



11333 N. Cedarburg Road
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Public Works/Engineering
Taped and Televised

SEWER UTILITY DISTRICT COMMISSION
Tuesday, October 10, 2023
7:30 PM or immediately following Water
Christine Nuernberg Hall

Agenda

- 1) Call to Order, Roll Call
- 2) Approval of Meeting Minutes
Action requested: review and approve
 - a. August 8, 2023 Minutes
- 3) Discussion Items
 - a. Sewer Budget: Discussion and Recommendation for Borrowing or Self-Funding for FY2024 Capital Expenditures and 5-year Capital Improvement Program
 - b. Sewer Budget: Discussion and Recommendation for Increasing the Sewer Levy or User Rates for FY2024 Capital Expenditures and 5-year Capital Improvement Program
- 4) Information Items
- 5) Adjourn

Dated: October 10, 2023

/s/ Andrew Nerbun, Mayor

Notice is hereby given that a quorum of other governmental bodies may be present at this meeting to present, discuss and/or gather information about a subject over which they have decision-making responsibility, although they will not take formal action thereto at this meeting.

Persons with disabilities requiring accommodations for attendance at this meeting should contact the City Clerk's Office at 262-236-2914, twenty-four (24) hours in advance of the meeting.

Any questions regarding this agenda may be directed to the City Administrator's Office at 262-236-2941, Monday through Friday, 8:00 AM – 4:30 PM



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SEWER UTILITY DISTRICT COMMISSION

Tuesday, August 8, 2023

7:15 PM

Christine Nuernberg Hall

Minutes

1) Call to Order, Roll Call

Meeting called to order at 7:30 PM.

Present:

Commissioner Andrew Nerbun
 Commissioner Robert Strzelczyk
 Commissioner Kelly Tolocko
 Commissioner Dale Mayr
 Commissioner Jeffrey Hansher
 Commissioner Gregg Bach
 Commissioner Brian Parrish
 Commissioner Kathleen Schneider
 Commissioner William Gebhardt

Also present: City Administrator Jones, Assistant City Administrator Schoenemann, City Attorney Sajdak, City Clerk Fochs, Finance Director Engroff, Assistant Finance Director Keyser, Fire Chief Bialk, Water Utility Supervisor Jim Voigt, press and interested public.

2) Approval of Meeting Minutes

a. June 13, 2023 Minutes

| | |
|---------------------|--|
| RESULT: | Approved by Voice Acclamation [Unanimous] |
| MOVED BY: | Commissioner Gebhardt |
| SECONDED BY: | Commissioner Hansher |

Attachment: 8-8-23 Sewer Minutes (8864 : August 8, 2023 Minutes)

AYES: Nerbun, Strzelczyk, Tolocko, Mayr, Hansher, Bach, Parrish, Schneider, Gebhardt

3) Resolutions

Action requested: review and recommend approval

- a. **RESOLUTION 4067** A Resolution Awarding a Contract to Rehabilitate Seven (7) Sewer Laterals from External Clean-Outs in the Riverland Drive Lift Station "H" Area to Aqualis of Green Bay, Wisconsin in the Amount of \$123,027

Contingencies are built into the bid items themselves.

RESULT: **Approved by Roll Call Vote [Unanimous]**
MOVED BY: Commissioner Strzelczyk
SECONDED BY: Commissioner Schneider

AYES: Nerbun, Strzelczyk, Tolocko, Mayr, Hansher, Bach, Parrish, Schneider, Gebhardt

- b. **RESOLUTION 4068** A Resolution Approving Award of a Contract for the Completion of MMSD Post-Sewer Lateral Rehabilitation Reporting Requirements in the Riverland Drive "H" and Riverdale Park "F" Lift Station Areas to raSmith of Brookfield, Wisconsin, in an Amount Not-to-Exceed \$39,062

Consulting fees are reimbursable.

RESULT: **Approved by Roll Call Vote [Unanimous]**
MOVED BY: Commissioner Schneider
SECONDED BY: Commissioner Parrish

AYES: Nerbun, Strzelczyk, Tolocko, Mayr, Hansher, Bach, Parrish, Schneider, Gebhardt

- c. **RESOLUTION 4069** A Resolution Awarding a Contract for the Inspection of 218 Sanitary Sewer Laterals in the Ranch Road "E" Lift Station Area to raSmith of Brookfield, Wisconsin, in an Amount Not-to-Exceed \$186,804

RESULT: **Approved by Roll Call Vote [Unanimous]**
MOVED BY: Commissioner Schneider
SECONDED BY: Commissioner Hansher

Attachment: 8-8-23 Sewer Minutes (8864 : August 8, 2023 Minutes)

AYES: Nerbun, Strzelczyk, Tolocko, Mayr, Hansher, Bach, Parrish, Schneider, Gebhardt

4) Adjourn

a. Motion to Adjourn at 7:38 PM

RESULT: Approved by Voice Acclamation [Unanimous]
MOVED BY: Commissioner Mayr
SECONDED BY: Commissioner Hansher

AYES: Nerbun, Strzelczyk, Tolocko, Mayr, Hansher, Bach, Parrish, Schneider, Gebhardt

Respectfully Submitted,

Ren Schlereth

Attachment: 8-8-23 Sewer Minutes (8864 : August 8, 2023 Minutes)



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www.ci.mequon.wi.us

Office of Engineering

TO: Sewer Utility District Commission
FROM: Kristen Lundeen, Director of Public Works/City Engineer
DATE: October 10, 2023
SUBJECT: Sewer Budget: Discussion and Recommendation for Borrowing or Self-Funding for FY2024 Capital Expenditures and 5-year Capital Improvement Program

Background

In preparation for the Sewer Utility budget generation for FY2024, staff is requesting Sewer Utility District Commission (SUDC) feedback on two guiding principles: borrowing versus self-funding for the 5-year capital improvement program (CIP) and direction on setting levy, flat and volumetric rates to support capital funding. This memo will address the first request to seek feedback on borrowing versus self-funding for the 5-year CIP.

