City Council
Work Session

Monday, August 3, 2026, 5:30 PM
106 Center Street

Members of the public may attend the work session either in person or by joining via Zoom either online or by telephone at:

https://us02web.zoom.us/j/88526566715

Meeting ID: 885 2656 6715

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AGENDA

1. Call to Order/Roll Call
2. Agenda Approval
3. New Business
   a) Water, Sewer, and Surface Water Rate Study Update
4. Adjournment

Item: 3.a.

ITEM REPORT

To: City Council
From: Jenny Palmer, Finance Director
Meeting Date: August 3, 2026
Department/Office: Finance
Item Name: Water, Sewer, and Surface Water Rate Study Update

Summary:
Included with this memo is an updated analysis of the projected Water, Sewer, and Surface Water utility rates, as well as the future debt levy associated with planned street reconstruction projects.

City staff has been working with Baker Tilly to update the City's Capital Improvement Plan based on revised project schedules and cost estimates provided by Public Works and the City Engineer. The updated projections evaluate the anticipated impacts on utility rates and the annual debt levy for the 2027–2033 planning period.

Based on the revised analysis, the following rate adjustments and debt levy increases are projected:

Water Utility: Rate increases of 10% are projected for 2027, 2028, and 2029, followed by 8% increases in 2030 and 2031.

Sewer Utility: Rate increases of 20% are projected for 2027 and 2028, followed by an 18% increase in 2029. No additional rate increases are currently projected after 2029.

Surface Water Utility: Annual rate increases of 9% are projected for each year from 2027 through 2033.

Debt Levy: The debt levy is projected to increase by $180,000 annually in 2028, 2029, and 2030, decrease to $150,000 in 2031, and then decrease to $100,000 in 2032.

These projections are based on the current capital improvement schedule and will continue to be reviewed annually as projects, costs, financing, and infrastructure needs evolve.

Recommended Action:
Review the rate study memo and provide staff direction on next steps.

Budget:

Attachments:

1. Excelsior CIP memo for 2026-08-03
2. Excelsior CIP presentation 2026-07-30

Summary Memo

To:	Members of Excelsior City Council Kristi Luger and Jenny Palmer, City of Excelsior
From:	Matt Stark, Manager
Date:	July 30, 2026
Subject:	City Council Work Session: Impacts of Capital Planning Changes

BACKGROUND

Baker Tilly has prepared an analysis of the City's updated capital improvement plan to identify the potential impacts that capital spending is likely to have on the City's Water, Sewer and Surface Water Utility Funds.

Consistent with our previous work, the purpose of our recommended rate adjustments is to provide each utility fund with resources sufficient to cover operating and maintenance expenses, debt service payments and capital outlays, as well as to maintain adequate cash reserves. This analysis builds on our earlier work; assumptions about operations in each utility fund have not changed, and we are not revisiting our rate recommendations for 2026 where were already adopted by the City. Our focus for this analysis is on the impacts of changes in the City's planned capital spending.

CHANGES TO CAPITAL PLANS

We were provided with updated assumptions about future capital spending which were developed by the City in conjunction with its engineering partners. The updated capital plan included a number of significant changes, including the following:

<u>Deletions:</u>

- The 2026 project for water main lining on Division ($460,000) was removed.
- The 2026 project for the 3rd & Center Street STUL ($6.4 million) was removed.
- The 2028 pavement management project for Area 6 ($2.4 million) was removed.
- The 2030 pavement management project for Area 7 ($2.9 million) was removed.
- The 2032 pavement management project for Area 11 ($3.0 million) was removed.
- The 2032 Oak Street water main project ($2.0 million) was removed.

<u>Additions:</u>

- A 2028 pavement management project for Area 12 ($8.6 million) was added.
    - $5.6 million of project costs are anticipated to be paid through State funding.
- A 2030 reconstruction project for Elm Place ($5.3 million) was added.
- A 2032 reconstruction project for 3rd Avenue ($4.0 million) was added.

