



"...meeting community needs...enhancing quality of life."

Finance Department
100 N. Appleton Street
Appleton, WI 54912
920-832-6442

TO: Chairperson Vered Meltzer and Members of the Utilities Committee

FROM: Kelli Rindt, Enterprise Fund Accounting Manager

DATE: October 19, 2022

RE: *Approve wastewater rate increase of 7% for general service and special hauled waste service and increase compost fee to \$12/cu. yard to be effective January 1, 2023.*

BACKGROUND:

The Utility Department contracted with Trilogy Consulting in 2020 to complete a comprehensive rate study that reviewed cash flow needs and recommended an initial rate increase of 20% in 2021 and 4% annual rate increases for a five-year period starting in 2022 to funds operations and future capital improvements. The study also established rates for Phosphorus and TKN (Total Kjeldahl Nitrogen) processing for high-strength quantity and quality customers.

As part of the rate approval process in 2020 it was acknowledged, that future rate needs would be reviewed annually and would be presented to committee for approval.

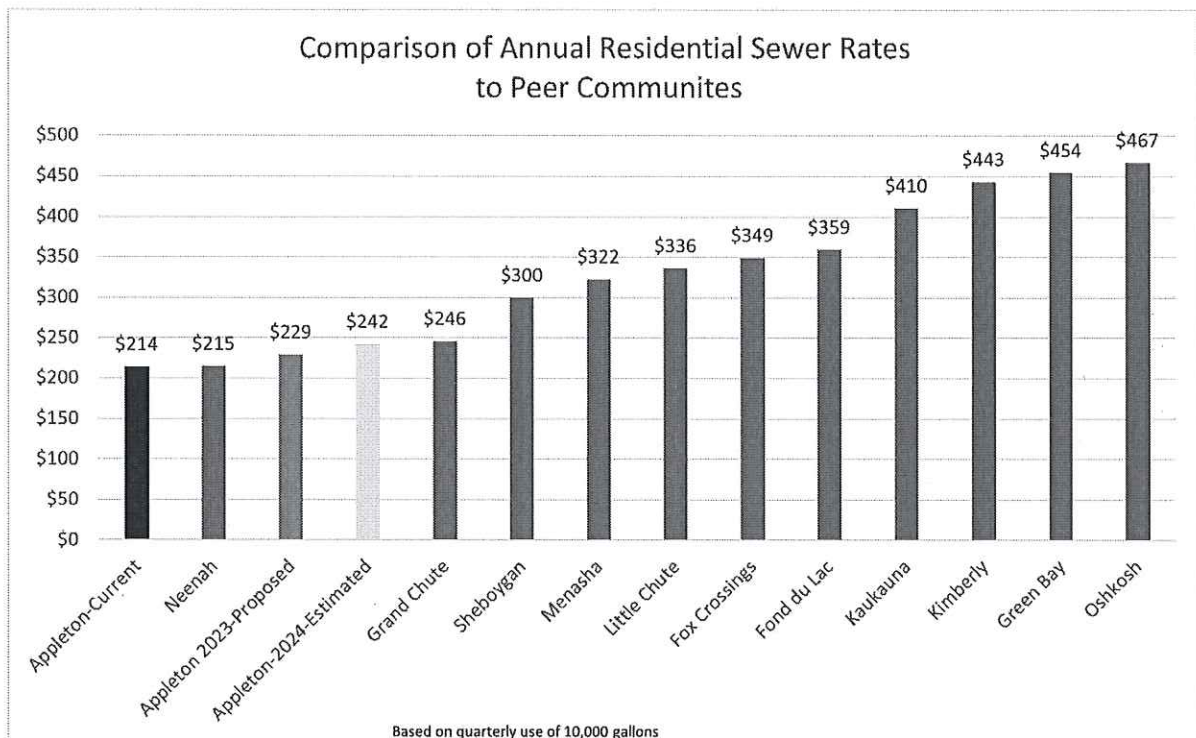
FINANCIAL REVIEW:

The planned 4% rate increase, as presented in the 2023 budget on page 519 (attachment A), does provide the revenue required to cover expenses, meets cash flow and debt coverage for the year 2023. However, the 4% annual rate increases for future years (2024-2026) will no longer provide the required revenue to meet cash flow needs and debt coverage ratios for 2024 and beyond. The capital improvement plan has increased \$11.2M from the plan that was reviewed as part of the 2020 study. This increase is due to several reasons including: increased costs of projects, new projects for required replacement of aging equipment and the addition of a multi-year project to replace motor control equipment to ensure reliability of the power system at the treatment plant.