The draft FY2024 5-year CIP identifies \$18.8M in projects, with a projected balance of \$5.1M across the capital accounts at the end of FY2023. In addition, the Finance Department identified approximately \$1.3M in undesignated cash reserves, a portion of which could be reallocated under a Financial Policy similar to that established for the Water Utility in 2022. Staff intends to bring a draft policy forward for consideration with the budget packet.

Staff is requesting that the SUDC identify how the budget should address the gap for the current 5-year CIP and ensure sufficient capital funding for anticipated projects beyond the 5-year CIP.

Please note, that based upon the need to replace the Lift Station E (Ranch Road) lift station, staff is projecting a cash flow deficit. That means at the current mill and user rates, there is not sufficient funding to complete this project.

Analysis

The draft 5-year CIP cash projections show a deficit beginning in Year 3, and a projected \$3.3M by Year 5. The intent of this agenda item is to identify whether that deficit will be funded through borrowing or through self-funding.

The largest, most immediate draw on capital funding is the replacement of Lift Station E (Ranch Road), which is in the design process. Please note that this project anticipates both the replacement of the lift station itself, and additional capacity projects to address surcharging in the immediate area around the lift station. It is anticipated that those projects alone will range from \$8.7M-\$11.8M. Please note that this is an increase over the \$4-6M projections when the design contract was awarded.

The Sewer Utility also plans for other capital projects within its programming and would prefer not to draw the funding in the capital accounts to \$0 as a result of the projects, impacting the Sewer Utility's ability to complete projects for years to come. As a reference, a draft version of Exhibit A from the FY2024 budget is included to show the historic detail on the request for capital funding. This exhibit will be updated pending the direction from the SUDC.

Capital funding may be addressed through borrowing or self-funding. As noted, staff is requesting SUDC direction on capital funding in anticipation of drafting the FY2024 Sewer Utility budget.

Fiscal Impact

In the past, the Sewer Utility has borrowed for the MMSD settlement and more recently for the East Trunk Sewer project. With the exception of the East Trunk Sewer project, the Sewer Utility has historically self-funded for all other capital projects. Through steady rates and modest increases, the Sewer Utility has established a healthy annual allocation to capital accounts. While the Lift Station E (Ranch Road) project is a large expenditure, there are other systemic improvements that are also required to reduce the frequency of sanitary sewer overflows, replace mechanicals such as generators and pumps within their useful life cycle and best management practices such as pipe lining.

As noted in the general levy budget discussion, debt is not subject to levy limits. However, interest rates on borrowing has increased over the past year and reached the scale where a large borrowing may not be cost effective for rate payers. Below is a summary of key data points should the City consider to take on more debt in early 2024 utilizing estimated interest rates from Ehlers Inc., the City’s municipal advisor.

| Scenario | Total Payment | | | Interest Payment | | | |
|--|----------------|--------------------|----------------------------|------------------|-----------------|--------------------|----------------------------|
| | Annual Payment | Mill Rate Increase | Bill Increase \$450k Value | Life Interest | Annual Interest | Mill Rate Increase | Bill Increase \$450k Value |
| Principal: \$2,500,000 Interest Rate: 4.50% Maturity: 10 Yrs | \$ 315,947 | \$ 0.07 | \$ 31.43 | \$ 659,471 | \$ 65,947 | \$ 0.01 | \$ 6.56 |
| Principal: \$5,000,000 Interest Rate: 4.50% Maturity: 10 Yrs | \$ 631,894 | \$ 0.14 | \$ 62.86 | \$ 1,318,941 | \$ 131,894 | \$ 0.03 | \$ 13.12 |
| Principal: \$2,500,000 Interest Rate: 5.25% Maturity: 15 Yrs | \$ 244,943 | \$ 0.05 | \$ 24.36 | \$ 1,174,143 | \$ 78,276 | \$ 0.02 | \$ 7.79 |
| Principal: \$5,000,000 Interest Rate: 5.25% Maturity: 15 Yrs | \$ 489,886 | \$ 0.11 | \$ 48.73 | \$ 2,348,286 | \$ 156,552 | \$ 0.03 | \$ 15.57 |

Note that the borrowing could be delayed until after construction contract award later in FY2024, or later in the 5-year CIP when the capital accounts draw down. Given the current interest rate climate, delaying a borrowing may result in better interest rates.

Alternatively, the Sewer Utility could self-fund for the capital projects. Capital funding can be generated either through the Sewer levy or utility rates, which is the subject of the subsequent agenda item. For this agenda item, staff is simply requesting that the SUDC designate that capital funding should be generated through borrowing or self-funding.

Self-funding provides a consistent revenue stream for current and future capital projects. The SUDC may be aware of adjacent utilities who have had to implement significant rate increases to address deferred or emergent utility projects. The Grafton Sewer Utility implemented a rate increase of 15.5% in 2018, 15% in 2019, and 15% in 2020 to address a deficiency in sewer rates and Port Washington is expected to increase water rates 40-67% to address its water treatment plant. Mequon Sewer Utility staff, in cooperation with the Finance Department, is seeking to

ensure that Mequon Sewer Utility rate payers are not impacted so severely to fund the necessary capital projects.

Recommendation

Staff recommends that the SUDC direct staff to generate the FY2024 budget on the basis that capital funding will be provided through:

- Borrowing
- Self-funding
- Combination of borrowing and self-funding

Please note that this decision is non-binding, but provides staff with the direction to generate the FY2024 budget documents for SUDC consideration. The direction applies only to the draft of the FY2024 budget. Finance staff will continue to monitor interest rates and advise of any changes that may impact the SUDC's decision for capital funding in the future.

Given the current interest rates, staff does not recommend borrowing for capital expenditures, but rather self-funding. Based upon the projected \$3.3M deficit at the end of Year 5, staff would propose a gradual increase in capital self-funding to eliminate the gap.

If the SUDC agrees with staff's recommendation for self-funding, staff will generate the FY2024 budget with an incremental increase in capital funding. If the SUDC directs staff to address capital projects through a borrowing, capital funding will remain stable.

