

# City Administrator's Budget Message

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# ***City of Chaska 2011 Budget***



## **2011 Annual Budget**

### **To the Citizens of Chaska, Honorable Mayor, and Chaska City Council:**

Submitted for your review is the proposed 2011 Annual Budget for the City of Chaska, along with a review of major issues and opportunities relating to the City's general operations. The budget, as proposed, I believe meets the needs for continuing to provide excellent municipal services, while at the same time meeting the City's objectives that we have established during the budgeting process.

### **2011 Revenue Issues**

As we saw in both 2009 and in 2010, there continues to be a number of significant revenue issues the City of Chaska has needed to address as it relates to the preparation of the 2011 budget. Specifically, the three major revenue issues we have had to address include:

- An overall reduction of 6.68% in taxable market values in the community
- The State's continued un-allocation of both Local Government Aid and Market Value Homestead Credit dollars
- The continued slowdown in construction activity, which has significantly reduced building permit revenue

Between 2009 and 2010, the City of Chaska identified just over \$1 million in revenue shortfall. To address these issues in 2009, the City eliminated 3 positions in our Community Development Department, as well as reduced our street maintenance activities. These reductions resulted in a reduction in our expenditures of \$321,395 in 2009, with the City continuing these reductions into the 2010 budget year. In addition, in 2010, the City balanced the General Fund budget through \$296,000 in expenditure reductions, as well as an additional \$253,000 in deferments of planned expenditures.

In 2011, the City identified approximately \$650,000 in revenue shortfall compared to 5-year forecast number that we projected in 2010. This primarily came from a reduction in anticipated tax revenue of \$350,000, an anticipated un-allocation of \$173,000 in Market Value Homestead Credits from the State, and a reduction in revenue of \$47,000 from the School District for our 3<sup>rd</sup> School Resource Officer position.

To address these issues in 2011, Staff has identified approximately \$450,000 of deferments of planned expenditures, including some scheduled equipment replacement, as well as a reduction of nearly \$200,000 in expenditures, including a reduction in our street maintenance activities. In addition, the proposed budget also continues to include not filling the 3 positions that were eliminated in 2009 from the Community Development Department.

With these changes, along with a recommendation to keep our tax levy the same from 2010 to 2011, Staff feels that we are able to adequately address the revenue issues we

are currently experiencing, and at the same time meet the budgeting objectives that were established by the Council in our annual budgeting process.

### **Budget Objectives**

After identifying the revenue issues for 2011 that we anticipate the City will be facing, the first step Staff took in the preparation of the 2011 budget was to establish a set of objectives to guide the preparation of the general fund budget. Below, is list of those objectives that were used in both the 5-year financial forecast process and the goals that were used in the establishment of the 2011 budget:

- 1) *Maintain existing high-quality service levels, making reductions in service levels only when directly associated with decreased need for service*
- 2) *Maintain a policy of keeping a constant tax rate for limiting growth of tax levy, while also planning levy resources that at a minimum remain constant, thus not inhibiting our ability to maintain existing service levels*
- 3) *Fund replacement of the City's existing capital investments*
- 4) *Fund new programs only after existing, necessary programs are funded*
- 5) *Address the implications of levy limits on local governments and the significant reduction in LGA and MVHC, while maintaining current service levels expected*
- 6) *Develop a plan that allows City to discontinue draw from General Fund reserves*
- 7) *Continue to fund levy needs of Street Reconstruction Program*

One of the objectives that received particular discussion during the 2011 budget process was our objective of keeping a constant tax rate. With a reduction in overall property values of 6.68%, keeping a constant tax rate would reduce our overall levy by approximately \$300,000 from what we levied in 2010. With an already lean budget, a low City tax levy (3<sup>rd</sup> lowest per capita in the Twin Cities Metropolitan Area), and the need to cut key City services should we reduce our overall levy from 2010, it was decided to modify this objective so that a constant tax rate limits growth in our tax levy resource, but that the City not levy less than the previous year to ensure that all of our budgeting objectives are able to be met.

### **Key Factors in Revenue Forecast**

Key factors which impact both the cost of providing services and the City's revenue resources are changes in Chaska's population and households. As the number of households in the community increases, there are increased demands for street maintenance, snow plowing, park usage, recreation, police calls, utility bills, etc. Population and household levels also impact expected revenues from utilities, building permits and property tax levies.

A significant trend that occurred in the early part of this decade was the increased rate of residential development in the City. In the 1990s, Chaska's residential development remained relatively stable, with an average of 200 new living units per year.

During that time period Chaska’s population increased from 11,339 to 17,450. From 2001 to 2005, in excess of 2400 new living units were approved within new residential subdivisions. In addition, the type of developer shifted from local developers to large national firms. As a result of both increased demand and supply of residential dwellings, a significant increase in new residential dwelling construction activity occurred in the 2003-2005 time period.

Over the past 5 years however, residential development in the metro area has decreased significantly as a result of both over-building and a general downturn in the economy. At the same time, the supply of new available lots within the Chaska area has decreased, resulting in a significant downturn in building activity. We have continued to see no new significant residential development come through the planning process this year, while the lots that were previously developed, but not built upon, have sold at rates slower than expected.

This trend, combined with a delay in anticipated development of Chaska Township, Staff believes will result in a continued decrease in new housing units in 2011, with 75 units being planned for in this budget year. This is expected to come mostly through the addition of single-family homes on existing platted lots in the community. However, it is possible that we may see the addition of a multi-family housing building in the community in 2011, with the potential for the 50-unit Landing on the Block 53 redevelopment site moving forward this budget year. While we do anticipate that in 2011 housing starts will continue to be low, we will have one large Industrial project moving forward with the construction of the 250,000 square foot United Health Group Data Center facility, and the potential for some addition industrial development in the community. Below is a chart illustrating past population growth and the growth Staff anticipates over the 5-year period.

Year	# of Households	# of New	Est. Pop.
2000	6,979	445	17,449
2001	7,394	415	18,485
2002	7,909	515	19,773
2003	8,378	469	20,945
2004	8,854	476	22,135
2005	9,122	268	22,805
2006	9,323	201	23,308
2007	9,553	230	23,883
2008	9,743	190	24,358
2009	9,767	24	24,418
2010	9,832	65	24,580
2011	9,907	75	24,768
2012	10,039	132	25,098
2013	10,089	50	25,223
2014	10,235	146	25,588
2015	10,323	88	25,808

**An analysis of General Fund revenues by major fund source:**

Total revenues anticipated to finance the 2011 General Fund operating budget are \$9,744,066 which is a slight increase of 0.7% from the 2010 budget of \$9,672,965.

	2008 Actual	2009 Budget	2010 Budget	2011 Budget	Increase	%Increase
<i>Property Tax</i>	\$3,194,743	\$3,904,961	\$4,385,449	\$4,139,354	(\$246,095)	-5.6%
<i>Electric Franchise Fees</i>	2,309,000	2,344,000	2,380,000	2,529,000	\$149,000	6.3%
<i>Other Franchise Fees</i>	209,021	182,475	209,000	215,270	\$6,270	3.0%
<i>License and Permits</i>	722,137	790,870	647,921	688,107	\$40,186	6.2%
<i>Intergovernmental</i>	715,757	993,928	478,899	439,670	(\$39,229)	-8.2%
<i>Other Revenues</i>	1,701,935	1,167,896	1,213,696	1,414,665	\$200,969	16.6%
<i>Transfers In</i>	280,174	285,174	358,000	318,000	(\$40,000)	-11.2%
<b>Total Revenue</b>	<b>\$9,132,767</b>	<b>\$9,669,304</b>	<b>\$9,672,965</b>	<b>\$9,744,066</b>	<b>\$71,101</b>	<b>0.7%</b>

**Property Taxes:**

For 2010 the general fund budget requires a total levy of \$4,880,354, which represents an increase of 0% from 2010. This total levy will include:

- Continuation of dollars added last year to re-institute the Street Reconstruction Program
- \$6,000 for the Mt. Pleasant Cemetery levy
- \$4,614,354 which is the general tax levy that supports the operations of the General Fund and our General Fund equipment acquisition scheduled purchases for 2011. The portion that goes to our General Fund Budget in 2011 would be \$4,139,354, with the remaining portion going to Equipment Acquisition.

As part of the 2011 budget, Staff is recommending no increase in the tax levy from 2010, with the following table summarizing Chaska's actual tax levies for 2009 and 2010, along with the proposed 2011 levy, by each of these funds.

	2009	2010	2011	Increase	%
General	\$3,904,961	\$4,385,449	\$4,084,867	-\$300,582	
Equipment Acquisition	\$618,109	\$228,905	\$529,487	\$300,582	
Mt. Pleasant	\$6,000	\$6,000	\$6,000	\$0	
Special Levy (Street Program)	n.a.	\$260,000	\$260,000	\$0	
<b>Total Operating Revenues</b>	<b>\$4,529,070</b>	<b>\$4,880,354</b>	<b>\$4,880,354</b>	<b>\$0</b>	<b>0%</b>

To understand the impact of the tax levy on individual taxpayers, three factors must be analyzed:

- Market Value Changes
- Any changes in the Tax Capacity Formulas Established by the State
- The City's Tax Levy

Overall, Chaska’s market values, excluding tax-exempt property, decreased by \$163,029,300 to \$2,440,604,300, an overall decrease of 6.68%. While we experienced decreases in every category of property in the City, the largest decreases came in the reduction of residential property, at approximately 6%, and in the “other” category, which included undeveloped land that is guided for future development. Commercial/Industrial went down approximately 4%, with multi-family residential projects going down very little.

	2009 Market Value	2010 Market Value	\$ Increase	% Increase	2010 New Construction	Existing Property Change	Existing Property Change
<b>Residential</b>	\$ 1,776,056,000	\$ 1,663,718,100	\$ (112,337,900)	-6.3%	\$11,357,900	\$ (123,695,800)	-7.0%
<b>Comm/Industrial</b>	\$ 408,297,000	\$ 391,994,000	\$ (16,303,000)	-4.0%	\$2,184,200	\$ (18,487,200)	-4.5%
<b>Apartment</b>	\$ 111,257,700	\$ 110,993,000	\$ (264,700)	-0.2%	\$0	\$ (264,700)	-0.2%
<b>Other</b>	\$ 144,993,600	\$ 110,869,900	\$ (34,123,700)	-23.5%	\$0	\$ (34,123,700)	-23.5%
<b>Total</b>	\$ 2,440,604,300	\$ 2,277,575,000	\$ (163,029,300)	-6.7%	\$13,542,100	\$ (176,571,400)	-7.2%

Above is a chart illustrating the market value changes we saw in 2010, for taxes payable 2011.

Using the 2010 market values and the classification formulas established by the State, the County Auditor has calculated Chaska’s 2010 (for taxes payable 2011) gross tax capacity to be \$26,215,410 an decrease of 6.1%. To calculate the net tax base used for determining Chaska’s tax rate, a reduction must be made for captured tax increment and fiscal disparity contributions. Our current captured TIF value is \$5,331,331 with Chaska’s fiscal disparities contribution for 2011 being \$3,080,255, resulting in a net tax capacity of \$17,593,639, a decrease of 6.7%

	2010	2011	Increase	%
<b>Gross Tax Capacity</b>	\$ 27,932,738	\$ 26,215,410	\$ (1,717,328)	-6.1%
<b>TIF</b>	\$ (5,793,917)	\$ (5,331,331)	\$ 462,586	-8.0%
<b>Fiscal Disparities</b>	\$ (2,973,464)	\$ (3,080,255)	\$ (106,791)	3.6%
<b>Other</b>	\$ (300,160)	\$ (210,185)	\$ 89,975	-30.0%
<b>Net tax capacity</b>	\$ 18,865,197	\$ 17,593,639	\$ (1,271,558)	-6.7%

Based on these estimates, Chaska’s 2011 tax rate is forecast to be 23.788% (including the HRA/EDA levy. While our tax levy would have a 0% increase for 2011, this would be approximately a 7.1% increase in our overall tax rate, given the reduction in tax capacity we have seen in the community from 2010 to 2011. While the rate would see an increase, the average residential tax payer in the City would see the actual City taxes paid on their home stay very similar in 2011 as they were in 2010 because of the average decrease in taxable market values in the community. At the same time, Chaska would continue to maintain one of the lowest tax levies per capita of any City in the metropolitan area, ranking third lowest in the entire Metro Area. It also remains the lowest of any City in Carver County as well.

A major concern of property taxpayers is the level of property taxes necessary to fund City services. In considering property taxes in Chaska, three points should be highlighted. First, property taxes account for less than 45% of Chaska’s general fund

operating revenues. Secondly, Chaska has always ranked extremely low amongst other metropolitan cities when it comes to total City property tax levels. In the latest Minnesota Citizen's League Survey looking at 2009 City tax data, out of 85 local units of government looked at in the metropolitan area, Chaska ranked 83<sup>rd</sup> lowest in City taxes per capita. Even if we included our Electric Franchise Fee revenue in this statistic, and considered it part of the overall City tax levy, Chaska would still rank 77<sup>th</sup> lowest in the entire Metro Area in City tax levies per capita. At the same time, Chaska has kept its General Fund expenditure down, with Chaska spending \$552 per capita, compared to the \$597 per capita for other cities our size across the State. In this sense, Chaska has continued to perform very well when comparing our City property tax level compared to all of communities in the metropolitan area. It has allowed the City to keep a competitive edge when it relates to other municipalities in the metropolitan area and Carver County.

