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October 28, 2014

City of Rockford
Attn: Dan Madsen, City Administrator
6031 Main Street
Rockford, MN 55373

RE: Water & Sanitary Sewer Rate Review

Dear Mr. Madsen:

Per your request I have prepared financial projections for both the water and sanitary sewer utilities for the purpose of providing recommendations regarding rates and charges that are necessary to pay operating costs and debt service on existing obligations for both utilities. Based on these projections I am able to estimate what the average customer (6,000 gallon/month) would need to pay to meet these obligations.

Sanitary Sewer Fund Projection:

Attached you will find my projection for the Sanitary Sewer Fund (Exhibit 1) along with a spreadsheet indicating the annual debt service payments that are paid by the Sanitary Sewer Fund (Exhibit 2). Based on my analysis an average customer (6,000 gallon/month) currently pays approximately \$36.65 per month. The bill for the average customer will need to increase to approximately \$48.07 per month to generate sufficient cash to pay current obligations and operating cost, and to produce a limited amount of surplus cash to replenish reserves.

The need for the increase in rates is prompted by several factors including; 1) The issuance of the 2014B Bonds for the wastewater treatment project which will have payments averaging approximately \$200,000 per year by 2017; and 2) The new phosphorus treatment mandated by the state which will increase operating costs by approximately \$100,000 per year; and 3) The sanitary sewer fund has maintained a relatively low cash balance for a number of years.

Water Fund Projection:

Attached you will find my financial projection for the Water Fund (Exhibit 3) along with a spreadsheet indicating the annual debt service payments that are paid by the Water Fund (Exhibit 4). Based on my financial projection for the Water Fund, water rates for the average customer (6,000 gallons/month) will need to move from \$22.34 per month to \$33.97 per month based on 2014 budgeted operating costs and projected debt service payments. As the water fund has significant reserves, this could be accomplished over the next several years, but ultimately I believe that this is where rates will need to be to maintain sufficient cash reserves and pay operating costs and debt service on existing obligations.

At this rate level the utility will have significant capacity to take on additional projects in 5-years as the final payment on the 2012A bonds will be made in 2021. The utility does not have sufficient cash reserves, however, to maintain rates at their present levels.

Please feel free to contact me in advance of the meeting if I can be of any additional assistance in answering questions. Thank you for your time and consideration.

Sincerely,

A handwritten signature in cursive script that reads "Shannon Sweeney". The signature is written in a dark ink and is positioned below the word "Sincerely,".

Shannon Sweeney
David Drown Associates, Inc.

**City of Rockford, Minnesota
Sewer Fund Analysis**

Inflation Rate: 1.02
Annual Capital Purchases: \$ 20,000.00

Operating Revenues	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
User Charges	532,615	534,788	564,624	596,262	648,000	850,000	850,000	850,000	850,000	850,000	850,000
SAC	34,128	8,702	13,913	55,386	10,162						
Penalties					6,000						
Total Operating Revenue	566,743	543,490	578,537	651,648	664,162	850,000	850,000	850,000	850,000	850,000	850,000
Operating Expenses											
Salaries & Benefits	71,846	67,846	70,087	78,274	85,889	87,607	89,359	91,146	92,969	94,828	96,725
Supplies	30,205	53,466	49,682	37,236	23,700	124,174	126,657	129,191	131,774	134,410	137,098
Purchased Services	83,310	87,315	72,630	86,695	100,100	102,102	104,144	106,227	108,351	110,518	112,729
Repairs & Maintenance	37,963	20,044	41,637	87,583	37,000	37,740	38,495	39,265	40,050	40,851	41,668
Depreciation	271,596	270,051	207,726	209,864	214,000	218,280	222,646	227,099	231,640	236,273	240,999
Other	58,284	67,874	49,215	54,201	68,085	69,447	70,836	72,252	73,697	75,171	76,675
Total Operating Expenses	553,204	566,596	490,977	553,853	528,774	639,349	652,136	665,179	678,483	692,052	705,893
Operating Income	13,539	(23,106)	87,560	97,795	135,388	210,651	197,864	184,821	171,517	157,948	144,107
Net Cash Provided by Operations	285,135	246,945	295,286	307,659	349,388	428,931	420,509	411,919	403,158	394,221	385,105
Net Cash Used Capital/Finance	38,420	10,296	127,184	196,268	20,000	20,000	20,000	20,000	20,000	20,000	20,000
Debt Service	282,494	284,679	570,549	169,689	272,848	333,566	341,467	391,682	392,047	364,267	239,141
Interest Income	12,907	11,983	11,952	5,981	5,000						
Net Transfers	(37,650)	417,350	(37,650)	(37,650)							
Net Increase in Cash	(60,522)	381,303	(428,145)	(89,967)	61,540	75,365	59,042	237	(8,889)	9,954	125,964
Cash Beginning of Year	255,045	194,523	575,826	147,681	57,714	119,254	194,619	253,661	253,898	245,009	254,963
Cash End of Year	194,523	575,826	147,681	57,714	119,254	194,619	253,661	253,898	245,009	254,963	380,927

