City of Hays
Office of the City Manager

Memo

To: City Commission

From: Toby Dougherty, City Manager

Date: 7-10-15

Re: July 16, 2015 Work Session

Please find the attached agenda and supporting documentation for the July 16, 2015 Work Session.

Item 2 – Public Meeting for Wastewater Facility Plan Discussion to Meet SRF Terms and Conditions

It is necessary to hold a public meeting to discuss the Wastewater Facility Plan to assure compliance with the terms and conditions of the State Revolving Fund Loan. Stan Christopher of HDR will be in attendance and will present the plan to the City Commission and public. Stan and City staff will also be ready to answer any questions the City Commission and public may have about the Wastewater Facility Plan.

Item 3 – Sewer Rate Study/Adjustment

Please refer to the attached memorandum from Kim Rupp, Director of Finance, regarding the proposed modifications to the City of Hays' sewer rates. As you will see, these rate increases are substantial when taken cumulatively. The reason for the rate increases is to pay for the estimated $30 million it will cost to rebuild the wastewater treatment facility to come into compliance with new EPA standards as well as to fund the capital maintenance and replacement program that has been unfunded in previous years. Finance Director Kim Rupp, as well as Patty Kettles with Springsted Inc., will make a presentation at the work session.

Item 4 – 2016 Budget Presentation

At the work session, I will present the 2016 Budget Workbook to the governing body.

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CITY OF HAYS
CITY COMMISSION WORK SESSION
THURSDAY, JULY 16, 2015 – 6:30 P.M.
AGENDA

1. **ITEM FOR REVIEW: July 2, 2015 Work Session Notes** (PAGE 1)
   DEPARTMENT HEAD RESPONSIBLE: Kim Rupp, Director of Finance

2. **ITEM FOR REVIEW: Public Meeting for Wastewater Facility Plan Discussion to Meet SRF Terms and Conditions**
   PERSONS RESPONSIBLE: Kim Rupp, Director of Finance
   Bernie Kitten, Director of Utilities
   Stan Christopher, HDR

3. **ITEM FOR REVIEW: Sewer Rate Study/Adjustment** (PAGE 7)
   PERSONS RESPONSIBLE: Kim Rupp, Director of Finance
   Bernie Kitten, Director of Utilities
   Patty Kettles, Springsted, Inc.

4. **ITEM FOR REVIEW: 2016 Budget Presentation**
   PERSON RESPONSIBLE: Toby Dougherty, City Manager

5. **OTHER ITEMS FOR DISCUSSION**

6. **EXECUTIVE SESSION (IF REQUIRED)**

7. **ADJOURNMENT**

ANY PERSON WITH A DISABILITY NEEDING SPECIAL ACCOMMODATIONS TO ATTEND THIS MEETING SHOULD CONTACT THE CITY MANAGER'S OFFICE 48 HOURS PRIOR TO THE SCHEDULED MEETING TIME. EVERY ATTEMPT WILL BE MADE TO ACCOMMODATE ANY REQUESTS FOR ASSISTANCE.

City of Hays

City Commission

Work Session Notes

Thursday, July 2, 2015 – 6:30 p.m.

Present: Eber Phelps, Shaun Musil, James Meier, Lance Jones, John Bird, Toby Dougherty and Kim Rupp

Absent: Henry Schwaller IV

June 18, 2015 Work Session Notes

There were no corrections or additions to the minutes of the work session held on June 18, 2015; the minutes stand approved as presented.

HDR Professional Contract Amendment to meet SRF Terms and Conditions of Service

Planning is in motion for the upgrade and reconstruction of the Wastewater Facility. Preliminary estimates indicate the total cost to be $30,000,000. The Kansas State Revolving Loan Fund is the most cost effective option to fund this project. Given that fund includes federal dollars, there are many requirements to be met to file an application for the State Revolving Fund (SRF) Loan.

In order to apply for the SRF Loan an amendment must be made to the professional contract with HDR Engineering, Inc., the City's Owner Representative for this project, to meet the City's terms and conditions of the Revolving Fund Loan. There is no adjustment to HDR's fees or increase in contracted costs.

At the July 9, 2015 Commission meeting, Commissioners will be requested to approve the amendment to HDR's professional contract to meet SRF terms and conditions of service provided.

Resolution for Signature Authorization for SRF Loan Application/Forms Pertaining to Wastewater Facility Project

In order for the City to keep the wastewater treatment plant project running smoothly and without delay, HDR Engineering, Inc., the Owner Representative for this project, has recommended that a city representative be designated to sign the appropriate loan application and all other forms associated with the project.

At the July 9, 2015 Commission meeting, Commissioners will be requested to approve a resolution authorizing the City Manager to sign the SRF loan application and all other forms and documents associated with the wastewater plant project.

Set Public Hearing Date for Wastewater Facility Plan Review to Meet SRF Terms and Conditions

Another requirement in applying for a State Revolving Loan to fund the Wastewater Facility upgrade is to hold a public hearing to review with the public the purpose and recommendations of the Wastewater Facility Plan.

At the July 9, 2015 Commission meeting, Commissioners will be requested to set a public hearing date of August 13, 2015 to review with the public the purpose and recommendations of the Wastewater Facility Plan.

Tallgrass Addition Phase 5 – Benefit District Resolution

In February 2015, TG Investments, LLC petitioned the City for street, storm sewer, water, and sanitary sewer improvements to an area containing 33 lots in the Tallgrass Addition within the City of Hays to be financed through a special benefit district.

Bids were received for Phase 5 of the Tallgrass Addition on June 3, 2015. Bids received exceeded the total project cost included in the petition submitted by the developer in February. The developer feels the project costs are representative of the current market conditions and wants to proceed with the

project; therefore, they have submitted a new petition with a total project cost that reflects the higher construction cost.

At the July 9, 2015 Commission meeting, Commissioners will be requested to approve a Resolution authorizing the creation of a special benefit district for infrastructure improvements for the development of 33 lots along East 17th Street, Tallgrass Drive, and Prairie Run Court within the Tallgrass Addition.

Tallgrass Addition Phase 5 – Award of Bid

The previous agenda item addressed the resubmission of a petition for improvements to Phase 5 of the Tallgrass Addition. Even though the lowest bid for construction was higher than the original petition amount and the engineer's estimate, the developer (TG Investments) wants to proceed with the project. City staff recommends awarding a contract to the low bidder J Corp in the amount of $1,011,458 for construction of street, water, storm water, and sanitary sewer improvements within the Tallgrass Addition, Phase 5.

In accordance with the City's Development Policy, the City is responsible for the cost of oversizing infrastructure. The City's share of sanitary sewer oversizing is $14,650 to be funded out of Water/Sewer Capital and the City's share for street oversizing is $56,850 to be funded out of the City Commission Capital Reserve.

At the July 9, 2015 Commission meeting, Commissioners will be requested to authorize the City Manager to enter into a contract with J Corp in the amount of $1,011,458 for construction of street, water, storm water, and sanitary sewer improvements within the Tallgrass Addition, Phase 5.

Vehicle Abatement – 1406 Allen Street

The abandoned vehicle located in the driveway at 1406 Allen Street has expired tags therefore deeming it inoperable. Up to this point, all proper notification has been given to the owner of the property. To date, no action has been taken by the owner of the property. If the vehicle is removed by the City, all costs of abatement will be charged to the owner of the property.

At the July 9, 2015 Commission meeting, Commissioners will be requested to approve the resolution to abate the vehicle located on the property at 1406 Allen Street.

Vehicle Abatement – 300 East 24th Street

The abandoned vehicle located in the front driveway at 300 E 24th Street has expired tags therefore deeming it inoperable. Up to this point, all proper notification has been given to the owner of the property. To date, no response has been received and no action has been taken by the owner of the property. If the vehicle is removed by the City, all costs of abatement will be charged to the owner of the property.