After review of the projected 5-year plan, it was determined that annual rate increases of 7% would be needed starting in 2023 as well as future years (2024-2026) to meet cash flow and debt coverage requirements. The future rate increases will be reviewed annually and will be presented to committee for approval.

This increase is projected to provide \$1.1M additional revenue in 2023. Included with this memo (attachment B) is updated page 519 of the 2023 Budget and Service Plan that details the planned annual rate increases meeting all cash flow and debt coverage requirements in future years.

The proposed rate increase continues to provide a reasonable rate for service when compared to area communities. The average residential customer will see a quarterly increase of \$4 on the City service invoice.



COMPOST RATE INCREASE:

The current compost rate of \$8 per cu. yard has been in place since 2016. The proposed fee increases the rate to \$12 per cu. yard. This rate increase is due to increasing contractor fees to process compost and transport costs to deliver materials to the facility.

RECOMMENDATION:

Approve Wastewater rate increase of 7% as detailed on the attached rate sheet (attachment C) and increase compost fees from \$8 per cu. yard to \$12 per cu. yard. Should you have any questions regarding this project please contact me at phone: 832-6316.

City of Appleton - Proposed Wastewater Rates for 2023

Quarterly Minimum Charge	Meter Size	effective 1/1/2022	effective 1/1/2023
		Current Rate	Proposed Rate
	5/8	\$16.00	\$17.15
	3/4	\$16.00	\$17.15
	1	\$28.80	\$30.85
	1 1/4	\$39.70	\$42.50
	1 1/2	\$51.00	\$54.55
	2	\$78.30	\$83.75
	2 1/2	\$110.90	\$118.65
	3	\$135.80	\$145.30
	4	\$216.00	\$231.10
	6	\$409.10	\$437.75
	8	\$646.90	\$692.20
	10	\$946.10	\$1,012.35
	12	\$1,252.20	\$1,339.85
Volume Charge	per/1,000 gallons	\$3.75	\$4.00
	Units	Current Rate	Proposed Rate
Industrial Q/Q Rates			
Volume	per/1,000 gallons	\$2.43	\$2.60
BOD	per/100 lbs	\$35.15	\$37.60
TSS	per/100 lbs	\$11.86	\$12.70
Phosphorus	per/100 lbs	\$385.58	\$412.50
TKN	per/100 lbs	\$136.39	\$145.95
Sanitary Waste Haulers			
Volume - Septic Tank	per/ton	\$10.60	\$11.35
Volume - Holding Tank	per/ton	\$1.80	\$1.95
Per Load		\$11.75	\$12.55
Per Customer	per quarter	\$18.40	\$19.70
Hauled Waste Rates			
Tier 1	per/ton	\$6.00	\$6.40
Tier 2	per/ton	\$8.30	\$8.90
Tier 3	per/ton	\$13.70	\$14.65
Tier 4	per/ton	\$18.80	\$20.15
Tier 5	per/ton	\$25.00	\$26.75