Attachments:

Exhibit A - 2024 Capital Fund Details_DRAFT (PDF)

2024 SEWER CAPITAL PROJECT FUND

The Sewer Utility applies user fees to provide capital self-funding. The types of projects included in the Sewer Capital Project Fund are based upon an expected life-cycle of greater than 10 years, where a depreciable asset value is established.

The utility has been successful in self-funding a number of projects. These projects are improvements to extend the service life of the system, add capacity and provide efficiency in addition to keeping the collection system functional and avoiding non-compliance. In the last decade, past projects funded from reserves include lift station pump and force main replacements, all three phases of the Cedarburg Road Mequon-Thiensville Interceptor Rehabilitation, Donges Bay Road Flow Equalization, and various subdivision gravity sewer pipe rehabilitation projects, including testing and sealing with grout in the Riverland Drive and Riverdale Park areas, along with various cured-in-place pipe lining installations. By providing capital funding for these projects, user rates have remained stable.

Table 1 – History of Self-Funded Capital Budgets

| | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|----------------------|-------------|-----------|-------------|-------------|-------------|-------------|
| Self-Funding Capital | \$1,040,000 | \$720,000 | \$1,420,000 | \$1,350,000 | \$1,350,000 | \$2,073,286 |

In 2019, accounts were established for consolidation into five universal sinking fund accounts. This accounting format replaced individual accounts of specific projects for various reasons. The new categorical accounts allow the Sewer Utility to meet long-term needs rather than being project specific. In addition, the funds formed by periodically setting aside money for the replacement of assets give the Sewer Utility the long-term financial ability to perform required capital projects. These sinking funds earmark or reserve funds for specific purposes and categories, rather than only for specific projects. The overall funding levels remain unchanged, only the allocation of funds was modified.

Table 2 – Self-Funded Capital Funds

| Account Name | 2024 | 2025 | 2026 | 2027 | 2028 |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| 1. Gravity Sanitary Sewer Fund | \$750,000 | \$750,000 | \$750,000 | \$750,000 | \$750,000 |
| 2. Sanitary Lift Station Fund | \$923,000 | \$923,000 | \$350,000 | \$350,000 | \$350,000 |
| 3. Sanitary Force Main Fund | \$350,000 | \$350,000 | \$923,000 | \$923,000 | \$923,000 |
| 4. Asset Management Fund | \$15,286 | \$15,286 | \$15,286 | \$15,286 | \$15,286 |
| 5. Equipment Replacement | \$35,000 | \$35,000 | \$35,000 | \$35,000 | \$35,000 |
| TOTALS | \$2,073,286 | \$2,073,286 | \$2,073,286 | \$2,073,286 | \$2,073,286 |

These self-funded capital accounts are established as sinking funds to provide for level budgeting and long-term funding. The Sewer Utility has also identified specific projects for this funding. For some projects, the respective account requires funding over a multi-year budget cycle in order to achieve adequate financing. For example, the replacement of the City's largest lift station, Ranch Road or Lift Station E, is estimated at \$4.8-\$6.2M and accumulation of annual allocations (along with remaining bond proceeds from 2020 relief sewer project) makes self-funding the replacement of Lift Station a possibility. The scale or proportion of funding established for each account category is intended to address the priorities of the Sewer Utility. The sinking funds are required for various types of projects. The funds are to address any regulatory requirements and projects identified as a part of a study for system improvements.

2024 SEWER CAPITAL PROJECT FUND

1. Gravity Sanitary Sewer Fund

The Gravity Sewer Fund is required for relay and replacement of over 165 miles of sewer main and 3,875 manhole structures that will require renewal over anticipated life cycles. Methods of sewer installation include open-cut trenching and trenchless technologies such as directional drilling, micro-tunneling, and cured-in-place pipe (CIPP) installation. Capital grouting of sewer mains is another method implored to reduce infiltration into the collection system. Methods for manhole rehabilitation are cementitious or epoxy lining or grouting; otherwise sectional or complete replacement is required. CMOM (Capacity Management, Operations and Maintenance annual report) and CMAR (Compliance Maintenance Annual Report required by the Wisconsin Department of Natural Resources) regulatory requirements for system upgrades are planned, such as reducing inflow and infiltration during wet weather to reduce sanitary sewer overflows and bypass events in locations near the river. In 2022 the City's hydraulic model was updated, as part of the East Trunk System north of Mequon Road, and in 2023 it was used to design capacity improvements for a new Lift Station E.

Prioritized projects include:

- Construct Phase I Sewer Improvements in ME4001/2; 1,000 feet of Gravity Sewer Relay to new Lift Station in Laguna Drive (\$1,000,000)
- Construct Phase II Sewer Capacity Improvements in ME4002, (\$1,300,000)
- Construct Phase III Sewer Capacity Improvements in ME4004, (\$1,300,000)
- Construct Phase IV Sewer Capacity Improvements in ME4001, (\$1,700,000)
- Rehabilitate Sanitary Sewer Mains for PPI/I Priority Area "E" (\$250,000)
- Design Sewer Capacity Improvements in Basin ME4001, F Area (\$75,000)
Construct 1,500 feet in Circle Drive from Center Court to River Forest Drive
- Construct Sewer Capacity Improvements in ME4001, F Area (\$1,500,000)
- Update System Model of East Trunk Sewer north of Mequon Road (\$50,000)
- Rehabilitate Sanitary Sewer Mains for Lift Station Areas A, B and D (\$1,000,000)
- Design Study Report for Heritage Estates Siphon (\$15,000)
- Design Study Report for River Road Sewer under Milwaukee River, D Area (\$15,000)

2024 SEWER CAPITAL PROJECT FUND

2. Sanitary Lift Station Fund

The Sanitary Lift Station Fund is required for various types of projects for the 23 existing lift stations including the expansion or replacement of existing lift stations and their appurtenances, as well as the construction of new stations. The funds are also utilized for projects identified as part of condition assessment studies, such as replacing pumps and transfer switches for safety. In addition, CMOM and CMAR regulatory requirements are addressed to minimize sanitary sewer overflows and optimize the system by upsizing pumps, increasing wet well capacity, and upgrading SCADA (system for controls and data acquisition) based on magnetic flow meters. In the event the replacement of a lift station requires funding that exceeds the sinking fund balance, such as potentially for replacement of the Ranch Road Lift Station E, borrowed funds would be necessary for major construction improvements unless the mil rate is increased to accumulate additional funds in 2024 for anticipated construction in 2024-2025.