At the July 9, 2015 Commission meeting, Commissioners will be requested to approve the resolution to abate the vehicle located on the property at 300 E 24th Street.

Vehicle Abatement – 300 East 25th Street

The abandoned vehicle located in the front driveway at 300 E 25th Street has expired tags and multiple flat tires therefore deeming it inoperable. Up to this point, all proper notification has been given to the owner of the property. To date, no response has been received and no action has been taken by the owner of the property. If the vehicle is removed by the City, all costs of abatement will be charged to the owner of the property.

At the July 9, 2015 Commission meeting, Commissioners will be requested to approve the resolution to abate the vehicle located on the property at 300 E 25th Street.

Removal of One-way Street Designation for 6th and 7th Streets

6th and 7th Streets have been designated as one-way streets for well over 50 years. The original thinking of converting the streets to one-way was to increase the carrying capacity of each street into and away from the Fort Hays State University campus. The City Commission last discussed the possibility of

removing the one-way designation in 2007, and after two work sessions, it was determined no changes were warranted. Commissioner Jones recently asked City staff to place discussion of the removal of the one-way designation on the work session agenda for the City Commission to discuss.

City staff looked at traffic patterns, parking requirements, accident rates, street widths, and spoke with Fort Hays State University to get input on the matter. It is staff's determination that the one-way designation could be removed from 7th Street with no interference and no further issues resulting. City staff does feel the one-way designation should remain in place for 6th Street as it is a narrower street, and parking would need to be removed in certain sections to ensure smooth traffic flow.

Commissioner Jones stated he is not a fan of one-way streets, especially if they are wide enough to drive two ways.

City Manager Toby Dougherty stated 6th Street provides a good one way exit from campus after games and big events and it is a quick way to disperse traffic.

The Commissioners will discuss the topic at a future work session after input is gathered from residents.

Other Items for Discussion

Commissioner Musil asked that citizens be considerate of their neighbors when shooting fireworks.

Chairperson Phelps wished Assistant City Manager Paul Briseno well as he takes a new position in Nebraska.

Executive Session

James Meier moved, Shaun Musil seconded, that the Governing Body recess to executive session at 7:32 p.m. for 10 minutes to discuss matters pertaining to attorney-client privileged litigation. The executive session included the Commissioners, the City Manager, and the City Attorney. K.S.A. 75-4319

authorizes the use of executive session to discuss the topics stated in the motion.

Vote: Ayes: Eber Phelps
Shaun Musil
James Meier
Lance Jones

No action was taken during executive session.

The work session was adjourned at 7:42 p.m.

Submitted by: _____

Brenda Kitchen – City Clerk

Commission Work Session Agenda Memo

From: Kim Rupp, Director of Finance

Work Session: July 16, 2015

Subject: Sewer Rate Study/Adjustment

Person(s) Responsible: Kim Rupp, Director of Finance
Patty Kettles, VP, Springsted

Summary

Environmental restrictions at the City Sewer treatment facility, aging infrastructure and lack of funding for annual sewer capital maintenance repairs and rehabilitation and the insufficient user rates to fund such requirements prompted the need for a Sewer Rate Study. Springsted Inc was contracted to conduct a comprehensive study to determine the rate increases needed to support the above needs. Patty Kettles, VP with Springsted Inc will make a presentation at the work session outlining the study and its recommendation. City staff is recommending the monthly sewer base and volumetric user rates should be increased 17% August 1, 2015, 15.5% annually 2016-2020 and 12.0% in 2021.

Background

Current environmental restrictions from the Kanas Department of Health and Environment (KDHE) have caused the need for the reconstruction of the city's waste water treatment facility. The owner representative for the project, HDR, is providing consulting services, integrated project delivery, wastewater treatment engineering and construction monitoring. Their preliminary estimates have reached $30M. The KDHE permitting process requires that the new facility be operational by January 1, 2018 and fully implemented by July 1, 2018.

Additionally, through an extensive research project using the Stong Towns initiative, city staff has discovered that the current waste water collection infrastructure is grossly underfunded. It was determined that the city should be spending approximately $1M per year for annual sewer capital maintenance and repairs as well as manhole rehabilitation and collection system repairs.

The current base and volumetric charges for the sewer utility is one of the lowest in the state and is insufficient to fund the needed reconstruction and maintenance as outlined above. Therefore, city staff contracted with and a sewer rate study was conducted by Springsted Inc.

Discussion

Springsted Inc has become a top municipal advisor in Kansas. They have served Kansas communities for over 25 years including Wichita, Sedgwick County, Johnson County, Lawrence, Manhattan, Pittsburg, Newton and Baldwin City. Their approach in the rate study included: 1) An understanding of the utility's cash flow requirements over the course of the fiscal year; 2) Establishing adequate levels of cash reserves; 3) Integration of projected new utility debt into the City's overall debt management plan; and 4) Effectively communicating a level of financial management to the credit rating agencies.

Legal Consideration

There are no known legal obstacles to moving forward as staff has recommended.

Financial Consideration

This study was undertaken to review and analyze the City's sewer utility to determine the appropriate rate structure needed to pay for anticipated operating expenditures, to provide for anticipated capital improvements, to provide operating cash flow, and to ensure an adequate level of cash reserves.

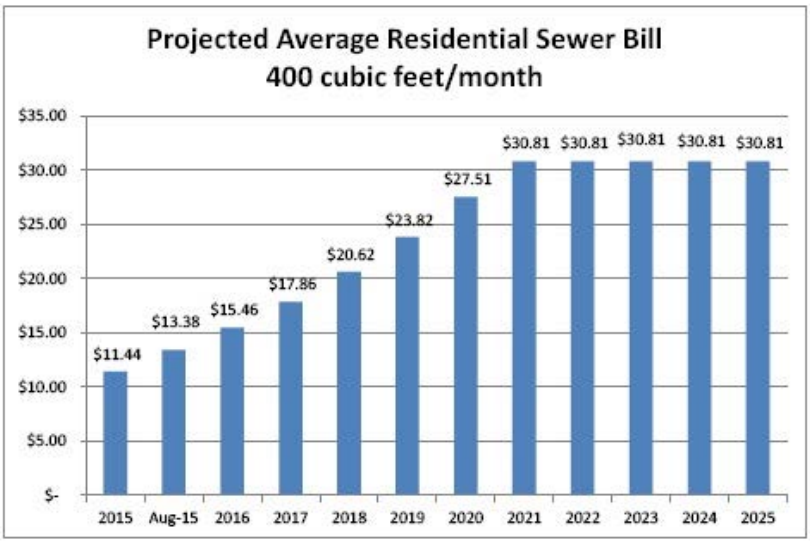
The following conclusions were determined as a result of this study and the financial projections prepared:

1. Operating income in the sewer fund has been positive the last three years, but has decreased since 2012.
2. The minimum cash position in any given year shall be $500,000 once the water and sewer funds are split.
3. Monthly sewer user rates should be increased 17% August 1, 2015, 15.5% annually 2016-2020 and 12% in 2021.

These rate increases are needed to fund anticipated cash needs including:

*operating and maintenance expenses
*current and proposed debt service requirements
*capital improvements
*cash reserves for future operations and capital improvements

Below are charts illustrating the projected average residential bill over the period of increases as well as a comparison to cities in Kansas.



Average Residential Monthly Charges

cubic ft	*400*
Hays-2015	$ 11.44
Hays-August 2015	$ 13.38
Emporia	$ 21.82
Junction City	$ 25.00
Pittsburg	$ 25.46
Prairie Village	$ 26.96
Hays-2021	$ 30.81
Newton	$ 42.07

Review of the sufficiency of the rates on an annual basis concurrent with the development of each year's budget will be conducted based upon actual performance and on the final construction costs of the anticipated capital improvements.