<u>Changes:</u>

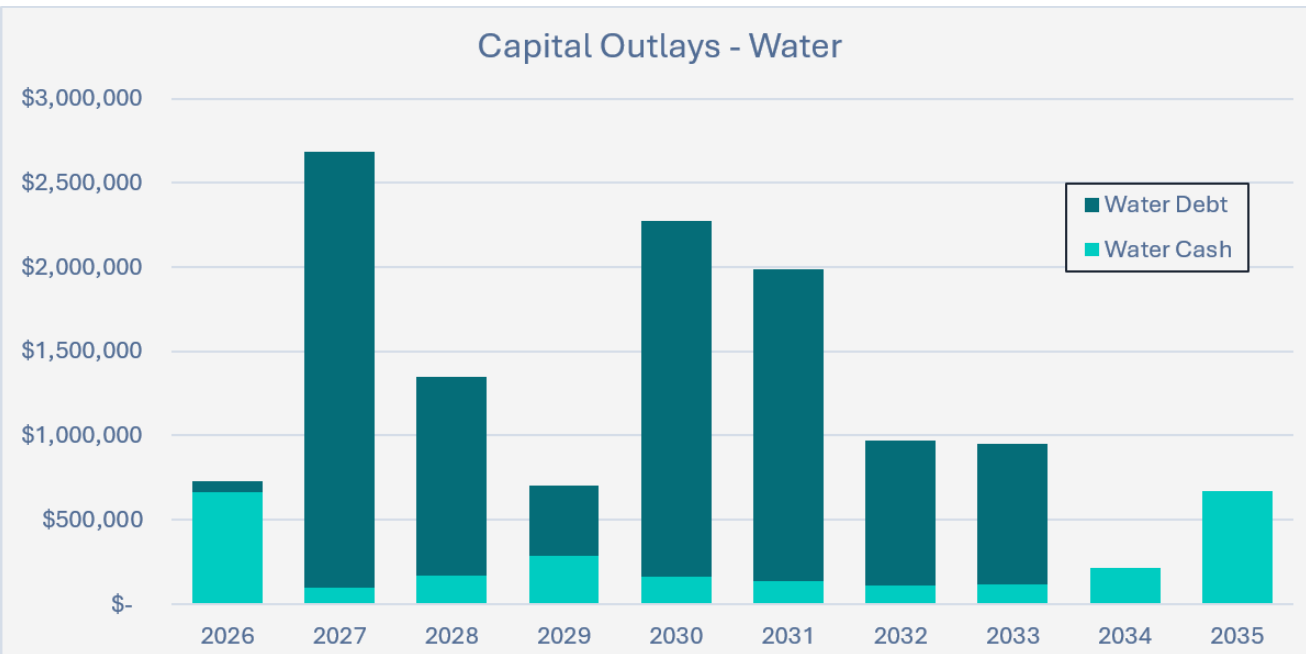
- Construction of a replacement Public Works building was moved from 2030 to 2031.
- Many changes to the amounts and timing of smaller projects and purchases were made; these smaller changes did not have a significant effect on our projections.

CAPITAL SPENDING IMPACTS – WATER FUND

The Water Fund is anticipated to make $2.6 million in capital outlays from its cash reserves over the next ten years, which makes for average cash outlays of $263,000 annually. Cash outlays are typically used to pay for equipment purchases, ongoing capital maintenance programs, refurbishment and rehabilitation of existing equipment, and similar expenditures. In most cases, the equipment being purchased or repaired does not have a long life cycle, and as such it would be inappropriate to pursue long-term financing for such items.

In addition to its cash outlays, the Water Fund is also expected to fund some of its larger projects through long-term financing. These projects include the street projects mentioned earlier, as well as significant facilities improvements planned for 2027. Throughout our analysis, we assumed that long-term financing will carry a term of 20 years and an interest rate of 5%.