Prioritized projects include:

- Construct Replacement of Lift Station E* in Laguna Drive, extended (\$4,784,000)
- Design Study Report with Preliminary and Final Plans for Fieldwood Drive Lift Station G Capacity Improvements (\$35,000)
- Construct Fieldwood Drive Lift Station “G” Capacity Improvements (\$275,000)
- Replace Pumps, Valves, Motors at Lift Stations F,O,R,S,K (\$50,000/each)
- Install Magnetic Flow Meters at Lift Stations B,C,D,O,R (\$15,000/each)
- Install Emergency Generators at Lift Stations K,H,Q,J,M (\$60,000/each)
- Install Lift Station Transfer Switches at Lift Stations K,H,Q,J,M (\$10,000/each)
- Replace Control Panels (\$10,000/each)
- Replace Cathodic Protection (\$10,000/each)
- Lift Station Pumping Energy Study (\$10,000)
- Replace and Upgrade Transducers (\$5,000/each)
- Decommissioning Studies – Lift Stations P, E** (\$25,000)

** In the 2021 Sewer Utility Budget, bond proceeds from the East Trunk Relief Sewer Project (south of Mequon Road) in the amount of \$3,404,000 were reallocated to replace the Ranch Road Lift Station E. The LS E Condition Assessment completed in 2020 estimated replacement costs ranging from \$4.8M to \$6.2M. A substantial amount of self-funding is available but borrowing or an increase in the mill rate is required for construction in 2024-2025.*

***The decommissioning study includes evaluation to replace (or augment) lift station operations with gravity sewer extensions, where feasible.*

2024 SEWER CAPITAL PROJECT FUND

3. Sanitary Force Main Fund

The Sanitary Force Main Fund is required for the design, replacement, new construction, retrofits, and large-scale cleaning of over 20 miles of sanitary force main. Prioritized projects outlined below were identified as part of the systematic replacement of cast iron force mains, the 2018 force main maintenance study, and 2021 Condition Assessments for Fieldwood Drive Lift Station G and Riverdale Park Lift Station F that are part of the East Trunk System north of Mequon Road. In 2022, the Tamerlane Drive Lift Station “O” was designed, and constructed in 2023. CMOM and CMAR require collection system upgrades and maintenance to maintain and keep the sewer system in compliance with WDNR requirements.

Prioritized projects include:

- Construct Force Mains for new Lift Station E in Laguna Drive, extended (\$450,000)
- Design Fieldwood Drive Lift Station G Force Main Improvements (\$77,000)
- Construct Fieldwood Drive Lift Station G Force Main Improvements from Woodland Drive to Freistadt Road to Glen Oaks Lane (\$2,200,000)
- Install Force Main Access Ports from Ranch Road Lift Station E for Maintenance (\$25,000)
- Perform Large Diameter Force Main Cleaning from Lift Stations A&E (\$250,000)
- Clean Small Dia. Force Mains under the Milw. River Lift Stations N, V, T (\$75,000)
- Replace Cast Iron Force Main in Huntington Park Lift Station R (\$250,000)
- Secure Easement for Force Main Replacement in Huntington Park Outlot (\$25,000)

4. Asset Management Fund

The Asset Management Fund is a sinking fund utilized to upgrade, install and expand the SCADA (System Control And Data Acquisition) equipment at the utility, and improve/add supply equipment and facilities. Proposed projects include replacing commercial remote access meters, valves, SCADA upgrades, maintaining a computer server for sewer exam records, GIS (geographic information system) upgrades for CMAR and CMOM reporting, evaluation of system life costs and projections, a 20-year planning study of all three major sewersheds, and others. Additional upgrades include installation of new sewer meters.

Prioritized projects include:

- SCADA Study for Sewer Utility (\$25,000)
- Commercial Sewer Meter Replacements (\$10,000)
- Upgrades to Asset Management Geographic Information Systems (\$25,000)
- Flow Meter Installations, Rain Gauge Installation at City Hall and Flow Monitoring in Collection System (\$125,000)
- CCTV Camera Software and Hardware Upgrades (\$25,000)
- GIS Tools for CMAR and CMOM Reporting (\$25,000)

2024 SEWER CAPITAL PROJECT FUND

5. Equipment Replacement Fund

The Equipment Replacement Fund is a sinking fund for the replacement of sewer equipment. It has been utilized previously for the purchase of the City's sewer vacuum truck and camera truck that is shared with Shorewood and Brown Deer. The camera incurs nearly constant operation that requires routine maintenance. Typically, this piece of equipment, last acquired in 2015, is planned for replacement on a 10-year cycle. Other routine equipment replacement includes portable back-up generators for lift stations, portable pumps for bypass operations, and sewer main cleaning equipment such as hoses and jet nozzles. Previous years' purchases have included acquisitions to replace pick-up trucks for the sewer maintenance crew, and that sinking fund will continue. Other anticipated purchases include replacement of the hose reel camera or acquisition of a new lateral evaluation televising system (LETS) camera for lateral inspections. This equipment is required to meet CMOM and CMAR required routine cleaning, inspection and condition assessments to maintain system compliance with WDNR requirements.

