

City of Farmington  
430 Third Street  
Farmington, MN 55024

***Mission Statement***  
*Through teamwork and cooperation,  
the City of Farmington provides quality  
services that preserve our proud past and  
foster a promising future.*

**AGENDA  
CITY COUNCIL WORKSHOP  
September 26, 2011  
7:30 P.M.**

- 1. CALL TO ORDER**
- 2. APPROVE AGENDA**
- 3. 2012 ENTERPRISE FUND BUDGETS**
- 4. 2012 BUDGET / PLAN**
- 5. CITY ADMINISTRATOR UPDATE**
- 6. ADJOURN**

***PUBLIC INFORMATION STATEMENT***

*Council workshops are conducted as an informal work session, all discussions shall be considered fact-finding, hypothetical and unofficial critical thinking exercises, which do not reflect an official public position.*

*Council work session outcomes should not be construed by the attending public and/or reporting media as the articulation of a formal City policy position. Only official Council action normally taken at a regularly scheduled Council meeting should be considered as a formal expression of the City's position on any given matter.*



# City of Farmington

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**TO:** Mayor, Councilmembers

**FROM:** David McKnight, City Administrator  
Teresa Walters, Finance Director

**SUBJECT:** 2012 Enterprise Fund Budgets

**DATE:** September 26, 2011

## **STREET LIGHT UTILITY (PAGE 221-223)**

### ***Background***

In 2009 the decision was made to move the Street Light Utility expenditures from the General Fund into an Enterprise Fund. In 2010 a shift was made from funding street lights with the tax levy to funding it with a street light utility fee added to each utility bill.

During the 2011 Budget session it was discovered that the fee was not sufficient to cover the cost of running the utility. The utility maintained a deficit balance throughout the year. The rate was increased from \$6.00 to \$6.90 per quarter. While the rate seems to be sufficient to cover the cost of running the operation, we don't feel it will make an impact on the deficit, nor will it allow us to adjust for the fluctuating maintenance and electric costs.

Adding the fee to utility bills has made an impact on the concern residents have for their street lights. If a street light is out, they will immediately contact us. This was not the case in the past. With more maintenance on street lights, additional electricity, and the rise in electric costs, we are seeing an increase in the cost to run the street light utility operation.

### ***Proposed 2012 Budget***

Rather than immediately look at raising rates again, we took a closer look at the way we are billing customers. It was determined when the fund was initially set up, that we added the Street Light Utility Fee to each bill, not each equivalent residential unit (ERU). All other utilities are charged based on ERU's.

For all non-residential properties, the ERU should be left at one (1). However, for properties with multiple dwellings such as town homes, condos, and apartments, the ERU should be based on the number of units (similar to the way other utilities are billed). We currently bill some townhome associations one street light ERU. For example, the association may have ten units under one roof but they are paying the same street light charge as a single family home. This

change will add 916 additional units to the bills. At \$6.90 per quarter the total revenue added to the Street Light Utility will be approximately \$25,282. This amount is reflected in the revenue; however, expenses were increased to be more in line with actual, bringing the net income used to off-set the deficit to \$16,459. The fund is anticipated to have a positive balance in 2013.

The table below shows the proposed changes:

<u>Name</u>		<u>Current</u>	<u>Added #</u>	<u>Total</u>
Cameron Woods	Condos	2	82	84
Charleswood Crossing	Town Homes	12	96	108
Charleswood Town Homes	Town Homes	24	72	96
Creekstone partners	Town Homes	17	0	17
Farmington Family Housing	Town Homes	8	24	32
Farmington Town Homes	Town Homes	4	12	16
Middle Creek Condos	Town Homes	27	189	216
Middle Creek East	Town Homes	73	0	73
Middle Creek East 2nd	Town Homes	54	0	54
Sherbourne Deck homes	Town Homes	6	58	64
Tamarack Ridge Homes	Town Homes	15	119	134
Townsedge Plaza Town Homes	Town Homes	3	13	16
Twin Ponds Town Homes	Town Homes	5	20	25
Vermillion Grove Town Homes	Town Homes	50	231	281
Westview Association	Condos	9	0	9
		<u>309</u>	<u>916</u>	<u>1225</u>

**Recommendation**

Staff has analyzed the financial impact of charging each residential unit and has determined it will provide the necessary additional funding needed for the Street Light Utility. Staff recommends Council approve this method of billing. No rate increase is requested in 2012.

**SEWER (PAGE 205-207)**

***Background***

In the past, sewer charges for service covered the cost of personnel, supplies, debt service on the bonds issued in 1999, and other charges for services including payment for Metropolitan Council Environmental Services (MCES) fees. In 2012 the MCES fees will be increasing from \$837,200 to \$1,034,008. This is a difference of \$196,808.