**CITY OF APPLETON 2023 BUDGET
WASTEWATER UTILITY
CALCULATION OF RATE INCREASE DOCUMENTATION**

	2022 Budget	2022 Projected	2023 Budget	2024 Projected	2025 Projected	2026 Projected	2027 Projected
Revenues							
Charges for Services	\$ 10,235,000	\$ 10,550,000	\$ 10,945,000	\$ 11,148,491	\$ 11,600,228	\$ 12,070,270	\$ 12,076,305
Miscellaneous	2,085,000	2,700,000	2,594,500	2,309,363	2,725,847	2,793,993	2,863,843
Total Revenues	12,320,000	13,250,000	13,539,500	13,457,854	14,326,075	14,864,262	14,940,147
Expenses							
Operating Expenses	7,950,951	8,206,754	8,396,743	8,659,495	8,959,280	9,188,059	9,473,700
Depreciation	3,525,000	3,475,000	3,725,000	4,100,000	4,300,000	4,500,000	4,665,000
Total Expenses	11,475,951	11,681,754	12,121,743	12,759,495	13,259,280	13,688,059	14,138,700
Operating Income	844,049	1,568,246	1,417,757	698,359	1,066,795	1,176,204	801,447
Non-Operating Revenues (Expenses)							
Interest Income	210,000	-	210,000	200,000	200,000	200,000	200,000
Interest Expense	(864,021)	(1,000,221)	(1,329,025)	(1,627,388)	(1,759,704)	(1,880,554)	(1,999,954)
Premium on Debt Issue	166,681	193,744	280,785	256,471	227,821	197,939	169,764
Debt Issue Costs	-	(164,863)	(160,000)	(135,000)	(135,000)	(135,000)	(135,000)
Loss on disposal of equipment	-	-	-	(300,000)	-	-	-
Total Non-Operating	(487,340)	(971,340)	(998,240)	(1,605,917)	(1,466,883)	(1,617,615)	(1,765,190)
Net Income Before Transfers	356,709	596,906	419,517	(907,559)	(400,089)	(441,412)	(963,743)
Contributions and Transfers In (Out)							
Capital Contributions	189,975	189,975	-	-	-	-	-
General Fund	(180,450)	(181,150)	(182,450)	(182,950)	(183,450)	(183,950)	(184,450)
Change in Net Assets	366,234	605,731	237,067	(1,090,509)	(583,539)	(625,362)	(1,148,193)
Total Net Assets - Beginning	107,429,580	107,429,580	108,035,311	108,272,378	107,181,870	106,598,331	105,972,969
Total Net Assets - Ending	\$ 107,795,814	\$ 108,035,311	\$ 108,272,378	\$ 107,181,870	\$ 106,598,331	\$ 105,972,969	\$ 104,824,776

SCHEDULE OF CASH FLOWS

Cash - Beginning of the Year	18,755,387	6,815,984	5,415,561	5,000,930	4,910,139	4,860,600	
+ Change in Net Assets	605,731	237,067	(1,090,509)	(583,539)	(625,362)	(1,148,193)	
+ Depreciation	3,475,000	3,725,000	4,100,000	4,300,000	4,500,000	4,665,000	
+ Long Term Debt	11,866,410	9,500,000	5,000,000	5,000,000	5,000,000	5,000,000	
- Contributed Capital	(189,975)	-	-	-	-	-	
- Fixed Assets	(26,201,569)	(13,524,210)	(6,049,123)	(6,142,252)	(6,134,177)	(6,598,652)	
- Software Acquisition	-	(45,000)	-	-	-	-	
- Principal Repayment	(1,495,000)	(1,925,000)	(2,375,000)	(2,665,000)	(2,790,000)	(2,805,000)	
+ Fixed Assets funded by DNR Rplcmt Fund	-	631,720	-	-	-	-	
Working Cash - End of Year	\$ 6,815,984	\$ 5,415,561	\$ 5,000,930	\$ 4,910,139	\$ 4,860,600	\$ 3,973,755	
25% Working Capital Reserve (prior year's audited expenses)		2,347,031	2,477,055	2,617,458	2,725,609	2,813,141	
Coverage Ratio		1.64	1.63	1.16	1.26	1.22	1.14

ASSUMPTIONS:

Borrow 60-70% of capital expenditures as detailed in plan
Interest rate at 5%; twenty year term for future borrowings
Projected growth increase .05% for additional customer base each year
Reduced Special Hauled Waste revenue in 2024 due to production limits during the Belt Filter Replacement project
Includes 4% rate increase as recommend in 2020 rate study for 2022-2026. 5% rate increase for hauled waste customers for 2023
Operating expenses to increase 3% per year. \$40,000 in 2025 for structural study at WWTP
Includes estimated loss of early retirement of lift station in 2023 of \$300,000; this is net of sale on equipment
Maintain a level of 25% working capital reserve and 1.20 coverage ratio as required by bond covenants

RESULTS:

An overall rate increase of 20% was implemented on 1/1/2021 as recommended in the rate study that was completed in 2020. Additional annual rate increases of 4% in 2022-2026 will be needed to fund capital improvement plan. The 2023 budget includes the recommend rate increase of 4%, subject to Utilities Committee approval prior to budget adoption. These increases may need to be modified if any changes in revenue from hauled waste customers or high strength customers changes in future years or if there are significant changes in the capital improvement plan for the utility.