In the example illustrated below, you can see the impact of keeping our tax levy the same from 2010 to 2011 on the average home in Chaska. In 2010, the average home value was \$216,216. Considering the average drop in taxable market value for taxes payable 2011 on an existing home, the following would be the actual impact on City taxes paid on this home from 2010 to 2011:

Median Home Value in 2010: \$216,216  
Median Home value in 2011: \$201,167

City Tax Rate for 2010: 22.22%  
City Tax Rate for 2011: 23.79%

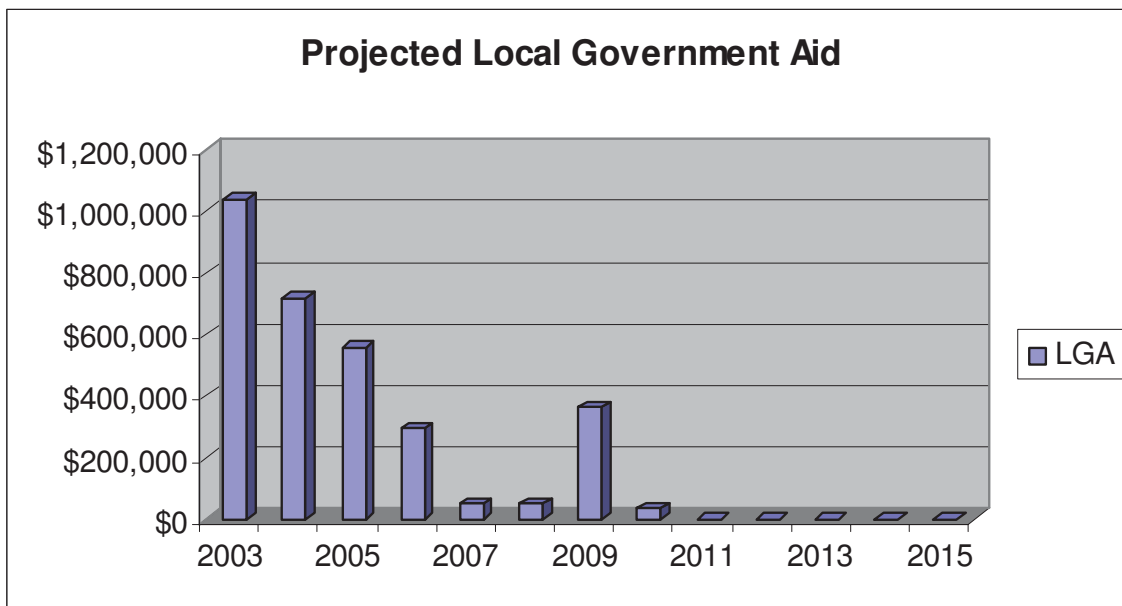
2010 Median Home Taxes: \$480  
2011 Median Home Taxes: \$479

While the actual taxes that homeowners will pay will depend on what exactly occurred with their taxable market values on their properties, this does illustrate that the average impact for a residential property owner in 2011 by keeping the overall tax levy the same will be to keep the actual City taxes paid in 2011 by this homeowner relatively constant.

### **Intergovernmental Revenues:**

One of the continued challenges in preparing the 2011 Budget has been addressing the significant loss of local government aid following the 2003 Legislative session. In addition to this dramatic change in Local Government Aid lost since 2003, cities have also had to deal with the un-allotment of dollars from the State that were committed in 2008, 2009 and 2010 in receiving LGA. While the City is not scheduled to receive any LGA in 2011, we are scheduled to receive an allotment of Market Value Homestead Credit, which we do have to account for. The proposed General Fund budget assumes we will receive no Local Government Aid, and that we budget a reduction in revenue of \$173,000 to account for the MVHC we do not anticipate receiving, as these are both unreliable sources of income for the City. If we were to receive these MVHC dollars in 2011, we would put them directly into General Fund reserves to help increase our

percentage of reserves compared to our General Fund budget. The following graph depicts the impact of the Legislative changes on Chaska's LGA revenue.



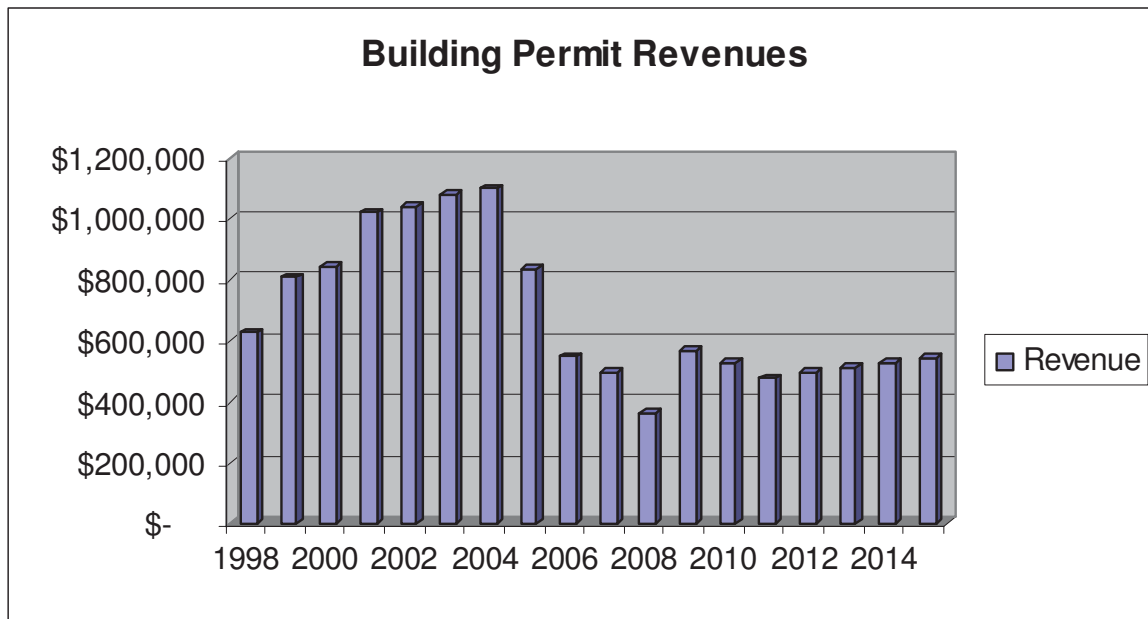
As you can see in the chart above, the City has seen a reduction of nearly \$1 million annually since 2003. While the City was able to mitigate some of this loss early on with growth in the taxable market values in the community, this has been much more difficult to address over the past 3 years, as we have seen little or negative growth in our community's taxable market values.

The other significant inter-governmental revenue is payments received from the Chaska School District for school liaison officers. In 2009, there was a reduction of one SRO officer position, bringing the total down to 3 officers. In 2010, we saw a reduction of an additional SRO, bringing us down to a total of 2 officers. Under our agreement with the District, they pay 50% of the school liaison officer program, which for 2011 is estimated to be a loss of approximately \$47,000 for the position that was reduced.

### Licenses and Permits

Over the past 4 years, Chaska and the rest of the metropolitan area, has experienced a dramatic slow down in not only residential development, but development in all sectors of the market. As a result of the downturn, building permit revenues have dropped significantly. Up through 2005, this revenue source was over \$1 million per year, and in 2010 brought in approximately \$500,000. This slowdown in the market is anticipated to continue for the foreseeable future, although Staff does believe that we will stay relatively constant at approximately \$450,000 in permits for 2011. Much of this growth will likely come through the addition of new industrial users, such as United Health Group's Data Center, which will be under construction in 2011. As mentioned

previously, we anticipate only modest residential growth. With these challenges starting in 2009, the City at that point did eliminate 3 positions from the Community Development Department to address the reduction in revenue including 2 Building Inspector positions and 1 Community Development Technician. We do not program re-introducing any of these positions in 2011. However, with the increased development of large industrial projects in the community, such as Michael's Foods, the 212 Medical Center and United Health Group's Data Center, this has put a strain on our existing staffing levels, increasing the amount of time it takes for Staff to turn around building permit applications.



### Electric Fund Transfers

The City has a formal policy of charging electric distribution suppliers, including itself, a per kilowatt-hour franchise fee, which is equivalent to 10% of the total electric rate of the electric utility. For 2011 the franchise fee is anticipated to generate revenues to the general fund of just over \$2,529,000. This is \$150,000 more than in 2010, which represents the increase in usage by our existing customers, but also reflects the positive impacts we are seeing through the addition of large industrial project, such as Michael's Foods, the 212 Medical Center and United Health Group's Data Center facility.

The electric fund continues to be a significant revenue source, accounting for 26% of total 2011 general fund revenues. It also makes contributions to the General Fund of \$105,000, and the equipment acquisition fund of \$150,000 to help reduce the overall tax burden to our residents. These dollars became possible to utilize for funding the General Fund following the addition of Power Plant #2 Gas Turbine, which became operational in 2001.

## **Charges for Services:**

Charges for services are those revenues, which support City services that are derived from charges to individual users for services, other governmental agencies, or inter-fund charges for administrative services. These would include payroll, finance, administration and Human Resources. For 2011, charges for services are programmed to be \$899,100, as compared to \$708,585 in 2010. This increase in charges for services is occurring to help us keep up with the actual cost of service the General Fund is providing to our other Enterprise Funds. The following is a breakdown of the charges to the various departments.

- Economic Development: \$162,000
- Utilities: \$488,000
- Community Center: \$99,200
- Golf: \$94,900
- Municipal Services (MSB): \$55,000

## **Interest Earnings:**

In 2011 we are anticipating that interest rates will continue to stay at very low levels and that average interest rate earnings will be lower than in 2010. This change will result in interest rate revenues forecast at \$10,000 for the General Fund in 2011. This was budgeted to be approximately \$49,000 in 2010, but we did not experience performance of our investments at this expected level.

## **General Fund Expenditures:**

General fund operating expenditures are forecast to be \$9,744,066 which is an increase of 0.74% over the 2010 Operating Levy. In preparing the 2010 budget the following general assumptions were used for the operating budget:

- *Personnel Costs would be up 1.5% to reflect 2010-2011 Personnel Contracts*
- *Operating costs would increase at a rate of 1%, which is down from 2% increases utilized in the past*
- *The City would maintain its current levels of service, only reducing in areas where we have seen a reduction in the need for services (i.e. Community Development reductions)*
- *The City would fully fund its equipment replacement schedule, with the exception of replacement of the Sno-Go Equipment that was due to be replaced in 2011 at a cost of \$100,000*
- *Continue to contribute tax levy amount necessary to fund Street Reconstruction Program*
- *No draw-down of General Fund Reserves*

The following is a summary for 2011 expenditures by department.

Department	2008	2009	2010	2011	Increase	%Increase
	Actual	Budget	Budget	Budget		
Council	\$ 113,286	\$71,267	\$109,778	\$95,922	-\$13,856	-12.62%
Administration	\$ 271,569	\$340,956	\$285,066	\$288,077	\$3,011	1.06%
Administrative Services	\$ 752,777	\$843,725	\$840,117	\$847,895	\$7,778	0.93%
Data Processing	\$ 235,025	\$256,215	\$266,948	\$269,189	\$2,241	0.84%
Legal	\$ 66,683	\$59,502	\$120,700	\$121,907	\$1,207	1.00%
Community Development	\$ 922,872	\$753,220	\$770,461	\$776,897	\$6,436	0.84%
Engineering	\$ 257,637	\$243,216	\$244,369	\$239,434	-\$4,935	-2.02%
Elections	\$ 23,117	\$11,987	\$26,217	\$6,943	-\$19,274	-73.52%
Police	\$ 2,806,636	\$2,807,108	\$2,850,209	\$2,915,818	\$65,609	2.30%
Fire	\$ 698,355	\$733,372	\$668,499	\$701,640	\$33,141	4.96%
Government Buildings	\$ 221,922	\$257,079	\$334,948	\$218,859	-\$116,089	-34.66%
Public Works	\$ 2,435,655	\$2,537,492	\$2,456,404	\$2,578,178	\$121,774	4.96%
Recreation	\$ 448,556	\$466,795	\$475,244	\$474,292	-\$952	-0.20%
Communication	\$ 75,141	\$73,455	\$83,372	\$150,728	\$67,356	80.79%
Unallocated	\$ 67,757	\$ 105,092	\$140,633	\$58,287	-\$82,346	-58.55%
<b>Total</b>	<b>\$ 9,396,988</b>	<b>\$ 9,560,481</b>	<b>\$ 9,672,965</b>	<b>\$ 9,744,066</b>	<b>\$71,101</b>	<b>0.74%</b>

As can be seen in the chart above, the overall increase in expenditures for 2011 is budgeted to be 0.74%, or \$71,101 above the budget for 2010. From an operational standpoint, the expenditure budget for 2011 is very similar to that seen in 2010. The only increase that we are showing in the final 2011 budget is the addition of \$70,000 to our street maintenance program to reintroduce some of the seal coating aspects of our plan, which have not been able to complete over the past 3-years, but are very important for helping preserve the overall condition of our roads. This was made possible by adding \$70,000 from the Sewer Fund into our overall Street Reconstruction program for 2011. With the downtown portion of the reconstruction program needing to address sewer utility replacement, it is appropriate to see this fund contributing to the overall plan. By incorporating this contribution into the overall Street Reconstruction Program, we are able to reintroduce a portion of the seal coating program that we should be doing, although the Street Maintenance portion of the budget will be at \$250,000 instead of the \$300,000 that we would need to be able to keep up with our entire maintenance program across the City.

## **Specific Department 2010 Activities**

### **Administrative Services**

For 2011, there are no proposed changes to staffing levels in the Administrative Services Department. While the 5-year plan did originally plan for the addition of a Budget Analyst position, this was deferred until 2012 for consideration due to the revenue issues we will be experiencing in 2011.

While there are no changes proposed for staffing, we do anticipate the need to upgrade the Citywide accounts payable and receivable system in the future, and as a result we have set aside \$10,000 in the 2011 Equipment Acquisition budget to ultimately upgrade this system. These have been dollars we have set aside in our general fund for the past several years.

### **Community Development**

As indicated previously, we have experienced a dramatic slowdown in the volume of building activity in the community, especially in the residential market. As a result, we are forecasting the addition of 75 new residential units in 2011, as opposed to our past experience of 400-500 living units during the middle parts of this decade. We do, however, anticipate that there will be some commercial/industrial projects in 2011, which will help supplement the loss of building permit revenue we have experienced because of the decrease in residential building activity. The major Commercial/Industrial project that will be under construction in 2011 is the United Health Group Data Center facility.

For this reason, we are anticipating building permit revenues of approximately \$450,000, which is relatively consistent with the amount we received in 2010. As mentioned previously, with the decrease in the volume of building permit activities in this department, we did move to eliminate 3 positions in this department at the beginning of 2009, including two building inspectors and the community development technician. We continue to show in the 2011 budget that these positions are not funded. The remaining Building Inspectors in this department picked up the duties of this technician position, and some of the smaller building inspection duties were shifted over to the Fire Marshal position to help manage overall workload in the department. While we have been able to shift some of this workload, the turn around time for general permits has increased due to the significant amount of time needed to inspect the construction of the large commercial/industrial buildings currently under construction.

Although over the past several years the City has experienced a significant increase in infrastructure improvements, as well as stormwater maintenance requirements imposed by the State, the current engineering staffing level of full time engineer and assistant engineer are recommended to remain constant. As in the past, any additional workload in this department will be picked up by the City's consulting engineering firm, with costs funded directly by projects.

## **Police**

Some years ago, the City Council established a staffing guideline in the Police Department of one officer per one thousand residents. Although this level is slightly less than the average of 1.2 officers per 1000, for similar sized communities, it was felt to be appropriate for Chaska's needs. Currently, the Department has 24 licensed officers, which is close to our target given our projected population numbers for 2011 estimated to be just under 25,000 residents. Because of this, we have not planned for the addition of any new staff in this department for 2011.

Through the five-year program, we do anticipate that growth in new residents is going to be slower than we had originally expected. Given that, we do not anticipate adding additional police staffing during the 5-year period, unless growth increases significantly.