Options

The City Commission has the following options:

- Do nothing
- Implement base and volumetric sewer charges based on the Springsted rate study
- Provide other direction

Recommendation

City staff recommends the monthly sewer base and volumetric user rates should be increased 17% August 1, 2015, 15.5% annually 2016-2020 and 12.0% in 2021.

Action Requested

Approve the resolution increasing monthly sewer base and volumetric user rates 17% on August 1, 2015, 15.5% annually 2016-2020 and 12.0% in 2021 with the option to resolution out of the foregoing schedule for some other rate schedule determined at that time.

Supporting Documentation

Springsted Inc Sewer Rate Study – Final Report
Resolution

Final Report

City of Hays, Kansas

Sewer Rate Study

June 29, 2015

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www.springsted.com

LETTER OF TRANSMITTAL

June 29, 2015

Mr. Kim Rupp, Director of Finance
Mr. Bernie Kitten, Director of Utilities
City of Hays
P.O. Box 490
Hays, KS 67601

Re: **Summary of Sewer Rate Study**

Dear Mr. Rupp and Mr. Kitten:

Springsted Incorporated was hired to perform a water and sewer utility rate study for the City of Hays. Upon award of the project, the City indicated that they would like to proceed with the Sewer Rate Study first. Therefore, although the City currently accounts for both the Water and Sewer Utilities in one fund, this report addresses only sewer operations at this time. This Study includes a review of the past performance of the Sewer Utility, determines the adequacy of sewer revenues, and provides rate recommendations which reflects recent cost experience as well as anticipated capital improvement costs of the Sewer Utility.

We appreciate the opportunity to conduct the Sewer Rate Study for the City of Hays.

Respectfully submitted,

Tom Kaleko

Tom Kaleko, Senior Vice President
Client Representative

Patty Kettles

Patty Kettles, Vice President
Consultant

1. Executive Summary

This report was prepared to review the financial performance of the City of Hays's current Sewer Utility and determine the appropriate rate structure and other revenue needed to adequately fund operations through 2025. The process involved the projection of sewer revenues and expenditures and included incorporating the Utilities' plans for capital improvements into the financial projections.

The financial projections began with the Sewer Fund expenditures; subsequently, revenues were adjusted to provide the recommended income, cash flow, and level of ending cash balances. We recommend the City strive to meet the following minimum cash reserve goals in the Sewer Fund:

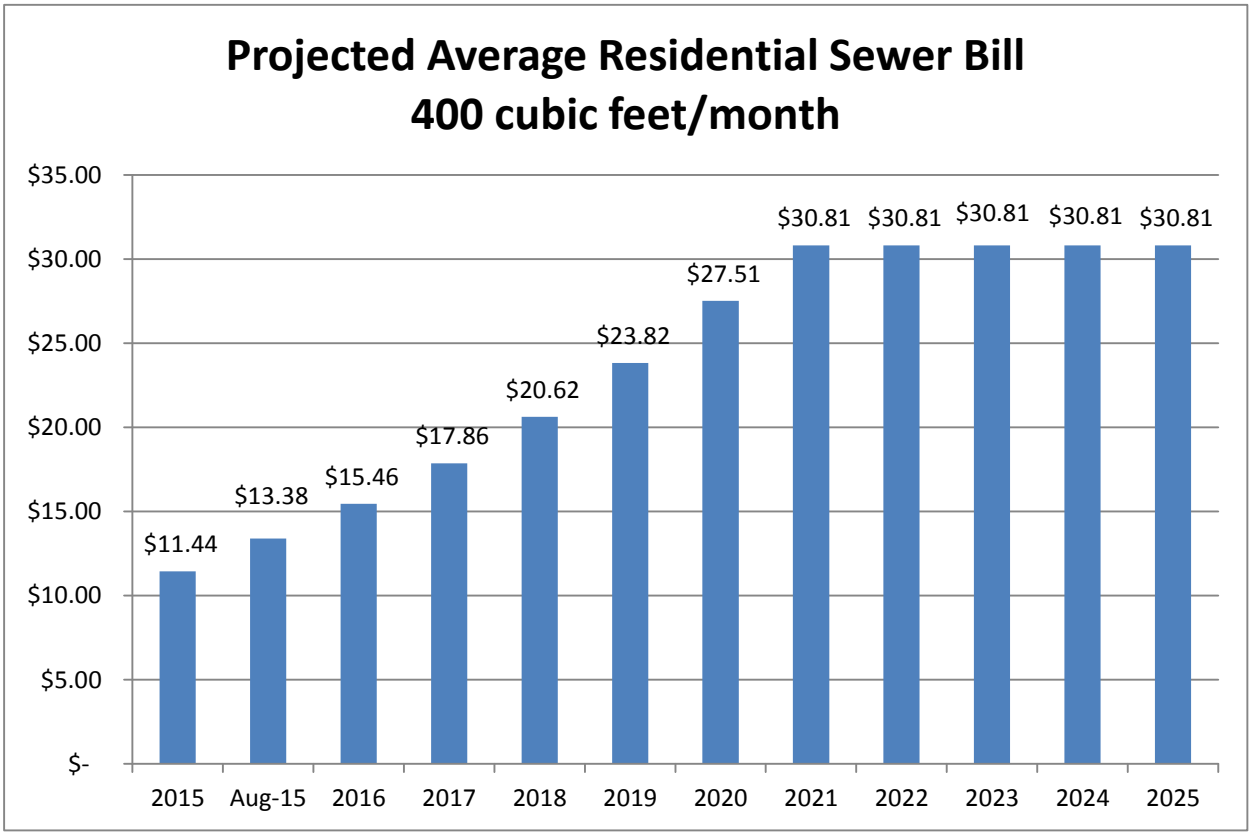
- at least three months of anticipated operating expenses and
- one year's debt service

Upon discussions with City staff, they expressed a smaller reserve of $500,000 would be sufficient and would allow the City to minimize the impacts on sewer rates (the recommended reserve would be approximately $2.7 million based on the current wastewater treatment plant bonding estimates). The City is projected to meet their reserve target over the entire 10-year planning period with the rates recommended in this report. Once the City separates the Water and Sewer Fund, they should ensure the cash does not fall below the restricted cash balance in any given year.

With the proposed $36.2 million in projected capital outlay through 2025, the City will need to increase sewer rates. We believe the City is among a small minority of communities that are taking a proactive approach to addressing aging infrastructure and extensive replacement costs through the Strong Towns initiative. By doing so the City will incur rate increases, but is preparing for a stable future for Hays' rate payers.

In order to satisfy the goals stated above and minimize the impact on user rates, we recommend the City consider a combination of the Pay-As-You-Go (cash) and Pay-As-You-Use (debt) methods of financing. We recommend the City increase sewer rates 17% on August 1, 2015, 15.5% annually 2016 through and including 2020 and 12.0% in 2021.

Cities often compare their sewer rates with surrounding cities or cities with similar community characteristics. The comparison reflects a residential user, using 400 cubic feet per month. As shown in the table on the following page, the City's current rates are lowest of the group. If the City increases rates 17% August 1, 2015, an average residential user would see an increase of $1.94 per month. In 2021, when the annual rate increases are projected to end, the City of Hays would be second highest; assuming none of the comparison communities raises rates between now and 2021. When the other communities begin to address asset replacement needs, it is highly likely they will move to the higher end of the list.



Average Residential Monthly Charges

cubic ft	*400*
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Prairie Village	$ 26.96
Hays-2021	$ 30.81
Newton	$ 42.07

All recommendations are based on information provided to us and on the assumptions given for the financial projections. The City will need to monitor the performance of the Water and Sewer Utilities Fund and make any necessary adjustments based upon actual performance and on the actual construction costs of the anticipated capital improvements.