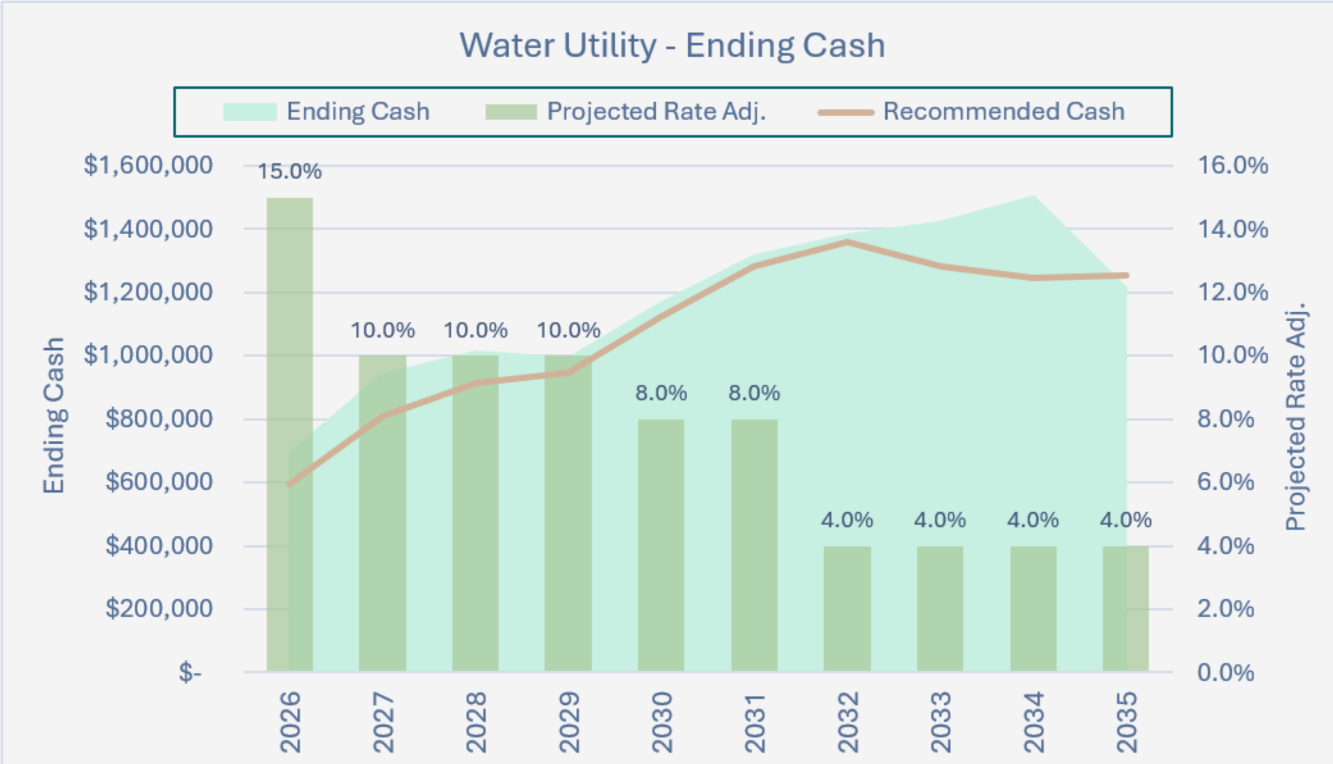
The chart below shows a snapshot of the updated assumptions for the Water Fund's capital outlays, showing the proportion of cash and debt financing each year.



As would be expected, the changes to the planned capital outlays funded by the Water Fund have an impact on our financial projections. Our previous work identified that a 15% rate increase was needed to pay for the Water Fund's activities in 2026. Using the 2026 rate increase as a starting point, we estimate that 10% rate increases will be needed in 2027, 2028 and 2029, followed by 8% increases in 2030 and 2031.

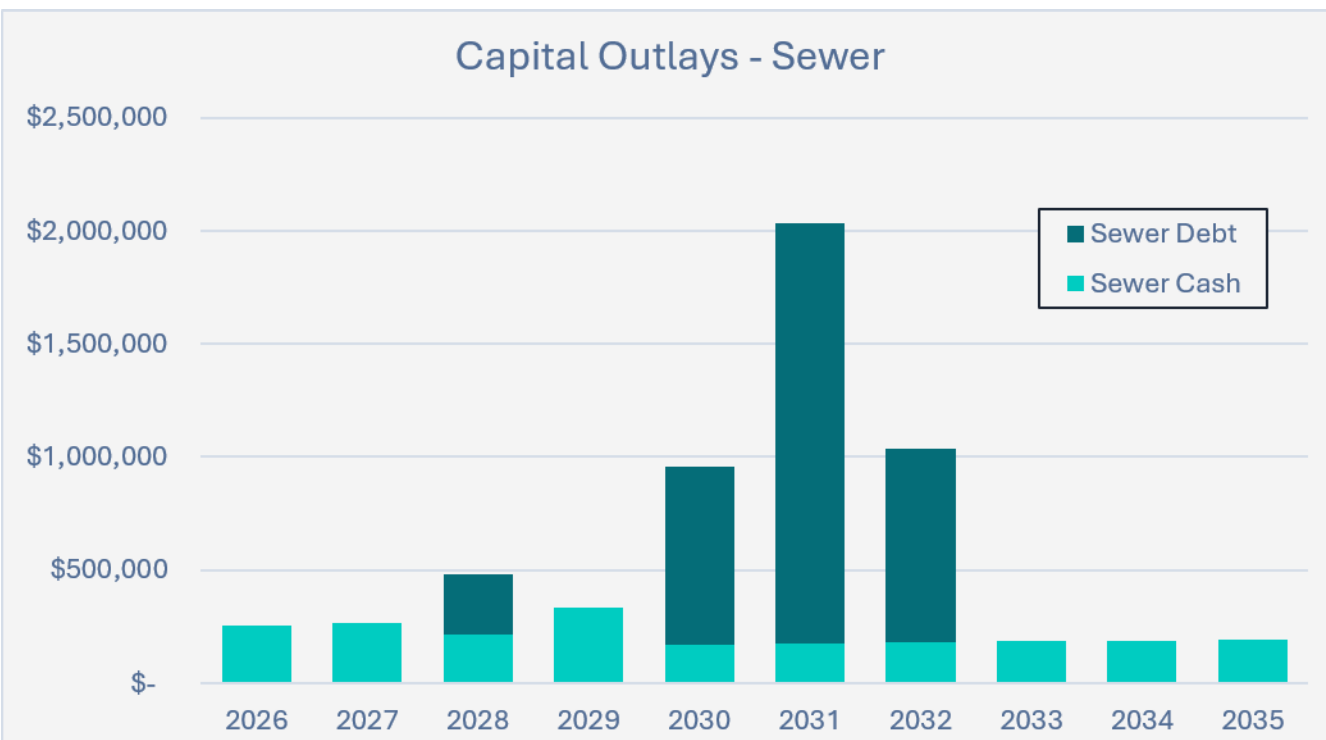
These rate adjustments should provide the Water Fund with the resources required to pay debt service on the debt-financed projects listed above. In 2032 and thereafter, we anticipate that modest rate increases around 4% should be sufficient to maintain positive net income and cash reserves.