For over 20 years, the City has maintained a partnership with the Chaska School District by sharing equally in the cost of school liaison officers who work within the school system. In 2009, the school had three full-time liaison officers, with one assigned to the high school and the others assigned to support activities in the junior high and elementary grades. This number was down from the 2008-2009 school year in which the School District funded 4 positions. In 2011 this number is scheduled to be at 2 officers in the SRO role, which will be supported by 50% each from the School District.

The original equipment acquisition plan had anticipated replacing five vehicles in 2011. We have revised that schedule to include the purchase of 4 new squads in 2011, with the replacement of the unmarked squad being moved out to 2014 to reflect our shift in the replacement of those vehicles out to 5 years instead of every three years.

## **Fire Department**

Currently, the Fire Department has an authorized staffing level of 44 volunteers, although because of retirements on the department, the actual staffing level is currently at 40 volunteers. The staffing level cap of 44 is scheduled to remain unchanged for 2011.

One trend that has continued to be positive is the total number of calls that our volunteer fire department personnel have had to respond to with the full implementation of the Ridgeview Ambulance Agreement. Starting first with Allina Medical Transportation, and then moving to Ridgeview Ambulance, we have seen the number of calls that our fire personnel have had to respond to go from over 1,000 calls per year, down to a number less than 500. At the same time, the ambulance service has been enhanced by having an Advanced Life Support rig based right out of our community. No change in this arrangement will occur in 2011, with this service likely being enhanced with the addition of the 212 Medical Center into the community in February of 2011. At many times, there will be three ambulances in and around the community because of this facility.

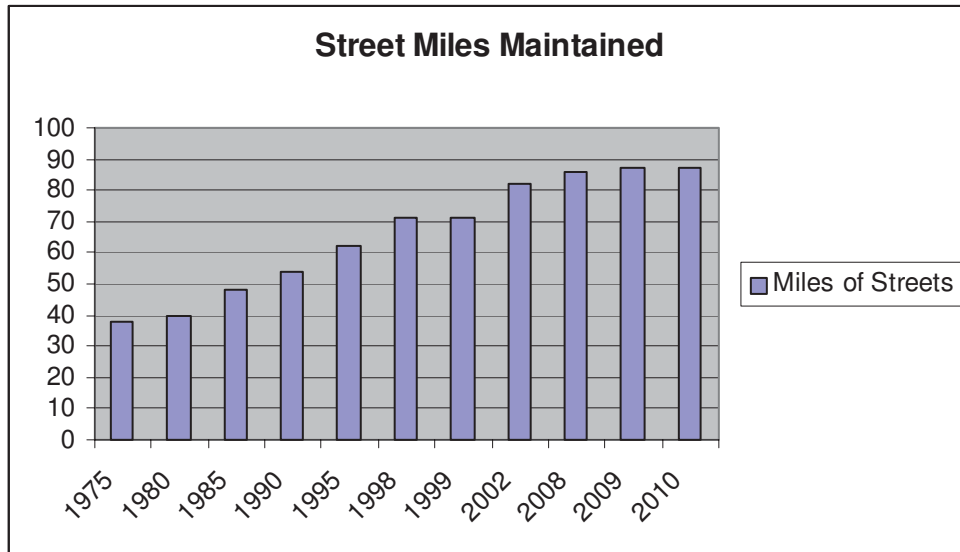
In 1997 the City completed construction of the new fire station, which was financed through the sale of EDA revenue debt. The City now has an annual debt service payment for the new facility in the amount of \$300,000 per year. The approved financing plan anticipates that the annual debt service would continue to be funded from a transfer from the Electric Fund and consequently, the \$300,000 Electric Fund transfer is maintained for 2011. This debt transfer from the Electric Fund is programmed to continue through 2015.

Finally, in 2004 the City and the Relief Association renegotiated the pension formula relative to the City contribution for tax levy toward the volunteer firefighters pension. Based on that formula, the City's contribution to the Fire Relief would go down due to a decrease in market values in the community. However, this is mitigated by the fact that as part of that formula, in 2011 the City was to contribute \$25,000 toward the pension. This had to do with the anticipated closing of the District #4 TIF District. Between these two items, the contribution to the Relief Association in 2011 will remain relatively constant.

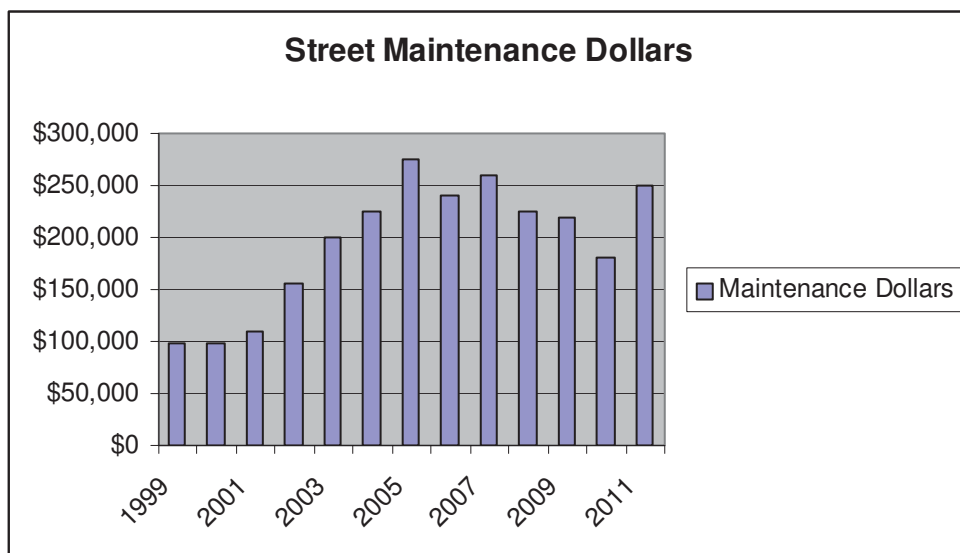
## **Public Works**

Chaska's Public Works activities are anticipated to increase as the community grows. Two factors that continue to place pressure on the Public Works service levels are growth in the City's street mileage and expansion of maintenance activities for parks and other City open spaces and trails.

Over the past five years we have been able to maintain a high level of street maintenance and snow plowing activities by better utilization of staff (using utility and golf personnel for snow removal) and upgrades in the versatility and efficiency of our equipment. To meet the growing need, we did add a fulltime position in 2002, and added a second new maintenance worker in 2004. We have not seen the large growth in either the miles of streets maintained or parks over the past 4 years, and do not anticipate that in the near future. For that reason, no staff changes are recommended for 2011, with no additional staff change proposed until the second half of 2012 when we would consider the addition of another maintenance worker, depending on the what we see for the actual increase in both miles of streets and park maintenance. This position will not likely be considered until the addition of significant development in the Heights of Chaska or the Chaska Biotech Center Corporate/Industrial Park.



In 2001, Staff reviewed with the City Council, a pavement management program. The purpose of this program is to preserve and reconstruct Chaska’s residential streets over the upcoming 15-year period. The program consists of three general elements: seal coating, overlaying, and total reconstruction. Our target for the amount of dollars that we have put towards the maintenance activities (seal coating and overlays) has been \$300,000, but as you can see from the chart below, we have never been able to meet that objective. For 2009, we spent approximately \$220,000 on overlay activities, and in 2011 we spent \$180,000 that went towards the overlay of Hundertmark Road, the Sandy Acres neighborhood, and Valley View Road. As mentioned previously, we are programming \$250,000 for 2011 to reintroduce some of the seal coating portion of our program, which we have not been able to complete because of resources for the last 3 years.



The second element of our street maintenance program is the reconstruction of deteriorated streets. The program calls for the reconstruction of roads over a 10-year period, with payback being over a 25-year period. In the 2010 budget, the Council committed the necessary levy resources with a \$260,000 special levy, to restart our

Street Reconstruction Program. In 2010, this program included the reconstruction of Cardinal Street in the North Meadows neighborhood north of Victoria Street, and the high-level overlay of both the Sandy Acres and Valley View Neighborhoods. Based on our plan, we would assess for 25% of the total project costs on the reconstruction project, with the two overlay projects completed without assessments. 2011 would bring the reconstruction of the next downtown street, with Staff looking at the reconstruction of some of our side streets in the downtown area. The downtown portion of our street program would also include the replacement of all utilities and the addition of stormwater infrastructure, which currently does not exist in our streets in the downtown area.

## Recreation

Although functionally, the Recreation Department and Community Center are in essence combined, Recreation Administration and Programming are separate General Fund activities. The General Fund currently funds three fulltime positions; Parks and Recreation Director, Assistant Director, and Departmental Secretary. While not budgeted as part of the General Fund's recreation department, the Cable Coordinator position is supervised by the Park and Recreation Director, and is functionally a part of the Park and Recreation staff. In 2008, a change that we did see was that our Cable Coordinator was hired on as our Ice Arena Manager in the Community Center. As part of this change, he did keep his Cable Coordinator position, with half of his time funded from the CCC and the other half in Cable funded through the General Fund. This has, in effect, brought the Cable Coordinator position to half funding through the General Fund. This is proposed to be staffed this way in 2011, as well. In addition, as mentioned previously, we are combining all of our current resources across the City for communications/marketing, and bringing it under one person to be funded out of the General Fund. This position is already in existence within the Community Center building, and would now work together in conjunction with the Cable Coordinator to coordinate our communications efforts City-wide. With the exception of this staffing notes, there are no other changes proposed in the Recreation Department within the General Fund.

**Equipment Acquisition:** The Equipment Acquisition Fund accounts for vehicle and equipment replacements. The goal of this fund is to assure that existing vehicles and equipment are replaced in an orderly fashion and also to account for new purchases when appropriate. The following table is a summary of expenditures by department built into the 2011 tax-levy supported budget.

Department	Description	2010
Administrative Services	UB/Accounts Payable System Replacement	\$10,000
Administrative Services	Color Printer Replacement	\$5,000
Communications	Annual Equipment Replacement	\$4,000
Community Development	GIS Software Update	\$6,000
Data Processing	Computer Equipment Replacement	\$75,000
City Building	City Hall HVAC Replacement-Grant	\$128,000
Police	Annual Squad Replacement	\$160,000
Police	Annual Computer Replacement	\$8,000
Fire	Annual Equipment Replacement	\$15,000
Public Works	Scheduled Trailer Replacement	\$10,000

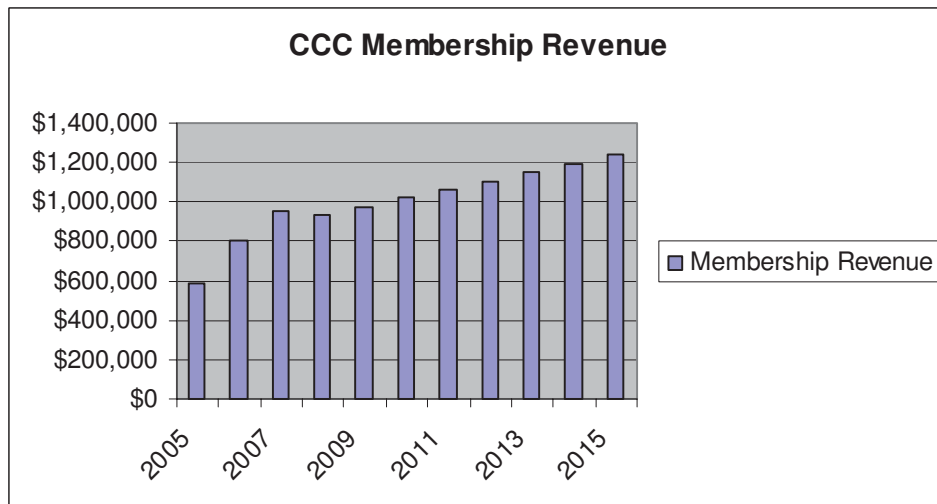
# Community Center Budget

For the Chaska Community Center, 2011 will be its 21<sup>st</sup> year of operation. As the Center has evolved, we are confident that it is addressing its mission *of being Chaska's community gathering place, while providing an opportunity to run into people you know*. The objectives of the Center are:

1. *To promote community gathering and interaction.*
2. *To provide family and individual recreation with an emphasis on fun.*
3. *To enhance Chaska's pride and identity.*
4. *To be financially self-supporting with no property tax support.*
5. *To build a cash-balance in the CCC Fund to be able to accommodate all of the maintenance and improvement needs on this aging facility*

The proposed budget provides adequate resources to meet the first four of these objectives while continuing the ability of the Center to operate with no property tax support. Our five-year forecast, though, indicates that we will need to continue to aggressively promote the facility to be able to achieve the overall needs we will have for future expenses in this fund. This will be especially true as the facility continues to age, and we have the need to reinvest into the facility to keep it up-to-date and in good operating condition.

For 2011, we are projecting that the Center will generate total operating revenues of \$2,884,523, or an increase of approximately 1% over the budget from 2010. While we have seen a decrease in the number of daily admissions that we see come into the CCC over the past several years, the number of people purchasing memberships has increased significantly over the past several years. In 2010, for the first time, the CCC achieved over \$1 million in annual membership sales, which is an increase of over \$400,000 annually since 2005. This has come both from aggressive membership campaigns, and the addition of health membership programs that help offset some of the costs to patrons to have a membership at the Community Center.



One of the key revenue sources for the Center is funds generated through the sale of resident and non-resident memberships. For the past several years, membership numbers have increased significantly, and are anticipated to increase again by an additional 2% to \$1,062,505 in 2011. As mentioned previously, this is a increase of over \$400,000 annually since our 2005 budget year. This significant increase has occurred we believe as a result of:

- Addition of Fitness Center
- Agreement for incentives with health insurance providers
- Increase in number of area households
- Enhanced quality marketing efforts by CCC Staff
- Addition of The Lodge with the Treks and Trails Preschool
- Continued quality programming of activities in the CCC

Each year we conduct a survey of area community centers to help determine the appropriateness of what the Chaska Community Center charges for memberships and daily admissions. The membership and daily admissions are also adjusted in relation to the long range CCC budget, which shows an annual overall revenue increase of 4%. This is accounted for both through any adjustments in our membership rates, and the total number of new members we have at the Community Center on an annual basis. Historically we have attempted to charge less than the average for both membership and daily admissions for both Chaska residents and non-residents. Those facilities that we survey include Shoreview, Maplewood, Maple Grove, Inver Grove Heights, Eden Prairie, Waconia, Lifetime and Dakotah. We typically have implemented any proposed rate changes in the Spring of each year.

The second major revenue source for the Center is daily admissions, which is budgeted for \$160,111 annually. Admission revenues have decreased in recent years while membership has revenue has increased. This may be a sign that the Center is maturing with customers recognizing its ongoing value. On the negative, the "newness" of the Center may have decreased as indicated by the drop in one-time admissions. For 2011, our budget of admission revenues of \$160,111 is the same as what we budgeted in 2010.