2. Introduction

The purpose of this report is to review and analyze the City of Hays's Sewer Fund to determine the appropriate rate structure and other revenue sources needed for its operation and financing of capital assets. The rate structure and other revenue in each fund must provide sufficient revenue to cover:

- Anticipated operating and maintenance expenses;
- Debt service including principal and interest;
- Capital improvements;
- Replacements; and
- Cash reserves.

The total revenue collected should reflect not only recent cost experience, but should recognize anticipated future costs during the period for which rates are being established.

This report includes:

- A review of the City's historical Water and Sewer Fund revenues and expenditures;
- Our projected split of the Water and Sewer Fund into a separate Water Fund and a separate Sewer Fund, from which our financial projections and rate recommendations are based;
- A projection of revenues and expenditures through 2025 (incorporating the City's plans for capital improvements); and
- A determination of the rates and charges necessary to fund estimated future capital and operational costs.

3. Background

The City of Hays, which is located in Ellis County, in northwest Kansas at the crossroads of Interstate 70 and US Highway 183, provides approximately 7,800 residential commercial accounts with sewer service. The City encompasses approximately 8.0 square miles and had a 2010 Census population of 20,510 persons. The Census estimates the 2013 population to have grown to 21,038.

The City of Hays currently owns and operates a wastewater treatment facility with capacity of 2.8 million gallons per day (mgd) although total the plant treats approximately 1.8 mgd. Current environmental restrictions have caused the need for a new wastewater treatment plant that will meet all effluent standards. The City is in the process of procuring an engineer to begin the design-build process of a new 2.8 mgd wastewater treatment facility.

The City of Hays also serves approximately 10 accounts located outside of the City as well as Big Creek Improvement District #1 and the Prairie Acres Improvement District.

Historical Sewer Usage Patterns

The City provided the UB Charge Proof/Register for July 2014 and January 2015 wastewater accounts and wastewater treated. We completed a detailed analysis of this information and used this analysis to compare the total use of Residential, two Sewer Districts, and all other users, which were primarily labeled business accounts. As the first table below shows residential users account for approximately 48% of flow, Sewer Districts account for approximately 9% of users and the remaining users account for 43%.

	Jul-14	Jan-15	
Total Use:			
"Sewer Average" (Residential)	3,100,800	3,205,800	48%
Sewer Districts	613,566	602,811	9%
All Other	2,577,726	2,816,549	43%
total cf	6,292,092	6,625,160	
total gal	47,064,851	49,556,196	
annualized	564,778,207	594,674,351	

The data in the table on the following page is also generated from the same reports, but looks at the dollars collected from the same three user groups. Residential users account for approximately 45% of total dollars collected in January 2015, Sewer Districts account for approximately 13% of total dollars collected in January 2015 and the remaining users account for 42%. Generally if revenues collected fall within 5-10% of consumption, we assume rates are equitable. The data for the City of Hays shows the largest difference between

consumption and revenues is 4% within the Sewer Districts, which is not uncommon because they are being charged a higher rate. Therefore, we assume the City's system of sewer charges is equitable amongst the various user classes.

	Jul-14	**Jan-15**	
Total Dollars:			
"Sewer Average" (Residential)	$ 84,317	$ 86,618	45%
Sewer Districts	$ 23,684	$ 25,133	13%
All Other	$ 71,727	$ 79,715	42%
Totals	$ 179,728	$ 191,466	
annualized	$2,156,731	$ 2,297,588	
2015 budget	*$ 2,117,682*		
**assumes dollars shown include minimum charges*			

Division of Water & Sewer Fund

The City currently combines the financial operations of the Water and Sewer operations into one audited fund; the Water and Sewer Fund. In order to make separate rate recommendations for water and sewer activity, we attempted to split the 2015 budget and prior year's history using the following assumptions:

Revenue Categories

- Penalty and Miscellaneous Revenue – 50% sewer / 50% water
- Sewer Service Charges - 100% sewer
- Interest on Investments – 0.5% based on assumed cash balances
- All other revenues – 100% water

Expenditure Categories

- Wastewater Treatment & Collection – 100% sewer
- Water Production and Distribution and Water Conservation – 100% water
- Debt Service – based on projected funded in the 2009A bond issue – 35% sewer / 65% water
- Contingency – 50% sewer / 50% water
- Transfer to General Fund and Transfer to Employee Benefit – 40% sewer / 60% water (based primarily on the ratio of direct wastewater operating costs to water costs as

well as Salaries, Overtime and Seasonal/Part Time expenditure line items for sewer versus water)

- Transfer to New Equipment Reserve- 30% sewer / 70% water (based on auditor's information)
- Transfer to Capital Improvement – based on CIP
- All other Non-Operating items – 100% water

The Unrestricted ending cash position was split 50/50 and the restricted cash was split 30% sewer and 70% water based on the auditor's recommendations. The ending 2014 total cash split is used as the basis for our forward projections and sewer rate recommendations. The ending 2014 Sewer Fund cash/beginning 2015 cash is projected to be $1,865,237.

Water and Sewer Fund Ending Cash	**2012**	**2013**	**2014**	
Unrestricted:	$ 3,104,331	$ 2,179,210	$ 2,347,956	
Restricted:				
Customer Deposits	$ 211,274	$ 210,868	$ 217,327	
Reserve for Capital Improvements	$ 1,448,662	$ 2,207,094	$ 1,248,298	
Rev Refunding Bonds - 2003 (water)	$ 621,883	$ 588,579	$ -	
2009A Bonds	$ -	$ -	$ 587,869	
Totals	**$ 5,386,150**	**$ 5,185,751**	**$ 4,401,450**	
				split
Water Assets	34,082,530	34,171,214		**70%**
Sewer Assets	11,782,910	11,782,910		**30%**
Sewer Cash - Unrestricted	$ 1,552,166	$ 1,089,605	$ 1,173,978	
Sewer Cash - Restricted	$ 540,236	$ 767,562	$ 691,259	
Sewer Cash - Total	**$ 2,092,401**	**$ 1,857,167**	**$ 1,865,237**	

Sewer Fund Historical Information

A review of the City's most recent financial reports shows the cash balance in the Water and Sewer Fund has grown in recent years. As noted above, the January 1, 2015 projected cash balance is assumed to be $1,865,237 and based on the 2015 budget is projected to result in an ending cash balance of $1,941,753.

The fund has shown positive operating income in all the past and is projected to in the current budget year, although declining from $960,127 in 2012 to a projected $751,391 in 2015. Net income has also been positive in the past three years, varying from an estimated low of $78,449 in 2014 to a high of $400,804 in 2012. Based on our assumed split of the Water and Sewer Fund, net income in the Sewer Fund is budgeted to be $89,177 in 2015.

The following pages illustrate:

- Current sewer rates
- Sewer Fund revenues and expenditures for the past three years and the 2015 budget

Current Sewer Rate Schedule

Sewer Minimum Charge

Meter Size	Inside City Limits	Outside City Limits
5/8"	$5.17	$8.78
¾"	$9.38	$15.93
1"	$13.58	$23.08
1 ½"	$22.00	$37.41
2"	$43.05	$73.18
3"	$64.10	$108.95
4"	$106.19	$180.52
6"	$211.43	$359.42

Sewer Volume Charges (per 100 cubic feet)

Rates Effective January 2015 Billing	Inside City Limits	Outside City Limits
First 100	Included in Minimum	Included in Minimum
All Usage	$2.09	$3.55