MCES charges are based on sewage flows from the City. The sewage flow increased from 450.67 million gallons in 2010 to 557.83 million gallons in 2011.

The MCES has also informed us that SAC receipts remain low. They currently have a shortage of \$4.3 million. They have decided not to increase the rates to cover the loss of SAC receipts. Instead, they will be funding this loss from their Operations and Contingency Reserve Fund. The SAC receipts will be evaluated again in 2013. Another increase could impact the MCES fees.

City residential sewer charges are currently \$27 for the first 10,000 gallons of use (based on winter quarter consumption) and \$2.70/1,000 gallons over the 10,000 base amount per quarter. Commercial sewer fees are \$69 minimum per quarter for the first 20,000 gallons and \$3.45/1,000 gallons over the 20,000 base.

***Proposed 2012 Budget***

The 2012 Budget shows a net loss of \$186,889 before transfers and depreciation. In order to cover the loss created by the increase in MCES fees, we are proposing passing these fees on to both residential and commercial through an increase in sewer fees.

Two options are shown below:

	Current Base Rate	New Base Rate	Current Rate Per 1,000 gallons	New Rate Per 1,000 gallons	Difference Per Quarter
<b>OPTION 1</b>					
Residential	27	31	2.70	3.10	\$ 6.66
Commercial	69	74	3.45	3.70	\$ 35.41

	Current Base Rate	New Base Rate	Current Rate Per 1,000 gallons	New Rate Per 1,000 gallons	Difference Per Quarter
<b>OPTION 2</b>					
Residential	27	32	2.70	3.20	\$ 8.33
Commercial	69	69	3.45	3.45	\$ -

Option 1 increases the residential rate by forty cents (.40) per \$1,000 gallons or a total of \$7 per quarter. It also increases the commercial rate by twenty-five cents (.25) per \$1,000 gallons or a total of \$35 per quarter (for the average 16,600 gallon user).

Option 2 increases the residential rate by fifty cents (.50) per \$1,000 gallons or a total of \$8 per quarter. It does not increase the Commercial rate.

Both options provide us with enough revenue to cover the MCES increase.

**Below is a table showing our rates compared to other cities:**

City	Population	Average Quarterly Residential Bill based on 16,600 gallons	Average Quarterly Commercial Bill based on 141,000 gallons
Farmington	21,086	\$ 44.82	\$ 486.45
Rosemount	21,874	\$ 44.90	\$ 231.50
Eagan	64,206	\$ 48.76	\$ 326.35
New Brighton	21,456	\$ 54.12	\$ 459.66
Hastings	22,172	\$ 55.45	\$ 469.50
Apple Valley	49,084	\$ 55.48	\$ 426.27
Lakeville	55,954	\$ 57.54	\$ 441.94

We tried to compare cities that were either geographically near us or cities with a similar population. The new rate increase will bring Farmington's average residential bill to \$51.82 for option one and \$52.82 for option two. This will still be significantly lower than most of the cities compared. Option one would increase the average commercial bill to \$521.70. Everyone is experiencing similar increases from the Metropolitan Council. Therefore, we expect most cities to raise their rates.

**Recommendation**

Utilities are the business enterprises of the city and must have adequate funding to cover costs. Although it is a difficult decision to increase fees during tough economic times, staff is recommending a fee increase to cover the cost of charges passed along to us by the MCES. Staff recommends Council choose either option one or option two. The rate increase will be included in the fees and charges ordinance to be adopted for the 2012 budget.

## **STORM WATER (PAGE 213-216)**

### ***Background***

Currently a quarterly fee of \$9.00 per residential equivalent unit is charged on all utility bills to pay for maintenance and operation of all storm water facilities including National Pollutant Discharge Elimination System (NPDES). NPDES is a federal mandate as part of the Clean Water Act requiring non-point storm water discharge to be purposefully managed. The Minnesota Pollution Control Association (MPCA) is the governing agency enforcing NPDES on a statewide level. Requirements were put into effect in 2003. Farmington is considered an MS4 (Municipal Separate Storm Sewer System) and is required to follow NPDES Phase II requirements since the population is over 10,000.

There are additional costs associated with following Phase II:

- Under Phase II operators of MS4s need to obtain authorization to discharge stormwater runoff to surface water. Separate Storm Sewer Systems are pipes, ditches and other transportation systems that are owned by the City that move stormwater runoff to surface water bodies, such as ponds, streams and rivers.
- Phase II requires MS4s to develop a Storm Water Pollution Prevention Plan (SWPPP) designed to prevent items considered pollutants from being washed by stormwater runoff into the municipal storm sewer and then discharged from the storm sewer into local waterbodies. The SWPPP needs to include six minimum control measures.
  - Public Education and Outreach
  - Public Participation/Involvement
  - Illicit Discharge Detection/Elimination
  - Construction Site Runoff Control
  - Post Construction Runoff Control
  - Pollution Prevention/Good Housekeeping
- Each minimum control measure is comprised of best management practices (BMP's). Each BMP will have measurable goals that serve to track the effectiveness of the BMP. The "Best Management Practice" approach provides our community the flexibility to decide what our local program should include.