The following is a summary of all revenue sources in the Community Center Fund:

	Budget	Budget	Budget	Budget		%
REVENUES	2008	2009	2010	2011	Change	Change
Admissions	\$165,772	\$160,837	\$160,111	\$160,111	\$0	0%
Membership	\$910,498	\$971,950	\$1,045,395	\$1,062,505	\$17,110	2%
Gymnasium	\$70,415	\$71,824	\$70,427	\$74,402	\$3,975	5%
Racquetball	\$12,478	\$12,727	\$12,423	\$12,787	\$364	3%
Swimming lessons	\$59,000	\$59,000	\$65,000	\$85,500	\$20,500	24%
Fitness area	\$89,600	\$93,880	\$110,501	\$141,449	\$30,948	22%
Arena	\$629,469	\$640,956	\$608,097	\$624,573	\$16,476	3%
Community Room	\$20,000	\$20,000	\$20,000	\$20,000	\$0	0%
Snior Center	\$39,688	\$47,802	\$48,218	\$24,700	(\$23,518)	-95%
Craft rooms	\$34,540	\$35,231	\$35,936	\$37,103	\$1,167	3%
Tot time	\$13,300	\$13,566	\$10,000	\$11,400	\$1,400	12%
St. Francis rental	\$171,379	\$179,338	\$196,701	\$183,178	(\$13,523)	-7%
IDS #112	\$144,670	\$37,474	\$37,000	\$37,999	\$999	3%
Theater	\$55,999	\$58,907	\$72,085	\$72,085	\$0	0%
Center Cafe	\$3,000	\$3,500	\$2,751	\$2,000	(\$751)	-38%
Birthday Party Room	\$39,120	\$32,000	\$32,000	\$36,500	\$4,500	12%
Day care/ indoor playground	\$30,000	\$30,000	\$30,000	\$30,920	\$920	3%
Trek and Trails pre school	\$105,750	\$118,400	\$120,000	\$80,500	(\$39,500)	-49%
Adventure Prog/Club Extreme	\$52,000	\$65,000	\$70,000	\$73,000	\$3,000	4%
Vending	\$45,904	\$44,629	\$40,000	\$40,000	\$0	0%
Misc.	\$108,993	\$389,466	\$60,068	\$73,811	\$13,743	19%
<b>Total Operating Revenues</b>	<b>\$2,962,400</b>	<b>\$3,086,487</b>	<b>\$2,846,713</b>	<b>\$2,884,523</b>	<b>\$37,810</b>	<b>1%</b>
<b>Non-operating</b>						
Equipment Acquisition/Interest	\$18,600	\$9,513	\$28,400	\$25,800	(\$2,600)	-10%
The Lodge Debt Trans	\$168,000	\$188,000	\$161,000	\$113,000	(\$48,000)	-42%
Electric fund transfer	\$100,000	\$100,000	\$100,000	\$100,000	\$0	0%
<b>Total Non operating</b>	<b>\$286,600</b>	<b>\$109,513</b>	<b>\$289,400</b>	<b>\$238,800</b>	<b>(\$50,600)</b>	<b>-21%</b>
<b>TOTAL REVENUES</b>	<b>\$3,249,000</b>	<b>\$3,196,000</b>	<b>\$3,136,113</b>	<b>\$3,123,323</b>	<b>(\$59,887)</b>	<b>-2%</b>

Gym fees relate to activities directly attributable to a class paying for usage of the Community Center's gymnasium, with the revenues in this category forecast to be \$74,402 for 2011. The primary revenue generating activities in the gym are the City's gymnastics program, which is \$15,300, and the Gym Rentals Program, which is \$54,103. As with most of the City's participant activities, these revenues are off set by associated expenditures.

Swimming pool fees, which relate to lessons offered at the Center, are projected to be \$85,500 for 2011. This level of revenue reflects the continued high level of swimming lessons at the Center. We do project a significant increase in our swimming pool revenue due mainly to the increased popularity of our swimming lessons program.

Relative to the two sheets of ice within the arena element of the facility, we are forecasting total revenues for 2011 of \$624,573. This is a 3% projected increase from 2010. A change we are seeing this school year is the reintroduction of Chaska Boys and Girls Hockey program to the Chaska Community Center. This not only helps from a revenue perspective, but really helps the City accomplish one of its primary objectives of *enhancing Chaska's pride and identity* through bringing these varsity hockey programs back onto ice in the community.

Under our agreement with the Chaska School District, the District will again be paying \$37,999 for use of space in the Center. One source of revenue that ended after 2008 was the payment we received from the School District to pay for a portion of the addition of the 2<sup>nd</sup> Ice Arena. The final year of debt service was paid on the 2<sup>nd</sup> sheet of ice in 2010, with the bonds now being fully paid on this addition to the building, which includes the St. Francis rehabilitation center in the building.

In 1999, St. Francis began operation of their physical therapy and fitness center under lease for space at the Center. The total annual lease payments for the main facility and the lower level space used for pediatric physical therapy is \$183,178 in 2011.

The Wellness Addition was completed in 2005, and as a result the fitness programs that the City offers were expanded significantly. For 2011 these activities are anticipated to generate \$141,449 in revenues. It should be noted that this is 22% increase from 2010. This is due mainly to us now budgeting the 0.5 FTE position supported by Ridgeview Medical Center through our Fitness area as opposed to The Lodge in the past. This position now focuses on intergenerational fitness activities as opposed to just programming for our Active Older Adults.

Finally, with the completion of the senior center addition, two new program areas were added to the Community Center. The Lodge, which was budgeted to generate \$48,218 in 2010, is budgeted to generate \$24,700 in 2010. As mentioned above, this reduction in revenue is because of the transfer of the approximate \$25,000 from Ridgeview Medical Center to support program in our Wellness Addition. The other major component of the new addition to the Community Center was the addition of the Treks and Trails Preschool area in the lower level of this addition. The Treks and Trails program is budgeted to generate \$80,500 in revenue in 2011, and is a very popular part of our Community Center facility. It should be noted that as part of this area of our building, we did have our after school programming. With a decreased demand for this service because of after school services provided directly at the schools, we did decide to discontinue this program for this school year. This represents the decrease in revenue of \$39,500 from 2010 that is shown in this area of the budget.

In deciding to proceed with construction of the Center, the Council committed to transferring \$100,000 annually to generate a cumulative capital for future improvements at the Center with the understanding that no property taxes would be used to support the facility. Since the Center's opening, a total of \$2.0 million has been transferred from the Electric Fund to create the ongoing cash replacement fund. This transfer is scheduled to occur again in 2011.

No significant changes are anticipated in the Community Center operating costs. Staffing levels will remain generally unchanged, with total personnel costs estimated to decrease by 1.79%. One change that we have seen in the Staffing level, and which we discussed in the General Fund budget, is the sharing of the Communications position with our General Fund and Town Course Communications. This will allow us to take one existing person in the Community Center department and focus their attention on coordinate City-wide communications. Our hope with this position is to create better and more uniform communications coming out from the City as a whole.

The following is a summary of all expenses in the Community Center Fund:

<b>EXPENSES</b>	<b>Actual 2008</b>	<b>Actual 2009</b>	<b>Budget 2010</b>	<b>Budget 2011</b>	<b>Increase</b>	<b>Increase %</b>
<i>Personnel services</i>	\$1,508,876	\$1,544,005	\$1,568,016	\$1,539,972	\$ (28,044)	-1.79%
<i>Other services/ charges/supplies</i>	\$1,222,105	\$2,061,868	\$1,280,230	\$1,269,042	\$ (11,188)	-0.87%
<i>Ice arena debt service</i>	\$ 69,748	\$ 69,748	\$ 69,748	\$ -	\$ (69,748)	-100.00%
<i>Lodge Debt</i>	\$ 168,000	\$ 168,000	\$ 124,175	\$ 113,000	\$ (11,175)	-9.00%
<i>St. Francis debt</i>	\$ 56,820	\$ 56,820	\$ 56,820	\$ -	\$ (56,820)	-100.00%
<i>Capital replacements</i>	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ -	0.00%
<b>Total expenses</b>	<b>\$3,075,549</b>	<b>\$3,950,441</b>	<b>\$3,106,987</b>	<b>\$2,972,014</b>	<b>\$ (134,973)</b>	<b>-4.34%</b>

As we saw last year, a total of \$50,000 is budgeted for capital improvements, consistent with our five-year plan. No other major capital improvements are planned in 2011.

Based on our forecasted revenues and expenditures for 2011, we are estimating that the facility will have approximately \$151,309 in profit, bringing the fund total to \$618,000.

# Town Course Budget

*The mission of the Chaska Town Course is to develop and operate a quality municipal golf course serving as a community recreational resource, and as a community gathering place that generates an annual profit that may be used to support other "community building" opportunities.*

In developing the course's annual budget our objective is to provide adequate resources to meet this mission by maintaining a high quality golfing experience from both a maintenance and customer service perspective. An objective during our budgeting process has also been to position the Town Course in such a way that when its debt service for initial capital construction costs has expired, that we both have generated enough profit to have enough reserves to keep up with our necessary capital replacement program at the Town Course to keep it running as a high end course. As we look into the future, this will be the largest single challenge of the course as it has been self-sufficient from an operational standpoint, but has had much more difficulty being able to generate a sufficient amount of reserves to cover all future depreciation costs.

With the refinancing of our TIF District #4 in 2008, we have put the Town Course in a much better position to start accumulating cash reserves as it does not have to directly support the remaining years of debt service for the course. In 1997, resources from TIF District #4 were the main financial resource that allowed us to construct the course and have contributed towards our debt service on the course since. It is planned that the refinancing of this District in 2008 will provide us with sufficient resources to pay off the capital construction cost debt at the Town Course from the TIF funds, thus allowing the Town Course to take its annual profits and begin to accumulate reserves in this Enterprise Fund. Over the 5-Year period, we do forecast that we will be able to accumulate just over \$200,000 in reserves. This is one that we will continue to be looking at to get these reserves to a healthier level as we move into the future.

For 2011, we are forecasting total revenues of \$1,682,101. This is up slightly from the budgeted revenues we had for 2010, which were \$1,664,453, but is down from the revenues we had budgeted in years prior to 2010. This change in the budgeted revenue is coming mainly from the fact that we are now budgeting for 27,100 rounds annually, as opposed to the 31,000 rounds that were budgeted in the past. This is not because the Town Course has seen a drop in the average number of rounds over the last 5-years. In fact, the rounds have been fairly steady since 2007 at around 27,000 rounds. This change was made to provide a more accurate reflection of the actual number of rounds that we have averaged over this 5-year period. While the Town Course initially saw rounds closer to 31,000 when it first opened in 1997, there is much more competition in the market that was added since this point which had an impact on the number of rounds we have actually seen. The total revenues are derived from the following sources:

<i>Revenues</i>	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Change	% Change
Green fees	\$1,108,264	\$ 1,089,661	\$ 1,115,000	\$ 1,115,000	\$ -	0.00%
Driving range	\$ 72,987	\$ 80,011	\$ 80,000	\$ 80,000	\$ -	0.00%
Member fees	\$ 43,835	\$ 40,686	\$ 41,000	\$ 46,000	\$ 5,000	12.20%
Sale of supplies	\$ 139,303	\$ 141,676	\$ 143,926	\$ 148,244	\$ 4,318	3.00%
Concessions	\$ 30,619	\$ 20,933	\$ 41,200	\$ 42,436	\$ 1,236	3.00%
Cart rental	\$ 232,682	\$ 225,257	\$ 235,000	\$ 242,050	\$ 7,050	3.00%
Misc	\$ 13,514	\$ 51,803	\$ 8,327	\$ 8,371	\$ 44	0.53%
<b>Total revenues</b>	<b>\$1,641,204</b>	<b>\$ 1,650,027</b>	<b>\$ 1,664,453</b>	<b>\$ 1,682,101</b>	<b>\$ 17,648</b>	<b>1.06%</b>

### Revenues

The major revenue source of the Golf Course is green fees paid by patrons, with revenue source accounting for more than 66% of total revenues at the facility.

As mentioned previously, for 2010 we are anticipating that 27,100 rounds will be played at the facility. This is down from the 31,000 rounds that were budgeted for in up through 2008, as this has not been the trend we have seen over the past 5-years. In preparing the revenue estimate we are assuming that the resident/non-resident split will be 55%/45%, which reflects a significant increase in resident play from past budget forecasts. When the course first opened, we saw about 70% of play from non-residents. While this change has been great from a mission perspective, in that it has been viewed as a premier community gathering location for Chaska residents, it has created revenue challenges that we continue to have to monitor closely. The forecast also assumes that carts will continue to be permitted off the cart paths, which will continue to bring in more revenue with golf carts, as we now see approximately 40% of patrons use a cart. In 2010, we are budgeting greens fees to generate \$1,115,000 in revenue, with cart usage to generate \$242,000. We did keep the budgeted revenue in greens fees exactly the same as in 2010 to be conservative in our estimates.

The second key revenue assumption is the green fees schedule. Our strategy has been to have green fees for non-residents consistent with the market for other high-end public courses, while at the same time offering a course of higher quality and challenge of any other area course. In 2010 the average metro high-end golf course green fee including cart on weekends was \$93.14, ranging from \$67 for Edinburgh USA to \$124 for Rush Creek. Chaska's proposed weekend non-resident rate in 2011 of \$81.00, including cart, is well within this range. As you will see in the chart below, in 2011 it is recommended that the non-resident fees be increased by \$2.00 per round, with an increase of \$1 per round for cart.

Course	Greens Fees	
	Weekday	Weekend
	18 holes	18 holes
Edinburgh USA	\$67	\$67
Stoneridge	\$95	\$95
Rush Creek	\$98	\$124
The Legends	\$89	\$89
Troy Burne	\$85	\$96
Meadows at Mystic Lake	\$85	\$85
The Wilds	\$96	\$96
Average	\$87.86	\$93.14
Chaska-Current	\$72	\$78
Chaska 2011 Proposed	\$75	\$81
Chaska Resident 2011	\$54	\$59

As part of Chaska’s mission, our goal is to have the facility both accessible and affordable to Chaska residents. Over the past three years one of the positive trends relative to this element of the mission, was the percent play from resident golfers increasing from 28% in 2003 to just 45% in 2010. Although the higher resident participation is positive, a negative impact in this trend is the reduction in total revenues, given the significant differential between resident and non-resident rates.

For 2011 we are recommending that resident rates increase by \$1.00 per round for all rounds. This would result in our rates in 2011 being very competitive to all of the area courses. Based on these assumptions, 2011 green fee revenue is projected to be \$1,115,000.