Sewer Fund Historical Information

	2012	2013	2014	2015
	Actual	Actual	Estimate	Budget
Charges for Services	2,035,646	2,025,759	2,056,002	2,117,682
Other Revenue	26,994	28,170	17,500	17,500
Total Operating Revenue	**2,062,640**	**2,053,929**	**2,073,502**	**2,135,182**
Operating Expenses				
Salaries	455,267	495,966	475,966	479,308
Professional Services	22,403	28,913	29,035	29,906
Other Contractual Services	35,427	39,278	186,050	186,050
Uniforms	3,243	4,489	4,500	4,500
Equipment Expense	64,284	105,842	92,400	92,400
Communication	2,376	2,965	3,000	3,000
Travel and Training	3,255	3,343	3,500	4,500
Office Supplies	472	671	650	600
General Supplies & Materials	16,799	27,324	27,000	28,000
Utilities	191,555	175,631	200,000	219,555
Chemicals	82,846	58,155	60,000	65,972
Repair & Maintenance	4,341	12,739	55,000	30,000
Depreciation	*220,244*	*228,907*	*235,000*	*240,000*
Total Operating Expenses	**1,102,512**	**1,184,223**	**1,372,101**	**1,383,791**
Operating Income (Loss)	**960,127**	**869,706**	**701,401**	**751,391**
Non Operating Revenues (Expenses)				
Interest Expense Existing Debt				(45,691)
Other Revenue (Expenses)	(11,796)	(24,155)	(25,000)	(25,000)
Total Non Operating Revenues (Expenses)	**(11,796)**	**(24,155)**	**(25,000)**	**(70,691)**
Net Income (Loss) Before Transfers	**948,331**	**845,552**	**676,401**	**680,700**
Operating Transfers				
Transfers In				
Transfers (Out)	(547,527)	(587,170)	(597,952)	(591,524)
Total Operating Transfers	**(547,527)**	**(587,170)**	**(597,952)**	**(591,524)**
Net Income (Loss)	**400,804**	**258,382**	**78,449**	**89,177**
Beginning Cash & Investments				1,865,237
Net Income	-	-	-	89,177
Depreciation	-	-	-	240,000
Amortization				
Acquisition and Construction of Assets		-		(150,000)
Proceeds from New Long-Term Debt				-
Payments on Long-Term Debt				(102,660)
Adjustment to Accruals				-
Ending Cash Balance	**2,092,401**	**1,857,167**	**1,865,237**	**1,941,753**

Cash Reserves

Springsted's clients often ask about the amount of cash that should be available in their Utility funds. Utility funds need sufficient cash to pay current expenses, together with principal and interest on outstanding bonds. This would typically require each Utility fund to have a minimum of three months of anticipated operating expenses and one year's total debt service in cash at the end of each year. However, this does not provide a significant level of cash reserves for unforeseen expenses, emergencies, or to cover any shortfalls in the budget. The amount of cash reserves that the Water and Sewer Funds should maintain is dependent on a number of factors, including:

- Reserves that are legally required
- Variability of the annual revenue stream
- Variability in annual expenditures
- Variability in rainfall
- Age and condition of fixed assets
- Anticipated future capital needs
  - Capital improvement plan
  - Regulatory compliance
- Tolerance for risk
- Number of relatively large customers

Unfortunately, there are no prescribed formulas, and the amount of reserves varies considerably between utilities. We encourage the City to maintain a minimum end of year cash balance in the Water and Sewer Fund of at least three months of anticipated operating expenses and one year's debt service. However, the City provided a directive whereby ending cash will not fall below $500,000 in any given year and of that amount, $150,000 is earmarked for a capital replacement reserve.

Depreciation

Costs incurred in the operation of each Utility are either recorded as operating expenses or capitalized as assets. Whether the cost is expensed immediately or capitalized, the City actually pays for the asset at the time it is acquired. Generally, anything that is used up during the period in which it is acquired is treated as an operating expense. Personnel, supplies, and repairs and maintenance are typical examples of costs that are treated as operating expenses. These costs are shown on the income statement each year in the total amount of the expenditure for each category. The cost incurred in the acquisition or construction of assets such as buildings and major pieces of equipment are capitalized. That means their cost does not show up as an expense on the income statement in the year in which the expenditure occurs, rather the cost of these assets are depreciated. Depreciation is the process of allocating the cost of an asset over its useful life in a systematic and rational manner.

The City currently includes depreciation in its annual budget.

Assumptions

The City provided Springsted with a variety of material including:

- 2012-2013 Financial Reports
- 2015 water and sewer operating budgets
- 2015-2019 capital improvement plan
    - $600,000 for annual sewer maintenance and repair
    - $30 million new wastewater treatment facility
- No projected new growth in sewer usage over the planning period
- Expenditures in the Sewer Fund are expected to increase annually between 2.0%-5.0% based on line items
- Equipment expenses will increase to $404,000 in 2018 when the wastewater treatment plant comes on line per a requirement of obtaining a State Revolving Fund Loan
- Chemical costs will increase to $96,000 per year in 2018 due to the new treatment plant
- Utilities expense will increase to $401,500 per year in 2018 due to the new treatment plant
- 2009A Water and Sewage System Revenue Bonds amortization schedule
- July 2014 and January 2015 Utility Billing Charge Proof/Registers
- Sample bills for various utility customers
- The City will finance the $30.0 million new wastewater treatment plant beginning in 2016 with a low interest loan from Kansas Department of Health and Environment (KDHE) at a rate of 2.25% (Actual interest rate will be based on sixty percent of the previous three months' average "Bond Buyers 20 Index", which in late June 2015 was 2.21%). The first loan payment is projected to be in 2018
- The City is in the preliminary planning process for the new wastewater treatment plant recently hiring an Owner Representative to assist with the planning and completion of the project. Therefore, there are several unknowns at this time so we have not assumed any efficiencies or additional costs to operate the new plant in our projections other than those mentioned above.

We have used this information, as well as discussions with City personnel, as the basis for our projections.

4. Sewer Utility

Sewer Utility Revenue Requirements

Revenue requirements indicate the amount of revenue needed for the City to continue efficient operations as well as maintain an adequate cash balance in the utility. The following pages show the projected operating statement and annual cash balance in the Sewer Utility, assuming no rate increases, over the planning period 2015-2025.

Operating income is projected to become negative in 2018 and remain negative over the planning period. The forecasted ending cash balance is projected to decline from $1,941,753 at the end of 2015 to ($21,819,580) in 2025. Sewer utility projections through 2025 without any rate increases are shown on the following page.