Prioritized projects include:

- CCTV Camera Replacement (\$125,000)
- Camera Truck Replacement (\$275,000)
- Portable Back-up Generators Replacement (\$20,000)
- Portable Back-up Pumps Replacement (\$15,000)
- Lateral Inspection Camera Acquisition (\$35,000)
- Vacuum Truck Replacement (\$425,000)
- Grout Truck with mainline and lateral equipment (\$450,000)
- Maintenance Crew Pick-up Trucks Replacement (\$65,000)

REIMBURSABLE CAPITAL ACCOUNT

Private Property Infiltration and Inflow Reimbursement Fund

The PPI/I Fund is for sewer lateral work. This work can be done in stand-alone contracts or in combination with work on the public sewer main contracts. The sewer lateral work has historically been performed in the right-of-way and on private property, where per Code, the City is responsible for the lateral within the right-of-way. The available unallocated MMSD funds in the amount of \$445,300 are available to complete sewer lateral work in the Lift Station F & H Areas. Additionally, the available unallocated MMSD funds in the amount of \$68,368 are available to complete sewer lateral work in the Lift Station E Area. Also, staff sent an application to MMSD for competitive funding to address prioritized projects. This award is scheduled for announcement on September 21, 2023. In the event the competitive funding is not awarded to Mequon Sewer Utility, then staff will bring back an item to the Commission to address utilization of the annual allocation from MMSD and/or any considerations for self-funding to complete necessary sewer lateral work.

2024 SEWER CAPITAL PROJECT FUND

Reimbursable Prioritized Sewer Lateral projects include:

- Sanitary Lateral Rehab in PPI/I Targeted Areas Lift Stations F&H (\$953,000) Amended Increase (\$696,690) Revised Total (\$1,649,690) Balance \$445,300
 - Clean and Examine Laterals completed in 2020-2021 (310 @ 21,790 LF)
 - Locate Laterals with Sonde completed 2022 (175 @ \$81,384)
 - Test and Seal Laterals from Mains completed 2022 (61 @ \$115,778)
 - Installed Clean-outs in 2023 (116 @ \$681,512)
 - Test and Seal Laterals from Clean-outs 2023-2024, (7@ \$123,056)
 - Inspection (\$202,660 incurred)
- Sanitary Lateral Contract (PPI/I Targeted Areas) Lift Station E (\$756,000) in 2023
 - Test and Seal Laterals from Mains, awarded 2023 (218 @ \$687,632 budgeted)
 - Inspection (\$169,882 budgeted)

The Utility's 5-year project plan is shown in Table 3. The accumulation of capital funds allows for level funding and minimizes fluctuations in user rates. Some capital projects require large-scale funding and/or several years' worth of funding prior to the utilization of the funds.

Table 3 – 5 Year Project Plan

| Gravity Sanitary Sewer Fund | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|
| Laguna Drive Sewer Connect New Station, Construct 1000ft, Phase I | \$500,000 | \$500,000 | | | |
| Ranch Road (extended) Area E Sewer Improvements, Construct 1300 ft, Phase II | \$650,000 | \$650,000 | | | |
| Glen Oaks Lane Area E Gravity Sewer Improvements, Construct 1300ft, Phase III | | \$650,000 | \$650,000 | | |
| Glen Oaks Lane Area E Gravity Sewer Improvements, Construct 1700ft, Phase IV | | | \$1,275,000 | \$425,000 | |
| Riverdale Park Area F Gravity Sewer Improvements, Design | | | \$75,000 | | |
| Riverdale Park Area F Gravity Sewer Improvements, Construct | | | | \$750,000 | \$750,000 |
| Sewer Main Improvements in Areas A, B, C, D | | | | \$500,000 | \$500,000 |
| Update System Hydraulic Modeling with Improvements | | | | | \$50,000 |
| Heritage Estates Siphon Design Study | | | \$15,000 | | |
| River Rd at Milw. River Design Study | | | \$15,000 | | |
| Mequon Rd, Flow Equalization @ STH 57 | | | | \$35,000 | \$175,000 |
| STH167 Sewer Rehabilitation Work | | | | \$300,000 | |
| Gravity Sanitary Sewer Fund (Category 1) TOTALS | \$1,150,000 | \$1,800,000 | \$2,030,000 | \$2,010,000 | \$1,475,000 |

2024 SEWER CAPITAL PROJECT FUND

| Lift Station Fund | 2024 | 2025 | 2026 | 2027 | 2028 |
|--|--------------------|------------------|--------------------|--------------------|------------------|
| Ranch Rd Lift Station E Construction | \$4,305,000 | \$479,000 | | | |
| Fieldwood Drive Lift Station G Design Study Report for Improvements | | \$35,000 | | | |
| Construct Fieldwood Drive Lift Station G Capacity Upgrade | | | \$275,000 | | |
| Replace Pumps, Valves, Motors (R,S,T,U) | | \$50,000 | \$50,000 | \$50,000 | \$50,000 |
| Install Magnetic Flow Meters (A,B,C,D,R) | \$15,000 | \$15,000 | \$15,000 | \$15,000 | \$15,000 |
| Install Lift Station Emergency Generators with Transfer Switches (K,H,Q,J,M) | | \$60,000 | \$60,000 | \$60,000 | \$120,000 |
| Replace and Upgrade Transducers, Control Panels and Cathodic Protection | | \$15,000 | \$15,000 | \$15,000 | \$15,000 |
| Condition Assessments (A,X) | | | \$50,000 | \$50,000 | |
| Replacement and Generator Installations | | \$50,000 | | | \$50,000 |
| Decommissioning Studies (LS E, P) | \$40,000 | | \$15,000 | | |
| Lift Station Fund (Category 2) TOTALS | \$4,345,000 | \$654,000 | \$430,000 | \$190,000 | \$250,000 |
| | | | | | |
| Force Main Fund | 2024 | 2025 | 2026 | 2027 | 2028 |
| Laguna Drive LS E Force Main Construct for new Connection | \$450,000 | | | | |
| Hidden Reserve LS E Force Main Extension | | \$500,000 | | | |
| Lift Station G Force Main Design Capacity Improvements | | \$35,000 | | | |
| Lift Station G Force Main Construct 6,200ft | | | \$1,100,000 | \$1,100,000 | |
| Concord Drive Lift Station R Force Main Replacement | | | | \$50,000 | \$250,000 |
| Retrofit Force Mains with Access Ports (A,E) | | | \$10,000 | \$10,000 | \$20,000 |
| Sanitary Force Main Cleaning (A,E,T,V) | | | \$150,000 | \$75,000 | \$75,000 |
| Forcemain Fund (Category 3) TOTALS | \$450,000 | \$535,000 | \$1,185,000 | \$1,235,000 | \$430,000 |
| | | | | | |