Course	Greens Fees	
	Weekday	Weekend
	18 Hole	18 Hole
Dalgreen	\$51	\$57
Bluff Creek	\$51.50	\$57.50
Ridges at Sand Creek	\$53	\$59
Deer Run	\$57	\$69
Stonebrook	\$68	\$74
Average	\$56.10	\$63.30
Town Course Current	\$52	\$57
Town Course 2011	\$54	\$59

For the first several years the Town Course was open, we averaged cart rental revenues in the range of \$150,000 to \$175,000, with 22% to 24% of golfers renting carts. In 2006 we modified our cart policy to permit carts off the cart path. Also at that time, we purchased new set of carts equipped with a GPS system. The system was implemented in 2006 and increased cart revenues to \$212,000. For 2011 we are anticipating that 40% of patrons will utilize a cart, as we have seen over the past several years, bringing in a total revenue of \$242,050. As mentioned above, we are proposing to increase our Cart Fees by \$1, bringing them up to \$17, which is what most other courses currently charge.

Through our thirteen years of operation, the driving range has been a popular element of the facility. For projection purposes, we have assumed that 20% of golfers will use the range before playing and an additional 40 persons per day would come to the facility merely to use the practice complex. Range revenues were budgeted for \$80,000 in 2010. For 2011 the range is estimated to generate \$80,000, as we expect little change in its use.

Pro Shop sales were 139,303 in 2008, and \$141,676 in 2009. In 2010 we had this budgeted \$143,926. This budget assumes merchandise sales of \$148,244 in 2011. Pro Shop merchandise is typically sold with approximately a 30% margin.

A key service element of the facility is the provision of a quality food and beverage operation, while at the same time assuring that this element does not become a financial drain on the operation. In 2008, we changed vendors. Staff has heard very positive comments on this change as it offers more menu variety for patrons, as well as more options for catering to the site on and off-season. In 2010, the vendor added one more beverage cart on the course to meet patron demands, as this one the one area we could see the need for improved service. They also added machines to accept credit cards on the beverage carts and a Thursday-Saturday evening meal selection in the restaurant. All of these changes were received very well. Under the terms of the lease with our vendor, the City receives a payment of 10% of gross revenues, which for 2010 was budgeted at \$41,200.

## Operating Expenses

For the Chaska Town Course to be considered a high-end public facility, the turf maintenance will need to be a very high priority. This issue has been confirmed in feedback we've received from golfers over the past year. To accomplish this objective we have attempted to establish a maintenance budget that will permit adequate resources for above average maintenance. The key, though, to achieving this objective is attracting and retaining high quality dedicated personnel. It is imperative that our full-time personnel not only have the technical capabilities to maintain a high-level complex, but also and possibly more important, have a true ownership in the course and a commitment to the facility's quality.

The maintenance staffing anticipates no change in staffing levels, with four full-time Greenskeepers, plus a Superintendent who is responsible for the maintenance of the Chaska Town Course facility as well as the Par 30. As in the past these full-time positions will be supplemented by eight, six month and six four-month seasonal employees.

The following is a summary our estimated costs for each of these categories:

	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Change	% Change
Personnel Services	\$766,519	\$810,447	\$760,533	\$815,071	\$54,538	7.17%
Operating Supplies	\$244,963	\$268,324	\$231,903	\$231,266	-\$637	-0.27%
Other Services/Charges	\$402,070	\$414,278	\$411,840	\$447,666	\$35,826	8.70%
Capital Replacements	\$194,345	\$112,851	\$96,000	\$102,000	\$6,000	6.25%
Transfers Out/Debt Service	\$18,718	\$7,257	\$85,583	\$51,291	-\$34,292	-40.07%
Total Expenses	\$1,626,615	\$1,613,157	\$1,585,859	\$1,647,294	\$61,435	3.87%

The second cost component of the golf course operation is the Clubhouse and its related activities. Our objective is to differentiate the Town Course and Clubhouse operation from other courses through a noticeable difference in its commitment to customer service. Achieving this objective will be significantly affected by the quality, skill and personality of personnel hired to staff the complex. The overall responsibility of the Clubhouse operation is the responsibility of the Club Pro. For 2011, the total Clubhouse expenses are estimated to be \$689,288. These costs compare to the expenses for both the staffing levels and expenses experienced in 2010 of \$610,011. The major difference in these numbers is coming from both the upgrade in the phone service we need to complete in 2011, and through the increase in Administrative Charges to the General Fund all of our Enterprise Funds are experiencing to get them more in line with the actual Administrative Services these funds are receiving from the General Fund (i.e. payroll, administration, accounts payable/receivable, etc...). The increase also reflects the \$25,000 for seal coating of the parking lot at the clubhouse.

Based on our equipment replacement schedule for the Town Course, we are planning to replace \$57,000 in equipment in 2011, which will represent the replacement of our scheduled golf course maintenance equipment, including a ruff mower, a bunker rake and a beverage cart. It should be noted that as part of the 2011 budget process, the

equipment replacement schedule was modified so as to replace equipment every 6 years as opposed to every 5-years. This change was able to be made due both to the higher quality of equipment that is now manufactured, and because of the Staff time dedicated to properly maintaining this equipment. While this does not produce immediate financial effects, this will be a positive financial move for the Town Course of the life of this facility.

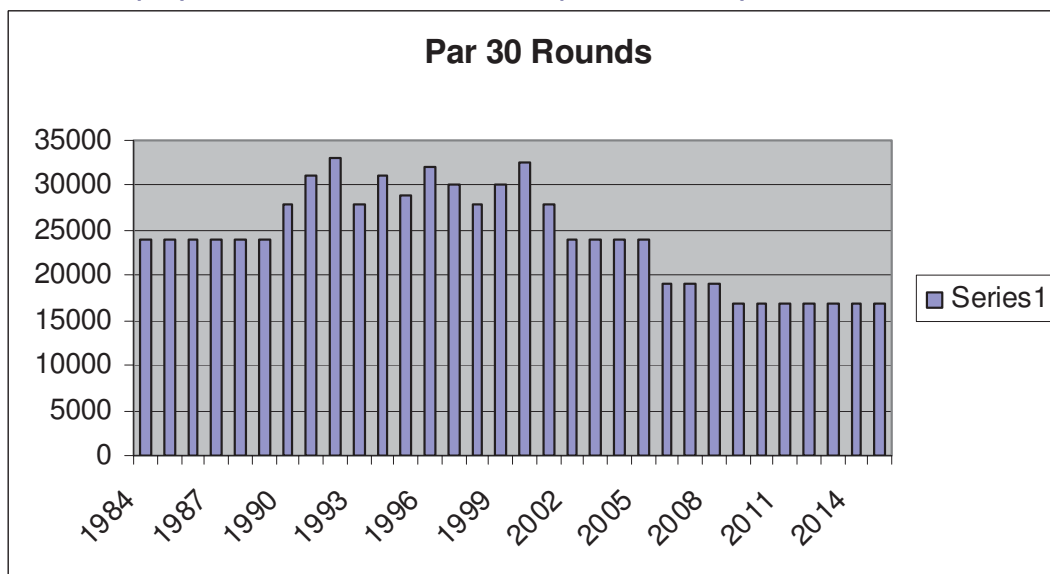
Total budgeted expenses for the golf course operation in 2010 are \$1,647,294, which would result in the facility making a net profit in 2011 of \$34,807.

# Par 30 Budget

In establishing the 2011 Par 30 Budget, the following objectives were used:

- ◆ *Provide the necessary resources for the Par 30 to ensure continuation of quality course maintenance and upkeep.*
- ◆ *Maintain rates competitive with other comparable executive courses in the Twin Cities.*
- ◆ *Minimize drastic changes in rates while at the same time maintaining adequate cash reserves for emergencies.*
- ◆ *Allow the Par 30 to be a Self-Supporting Recreational Program*

In determining golf course revenues, two factors directly impact green fees: the number of rounds and rate per round. The following graph depicts the number of annual rounds played at the Par 30 over the past several years.



Over the decade we have seen a decrease in the number of total rounds at the Par 30. While rounds of play averaged around 25,000 rounds per year in the beginning part of this decade, over the last 4 years, we have seen that drop to approximately 17,000 rounds per year. We believe this has been due both to the increase of competition with the addition of other executive courses such as Halla Greens in the area, and with some shift to the Town Course we have seen with allowing carts on the Fairways, thus making it easier for seniors to play the longer course. For 2011, we have continued to assume 17,000 round for budgeting purposes.

The second factor in determining green fee revenues is the actual rate charged per round.

For 2011, our recommendation for rate structure is based on trying to be much more conscientious of the pricing structure at area Executive Courses, structuring our pricing

to be more competitive than our main competitors such as Halla Greens. We are also focusing on how we structure our pricing to be very attractive for our main users, who are our Seniors and Juniors, while at the same time providing a true price differentiation from our main competitors for our Adult golfers who may be most likely to go to another competitors course out of town. The result is both keeping the rates steady on weekdays and dropping them on weekends to make the Par 30 very price competitive. Below is a survey of the area Executive Courses and their 2010 rates compared to our recommendations for the Par 30 2011 rates:

Course-9 Holes	Senior WD	Senior WE	Adult WD	Adult WE	Junior WD	Junior WE
Halla Greens	\$12	\$13	\$14	\$16	\$12	\$13
Braemar Executive	\$14	\$14	\$14	\$14	\$10	\$10
Waters Edge	\$10	\$10	\$14	\$15	\$10	\$10
Orono	\$9	\$9	\$12	\$14	\$9	\$9
Glen Lake	\$11	\$12	\$16	\$17	\$11	\$12
<b>Average</b>	\$11	\$12	\$14	\$15	\$10	\$11
<b>Current Par 30</b>	\$11	\$13	\$13	\$15	\$10	\$11
<b>Proposed 2011 Rates</b>	\$11	\$11	\$13	\$13	\$11	\$11
<b>2011 Rates Compared to Halla</b>	-\$1	-\$2	-\$1	-\$3	-\$1	-\$2

Based on this rate structure, we are forecasting green fee revenues for 2011 of \$170,000, slightly less than the 2010 budget we had of \$172,000. In addition, the facility is anticipated to generate other fees amounting to \$16,700 from such things as concession sales and cart revenue.

Staffing levels are anticipated to remain relatively unchanged for the coming year, with the exception of us reducing some of our part-time staffing to keep our costs as low as possible. Currently, we have one full-time greens keeper assigned to the facility. The remaining staffing for both maintenance and clubhouse activities is provided through the hiring of part-time summer employees.

The budget anticipates that operating expenses in 2011 will be \$186,700. It should be noted that no system improvements are budgeted for 2011, as we continue to wait to make any significant improvements for major improvements to be done in conjunction with the Goodman Group's Senior Living Project. These improvements will likely include moving and replacing the clubhouse and parking lot, improving the central pond, and putting other general improvements into the course. These would be paid for through the Goodman Group project. As part of this project, we are also planning on being able to eliminate the \$12,000 rental fee we currently have for leasing our parking spaces from the Goodman Group. This will free up these dollars in the future, which can be used to put away for future capital improvements on the course. We do not expect this to occur until at least the summer of 2012.

Based on our forecast of revenues and expenses, we are anticipating that the Par 30 operations will break even in 2011. Below is a summary of the 2011 revenues/ expenditures:

	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Change	%Change
Green Fees	\$145,563	\$158,798	\$172,000	\$170,000	-\$2,000	-1.16%
Other Fees	\$28,607	\$18,511	\$20,190	\$16,700	-\$3,490	-17.29%
Total Revenue	\$174,170	\$177,309	\$192,190	\$186,700	-\$5,490	-2.86%
Personnel	\$104,453	\$107,650	\$111,354	\$112,793	\$1,439	1.29%
Supplies	\$17,275	\$15,345	\$19,044	\$19,234	\$190	1.00%
Services	\$22,272	\$18,143	\$18,742	\$18,929	\$187	1.00%
Other	\$45,913	\$43,198	\$35,678	\$35,744	\$66	0.18%
Transfers Out	\$880	\$0	\$0	\$0	\$0	0.00%
Total Expenses	\$190,793	\$184,336	\$184,818	\$186,700	\$1,882	1.02%
Net Income (loss)	-\$17,502	-\$7,027	\$7,372	\$0	-\$7,372	
Cash Balance	\$19,781	\$12,753	\$20,125	\$20,125	\$0	

# Utility Fund Overview

The Utility Fund Budgets are broken down into separate categories for the City's three utilities: water, sewer and electric. In 2009, we fully implemented our Storm Water Utility, which is meant to fund both the existing surface water management activities that are currently occurring within the General Fund, and to fund those activities for future capital improvements through our street reconstruction program. The total proposed budgets have been developed based on the following objectives:

- *Providing the necessary resources for each utility to assure continuation of quality services to our customers.*
- *Maintaining water/sewer rates less than comparable cities.*
- *Maintaining residential electric rates less than comparable rates charged by Xcel.*
- *Maintaining competitive industrial and commercial electric rates compared with Excel, while also making sure we maintain a system that provides reliability to our customers.*
- *Minimizing drastic changes in utility rates while at the same time maintaining adequate cash reserves for each enterprise.*

As will be discussed in more detail in the breakdown of the Water Fund budget, the City of Chaska did move forward with making some significant changes to the Water Utility rates starting in 2010, as it was found through a comprehensive Water Rate Analysis that was completed in 2009 that the City's water rates were set significantly lower than what was needed both to fund the future maintenance activities of our existing system, and to fund a portion of the debt service on the new Water Treatment Plant. This was necessitated because of the significant decrease in development within the community, of which Water Access Charge fees (WAC) were the funding source for the debt service on this plant. The study found that over the 10-year planning period, that our Water Fund would be \$7 million in debt if changes were not made to our rate structure in the short term. While this study did indicate that Water Rates did need to be increased to keep up with the costs of running our Water utility, because our rates were so low to begin with, the changes to our water rates were able to be made while still keeping our rates lower than any other City in the area. The first half of the rate changes came in 2010, with the final adjustment in rates already approved to go into effect in January of 2011.

From a sewer and electric perspective, our rates have remained very competitive over 2009, compared with other municipalities. From an electric fund perspective, our total rates in 2010, including the Energy Adjustment Clause, were over 12% lower than Xcel. Xcel is our main competitor. We do not see this relationship changing very much in 2011, as Xcel received a 5% increase in their rates in 2010, and has requested an additional 7.4% rate increase of 2011.

