replace #439 - 1991 trailer mounted generator			30,000		
Replace #429 - 2003 Chevy 1 ton truck				55,000	
Replace #430 - 1994 sewer rodder					25,000
Replace #431 - 2004 Sreco sewer jetter					220,000
Sewer Total	1,128,000	580,110	777,447	572,006	695,000
Storm Drainage (100%)					
Erosion control for storm sewer areas		10,000		10,000	
Trunk line storm sewer - within street reconstruction projects		449,534	622,336	935,376	
Memory Pond force main	150,000				
Replace #323 - 2002 Crosswind street sweeper				190,000	
Storm Drainage Total	150,000	459,534	622,336	1,135,376	0
Street Lights (100%)					
New street light poles	12,000	12,000	12,000	12,000	12,000
Street Light Total	12,000	12,000	12,000	12,000	12,000
Total Utilities	1,435,000	2,164,644	1,679,362	2,467,860	1,365,000
Allocation By Fund -					
Total Water Fund	145,000	513,000	267,579	748,478	658,000
Total Sewer Fund	1,128,000	980,110	777,447	572,006	695,000
Total Storm Drainage Fund	150,000	659,534	622,336	1,135,376	0
Total Street Lights Fund	12,000	12,000	12,000	12,000	12,000
Total Utilities	1,435,000	2,164,644	1,679,362	2,467,860	1,365,000