2024 SEWER CAPITAL PROJECT FUND

| Asset Management Fund | 2024 | 2025 | 2026 | 2027 | 2028 |
|---|--------------------|------------------|------------------|------------------|------------------|
| Flow Meters, Rain Gauge, Flow Monitoring Quarterly Reports (East, Central, and West Trunk Gravity System) | \$25,000 | \$25,000 | \$25,000 | \$25,000 | \$25,000 |
| Flow Metering - Lift Stations (A,D,U,R,T) | \$6,000 | \$6,000 | \$6,000 | \$6,000 | \$6,000 |
| Software Upgrade – CCTV Camera | | \$25,000 | | | |
| GIS Improvement - Sewer Lateral Tools | \$10,000 | \$10,000 | \$10,000 | \$10,000 | \$10,000 |
| SCADA Study and Upgrades | | | \$100,000 | | |
| Asset Management Fund (Category 4) TOTALS | \$66,000 | \$41,000 | \$141,000 | \$41,000 | \$41,000 |
| Equipment Replacement Fund | | | | | |
| Equipment Replacement Fund | 2024 | 2025 | 2026 | 2027 | 2028 |
| Equipment Replacement (Trucks, CCTV, Back Up Pumps) | \$75,000 | \$75,000 | \$75,000 | \$75,000 | \$75,000 |
| Equipment Replacement Fund (Category 5) TOTALS | \$75,000 | \$75,000 | \$75,000 | \$75,000 | \$75,000 |
| TOTALS (Categories 1 to 5) | | | | | |
| | | | | | |
| PPI/I Reduction – Reimbursable Account | | | | | |
| PPI/I Reduction – Reimbursable Account | 2024 | 2025 | 2026 | 2027 | 2028 |
| Riverdale Park Lift Station F Area Implementation (ME10005-ME01) | \$222,650 | \$225,000 | \$225,000 | | |
| Riverland Drive Lift Station H Area Implementation (ME10005-ME01) | \$222,650 | | | | |
| Ranch Road Lift Station E Area Implementation (M10005-ME02) | \$687,632 | | | | |
| Ranch Road Lift Station E Area Inspection (M10005-ME02) | \$169,822 | | | | |
| Continue Priority Sewer Lateral Allocation | | | | \$225,000 | \$225,000 |
| Private Property Inflow Infiltration Reduction TOTALS | \$1,302,754 | \$225,000 | \$225,000 | \$225,000 | \$225,000 |

2024 SEWER CAPITAL PROJECT FUND

The Capital Funding Analysis is shown in Table 4. The available budget with respect to the sinking fund accumulation of capital funds identifies potential shortfalls for capital projects requiring large scale funding.

Table 4 – Capital Funding Analysis with Mill Rate at 1.62

| | 2022 | 2023 | 2024 | 2025 | 2026 |
|---------------------------|-------------|-------------|-------------|---------------|---------------|
| Budget Available (Jan.1)* | \$4,499,456 | \$4,707,221 | \$4,621,007 | (\$650,207) | (\$1,659,921) |
| Capital Funding | \$1,350,000 | \$2,073,286 | \$2,073,286 | \$2,073,286 | \$2,073,286 |
| Total Funds Available | \$5,849,456 | \$6,780,507 | \$6,694,293 | \$1,423,079 | \$413,365 |
| Capital Expenses | \$1,142,235 | \$2,159,500 | \$7,344,500 | \$3,083,000 | \$3,776,000 |
| End of Year Balance** | \$4,707,221 | \$4,621,007 | (\$650,207) | (\$1,659,921) | (\$3,362,635) |

*Includes the \$3.404 million in debt proceeds from the \$19.4 million East Trunk Sewer project financing in 2018, minus \$15.9 million in expenditures.

**In 2024 the capital funding analysis year-end balance is projected as a deficit that would require borrowing to complete the Replacement of the Lift Station E along Ranch Road. This work at LS E as part of the East Trunk Sewer work north of Mequon Road is anticipated for design in 2023 and construction in 2024. Additional work for capacity improvements to the gravity system and lift stations have also been identified. A determination on the type of capacity improvements, relief sewer or storage facilities will need to be made. For purposes of this budget, the more expensive relief sewer is accounted for in Exhibit A.



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Office of Engineering

TO: Sewer Utility District Commission
FROM: Kristen Lundeen, Director of Public Works/City Engineer
DATE: October 10, 2023
SUBJECT: Sewer Budget: Discussion and Recommendation for Increasing the Sewer Levy or User Rates for FY2024 Capital Expenditures and 5-year Capital Improvement Program

Background

In preparation for the Sewer Utility budget generation for FY2024, staff is requesting Sewer Utility District Commission (SUDC) feedback on two guiding principles: borrowing versus self-funding for the 5-year capital improvement program (CIP) and direction on setting levy, flat and volumetric rates to support capital funding. This memo will address the second request to seek feedback on setting levy, flat and volumetric rates.

As noted previously, the draft FY2024 5-year CIP identifies \$18.8M in projects, with a projected balance of \$5.1M across the capital accounts at the end of FY2023. Staff is requesting that the SUDC identify how the budget should address the gap for the current 5-year CIP and ensure sufficient capital funding for anticipated projects beyond the 5-year CIP.

This agenda item builds on the previous discussion item. However, staff is seeking direction from the SUDC whether the budget is accommodating principal and interest payments on debt or self-funding through levy and rates.

Analysis

Please note that this item is intended to address the philosophy behind increasing levy or rates to provide debt payments or capital funding only. The base FY2024 levy and rates will be generated based upon MMSD charges and anticipated operation and maintenance costs for the Mequon Sewer Utility.