While the second half of the water rate increases will occur in January of 2011, Staff feels based on comparisons to other cities that our total utility bill will remain very

competitive to those in other cities. Below is a breakdown of what a typical resident can expect for rate increases in 2011:

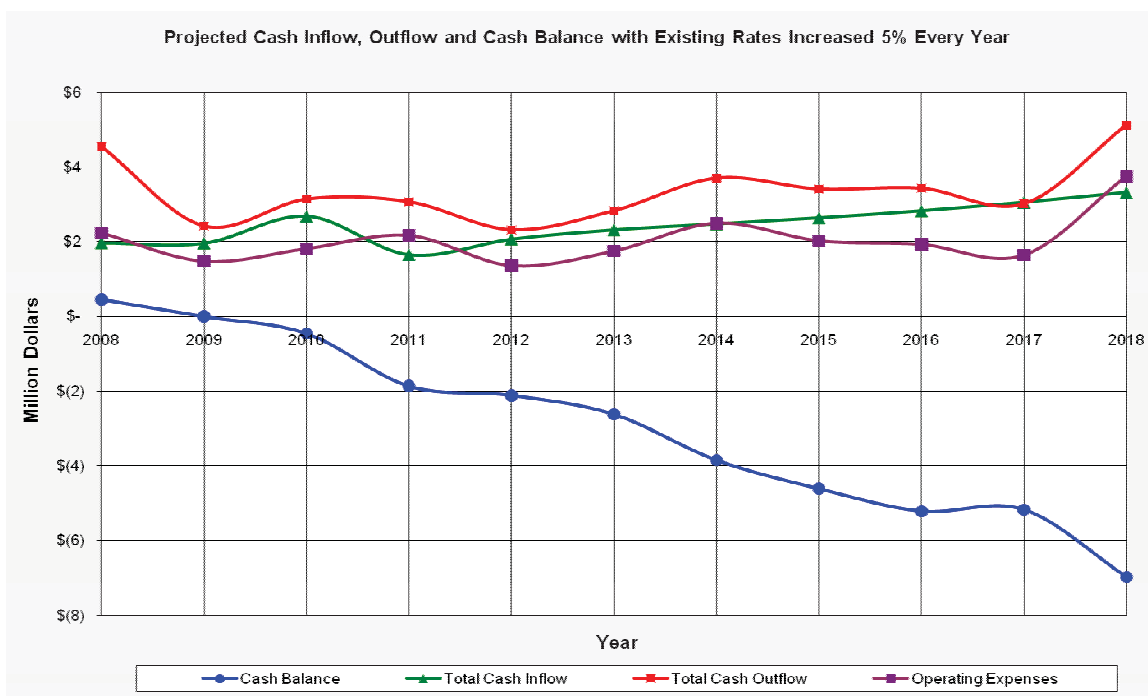
	2009	2010	2011	Increase	Increase %
Water	\$8.19	\$12.23	\$16.27	\$4.04	33.03%
Sewer	\$20.30	\$21.91	\$22.26	\$0.35	1.60%
Electric	\$78.79	\$80.75	\$82.36	\$1.61	1.99%
Storm Sewer	\$3.00	\$3.00	\$3.00	\$0.00	0.00%
Total	\$110.28	\$117.89	\$123.89	\$6.00	5.09%

# Water Fund Budget

As was mentioned above, in 2009, the City of Chaska completed a comprehensive water rate analysis to look at the financial health of this fund. This water rate analysis was needed due to significant issues that were identified in our 5-year financial forecast and our CIP that indicated that the Water Fund would not be able to remain financially self-supporting if changes were not made. The objectives of this Water Rate Analysis included:

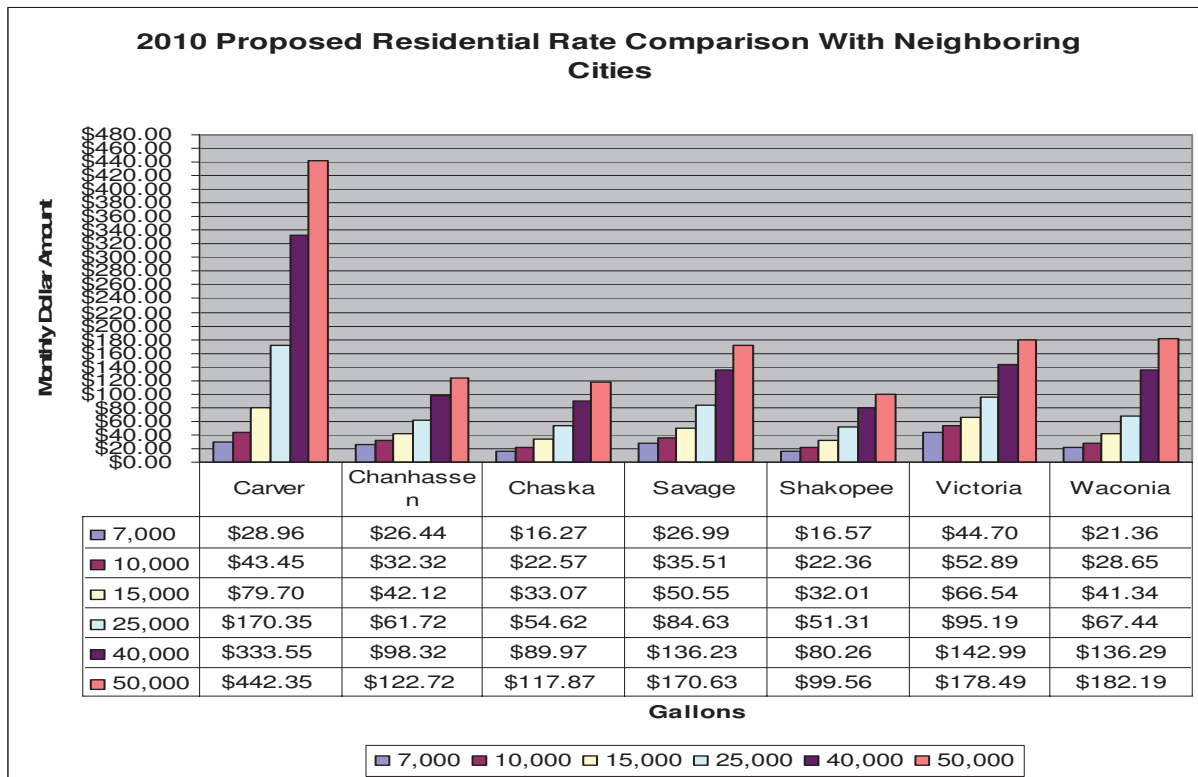
- Develop an inclining block rate that meets all of the DNR water conservation requirements that are required to be implemented by January 1, 2010
- Develop a base rate that meets all of our current operational and debt obligations, especially considering the significant decrease in development
- Develop a rate structure that is competitive with surrounding communities
- Develop an ongoing rate strategy that helps the City maintain a sustainable water system into the future to make sure our existing assets are not being consumed at a higher rate than we are financially replenishing our system

The results of this Water Rate Analysis quantified the issue our Water Fund would face if we continued with our strategy of implementing a 5% rate increase annually for the next 10-years. What the study found was that if we continued with this strategy, that over a 10-year period, the Water Fund would be in deficit \$7 million, not allowing us to have any dollars built up to help support our existing system. This was mainly due to both the fact that our water rates were extremely low compared to other municipalities, and because the development slowdown would not allow the City to generate enough resources in Water Access Charges to pay for the debt service of our new Water Treatment Plant. Below is a chart illustrating the impact of staying with our current strategies in the Water Fund:



Based on the results of this study, in August of 2009, the City Council did move forward to implement an increase in Water Rates over a two-year period, which we did implement the first half in January of 2010. At the same time, the Council did implement the required DNR inclining block rate to promote water conservation, implemented a service charge of \$2.27 per month, and did refinance a portion of the Water Treatment Plant Debt to match up debt service payments more closely with when we feel development will restart. The second half of the changes in water rates is already approved to occur in January of 2011. The rate change will then be fully implemented. At the same time, in 2011, we are scheduled to refinance the remaining portion of our Water Treatment Plant debt, which will complete each of the action items that was called for when we completed the Water Rate Analysis in 2009.

The impact to residents in 2011 will be that an average winter user of 7,000 gallons per month will see a \$4.04 increase in their water bill, while the average summer user of 15,000 gallons will see an increase in cost of \$7.76 per month. As you will see in the chart below, while this is a large percentage increase in Water Rates, this change will still keep the City of Chaska lower, even after fully implemented in 2011, than other surrounding cities, while ensuring that our Water System is able to be a self-supporting enterprise going into the future.



**2010 Budget**

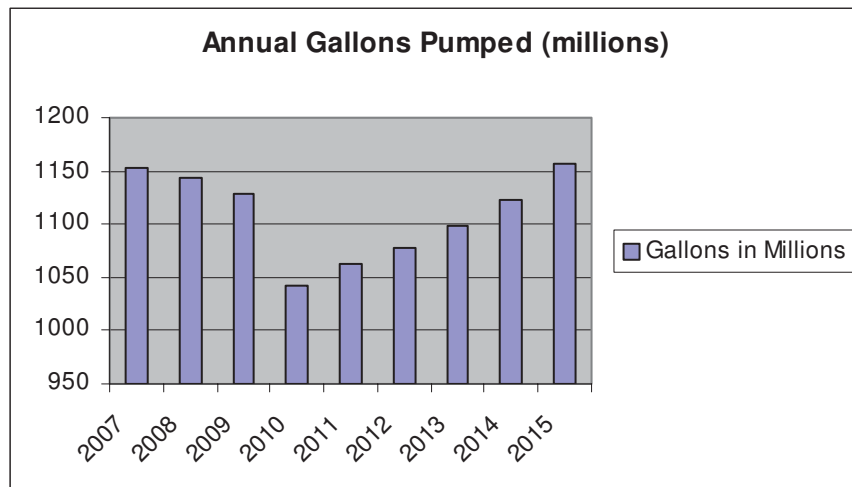
Based on the changes described above, Water Fund Revenues for 2011 are estimated to be \$3,059,045 compared to the 2010 Budget of \$2,417,595.

The major categories of revenues and expenses in the Water Fund as compared to past years are presented below.

	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Change	% Change
<b>Revenues</b>						
Metered	\$1,231,201	\$1,386,025	\$2,042,000	\$2,101,374	\$59,374	2.91%
Other	\$159,243	\$139,439	\$123,125	\$333,876	\$210,751	171.17%
Transfers In	\$1,215,152	\$482,461	\$252,470	\$623,795	\$371,325	147.08%
<b>Total</b>	<b>\$2,605,596</b>	<b>\$2,007,925</b>	<b>\$2,417,595</b>	<b>\$3,059,045</b>	<b>\$641,450</b>	<b>26.53%</b>
<b>Expenses</b>						
Pumping	\$213,384	\$171,761	\$303,815	\$1,205,854	\$902,039	296.90%
Treatment	\$209,386	\$213,439	\$219,524	\$221,718	\$2,194	1.00%
Distribution	\$527,316	\$472,156	\$593,264	\$537,391	-\$55,873	-9.42%
Administration	\$241,177	\$278,572	\$291,569	\$323,398	\$31,829	10.92%
Depreciation	\$667,378	\$635,906	\$0	\$0	\$0	0.00%
Debt Service	\$535,462	\$525,663	\$520,470	\$1,263,445	\$742,975	142.75%
Capital	\$8,626	\$3,690	\$0	\$0	\$0	0.00%
Tranfers Out	\$3,925	\$4,043	\$44,100	\$54,400	\$10,300	23.36%
<b>Total</b>	<b>\$2,406,654</b>	<b>\$2,305,230</b>	<b>\$1,972,742</b>	<b>\$3,606,206</b>	<b>\$1,633,464</b>	<b>82.80%</b>
<b>Net Gain (loss)</b>	<b>\$187,097</b>	<b>-\$297,305</b>	<b>\$444,853</b>	<b>-\$547,161</b>	<b>-\$992,014</b>	

Meter revenues are projected to increase by 2.91%. This is due both to the implementation of the 2<sup>nd</sup> half of the water rate increase, along with the increase demand in water usage we anticipate due to large Commercial/Industrial development projects in the City.

For 2011, Water Sale revenues are based on the sale of 1,063,000,000 gallons of water. Below is a chart illustrating the number of gallons that we have pumped over the past several years, and what we anticipate for 2011:



Total water expenses for 2011 are programmed to be \$3,606,206. This compares with \$1,972,742 in 2010. The major change here comes from both the need for repainting the Industrial Water Tower in 2011, which is necessary to accommodate the future integrity of the tower, and address the safety aspects of our water supply coming out of the tower. The cost of this is budgeted at \$1 million. In addition, the full cost of the Water Treatment Plant Debt service is now accounted for through the Water Operating fund at a cost of \$1,263,445. 50% of this comes through our rate revenue with the other 50% coming through a transfer from our Water Trunk Funds, which are supported through development.

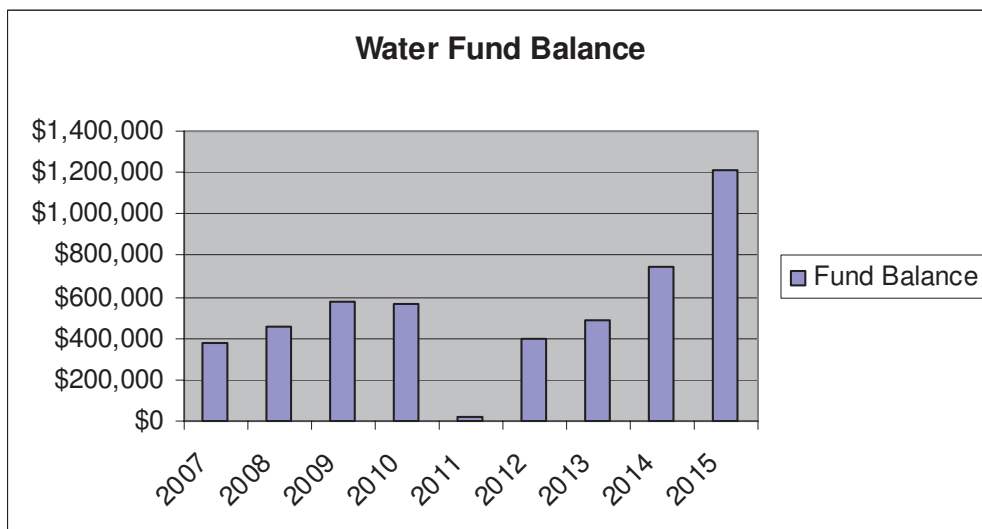
**Personnel Services:**

Currently the Water and Sewer staffing consists of the Superintendent, Foreman and six maintenance employees. The staffing level is recommend to remain unchanged for 2011.

**Operating Expenses:**

For 2011, as mentioned previously the two major additions to the operating budget are the painting of the Industrial Water Tower at \$1 million, and the debt service for the Water Treatment Plan at just over \$1.2 million, with 50% coming from the Water Operating Fund.

Based on this budget we are budgeting to draw down on the Water Fund in 2011 by \$547,161, due mainly to the large expense items listed above. Despite this draw-down in 2011, we are scheduled to increase our fund balance over the next five years in this fund, as was one of the primary objectives of our rate change so that we can afford future maintenance and upgrades necessary to keep a sustainable water system.



# Sewer Fund

Sewer Fund revenues for 2011 are anticipated to be \$2,787,192, a 16% increase over the budget 2010. This increase in revenue is due mainly to the increase in the number of large sewer customers we have added in our system in 2010, and will begin operations in 2011, including Michael's Foods and the 212 Medical Center. It should be noted that while the estimate for sales in 2010 was at \$2,398,613, it is anticipated that 2010 will end closer to \$2,650,000, as we did add Michael's Foods mid-year of 2010. The following table is a summary of anticipated revenues and expenses for 2011 relative to past years.