### ***Proposed 2012 Budget***

This fund had effectively built an unrestricted working capital reserve in excess of \$500,000. This balance is to ensure there are funds available for capital purchases, eliminating the need for drastic increases in the rates. In 2012 we plan to spend down this balance by \$20,000 for storm water modeling.

The 2012 budget currently shows a net loss of \$48,499 after transfers and before depreciation. This shows the fee is no longer sufficient to support the operations of the Storm Water and NPDES operations.

**Recommendation**

Staff does not recommend a rate increase at this time (except for the Surface Water Management fee increases approved in prior years). This will be included in the Fee Schedule. In 2012 staff will utilize the reserves to cover the excess expenditures over revenues. However, rates will be reviewed in 2013. This rate has not been increased since 2008.

**WATER (PAGE 217-219)**

***Background***

The City of Farmington Water Board is responsible for the Water Utility budget. Each fall, the Water Board reviews and approves the Water Utility budget for the following year and the approved Water Utility budget is included in the overall final City budget.

***Proposed 2012 Budget***

The proposed 2012 budget includes funding for those items necessary to maintain the City of Farmington's water system. The budget will include expenditures related to the day-to-day operation of the water system, maintenance items (annual well maintenance, replacement of necessary components, chemical purchases, etc.) and any capital expenditures.

**Recommendation**

Staff recommends that the Water Utility budget approved by the Water Board be included in the final City budget for 2012. No rate increase is proposed.

**SOLID WASTE (PAGE 209-211)**

***Background***

The City of Farmington's garbage system is unlike any other community in Dakota County. The City-owned and operated automated collection system uses less operators and equipment and provides residents with an efficient and cost effective service. Recycling, yard waste service, temporary dumpsters and pickups for large items are provided by a private contractor, selected through a proposal process.

Benefits to having this service provided by the City include reduced wear and tear on streets, reduced traffic and noise; same day pickup in neighborhoods provides aesthetic benefits (cans at the curb once a week), excellent customer service, and concern for the environment.

***Proposed 2012 Budget***

Solid waste charges for service cover the costs of personnel, supplies, and other charges for service including payments for landfill and recycling charges as well as "clean-up day". In

addition, fee revenue should cover funds set aside for the purchase of new refuse trucks on a seven to nine year cycle.

Solid Waste operation is budgeted to break even in 2012. Solid Waste capital includes an automated garbage truck. This brings the loss after transfers to \$173,866 (see page 209). The reserves in this fund which were set aside for capital purchases will be utilized to cover the cost of the truck. The solid waste fund had a small increase in fees in 2010; however, this barely covered losses. Since we are currently breaking even, there is nothing available to cover future replacement costs for vehicles.

In the past we have lost the Dakota County \$12.00/ton hauler reimbursement \$80,000.00/year. Also, Dick's Sanitation Incorporated (DSI) has been raising their recycling rates for the past three years and will continue to raise it until 2013. This enterprise fund is run like a business. When our costs go up, we need to increase our rates to cover the additional expense.

The following shows the rates for the contract set from 2009-2013:

<b>a) Single Family Dwellings &amp; Townhomes</b>	<b><u>One Sort</u></b>
2009	\$ 3.36 /month/unit
2010	\$ 3.49 /month/unit
2011	\$ 3.63 /month/unit
2012	\$ 3.78 /month/unit
2013	\$ 3.93 /month/unit
<b>b) Multi-Family Dwellings</b>	
2009	\$ 2.15 /month/unit
2010	\$ 2.24 /month/unit
2011	\$ 2.33 /month/unit
2012	\$ 2.42 /month/unit
2013	\$ 2.52 /month/unit
<b>c) City Buildings</b>	
2009	\$ 165.00 /month
2010	\$ 165.00 /month
2011	\$ 175.00 /month
2012	\$ 175.00 /month
2013	\$ 185.00 /month

Currently the Quarterly rates for solid waste collection are:

30 Gallon \$46.00/quarter (\$15.33/month)  
60 Gallon \$55.00/quarter (\$18.47/month)  
90 Gallon \$64.00/quarter (\$21.33/month)

This rate is competitive in comparison to other cities with organized collection. Below is a comparison of the 30 Gallon Garbage fee:

City	Hauler	30 Gallon Garbage Fee	Recycling Fee	Method of Recycling Collection	Total
Farmington	City/DSI	\$ 11.70	\$ 3.63	single stream	\$15.33
Shakopee	DSI	\$ 8.32	\$ 3.57	dual stream	\$11.89
Hastings	WM	\$ 16.61	\$ 3.39	single stream	\$20.00
Hopkins	City/WM	\$ 16.85	\$ 3.75	single stream	\$20.60
Little Canada	private	\$ 13.70	\$ 4.40	varies	\$18.10
No. St. Paul	Allied	\$ 14.56	\$ 2.94	single stream	\$17.50
<b>Average 30gal</b>					<b>\$17.24</b>

Below is a comparison of the 60 Gallon Garbage fee:

City	Hauler	60 Gallon Garbage Fee	Recycling Fee	Method of Recycling Collection	Total
Farmington	City/DSI	\$ 14.84	\$ 3.63	single stream	\$18.47
Shakopee	DSI	\$ 10.35	\$ 4.46	dual stream	\$14.81
Hastings	WM	\$ 17.61	\$ 3.39	single stream	\$21.00
Hopkins	City/WM	\$ 19.85	\$ 3.75	single stream	\$23.60
No. St. Paul	Allied	\$ 15.70	\$ 2.94	single stream	\$18.64
Little Canada	private	\$ 16.58	\$ 4.40	varies	\$20.98
Minneapolis	City/Consortium	\$ 26.00	\$ (7.00)	source separated	\$19.00
<b>Average 60gal</b>					<b>\$19.30</b>

Below is a comparison of the 90 Gallon Garbage fee:

City	Hauler	90 Gallon Garbage Fee	Recycling Fee	Method of Recycling Collection	Total
Farmington	City/DSI	\$ 17.70	\$ 3.63	single stream	\$21.33
Shakopee	DSI	\$ 11.97	\$ 5.00	dual stream	\$16.97
Hastings	WM	\$ 18.61	\$ 3.39	single stream	\$22.00
Hopkins	City/WM	\$ 23.15	\$ 3.75	single stream	\$26.90
No. St. Paul	Allied	\$ 17.89	\$ 2.94	single stream	\$20.83
Little Canada	private	\$ 20.61	\$ 4.40	varies	\$25.01
Minneapolis	City/Consortium	\$ 29.00	\$ (7.00)	source separated	\$22.00
<b>Average 90gal</b>					<b>\$22.15</b>

Farmington residents and businesses also receive several other benefits from this rate such as; curbside clean-up, Christmas tree disposal, card board cage drop-offs, Dew Days collection, and many other benefits. Many private companies charge extra for these services.

**Recommendation**

Due to the economy and the tax levy increase, staff is not recommending raising rates for 2012. Council should consider increasing rates next year to cover the cost of fuel increases, higher tipping fees, the increase of DSI rates, and replacement of revenue from the loss of the Dakota county \$12.00/ton hauler reimbursement which was \$80,000.00/year.

## **LIQUOR STORES (PAGE 201-204)**

### ***Background***

The liquor stores operate similar to other retail liquor stores. We have two liquor stores, Pilot Knob and the Downtown location. In 2011 we renegotiated our lease for the Pilot Knob store. This saved the City \$72,000 per year. Staff has also looked at other cost reductions (including a reorganization of staff) in an effort to save money at the liquor stores.

A reduction in personnel costs occurred when the pay plan for any newly hired part time employees was reduced; new part-time employees are now hired at a lower starting wage from what they previously were hired at. Not only has the starting wage been lowered for part-time staff, but the highest wage a part time staff member may earn under the new pay plan has also been reduced. A further reduction in personnel costs occurred when a full-time staff position was filled with two part-time staff positions resulting in a reduction in wage and benefit costs. Staff will continue to look for additional cost savings whenever possible in order to increase the net income (profit) of the liquor stores in 2012.

### ***Proposed 2012 Budget***

The combined liquor stores show a net income (before transfers) of \$100,127. After transferring \$70,007 to the General Fund and \$30,000 to the Swimming Pool, the net income is close to breaking even at \$120.

The downtown liquor store expenditures are anticipated to increase slightly over last year, mostly as a result of increased rent. Last year we paid \$155,000 for rent, this year we are budgeting to pay \$165,000. The high cost of rent appears to be the only expense keeping the liquor store from showing a higher profit. Our downtown store lease is up in 2012; therefore staff is looking at options that will reduce the rental expense.

### ***Recommendation***

In an effort to increase the net income (profit) of the liquor stores, staff recommends working towards moving away from a model where the City leases building space for the liquor stores to a model where the City owns the building space for liquor stores. Until this model is fully implemented, the City will continue to have a substantial amount of its profits consumed in building rental costs.