Base	4.25	5.57
Flow	5.40	7.08
Average User:	36.65	48.07

Sewer Debts

Payment Schedule

Year	PFA Loan	Lift Station	SCADA	1994 Debt	2007A Bonds	2012B Bonds	2014B Bonds	Payment Total
2006	123,758	57,500	55,000	29,690				265,948
2007	123,758	60,000	70,000	32,076				285,834
2008	123,758	62,500	70,000	34,881				291,139
2009	123,758	65,000	70,000					258,758
2010	123,758	67,500	70,000		37,650			298,908
2011	123,758	70,000	75,000		37,650			306,408
2012	123,758	-	75,000		37,650	24,060		260,468
2013	123,758	-	80,000		37,650	24,880		266,288
2014	123,758	-	85,000		37,650	26,440		272,848
2015	123,758	-	90,000		37,650	25,960	56,198	333,566
2016	123,758	-			37,650	25,480	154,579	341,467
2017	123,758	-			37,650	25,000	205,274	391,682
2018	123,758	-			37,650	26,520	204,119	392,047
2019	123,758	-			37,650		202,859	364,267
2020	-	-			37,650		201,491	239,141
2021	-	-			37,650		198,344	235,994
2022	-	-			37,650		195,063	232,713
2023	-	-			37,650		196,900	234,550
2024	-	-			37,650		191,440	229,090
2025	-	-			37,650		231,590	269,240
2026	-	-			37,650		230,908	268,558
2027	-	-			37,650		235,160	272,810
2028	-	-			37,650		232,693	270,343
2029	-	-			37,650		235,134	272,784
2030	-	-			37,650			37,650
2031	-	-			37,650			37,650
	1,732,612	382,500	740,000	96,647			2,971,752	6,930,151

**City of Rockford, Minnesota
Water Fund Cash Flow Projection**

Operating Revenues						Budget						
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
User Charges	434,425	405,049	410,689	439,457	451,700	503,499	579,024	665,877	765,759	765,759	765,759	765,759
Other	116,672	24,189	5,582	17,849	8,230	21,237	0	0	0	0	0	0
Total Operating Revenue	551,097	429,238	416,271	457,306	459,930	524,736	579,024	665,877	765,759	765,759	765,759	765,759
Operating Expenses												
Salaries & Benefits	80,612	71,020	64,773	68,571	69,081	69,425	70,814	72,584	74,398	76,258	78,165	80,119
Supplies	24,636	28,283	31,031	45,006	28,138	25,700	26,214	26,869	27,541	28,230	28,935	29,659
Purchased Services	30,511	25,340	39,558	29,237	44,830	40,200	41,004	42,029	43,080	44,157	45,261	46,392
Repairs & Maintenance	85,797	16,500	46,612	44,568	81,320	91,000	92,820	95,141	97,519	99,957	102,456	105,017
Other	33,882	38,533	25,086	22,086	14,848	40,672	41,485	42,523	43,586	44,675	45,792	46,937
Total Operating Expenses	255,438	179,676	207,060	209,468	238,217	266,997	272,337	279,145	286,124	293,277	300,609	308,124
Net Cash Provided by Operations	295,659	249,562	209,211	247,838	221,713	257,739	306,687	386,732	479,635	472,482	465,150	457,635
Less Existing D/S	(201,328)	(186,708)	(184,494)	(91,551)	(233,034)	(230,640)	(377,750)	(418,700)	(464,650)	(465,600)	(438,950)	(435,250)
Interest Income	26,425	23,935	22,302	13,765	10,691	6,872	4,773	4,442	4,304	4,401	4,457	4,610
Transfers	70,501	(37,650)	(494,078)	(37,650)	25,921	(37,650)	0	0	0	0	0	0
Connection Fees	13,089	12,551	3,304	5,491	25,047	4,634	5,000	5,000	5,000	5,000	5,000	5,000
Acquisition of Capital Assets	0	0	(16,764)	0	(18,810)	0	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)	(5,000)
Net Revenues	204,346	61,690	(426,991)	137,893	31,528	955	(66,290)	(27,526)	19,289	11,283	30,657	26,995
Cash January 1	945,238	1,149,584	1,211,274	784,283	922,176	953,704	954,659	888,369	860,843	880,132	891,415	922,072
Cash December 31	1,149,584	1,211,274	784,283	922,176	953,704	954,659	888,369	860,843	880,132	891,415	922,072	949,067
				Flow Charge:	3.34	3.72	4.28	4.92	5.66			
				Avg. User:	20.04	22.34	25.69	29.54	33.97			

Water Debt*Payment Schedule*

Year	2014B Bonds	2007A Bonds	2012A Bonds	2012B Bonds	Payment Total
2010	-	37,650			37,650
2011	-	37,650			37,650
2012	-	37,650	-	29,675	67,325
2013	-	37,650	199,775	28,200	265,625
2014	-	37,650	198,800	27,700	264,150
2015	110,000	37,650	200,400	29,700	377,750
2016	155,000	37,650	196,900	29,150	418,700
2017	205,000	37,650	193,400	28,600	464,650
2018	205,000	37,650	194,900	28,050	465,600
2019	205,000	37,650	196,300	-	438,950
2020	205,000	37,650	192,600	-	435,250
2021	205,000	37,650	198,900	-	441,550
2022	205,000	37,650		-	242,650
2023	205,000	37,650		-	242,650
2024	205,000	37,650		-	242,650
2025	205,000	37,650		-	242,650
2026	205,000	37,650		-	242,650
2027	205,000	37,650		-	242,650
2028	205,000	37,650		-	242,650
2029	205,000	37,650		-	242,650
2030	-	37,650			37,650
2031	-	37,650			37,650
	2,930,000		1,771,975	201,075	5,731,350