	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Change	% Change
<b>Revenues</b>						
Metered Sales	\$2,001,465	\$2,079,239	\$2,356,000	\$2,735,800	\$379,800	16%
Other Revenues	\$120,939	\$213,811	\$42,613	\$51,392	\$8,779	21%
<b>Total</b>	<b>\$2,081,424</b>	<b>\$2,171,556</b>	<b>\$2,398,613</b>	<b>\$2,787,192</b>	<b>\$388,579</b>	<b>16%</b>
<b>Expenses</b>						
Pumping	\$12,387	\$7,329	\$19,716	\$19,913	\$197	1%
Treatment	\$1,401,054	\$1,467,994	\$1,563,594	\$1,754,911	\$191,317	12%
Collection	\$345,287	\$412,234	\$427,216	\$482,512	\$55,296	13%
Administration	\$236,222	\$278,479	\$320,067	\$352,268	\$32,201	10%
Capital	\$116,400	\$50,900	\$4,100	\$114,200	\$110,100	2685%
<b>Total</b>	<b>\$2,078,444</b>	<b>\$2,263,812</b>	<b>\$2,334,693</b>	<b>\$2,723,804</b>	<b>\$389,111</b>	<b>17%</b>
<b>Gain</b>	<b>\$2,980</b>	<b>-\$92,256</b>	<b>\$63,920</b>	<b>\$63,389</b>	<b>-\$531</b>	

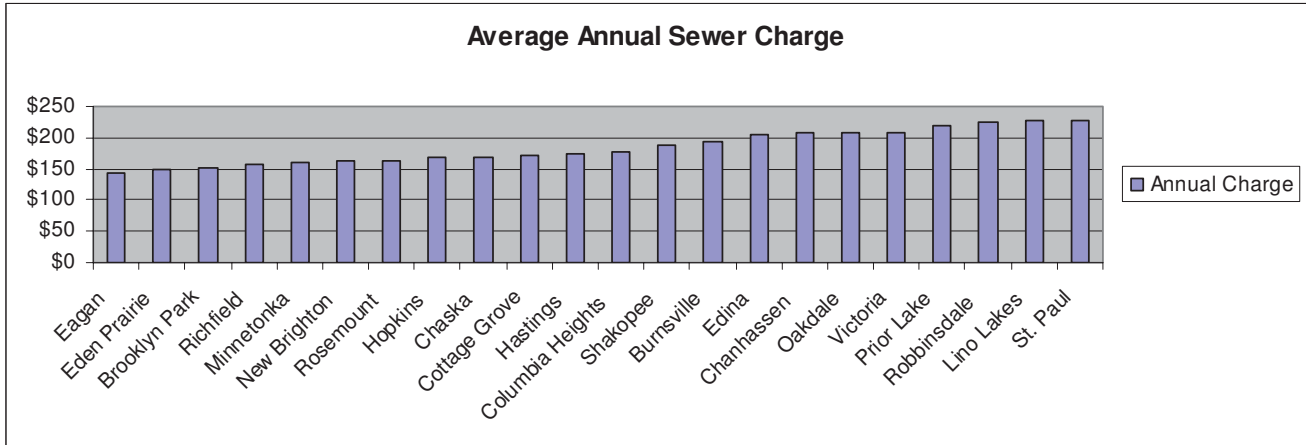
Sales revenue is based on the sewer retail rate increasing by 1.61% in 2011, due mainly to increases we will see in rates from Metro Waste for 2011 of 2.27%. Metro Waste treats all of the sewage for not only Chaska, but each of the Cities in the Twin Cities Metropolitan Service Area. It should be noted that in 2010, we saw Metro Waste rates increasing by 12.91% to Chaska to accommodate for increases they needed to accommodate for reduced growth in the Metro Area, and the need for Metro Waste to cover existing debt service costs for infrastructure built within the last decade. In 2010, that increased our retail rates by 7.93%. 2011 rate increases from Metro Waste will have much less of an impact on our users than the rate increases we saw in 2010.

## Expenses:

Sewer expenses are anticipated to be \$2,723,804 for 2011, an increase of 17%. As mentioned in the revenues above, the two major factors influencing the budget for sewer will be the increase in the amount of usage of our system, especially with the increase in large users such as Michael's Foods and the 212 Medical Center, and any increase that we see in the actual rate from Metro Waste. In 2011, we do anticipate

that we will see an increase in the amount of gallons treated of 9.74% over what we saw in 2010. This again is due to growth in our Commercial/Industrial market.

Currently, Chaska’s sanitary sewer rates are very comparable to other cities in the metropolitan area, and in the southwest metro area in particular. Metro City sewer rates are very similar since a significant portion of the monthly bill is based on the Metro Council sewer charges, which are the same per 1,000 gallons for all communities. Below is a comparison of Chaska sewer rates to other Metro communities:

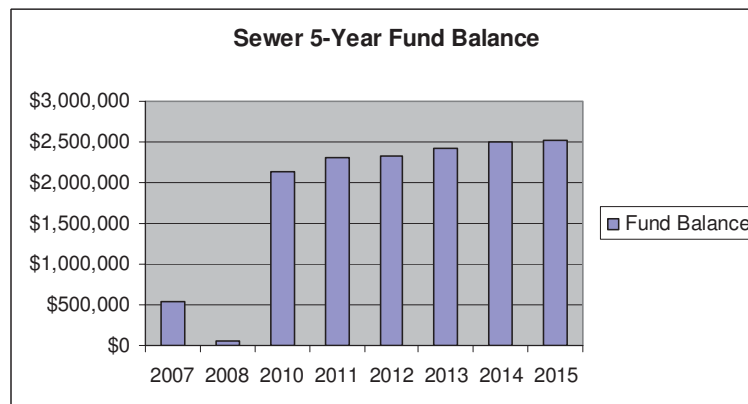


**Personnel Services:**

Currently, the Water and Sewer staff consists of the Superintendent, Foreman, and six maintenance employees. For 2011 it is recommended that the staffing levels remain unchanged. It should be noted that 50% of these personnel costs get charged to the water department, with the other 50% going to the sewer fund, as these two departments utilize the same employees.

**Equipment:**

In 2011, our Equipment Acquisition Schedule would have us completing \$4,200 in Information Service replacement, along with \$105,000 in system maintenance, which would include our Inflow and Infiltration Improvement and lining of some of our sewer lines. There would be no other planned equipment replacement in 2011. In addition, we would also now have \$110,000 contribution to our Street Reconstruction Program to address necessary sewer replacement in our system. Based on our total expenditures and revenues, we are budgeting that there is an increase of \$63,389 in the Sewer Fund for 2011.



# Electric Fund Budget

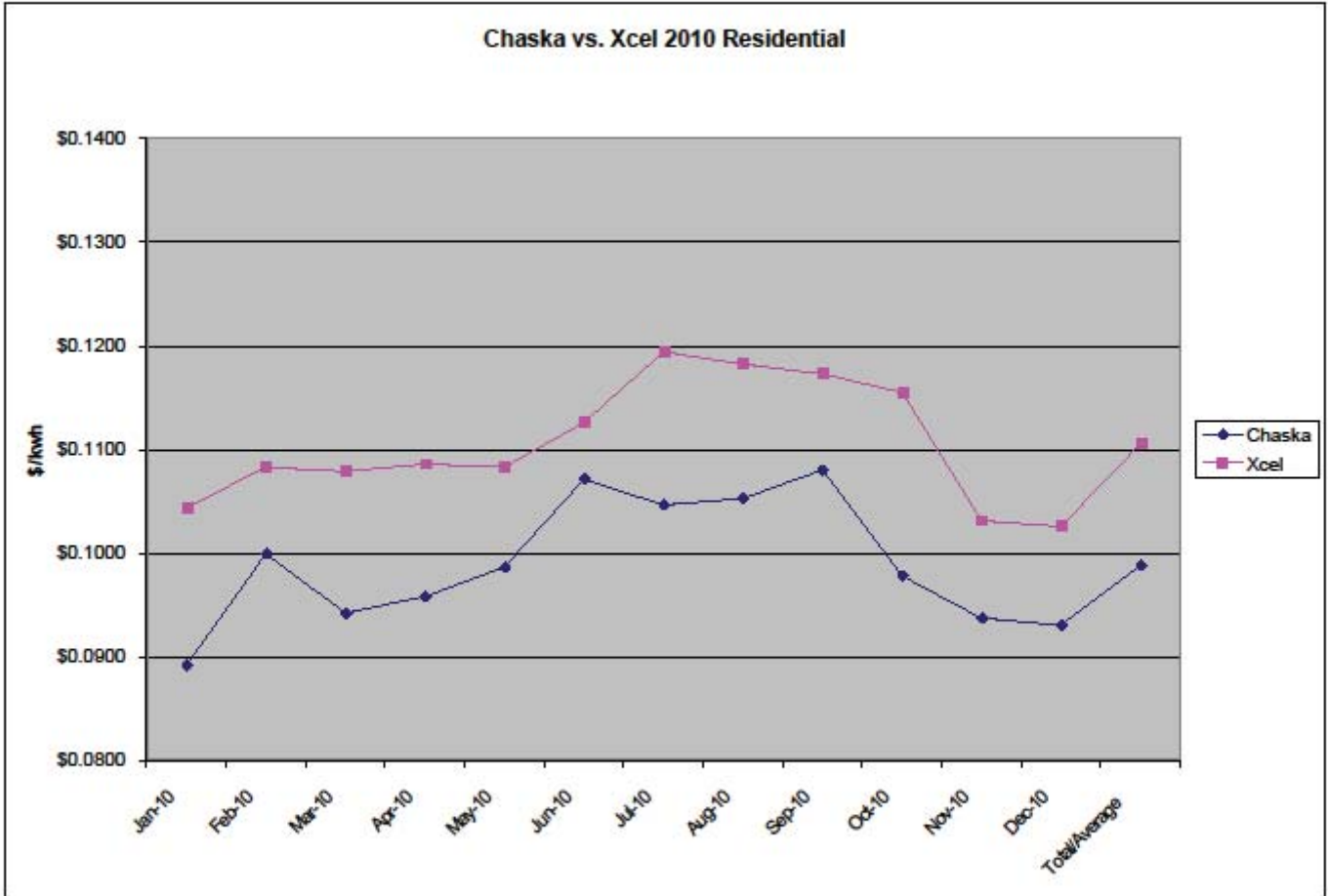
For 2011, Electric Fund revenues are anticipated to be \$26,636,600. This compares to the \$24,427,500 we had budgeted for revenue in 2010. As part of the 2011 budget process, one of the items that Staff looked at closely was the affect that the new large users in our system will have on our overall electric sales, not only for 2011, but for the years included in our 5-year forecast. We will see significant new growth in our commercial/industrial sales starting in 2011 with a full year of the new Michael's Foods plant operational, and the new 212 Medical Center slated to open in February. This will continue to increase with the addition of the new United Health Group Data Center, which is scheduled to open in early 2012. Below is a chart looking at our anticipated revenue for 2011.

	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Change	% Change
Electric Sales	\$28,025,789	\$23,193,541	\$24,092,100	\$26,364,500	\$2,272,400	9.43%
Other Revenue	\$312,265	\$397,793	\$335,400	\$272,100	-\$63,300	-18.87%
Total Revenue	\$28,338,054	\$23,591,334	\$24,427,500	\$26,636,600	\$2,209,100	9.04%

To develop our 2011 revenue budget, we did utilize the following assumptions:

- Rates are to increase by 2.25% in 2011 (2% going to rates and .25% going to an increase in our monthly service charge, given how much lower this service charge is than Xcel in all user categories)
- Existing customer usage will increase by 2.63%, compared to the estimated 0.67% growth that we expect to see by the end of the 2010 budget year
- A total of 75 new residential units will come on line by year end, mainly from single-family home construction
- See increase 3.37% in our Industrial load, and an additional 0.337% increase in commercial users through the addition of a full year of the Michael's Foods plant being operational and the addition of the 212 Medical Center in February.
- Normal weather

The City's objective is to maintain electric rates that are competitive to our main competitor, who is Xcel Energy. As we have seen over the past 12 months, Chaska's residential rates have faired well compared to the market. Looking at 2010, we did see total bills for residential users that averaged 12.1% lower than Xcel for the entire year. Much of this can be attributed to a more stable Natural Gas market over the past two years, than what we saw in 2008, when our total bills were averaging very close to Xcel's overall bill. Our Power Agency, MMPA, currently has most of their assets that are Natural Gas burning, which has resulted in lower costs. Below is a graph showing our total residential bill compared to Xcel in 2010:



In 2011, we continue to expect that our overall bills will continue to be less than Xcel. This is based not only on the fact that Xcel was awarded just over a 5% rate increase this past year, and has now requested an additional rate increase from the Public Utilities Commission of 7.4%. Assuming this rate change by Xcel, our expected wholesale cost of electricity and Energy Adjustment Charges from MMPA in 2011 (wholesale rates are expected to go up by 3% in 2011), and our 2% proposed increase in base rates, and the other portion going to an increase to our monthly service charge since this is currently much lower than Xcel in all user categories, we could expect our residential rates to continue to be approximately 8% lower than Xcel over the course of 2011, with the total bill still continuing to be significantly less than Xcel. At the same time, we expect our Commercial/Industrial rates to be lower than Xcel in 2011.

Electric Fund expenses for 2011 are projected to be \$26,334,381. The primary cost factor in our electric utility is the purchase of wholesale power from the Minnesota Municipal Power Agency. For 2011 we are anticipating that the Agency's wholesale rate will go up approximately 3%, with there being a slight increase in the Energy Adjustment Clause rate passed onto customers, as we are seeing the stabilization of the natural gas market. Based on projected wholesale power rates, we are anticipating that our total wholesale power costs for 2011 will be \$19,322,000, compared to the budget of \$17,726,000 in 2010, although we are estimating to have our 2010 end-of-the-year number be closer to \$18,200,000 due to the increase we have seen especially in our industrial market.

As the electric industry becomes more competitive, it is imperative that the City works closely with the power agency to assure that we are purchasing wholesale power at competitive rates. As we are seeing with the need for Xcel to raise their base rates again in 2011, and with their aging infrastructure that will need to be replaced in the future, it does appear that the agency will be well positioned to meet the needs of the City in the foreseeable future, while at the same time maintaining competitive rates. At the same time, the Agency is positioning itself well to address the "Green Power" initiatives, that will require us to have 12% of our energy generated from "green" sources in 2012, and 25% by 2025. The Agency is currently in the process of developing a utility-scale wind farm in southern Minnesota to address these requirements, with the first one already being financed and expected to be operational in early 2012.