7% annual rate increase for 2023, 2024, 2025, 2026
CITY OF APPLETON 2023 BUDGET
WASTEWATER UTILITY
CALCULATION OF RATE INCREASE DOCUMENTATION

	2022 Budget	2022 Projected	2023 Budget	2024 Projected	2025 Projected	2026 Projected	2027 Projected
Revenues							
Charges for Services	\$ 10,235,000	\$ 10,550,000	\$ 11,755,000	\$ 12,344,139	\$ 13,214,833	\$ 14,146,941	\$ 14,154,014
Miscellaneous	2,085,000	2,700,000	2,644,500	2,466,393	2,999,458	3,194,423	3,194,423
Total Revenues	12,320,000	13,250,000	14,399,500	14,810,531	16,214,291	17,341,364	17,348,437
Expenses							
Operating Expenses	7,950,951	8,206,754	8,396,743	8,659,495	8,959,280	9,188,059	9,473,700
Depreciation	3,525,000	3,475,000	3,800,000	4,150,000	4,350,000	4,550,000	4,715,000
Total Expenses	11,475,951	11,681,754	12,196,743	12,809,495	13,309,280	13,738,059	14,188,700
Operating Income	844,049	1,568,246	2,202,757	2,001,036	2,905,011	3,603,305	3,159,737
Non-Operating Revenues (Expenses)							
Interest Income	210,000	-	210,000	200,000	200,000	200,000	200,000
Interest Expense	(864,021)	(1,000,221)	(1,329,025)	(1,627,388)	(1,759,704)	(1,880,554)	(1,999,954)
Premium on Debt Issue	166,681	193,744	280,785	256,471	227,821	197,939	169,764
Debt Issue Costs	-	(164,863)	(160,000)	(125,000)	(125,000)	(125,000)	(125,000)
Loss on disposal of equipment	-	-	-	-	(300,000)	-	-
Total Non-Operating	(487,340)	(971,340)	(998,240)	(1,295,917)	(1,456,883)	(1,607,615)	(1,755,190)
Net Income Before Transfers	356,709	596,906	1,204,517	705,119	1,448,127	1,995,690	1,404,547
Contributions and Transfers In (Out)							
Capital Contributions General Fund	189,975 (180,450)	189,975 (181,150)	- (182,450)	- (182,950)	- (183,450)	- (183,950)	- (184,450)
Change in Net Assets	366,234	605,731	1,022,067	522,169	1,264,677	1,811,740	1,220,097
Total Net Assets - Beginning	107,429,580	107,429,580	108,035,311	109,057,378	109,579,547	110,844,224	112,655,964
Total Net Assets - Ending	\$ 107,795,814	\$ 108,035,311	\$ 109,057,378	\$ 109,579,547	\$ 110,844,224	\$ 112,655,964	\$ 113,876,061

SCHEDULE OF CASH FLOWS

Cash - Beginning of the Year	18,755,387	6,815,984	6,275,561	7,523,607	9,331,032	11,768,595	
+ Change in Net Assets	605,731	1,022,067	522,169	1,264,677	1,811,740	1,220,097	
+ Depreciation	3,475,000	3,800,000	4,150,000	4,350,000	4,550,000	4,715,000	
+ Long Term Debt	11,866,410	9,500,000	5,000,000	5,000,000	5,000,000	5,000,000	
- Contributed Capital	(189,975)	-	-	-	-	-	
- Fixed Assets	(26,201,569)	(13,524,210)	(6,049,123)	(6,142,252)	(6,134,177)	(6,598,652)	
- Software Acquisition	-	(45,000)	-	-	-	-	
- Principal Repayment	(1,495,000)	(1,925,000)	(2,375,000)	(2,665,000)	(2,790,000)	(2,805,000)	
+ Fixed Assets funded by DNR Rplcmnt Fund	-	631,720	-	-	-	-	
Working Cash - End of Year	\$ 6,815,984	\$ 6,275,561	\$ 7,523,607	\$ 9,331,032	\$ 11,768,595	\$ 13,300,040	
25% Working Capital Reserve (prior year's audited expenses)		2,347,031	2,477,055	2,617,458	2,725,609	2,813,141	
Coverage Ratio		1.64	1.89	1.57	1.70	1.75	1.63

ASSUMPTIONS:

Borrow 60-70% of capital expenditures as detailed in plan.

Interest rate at 5%; twenty year term for future borrowings

Projected growth increase .05% for additional customer base each year

Reduced Special Hauled Waste revenue in 2024 due to production limits during the Belt Filter replacement project

Includes 7% proposed rate increase for 2023-2026

Operating expenses to increase 3.0% per year. \$40,000 in 2025 for structural study at WWTP

Includes estimated loss of early retirement of lift station in 2025 of \$300,000, this is net of sale on equipment

Maintain a level of 25% working capital reserve and 1.20 coverage ratio as required by bond covenants