Sewer Utility Financial Projections – NO RATE INCREASES

Projected Rate Adjustment	Projected Change	Calculate	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	2016-2025	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Operating Revenues												
Charges for Services	0.00%	2,117,682	2,117,682	2,117,682	2,117,682	2,117,682	2,117,682	2,117,682	2,117,682	2,117,682	2,117,682	2,117,682
Other Revenue	0.00%	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500
Total Operating Revenue		**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**	**2,135,182**
Operating Expenses												
Salaries	3.00%	479,308	493,687	508,498	523,753	539,465	555,649	572,319	589,488	607,173	625,388	644,150
Professional Services	3.50%	29,906	30,953	32,036	33,157	34,318	35,519	36,762	38,049	39,380	40,759	42,185
Other Contractual Services	2.00%	186,050	189,771	193,566	197,438	201,387	205,414	209,523	213,713	217,987	222,347	226,794
Uniforms	4.00%	4,500	4,680	4,867	5,062	5,264	5,475	5,694	5,922	6,159	6,405	6,661
Equipment Expense	4.00%	92,400	96,096	99,940	404,000	420,160	436,966	454,445	472,623	491,528	511,189	531,636
Communication	3.00%	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032
Travel and Training	4.00%	4,500	4,680	4,867	5,062	5,264	5,475	5,694	5,922	6,159	6,405	6,661
Office Supplies	3.00%	600	618	637	656	675	696	716	738	760	783	806
General Supplies & Materials	4.00%	28,000	29,120	30,285	31,496	32,756	34,066	35,429	36,846	38,320	39,853	41,447
Utilities	3.00%	219,555	226,142	232,926	401,500	413,545	425,951	438,730	451,892	465,449	479,412	493,794
Chemicals	4.00%	65,972	68,611	71,355	96,000	99,840	103,834	107,987	112,306	116,799	121,471	126,329
Repair & Maintenance	5.00%	30,000	31,500	33,075	34,729	36,465	38,288	40,203	42,213	44,324	46,540	48,867
Existing Depreciation		240,000	235,200	230,496	225,886	221,368	216,941	212,602	208,350	204,183	200,099	196,097
New Depreciation		-	3,750	18,750	633,750	648,750	663,750	678,750	693,750	708,750	723,750	738,750
Total Operating Expenses		**1,383,791**	**1,417,897**	**1,464,481**	**2,595,766**	**2,662,635**	**2,731,503**	**2,802,436**	**2,875,501**	**2,950,770**	**3,028,315**	**3,108,211**
Operating Income (Loss)		**751,391**	**717,285**	**670,701**	**(460,584)**	**(527,453)**	**(596,321)**	**(667,254)**	**(740,319)**	**(815,588)**	**(893,133)**	**(973,029)**
Non Operating Revenues (Expenses)												
Investment Income	0.50%	-	9,709	8,395	6,901	-	-	-	-	-	-	-
Interest Expense Existing Debt		(45,691)	(42,868)	(39,575)	(36,012)	(31,998)	(27,559)	(22,745)	(17,592)	(12,091)	(6,230)	-
Interest Expense New Debt		-	-	-	(675,000)	(647,904)	(620,199)	(591,870)	(562,903)	(533,285)	(503,001)	(472,035)
Other		(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Total Non Operating Revenues (Expenses)		**(70,691)**	**(58,159)**	**(56,180)**	**(729,111)**	**(704,902)**	**(672,757)**	**(639,614)**	**(605,495)**	**(570,376)**	**(534,231)**	**(497,035)**
Net Income (Loss) Before Transfers		**680,700**	**659,126**	**614,521**	**(1,189,696)**	**(1,232,355)**	**(1,269,078)**	**(1,306,868)**	**(1,345,815)**	**(1,385,964)**	**(1,427,364)**	**(1,470,064)**
Operating Transfers												
Transfers In		-										
Transfers (Out)		(591,524)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)
Total Operating Transfers		**(591,524)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**
Net Income (Loss)		**89,177**	**204,506**	**159,901**	**(1,644,316)**	**(1,686,975)**	**(1,723,698)**	**(1,761,488)**	**(1,800,435)**	**(1,840,584)**	**(1,881,984)**	**(1,924,684)**
Beginning Cash & Investments		1,865,237	1,941,753	1,679,009	1,380,186	(1,320,266)	(4,085,301)	(6,907,732)	(9,790,930)	(12,736,603)	(15,746,521)	(18,822,517)
Net Income		89,177	204,506	159,901	(1,644,316)	(1,686,975)	(1,723,698)	(1,761,488)	(1,800,435)	(1,840,584)	(1,881,984)	(1,924,684)
Depreciation		240,000	238,950	249,246	859,636	870,118	880,691	891,352	902,100	912,933	923,849	934,847
Amortization		-	-	-	-	-	-	-	-	-	-	-
Acquisition and Construction of Assets		(150,000)	(15,600,000)	(15,600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)
Proceeds from New Long-Term Debt		-	15,000,000	15,000,000	-	-	-	-	-	-	-	-
Payments on New Long-Term Debt			-	-	(1,204,262)	(1,231,358)	(1,259,064)	(1,287,393)	(1,316,359)	(1,345,977)	(1,376,261)	(1,407,227)
Payments on Existing Long-Term Debt		(102,660)	(106,200)	(107,970)	(111,510)	(116,820)	(120,360)	(125,670)	(130,980)	(136,290)	(141,600)	-
Ending Cash Balance		**1,941,753**	**1,679,009**	**1,380,186**	**(1,320,266)**	**(4,085,301)**	**(6,907,732)**	**(9,790,930)**	**(12,736,603)**	**(15,746,521)**	**(18,822,517)**	**(21,819,580)**

Capital Outlay

To determine the appropriate fees and rates needed for the operation of the Sewer Fund over the planning period, we have projected future revenue and expenditures and we have incorporated the anticipated future capital outlay needs provided by the City. These capital costs and their projected source of funding are shown in the table below.

	Utility Fund	G.O. Revenue Bonds	Totals
2015	150,000	-	150,000
2016	600,000	-	600,000
2017	600,000	30,000,000	30,600,000
2018	600,000	-	600,000
2019	600,000	-	600,000
2020	600,000	-	600,000
2021	600,000	-	600,000
2022	600,000	-	600,000
2023	600,000	-	600,000
2024	600,000	-	600,000
2025	600,000	-	600,000
Total	**6,150,000**	**30,000,000**	**36,150,000**

The detailed capital projects and their assumed financing sources are shown in the table below.

Year	Project	Utility Fund	G.O. Revenue Bonds	Totals
2016	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2017	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2018	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2019	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2020	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2021	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2022	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2023	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2024	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2025	Annual Sewer Capital Maintenance & Repairs	300,000		300,000
2015	Manhole Rehab and Collection System Repairs	150,000		150,000
2016	Manhole Rehab and Collection System Repairs	300,000		300,000
2017	Manhole Rehab and Collection System Repairs	300,000		300,000
2018	Manhole Rehab and Collection System Repairs	300,000		300,000
2019	Manhole Rehab and Collection System Repairs	300,000		300,000
2020	Manhole Rehab and Collection System Repairs	300,000		300,000
2021	Manhole Rehab and Collection System Repairs	300,000		300,000
2022	Manhole Rehab and Collection System Repairs	300,000		300,000
2023	Manhole Rehab and Collection System Repairs	300,000		300,000
2024	Manhole Rehab and Collection System Repairs	300,000		300,000
2025	Manhole Rehab and Collection System Repairs	300,000		300,000
2017	New WWTP		30,000,000	30,000,000
	Totals	**6,150,000**	**30,000,000**	**36,150,000**

Sewer Utility Financial Projections

The financial projections assumed the City would maintain a minimum cash balance in the Sewer Fund of $500,000 or the prior years restricted cash balance shown in the audited financial reports.

To determine the appropriate user rates needed for the repayment of debt service and operation of the Sewer Fund, we have projected future revenue and expenditures and have incorporated the anticipated future capital outlay needs for the time period covered by this study.

The financial projections began with the Sewer Fund expenditures; subsequently, revenues were adjusted to provide the recommended income, cash flow, and level of ending cash balances. Our expenditure projections are generally based on an analysis of past trends, anticipated changes in operations, and our significant experience in preparing sewer rate studies.

Increases for the expenditure projections were developed based on City Staff projections while adjusting for exceptions for specific line items.

In order to have sufficient revenue for the operation of the Sewer Fund, we determined the City's sewer rates should be increased 17% August 1, 2015, 15.5% annually 2016-2020 and 12.0% in 2021. The August 2015 proposed increases would increase the average residential user's sewer bill approximately $1.94 per month.

The financial projections, assuming the projected rates are adopted August 1, 2015 and then January 1 thereafter is shown on the following pages. The cash balance in the Sewer Fund is projected to go from $2,091,756 at the end of 2015 to $1,135,857 at the end of 2025.

We recommend the City establish sewer rates on a three to five year basis. The rates should be reviewed on an annual basis concurrent with the development of following year's budget. In particular, once the City has further defined the capital and operating costs associated with the new wastewater treatment plant, rates should be reviewed.