### **Personnel:**

Currently we have ten line workers, along with the Electric Director, Assistant Electric Director, and Foreman, serving this division. It is recommended that no full-time staffing changes be made for 2011. The budget does propose keeping the 9-month seasonal employee, as this position is needed to keep up with the construction projects in the summer. These construction projects typically run 8-9 months out of the year. To keep consistent with our other 9-month positions in the City, this would be a position that would receive benefits while we are during the 9-month period that they are on crew.

A transfer of \$100,000 is programmed from the Electric Fund to the Community Center as we have done in the past. This transfer is consistent with the funding program for the Community Center and is reflected in the Electric Fund. In addition, through 2015, the Electric Fund would contribute to the debt service for The Lodge at the Community Center. In 2010, this transfer is scheduled to be \$113,000.

In addition to this, in 1997 the City adopted a financing plan for the new Fire Station, including an annual transfer of \$300,000 from the Electric Fund to the Fire Station debt service. These transfers are anticipated to continue until 2015.

## Debt Service:

In 2001 the City developed the new Minnesota River substation jointly with the gas turbine project. The Electric Fund share of the substation was \$2,281,000, which converts to annual debt payment of \$104,219. This will continue in 2011.

## Equipment Purchases:

In 2011 we do not have any equipment scheduled to be purchased. However, we do have \$5,000 in computer and SCADA equipment upgrades that are scheduled. In addition to this, there is \$595,000 in systems improvements scheduled for 2011. The major improvements that we will need to make in 2011 and 2012 will be the total reconstruction of our Downtown Substation, and the addition of our West Creek Substation, both totaling approximately \$4 million. The reconstruction of these substations is both needed to accommodate the new growth load we will see in our Corporate/Industrial Area north of Engler Boulevard at the 212 Interchange (West Creek Development with United Health Group Data Center), and because of the transmission upgrades that Xcel needs to do coming into our community to serve not only our future load but that of the surrounding area. We would plan to finance these improvements, with the total debt service expected to be \$415,000 annually for 20 years.

Based on this, the following would be the expenditures for 2011:

	Actual 2008	Actual 2009	Budget 2010	Budget 2011	Change	% Change
Purchased Power	\$21,764,480	\$16,660,295	\$17,726,000	\$19,322,000	\$1,596,000	9.00%
Franchise Fee	\$2,309,000	\$2,256,000	\$2,380,000	\$2,529,000	\$149,000	6.26%
Operating Costs	\$2,555,307	\$2,477,333	\$2,699,935	\$2,844,862	\$144,927	5.37%
Capital	\$296,832	\$551,572	\$555,000	\$1,013,000	\$458,000	82.52%
Debt	\$77,170	\$75,536	\$104,219	\$104,219	\$0	0.00%
Transfer	\$453,657	\$346,087	\$569,200	\$521,300	-\$47,900	-8.42%
Total	\$27,456,446	\$22,366,823	\$24,034,354	\$26,334,381	\$2,300,027	9.57%
Annual Balance	\$881,608	\$1,224,511	\$393,146	\$302,219	-\$90,927	-23.13%

Based on the budget as proposed, the Electric Fund would have revenues in excess of expenditures in 2011 of \$302,219. This would bring the total cash balance to in the fund to \$4,856,900 at the end of 2011.

# Chaska.net Fund

The mission of Chaska.net is:

“Through the use of existing fiber optic and wireless technology, develop a high quality, low cost, high-speed Internet service for Chaska’s public business and residential entities, thereby enhancing Chaska’s vision of being a connected community.”

Chaska.net began operation in 2000 as part of a partnership between the City and the Chaska School District. At that time KMC was completing their fiber optic system serving the Chaska business community. The City and the School District entered into a partnership to construct fiber optic lines to serve each of our existing public facilities. In 2001 the City began providing high-speed Internet service to businesses through the use of local fiber loops provided by KMC, with the business service expanding in 2002, based on the development of a line-of-site wireless network for the community.

Under the initial wireless system antennas were installed at City Hall, the Community Center, and water towers to provide line of sight connections to businesses at a cost ranging from \$100 to \$500 per month. In 2003 the service was expanded when additional antennas were added in the cities of Victoria, Waconia, Norwood Young America, and Shakopee.

In the spring of 2004 Chaska initiated a major effort to fulfill its original vision of having low cost, high-speed residential Internet through the deployment of a City-wide wifi network. The hardware solution deployed consisted of installation of 378 Tropos radios located on streetlights at an original cost of \$621,000. Since the system is wifi based it utilizes off the shelf customer bridges and is capable of providing bi-directional data transfer of speeds up to 1.5 megabytes per second. In 2006 the City elected to upgrade to the next generation of Tropos radios at a cost of \$456,200. Since the inception of the service, we have continued to work on improvements to the system to help improve the reliability and consistency of the service that is provided. Through 2010 the City will have invested \$3.3 million in developing the fiber and wireless network.

## **REVENUES**

Revenues to the fund are generated from three major categories; wireless wifi customers, line of sight customers, and direct fiber connections. Currently, the wifi network has 1,935 customers paying a monthly fee of \$19.99 for the service. In establishing the original financial plan for the wifi business, the goal was to begin with a monthly rate of \$15.99, with that rate increasing by \$1.00 per year until it peaked at a rate of \$20.99. For 2007 the rates were left

unchanged in order to continue to attract customers. For 2008 the monthly fee increased to \$17.99. In 2009 this rate did go up to \$18.99, and in 2010 the rate did go up to \$19.99 per month. In 2011, we are proposing to keep the rate at \$19.99 per month, as we are cognizant of where our pricing has been compared to our main competing service-type provider, which is DSL. DSL prices have come down in price over the past several years, now priced at approximately \$25 per month. While both the wi-fi network and DSL have capability of similar speeds, DSL is a land-line, and because of this has the ability to have better reliability. Because of this, it was felt that it was important to keep a price differential between our service and DSL pricing, so that there is still a true choice for the customer about what service to choose. We would anticipate keeping it \$19.99 into the future, but will continue to monitor this pricing as we move into the future.

Based on 1,935 residential customers, this service presently has a penetration rate of 20.8%, for Chaska's 9,300 households that could potentially be connected to the system. In the 2008 5-year financial forecast, we did plan on adding an additional 250 customers a year to our existing customer base, until we penetrated approximately 40% of the market. As we have witnessed over the past three years, we have remained very steady with the market of residents we have been able to attract to the service. Despite a stabilization of our service, we do think that a more realistic number for new starts in 2011 is closer to 21 customers. For budget purposes, we have carried this lower number of new starts through our 5-year financial forecast to generate conservative forecasting estimates.

In 2011, the annual revenue budgeted for Chaska.net Wi-Fi service is \$470,884. Staff continues to market the Wi-Fi service through our website and occasional utility staffers. As mentioned previously, we do think that while we will see some growth in this portion of our business, that the growth will not be as aggressive as projected in past financial forecasts due to several factors, including the fact that there is much more competition in the market with services such as DSL than there was in the past.

The line of sight wireless network is budgeted to generate \$120,594 annually and has 29 customers located within a 15-mile radius. The five-year plan anticipates that this revenue source will not be a major component of Internet service as we move into the future. Staff has even been evaluating whether we should continue to provide this services to customers outside of the community, as this is a drain on our staff resources, the equipment is aging, and has not helped us achieve our mission of connecting people and businesses within our community. We have been able to make some very inexpensive retrofits to this system to keep it functioning properly, and would anticipate that as long as this is a profitable portion of our business, that we would keep this service. As the equipment becomes technically obsolete for retail service, we will have to evaluate both whether we continue to provide this service to our existing Chaska companies, and whether we continue to provide this service outside of Chaska.

The Chaska School District is the major component of the fiber connected customers, at \$3,000 per month. Over the next five years, we do anticipate large customers in the new industrial park will elect to gain Internet activity through the Chaska.net fiber network, as we do plan on extending a our fiber loop out into this new industrial park. We would not anticipate any new service from this until at least 2013. This will not only make our existing fiber system more robust by allowing us to loop our fiber line around the City, but will provide opportunities for new large customers of our fiber service. We are planning that this cost would be an infrastructure cost born by resources generated from this development. Consistent with that goal, we are anticipating new revenues from the fiber service in our Chaska Biotech Center development area based on the following schedule:

YEAR	ANNUAL TOTAL	
2008	0	
2009	0	0
2010	0	0
2011	0	0
2012	0	0
2013	60,000	60,000
2014	60,000	120,000
2015	10,000	130,000

As noted above, the capital costs of getting our fiber system out to the Biotech Center developed, and looped with the rest of our fiber network in the community, is being planned as a development cost, not to be born by the Chaska.net Fund. While the schedule does show 2013, this could be expedited based on the actual development schedule of this new industrial park.

The following table is a summary of the forecasted revenues for Chaska.net for 2011.

Revenues	2008 Actual	2009 Actual	2010	2011	2012	2013	2014	2015
Fiber	\$8,421	\$10,577	\$12,493	\$9,478	\$9,478	\$9,478	\$9,478	\$9,478
Fiber T-1	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Fiber Growth	\$0	\$0	\$0	\$0	\$0	\$60,000	\$120,000	\$130,000
Wireless MP	\$157,740	\$165,351	\$110,357	\$120,594	\$120,594	\$120,594	\$120,594	\$120,594
Wireless WiFi	\$496,524	\$475,586	\$492,834	\$470,884	\$475,922	\$485,997	\$501,109	\$521,259
Wireless Apartment	\$28,000	\$29,866	\$31,806	\$11,293	\$11,293	\$11,293	\$11,293	\$11,293
Other	\$169,516	\$28,485	\$9,511	\$14,519	\$17,037	\$19,556	\$22,075	\$24,594
Total	\$860,201	\$709,865	\$657,000	\$626,768	\$634,324	\$706,918	\$784,549	\$817,218

## EXPENSES

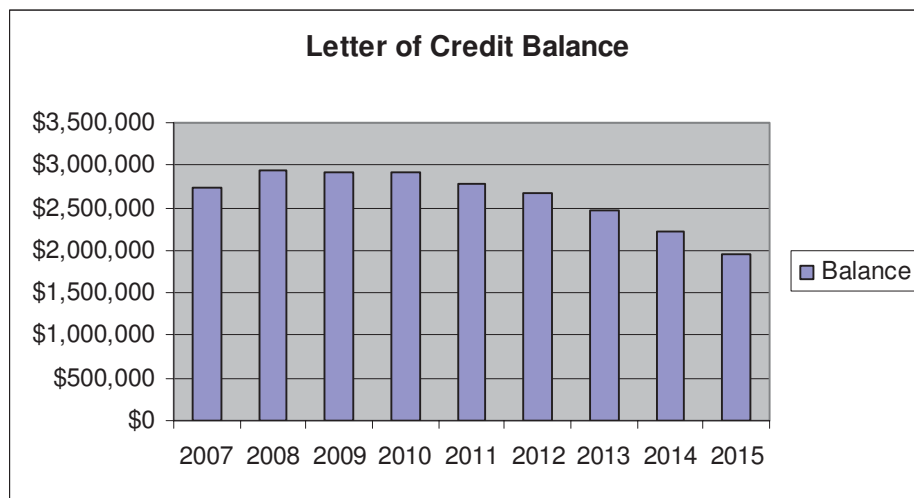
The following table is a summary of forecasted expenses for 2011.

Expenditure	2008 Actual	2009 Actual	2010	2011	2012	2013	2014	2015
Bandwidth	\$99,996	\$99,996	\$100,000	\$101,000	\$104,040	\$106,121	\$108,243	\$110,408
Distribution	\$384,795	\$414,459	\$159,000	\$93,605	\$94,198	\$94,604	\$95,017	\$95,439
Personnel	\$216,574	\$120,584	\$180,220	\$125,225	\$129,099	\$133,115	\$137,278	\$141,595
Operating	\$84,638	\$117,916	\$172,000	\$179,470	\$181,264	\$182,491	\$183,743	\$185,020
Depreciation	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Capital	\$208,275	\$5,000	\$45,000	\$5,000	\$5,000	\$5,000	\$5,000	\$5,000
Bonds	\$230,720	\$0	\$0	\$0	\$0	\$0	\$0	\$0
Total	\$1,224,998	\$905,741	\$656,220	\$504,300	\$513,601	\$521,331	\$529,281	\$537,462

Currently, Chaska.net has two full time positions allocated to it. We plan to continue to have this level of staffing in 2011. One major change that is shown in the expense budget above is the elimination of our Network Operations Center contract with Siemens for \$120,000. While Siemens was able to adequately provide this service, we have found that given the size of our utility, we are better able to provide those services in-house. To do that has added some costs of having to have after-hours calls by our staff, but has provided similar levels of service with a significant net decrease in costs. It should be noted that as part of this change, we did not

change the contracted hours of help-desk service from Siemens, as this has provided the necessary hours of staffing at a help desk we would not be able to do given our current staffing levels. Additionally, our internal email service would have required some major upgrades to stay functional at the level we would need it to be. Because of that, in 2010, we did migrate over to Google for our email service, which was a \$35,000 annual costs. Overall, both of these changes are a cost savings to the Chaska.net system, and have a positive impact on allowing us to write-down the internal letter of credit provided to Chaska.net from our Electric Fund to start up this service.

Our original objective for the Chaska.net service was to fully pay off all outstanding debt by 2013. Based on our current assumption that target will not be met. However, we will continue to allow Chaska.net to be an operationally self-supporting entity, and be able to have positive movement in writing down the outstanding debt in the line-of-credit we established to start this service. Below is a chart showing the outstanding debt on the Line-of-Credit that was established for this service. As you can see in the chart, we do anticipate that this balance will continue to go down, but we will still have an outstanding balance through the 5-year period.



It should be noted that while there is a balance of around \$3,000,000 in the line-of-credit after the 5-year period, approximately \$900,000 of this investment is in our installed fiber infrastructure, which has a much longer life expectancy than our wireless mesh product. For this reason, it is reasonable to assume a longer pay-back period for this infrastructure since it will not need to be replaced nearly as soon as our wireless mesh infrastructure.

Although the Chaska.net service has not yet fully met our initial financial objectives, and may have difficulty paying back this original line of credit on its own it should be noted that this service has provided many opportunities throughout our internal organization to save money on services we provide and how we provide them. Chaska.net has provided Internet service to the rest of the City's Enterprise Fund and the General Fund at no cost to these funds for over 10 years. This has created a significant savings across the entire City. It has also allowed us to deploy wireless systems for our Utility Meter Reading, SCADA services and Police services, saving us many dollars in the process. It will continue to provide us with opportunities for more cost effective ways to provide our services in other departments as we move into a meter replacement program in Water, Sewer and Electric in 2012. So while we eventually will have to make a decision of whether we will update our Chaska.net system with new technology from a retail perspective, we do see that the wireless technology we have now will continue to be a good investment from an internal perspective and the cost savings we are able to experience in other departments.