Historically, the Sewer Utility has funded capital through the levy, and operation and maintenance through flat and volumetric rates. The funds generated from the Sewer Tax Levy are utilized for capital funding. A large portion of the capital funding is a pass through to MMSD and the amount is based upon the total assessed value of property within the Sewer Service Area, regardless of whether a property is connected to the public sewer system. That is why the charges are passed through the Sewer Tax Levy, rather than as a fee on the quarterly utility bills. Note there is no ordinance or other mandate that MMSD or Mequon Sewer Utility capital charges go to the Sewer Tax Levy. Self-funding capital may be derived from levy or utility rates.

The 2005 Wisconsin Levy Limit Law provided a maximum amount allowed as a property tax levy on parcels within the state. In order to increase the levy, the City must have net new construction in the previous year. The limit is imposed on both the General Fund and Sewer Fund levies, however, on a consolidated level. Therefore, the City has the ability to apply the levy increase as needed between the two funds rather than on a pro-rata basis. It is important to note that the Debt Service Levy is exempt from levy limit rules meaning the City can absorb addition debt service which increases the tax rate but still maintain compliance with levy limit

rules. When identifying levy capacity, the City has historically maintained the minimum allowed based on net new construction. However, there is additional capacity that can be leveraged via the sewer tax rate to fund one-time expenditures including capital projects.

MMSD assesses operation and maintenance costs through as billing rates, and the Mequon Sewer Utility historically billed in the same manner. FY2023 represented a shift in capital funding to the user rates, due to concerns regarding the impact of the Sewer Tax Levy on the General Levy. Typically user rates are expense driven, where the operational and maintenance costs are established and then the rates are determined by the revenue required to fund the expenses. The Sewer Utility has the ability to establish rates that not only provide the revenue for the associated expenses, but also to make debt payments or self-fund for capital projects.

Fiscal Impact

Increases to the Sewer Tax Levy, flat and volumetric rates all yield different amounts of funding. Increases to the Sewer Tax Levy impact all properties within the Sewer Utility District equally, at a rate per assessed value. However, not all properties within the Sewer User Area are connected to the utility and pay user rates. Residential customers connected to the utility pay a flat fee per quarter, whereas non-residential customers pay based upon a volumetric rate, therefore increases to user rates vary both in the amount of revenue they yield and their impact on users.

Debt payments on borrowing would be built into the annual budget if indicated as the preferred funding method and the utility user rates would be adjusted accordingly. At a projected deficit of \$3.3M, self-funding requires an annual increase of \$660,000 each year over the next 5 years would be required to eliminate the deficit at the end of Year 5 of the 5-year CIP.

For reference, the table below show the historic charges for the flat and volumetric rates and the sewer tax levy. The levy is impacted by MMSD, including the reduction when the Sewer Utility opted out of the Green Infrastructure program and the revaluation. Rates are impacted by MMSD, as well as increased operation and maintenance costs for the Sewer Utility.

| | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 |
|---|---------|---------|---------|---------|---------|---------|---------|---------|---------|
| Residential User Charge (Quarterly): | \$69.00 | \$70.00 | \$71.00 | \$71.00 | \$72.00 | \$73.00 | \$73.00 | \$74.00 | \$78.00 |
| Non-Residential User Charge Rate (per 1,000 gal): | \$5.147 | \$5.095 | \$5.887 | \$6.343 | \$6.664 | \$6.765 | \$6.765 | \$6.844 | \$7.55 |
| Sewer District Tax Rate (per \$1,000): | \$1.90 | \$1.89 | \$1.90 | \$1.94 | \$1.81 | \$1.81 | \$1.62 | \$1.60 | \$1.60 |

Whether allocated to debt payments, capital self-funding or operation and maintenance, the following table shows the increased revenue as a result of an increase rate:

| | Net Funding Increase |
|---|----------------------|
| \$1 Increase Residential User Charge (Quarterly): | \$19,700 |
| \$0.10/1,000 gal Increase Non-Residential User Charge Rate: | \$30,300 |
| \$0.01/\$1,000 Increase Sewer District Tax Rate: | \$45,000 |

In the budget packet, Exhibit B shows the relationship between rates, levy and capital funding. Exhibit B for FY2023 is attached for reference. For this discussion, staff provided a table of varying user rate and levy increases to demonstrate the resulting increase in revenue.

The “Typical Budget” includes a \$1/quarter increase to the Residential User Charge, a variable increase to the Non-Residential User Charge Rate and a stable funding level on the levy, as shown in the historic table above. Scenario 1 demonstrates a level Sewer tax levy with an increase in user rates. Scenario 2 demonstrates a level user rate with an increase in the Sewer tax levy and Scenario 3 shows a combination of Scenario 1 and Scenario 2.

| | Typical Budget | | Scenario 1 | | Scenario 2 | | Scenario 3 | |
|--|----------------|------------------|---------------|------------------|---------------|------------------|---------------|------------------|
| | Rate Increase | Revenue Increase | Rate Increase | Revenue Increase | Rate Increase | Revenue Increase | Rate Increase | Revenue Increase |
| Increase Residential User Charge (Quarterly): | \$1.00 | \$19,700 | \$5.00 | \$98,500 | \$0.00 | \$0.00 | \$5.00 | \$98,500 |
| Increase Non-Residential User Charge Rate (per 1,000 gal): | \$0.10 | \$30,300 | \$0.50 | \$151,500 | \$0.00 | \$0.00 | \$0.50 | \$151,500 |
| Increase Sewer District Tax Rate (per \$1,000): | \$0.00 | \$68,000 | \$0.00 | \$68,000 | \$0.05 | \$293,000 | \$0.05 | \$293,000 |
| Total Revenue Increase: | | \$118,000 | | \$318,000 | | \$293,000 | | \$543,000 |

In the table above, the “Typical Budget”, “Scenario 1” and “Scenario 2” would require a borrowing to complete the identified capital projects and maintain the levy and rates as shown. “Scenario 3” is close to the projected \$660,000 revenue increase required to eliminate the structure deficit at the end of Year 5. Please note that the levy and rate increases were provided as an example of scale. Staff is seeking direction from the SUDC on increasing the levy, the user rates or both prior to generating a FY2024 budget.