Sewer Utility Financial Projections

		17% Aug 1										
Projected Rate Adjustment	**Projected Change 2016-2025**	***Calculate***	**15.50%**	**15.50%**	**15.50%**	**15.50%**	**15.50%**	**12.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
		2015	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Operating Revenues												
Charges for Services	**0.00%**	2,267,684	2,619,176	3,025,148	3,494,046	4,035,623	4,661,144	5,220,482	5,220,482	5,220,482	5,220,482	5,220,482
Other Revenue	**0.00%**	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500	17,500
Total Operating Revenue		**2,285,184**	**2,636,676**	**3,042,648**	**3,511,546**	**4,053,123**	**4,678,644**	**5,237,982**	**5,237,982**	**5,237,982**	**5,237,982**	**5,237,982**
Operating Expenses												
Salaries	**3.00%**	479,308	493,687	508,498	523,753	539,465	555,649	572,319	589,488	607,173	625,388	644,150
Professional Services	**3.50%**	29,906	30,953	32,036	33,157	34,318	35,519	36,762	38,049	39,380	40,759	42,185
Other Contractual Services	**2.00%**	186,050	189,771	193,566	197,438	201,387	205,414	209,523	213,713	217,987	222,347	226,794
Uniforms	**4.00%**	4,500	4,680	4,867	5,062	5,264	5,475	5,694	5,922	6,159	6,405	6,661
Equipment Expense	**4.00%**	92,400	96,096	99,940	404,000	420,160	436,966	454,445	472,623	491,528	511,189	531,636
Communication	**3.00%**	3,000	3,090	3,183	3,278	3,377	3,478	3,582	3,690	3,800	3,914	4,032
Travel and Training	**4.00%**	4,500	4,680	4,867	5,062	5,264	5,475	5,694	5,922	6,159	6,405	6,661
Office Supplies	**3.00%**	600	618	637	656	675	696	716	738	760	783	806
General Supplies & Materials	**4.00%**	28,000	29,120	30,285	31,496	32,756	34,066	35,429	36,846	38,320	39,853	41,447
Utilities	**3.00%**	219,555	226,142	232,926	401,500	413,545	425,951	438,730	451,892	465,449	479,412	493,794
Chemicals	**4.00%**	65,972	68,611	71,355	96,000	99,840	103,834	107,987	112,306	116,799	121,471	126,329
Repair & Maintenance	**5.00%**	30,000	31,500	33,075	34,729	36,465	38,288	40,203	42,213	44,324	46,540	48,867
Existing Depreciation		240,000	235,200	230,496	225,886	221,368	216,941	212,602	208,350	204,183	200,099	196,097
New Depreciation		-	3,750	18,750	633,750	648,750	663,750	678,750	693,750	708,750	723,750	738,750
Total Operating Expenses		**1,383,791**	**1,417,897**	**1,464,481**	**2,595,766**	**2,662,635**	**2,731,503**	**2,802,436**	**2,875,501**	**2,950,770**	**3,028,315**	**3,108,211**
Operating Income (Loss)		**901,393**	**1,218,778**	**1,578,167**	**915,779**	**1,390,488**	**1,947,141**	**2,435,546**	**2,362,480**	**2,287,212**	**2,209,667**	**2,129,771**
Non Operating Revenues (Expenses)												
Investment Income	**0.50%**	-	10,459	11,656	14,716	8,134	3,940	2,564	3,675	4,479	4,966	5,125
Interest Expense Existing Debt		(45,691)	(42,868)	(39,575)	(36,012)	(31,998)	(27,559)	(22,745)	(17,592)	(12,091)	(6,230)	-
Interest Expense New Debt		-	-	-	(675,000)	(647,904)	(620,199)	(591,870)	(562,903)	(533,285)	(503,001)	(472,035)
Other		(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)	(25,000)
Total Non Operating Revenues (Expenses)		**(70,691)**	**(57,409)**	**(52,919)**	**(721,297)**	**(696,768)**	**(668,818)**	**(637,050)**	**(601,820)**	**(565,897)**	**(529,265)**	**(491,910)**
Net Income (Loss) Before Transfers		**830,703**	**1,161,369**	**1,525,248**	**194,483**	**693,720**	**1,278,324**	**1,798,496**	**1,760,660**	**1,721,315**	**1,680,402**	**1,637,861**
Operating Transfers												
Transfers In		-										
Transfers (Out)		(591,524)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)	(454,620)
Total Operating Transfers		**(591,524)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**	**(454,620)**
Net Income (Loss)		**239,179**	**706,749**	**1,070,628**	**(260,137)**	**239,100**	**823,704**	**1,343,876**	**1,306,040**	**1,266,695**	**1,225,782**	**1,183,241**

Sewer Utility Financial Projections (cont.)

Projected Cash Balance in the Sewer Fund

		17% Aug 1										
Projected Rate Adjustment	**Projected Change**	*Calculate*	**15.50%**	**15.50%**	**15.50%**	**15.50%**	**15.50%**	**12.00%**	**0.00%**	**0.00%**	**0.00%**	**0.00%**
	2016-2025	**2015**	**2016**	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**	**2024**	**2025**
Beginning Cash & Investments		1,865,237	2,091,756	2,331,255	2,943,159	1,626,885	787,926	512,897	735,063	895,864	993,225	1,024,996
Net Income		239,179	706,749	1,070,628	(260,137)	239,100	823,704	1,343,876	1,306,040	1,266,695	1,225,782	1,183,241
Depreciation		240,000	238,950	249,246	859,636	870,118	880,691	891,352	902,100	912,933	923,849	934,847
Amortization		-	-	-	-	-	-	-	-	-	-	-
Acquisition and Construction of Assets		(150,000)	(15,600,000)	(15,600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)	(600,000)
Proceeds from New Long-Term Debt		-	15,000,000	15,000,000	-	-	-	-	-	-	-	-
Payments on New Long-Term Debt			-	-	(1,204,262)	(1,231,358)	(1,259,064)	(1,287,393)	(1,316,359)	(1,345,977)	(1,376,261)	(1,407,227)
Payments on Existing Long-Term Debt		(102,660)	(106,200)	(107,970)	(111,510)	(116,820)	(120,360)	(125,670)	(130,980)	(136,290)	(141,600)	-
Ending Cash Balance		**2,091,756**	**2,331,255**	**2,943,159**	**1,626,885**	**787,926**	**512,897**	**735,063**	**895,864**	**993,225**	**1,024,996**	**1,135,857**

5. Rate Impacts on Various Bills

The monthly bills for various users selected by the City are shown below. The change between 2015 and 2016 assumes current 2015 rates, a 17% rate increase August 1, 2015 and a 15.5% increase on January 1, 2016.

Various Monthly Bills

	2015	2016	
User 1 - Residential 3/4" Meter			
Usage:	433	433	
Minimum Charge	$ 9.38	$ 12.68	
User Charge	$ 6.97	$ 9.41	
Total	$ 16.35	$ 22.09	$ 5.74
User 2 - Residential 5/8" Meter			
Usage:	367	367	
Minimum Charge	$ 5.17	$ 6.99	
User Charge	$ 5.57	$ 7.53	
Total	$ 10.74	$ 14.52	$ 3.77
User 3 - Business 1" Meter			
Usage:	4,500	4,500	
Minimum Charge	$ 13.58	$ 18.35	
User Charge	$ 91.96	$ 124.27	
Total	$ 105.54	$ 142.62	$ 37.08
User 4 - Business 5/8" Meter			
Usage:	300	300	
Minimum Charge	$ 5.17	$ 6.99	
User Charge	$ 4.18	$ 5.65	
Total	$ 9.35	$ 12.64	$ 3.29

	2015	2016	
User 5 - Business 6" Meter			
Usage:	164,500	164,500	
Minimum Charge	$ 211.43	$ 285.72	
User Charge	$ 3,435.96	$ 4,643.18	
Total	$ 3,647.39	$ 4,928.90	$ 1,281.51
User 6 - Multi-Unit Housing (8 units)			
Usage:	1,400	1,400	
Minimum Charge	$ 41.36	$ 55.89	
User Charge	$ 12.54	$ 16.95	
Total	$ 53.90	$ 72.84	$ 18.94
User 7 - Multi-Unit Housing (12 units)			
Usage:	2,600	2,600	
Minimum Charge	$ 62.04	$ 83.84	
User Charge	$ 29.26	$ 39.54	
Total	$ 91.30	$ 123.38	$ 32.08

6. Conclusions and Recommendations

This study was undertaken to review and analyze the City's Sewer Utility to determine the appropriate rate structure needed to pay for anticipated operating expenditures, to provide for anticipated capital improvements, to provide operating cash flow, and to ensure an adequate level of cash reserves.

