

**City of Oconomowoc
Committee-Of-The-Whole**

**Wednesday, November 04, 2020 - 6:15 PM
City Hall - Council Chambers**



Notice: If a person with a disability requires that the meeting be accessible or that materials at the meeting be in accessible format, call the City Clerk at least 48 hours prior to the meeting to request adequate accommodations. Tel: 569-2186.

1. Call to order and confirmation of appropriate meeting notification
2. Committee Business
 - a. Consider/recommend Proposed 2021 Utility Budgets - ***** Please bring your Budget Book *****
3. Adjourn

Diane Coenen, City Clerk
City of Oconomowoc

Notice is hereby given that a majority of the Common Council will be present at the above scheduled meeting to gather information about a subject over which they have decision-making responsibility. This constitutes a meeting of the Common Council pursuant to State ex rel. Badke v. Greendale Village Board, 173Wis. 2d 553, 494 N.W. 2d 408 (1993) and must be noticed as such, although the Common Council will not take any formal action at this meeting.



MEMORANDUM

DEPARTMENT

Date: October 20, 2020
To: City Council, Mayor Magnus
From: John Schuh, Utility Accounting Manager
Laurie Sullivan, Director of Finance/Administrative Services
Re: Proposed 2021 Utility Budget

RELATES TO THE STRATEGIC PLAN

Strategic Goal-N/A

BACKGROUND

Attached for your review is a copy of the proposed 2021 Utility Budget. This budget will be on the agenda at the next meeting of the Utility Committee on October 27, 2020 for recommendation to the council. This memo is intended to give you an overview of the budget and budgeting process.

If the Utility Committee recommends the proposed 2021 Utility Budget, it is anticipated that it would proceed to a Committee-of-the-Whole meeting on November 4th, and then for final adoption on November 17th.

ADDITIONAL ANALYSIS

To assist and expedite the budget review process, a detail spreadsheet report listing of the budget ledger accounts is included inside the front cover of the budget binder. The spreadsheet rows and columns are included for reference. On this report, accounts are listed in numerical order (wastewater – green, water – blue, electric – yellow). Columns X and Y reflect the change from the previously approved (2020) budget to the proposed (2021) budget. Accounts with an unfavorable increase greater than \$5,000 are highlighted in red. The Notes column includes a brief explanation for most of the significant changes. Each section total on the report in column G lists the corresponding budget binder page number. Note that the detail budget reports in the binder are sorted numerically based on the third of the four segments of the ledger account number (xxx-xxx-XXXX-xxx).

FINANCIAL IMPACT

Wastewater Budget Overview

The majority of the Wastewater operational budget remains similar to prior years. The utility continues to fund significant activities related to the Oconomowoc River watershed phosphorus reduction project. The primary purpose of this innovative project is to avoid significantly larger capital equipment expenses at the treatment facility in future years. The 2021 budget includes about \$345,000 of expenses for this project, which is \$128,000 less than the prior budget.

Overall operating expenses are projected to increase 5.59% (\$206,711). Biosolids hauling, treatment chemicals and depreciation represent the largest increases in operating expenses. Because the Wastewater Utility is very capital intensive, depreciation is one of the largest components, representing 27% of total operating expenses.

As part of the annual budget process, the rate study model has been updated for the planned expenses. This provides guidance on how to structure rates for both our metered city customers and the outlying adjacent sanitary districts. Based on study results, staff is recommending that rates remain unchanged for the coming year. Budgeted revenue projections have been updated for customer growth and volume flow changes.

The Wastewater capital budget continues to fund sewer main replacements and reinforcements in conjunction with street repair projects. Another significant project is the replacement of the primary digester cover and design work for replacing the secondary digester cover. The digester projects will be funded by Sewer Availability Charges that have been paid by recent new development.

The Wastewater Utility is expected to produce an operating income of \$160,178 and a rate of return of 1.14%.

Water Budget Overview

The Water Utility budget is projecting overall operating expenses to increase 3.38% (\$102,740). The multi-year tower maintenance contract will provide for repainting the Olympia water tower. Also included is a new risk and resilience study required by the EPA. The largest increase in operating expenses is depreciation due to street project water main replacements adding to our asset base.

The capital project budget includes \$880,000 for water main replacements to keep pace with the fourth year of the city's accelerated street projects. The budget also includes \$900,000 for the Thackeray Trail reconstruction and \$2,225,000 for construction of the Well #8 pumping station and ground storage reservoir. The utility borrowed \$2,425,000 in 2020 and plans additional borrowing of \$2,900,000 next year.

An application has recently been filed with the Public Service Commission (PSC) for a water rate increase. The final rate structure and impact on average customers will be determined by the PSC. The initial application model indicated the need for a 20% increase. The timing for implementing new rates is also dependent on the PSC. The revenue budget also reflects a small increase in consumption after several years of decline. The shift of the public fire protection charge (fire hydrant maintenance) from the general fund to customer utility invoices does not provide additional revenue to the utility; it only represents a change in source. The current water rates have not changed since 2011. The 2021 budget projects operating income of \$758,195 and a rate of return of 4.19%.

Electric Budget Overview

Total operating expenses of the Electric Utility are budgeted to decrease 1.83% (\$429,192). Purchased power is the largest expenditure in the electric budget (\$16,730,000) and accounts for 73% of the operating expenses. Because of market price changes, the budgeted cost of purchased power is 4.87% less than the prior budget. Excluding this, the remaining operating expenses are expected to increase 7.31% (426,808). This includes new projects such as a distribution system study and a pole inspection and inventory. Depreciation represents the largest single increase in operating expenses.

Operating revenue is projected to decrease \$1,021,000 in relation to the lower cost of purchased power. WPPI provides our guidance in forecasting future sales and costs of purchased power. The current electric rates were implemented in March 2019. As a result, the 2021 budget does not include any base rate changes.

The capital project budget includes \$3,515,000 of distribution system upgrade projects. This represents an expansion of our efforts to replace problematic cable, implement distribution voltage improvements, and industrial service upgrades. The budget also includes replacement of the frequently used hydro-excavator machine for underground maintenance projects.

Overall, the Electric Utility is estimated to produce \$875,697 in operating income with a rate of return of 2.64%.

RECOMMENDATION

Recommend approval of Proposed 2021 Utility Budget.

SUGGESTED MOTION

Motion to approve the Proposed 2021 Utility Budget.