Recommendation

Staff recommends that the SUDC direct staff to generate the FY2024 budget on the basis that debt payments/capital funding will be provided through:

- Levy increase
- Rate increase
- Combination of levy and rate increase

Please note that this decision is non-binding, but provides staff with the direction to generate the FY2024 budget documents for SUDC consideration. The exact amounts will be determined through the typical analysis, subject to discussion and approval by the SUDC.

The direction applies only to the draft of the FY2024 budget. Levy and rates are reviewed and established annually, based upon current financial reporting.

Maintaining a flat sewer levy and/or flat rates do not provide a sufficient increase in capital

funding to complete the 5-year CIP projects. Therefore staff recommends a responsible combination of increases to increase capital funding over the next five years. Staff is requesting consideration of a modest sewer levy increase, in combination with a rate increase. If authorized, staff will generate the FY2024 budget based upon those parameters, with a goal to eliminate the \$3.3M deficit in capital funding by the end of Year 5.

Moving forward, staff will propose continued incremental increases, when warranted, to address the long-term capital funding needs of the Sewer Utility. In doing so, the Sewer Utility will be funded to avoid sudden increases in levy or rates, or elimination of capital projects.

Attachments:

Exhibit B - 2024 Sewer Budget Rate data (draft) (PDF)

2024 (DRAFT) CALCULATION OF SEWER USER CHARGE RATES

Exhibit B

| <u>Rate Components</u> | <u>Annual Cost</u> | <u>Total</u> <u>(1,000 gals)</u> | <u>2024 Rate</u> <u>(1,000 gals)</u> | <u>2023 Rate</u> <u>(1,000 gals)</u> | <u>Change</u> | |
|------------------------|--------------------|-------------------------------------|---|---|---------------|-------------|
| MMSD O&M | \$1,696,876 | 486,775 | \$3.486 | \$3.497 | (0.011) | |
| Mequon O&M | \$1,197,822 | 486,775 | \$2.461 | \$2.877 | (0.416) | |
| Self Funded Capital | \$780,000 | 486,775 | \$1.602 | \$1.178 | 0.424 | |
| Capital Debt Service | \$0 | 486,775 | 0.000 | \$0.000 | 0.000 | |
| Totals: | \$3,674,698 | | \$7.549 | \$7.552 | (0.003) | 0.0% |

Quarterly Flat Rate

| <u>Customer Type</u> | <u>Rate</u> <u>(1,000 gals)</u> | <u>MMSD</u> <u>ROF</u> | <u>MMSD</u> <u>ERU</u> | <u>Days</u> | <u>2024</u> | <u>2023</u> | <u>Change</u> |
|----------------------|------------------------------------|---------------------------|---------------------------|-------------|-------------|-------------|---------------|
| Residential | \$7.549 | 2.31 | 49.0 | 365 | \$77.97 | \$78.00 | 0.0% |
| | | | 41,314 | | | | |

Estimated Flow Volume:

| <u>Customer Type</u> | <u>Customers</u> | <u>MMSD</u> <u>ROF</u> | <u>MMSD</u> <u>ERU</u> | <u>Days</u> | <u>Total 2024</u> <u>(1,000 gals)</u> | <u>2023</u> | <u>2024 Revenues</u> |
|----------------------|------------------|---------------------------|---------------------------|-------------|--|-------------|----------------------|
| Residential | 7,498 | 2.31 | 49.0 | 365 | 309,775 | 309,206 | \$2,338,513 |
| Commercial | 473 | N/A | N/A | N/A | 177,000 | 169,000 | \$1,336,185 |
| Totals: | 7,971 | | | | 486,775 | 478,206 | \$3,674,698 |

MMSD O&M Charges

| | <u>2024</u> | <u>2023</u> | <u>Change</u> | <u>% Change</u> |
|--|-------------|-------------|---------------|-----------------|
| Estimated User Charge Billings Provided from MMSD | \$1,696,876 | \$1,672,293 | \$24,583 | 1.47% |

Mequon O&M Charges

| <u>Expense Type</u> | <u>2024</u> | <u>2023</u> | <u>Change</u> |
|-------------------------|--------------------|---------------|---------------|
| Total Operating Costs | 7,923,569 | \$7,810,987 | \$112,582 |
| * Less - MMSD O&M | (\$1,696,876) | (\$1,672,293) | (\$24,583) |
| ** Less - MMSD Capital | (\$4,629,571) | (\$4,604,759) | (\$24,812) |
| *** Less - Other Income | (399,300.00) | (\$158,300) | (\$241,000) |
| Totals: | \$1,197,822 | \$1,375,635 | (\$177,813) |

* MMSD O&M costs are calculated as a separate component and need to be deducted in order not to be counted twice.

** MMSD sewer capital charges are paid through the tax levy and should not be included in the amount needed to be covered through user fees.

*** Interest, Late fees, and Misc revenues reduce the amount of the Mequon O&M charges needed to be covered through user fees.

| <u>Tax Exempt Capital Rate</u> | | <u>2024</u> | <u>2023</u> | <u>Change</u> |
|--------------------------------|-----------------------------------|-------------|-------------|---------------|
| | Budgeted MMSD Capital Costs | \$4,629,571 | \$4,604,759 | \$24,812 |
| | Mequon Capital Costs | \$320,000 | \$260,000 | \$60,000 |
| (CSM, MATC, Concordia) | Total annual estimated sewer flow | 486,775 | 478,206 | 8,569 |
| | Calculated rate per 1,000 gallons | \$10.17 | \$10.17 | 0.0% |

Attachment: Exhibit B - 2024 Sewer Budget Rate data (draft) (8857 : Sewer Budget: Levy vs. Rate)