The following conclusions were determined as a result of this study and the financial projections prepared:

1. Operating income in the Sewer Fund has been positive the last three years, but has decreased from $960,127 in 2012 to a budgeted $751,391 in 2015.
2. The City should maintain a minimum cash balance in the Sewer Fund. The City's indicated the minimum cash position in any given year shall be $500,000. This amount should not go below the restricted cash levels in the prior years' audited financial statements once the Water and Sewer Fund is split into separate funds.
3. Monthly water user rates should be increased 17% August 1, 2015, 15.5% annually 2016-2020 and 12.0% in 2021. Recommended rates through 2019 are:

Sewer Minimum Charge					
Meter Size: (inside City Limits)	**2015**	**2016**	**2017**	**2018**	**2019**
5/8"	$ 5.17	$ 5.97	$ 6.90	$ 7.97	$ 9.20
3/4"	$ 9.38	$ 10.83	$ 12.51	$ 14.45	$ 16.69
1"	$ 13.58	$ 15.68	$ 18.12	$ 20.92	$ 24.17
1 1/2"	$ 22.00	$ 25.41	$ 29.35	$ 33.90	$ 39.15
2"	$ 43.05	$ 49.72	$ 57.43	$ 66.33	$ 76.61
3"	$ 64.10	$ 74.04	$ 85.51	$ 98.77	$ 114.07
4"	$ 106.19	$ 122.65	$ 141.66	$ 163.62	$ 188.98
6"	$ 211.43	$ 244.20	$ 282.05	$ 325.77	$ 376.27
Meter Size: (outside City Limits)	**2015**	**2016**	**2017**	**2018**	**2019**
5/8"	$ 8.78	$ 10.14	$ 11.71	$ 13.53	$ 15.63
3/4"	$ 15.93	$ 18.40	$ 21.25	$ 24.54	$ 28.35
1"	$ 23.08	$ 26.66	$ 30.79	$ 35.56	$ 41.07
1 1/2"	$ 37.41	$ 43.21	$ 49.91	$ 57.64	$ 66.58
2"	$ 73.18	$ 84.52	$ 97.62	$ 112.76	$ 130.23
3"	$ 108.95	$ 125.84	$ 145.34	$ 167.87	$ 193.89
4"	$ 180.52	$ 208.50	$ 240.82	$ 278.15	$ 321.26
6"	$ 359.42	$ 415.13	$ 479.48	$ 553.79	$ 639.63

Cubic Feet of Water Used:	2015	2016	2017	2018	2019
Inside City Limits					
First 100 cf	Incl. in Minimum	Incl. in Minimum	Incl. in Minimum	Incl. in Minimum	Incl. in Minimum
>100 cf	$ 2.09	$ 2.41	$ 2.79	$ 3.22	$ 3.72
Cubic Feet of Water Used:	**2015**	**2016**	**2017**	**2018**	**2019**
Outside City Limits					
First 100 cf	Incl. in Minimum	Incl. in Minimum	Incl. in Minimum	Incl. in Minimum	Incl. in Minimum
>100 cf	$ 3.55	$ 4.10	$ 4.74	$ 5.47	$ 6.32
Based on average winter billing (Jan, Feb and March of current year)					
Flat Rate:	**2015**	**2016**	**2017**	**2018**	**2019**
Inside City	$ 24.65	$ 28.47	$ 32.88	$ 37.98	$ 43.87
Outside City	$ 41.89	$ 48.38	$ 55.88	$ 64.54	$ 74.55

These rate increases are needed to fund anticipated cash needs, including:

- Operating and maintenance expenses;
- Debt service including principal and interest
- Capital improvements; and
- Cash reserves for future operations and capital improvements.

4. The City should establish the user rates for the Sewer fund for a three to five-year period, reviewing the sufficiency of the rates on an annual basis concurrent with the development of each year's budget. Particular attention should be paid to rates upon further definition of the new wastewater treatment plant capital and operating costs.

As noted earlier, these recommendations are based on information provided to us by City of Hays. The City will need to monitor the performance of the Sewer Fund and make any necessary adjustments based upon actual performance and on the final construction costs of the anticipated capital improvements.

RESOLUTION NO. _____

A RESOLUTION MODIFYING THE SEWER RATES FOR RESIDENTIAL AND BUSINESS CUSTOMERS WITHIN THE CITY OF HAYS, KANSAS.

WHEREAS, the Governing Body of the City of Hays, Kansas, pursuant to Ordinance No. 3747, as passed on May 22, 2008, is to set a fee for sewer rates for residential and business customers within the City of Hays, by resolution.

NOW, THEREFORE, BE IT RESOLVED BY THE GOVERNING BODY OF THE CITY OF HAYS, KANSAS, that it is necessary to modify sewer rates for residential and business customers within the City of Hays; and the City hereby sets those rates, commencing with billings generated on or after August 1, 2015, as follows:

a. Minimum Service Charge.

Meter Size (inches)	Inside City Limits (per month, in dollars)	Outside City Limits (per month, in dollars)
5/8	$6.05~~ 5.02~~	$10.28~~ 8.52~~
¾	$10.98~~ 9.11~~	$18.64~~ 15.47~~
1	$15.89~~ 13.18~~	$27.01~~ 22.41~~
1½	$25.74~~ 21.36~~	$43.77~~ 36.32~~
2	$50.37~~ 41.80~~	$85.62~~ 71.05~~
3	$75.00~~ 62.23~~	$127.48~~105.78~~
4	$124.25~~ 103.10~~	$211.21~~175.26~~
6	$247.38~~205.27~~	$420.53~~348.95~~

b. *Residential Users with No City Water Service.* All monthly sewer charges for residential users with no city water service shall be $28.84~~ 23.93~~ per month. Outside city limits rate shall be $49.01~~40.67~~.

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c. Sewer Service Charges for Residential.

Cubic Feet of Water Usage	Inside City Limits (per 100 cubic feet, in dollars)	Outside City Limits (per 100 cubic feet, in dollars)
First 100	Included in minimum	Included in minimum
Any additional usage	$2.45~~2.03~~	$4.16~~3.45~~

d. Sewer Service Charges for Business.

Cubic Feet of Water Usage	Inside City Limits (per 100 cubic feet, in dollars)	Outside City Limits (per 100 cubic feet, in dollars)
First 100	Included in minimum	Included in minimum
Any additional usage	$2.45~~2.03~~	$4.16~~3.45~~

e. Extra Strength Surcharge, Unit Charge.

Cost Parameter	User Charge Portion ($/lb)	Inside the City Limits ($/lb)	Outside the City Limits ($/lb)
BOD	.064223~~0.04735~~	.085371~~0.06294~~	.10249~~0.07556~~
Suspended solids	.061918~~0.04565~~	.069766~~0.05144~~	.076114~~0.05612~~

These rates shall be modified by increasing them by 15.5% of the rate then existing, rounded up to the nearest whole cent, each successive year on January 1st, beginning January 1, 2016 and continuing through January 1, 2020, and by increasing them by 12.0% of the rate then existing in 2021, unless the Governing Body, by resolution, determines otherwise.

This resolution shall be effective upon its passage.

Adopted by the Commission on the _____ day of _____, 2015.

_____
EBER PHELPS
Mayor

ATTEST:

_____
BRENDA KITCHEN
City Clerk

(SEAL)