The chart on the following page shows the Water Fund's projected cash balance for the coming ten years, comparing these reserves to the minimum recommended levels over that time. The chart shows that cash reserves remain above minimum levels, given the rate recommendations described in this section. The recommended minimum cash drops in 2033 concurrent with the retirement of some of the Water Fund's existing debt.



CAPITAL SPENDING IMPACTS – SEWER FUND

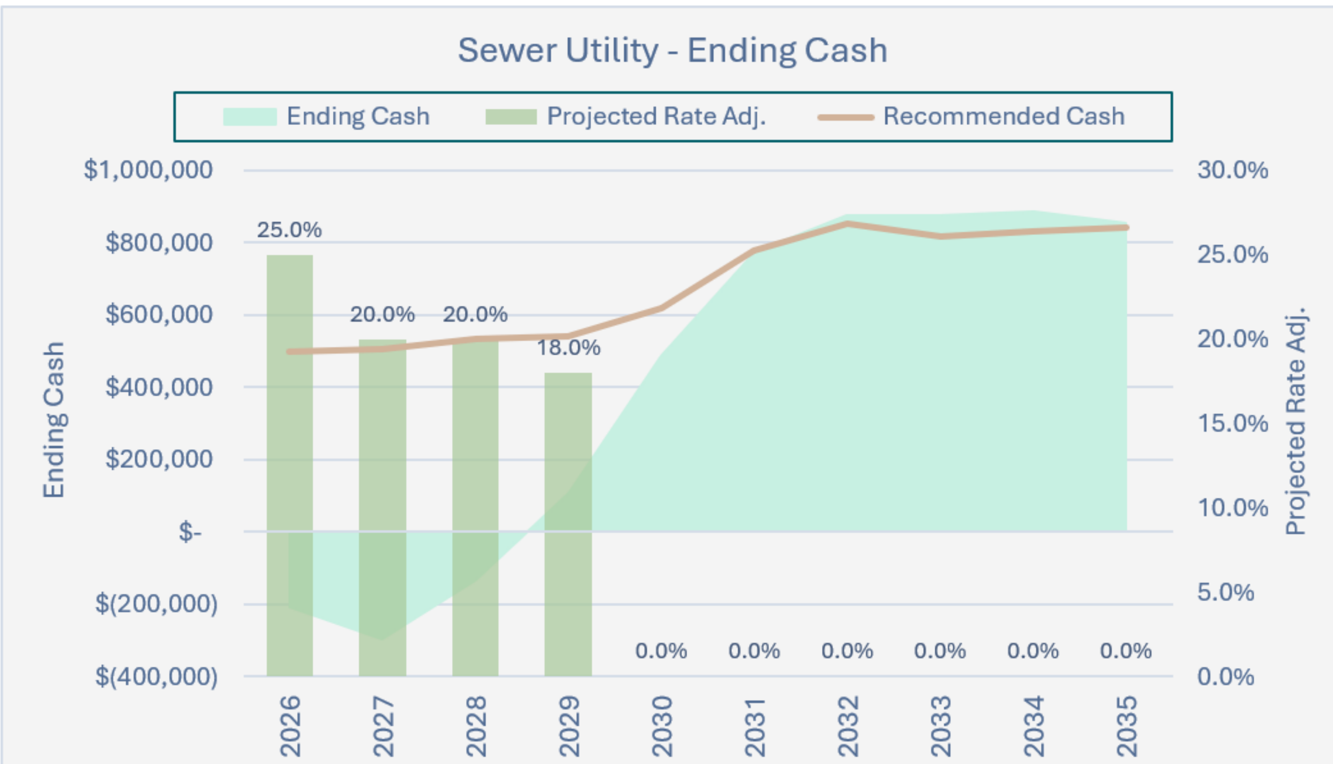
The Sewer Fund is expected to make $2.2 million in capital outlays from its cash reserves over the next ten years, along with $3.8 million in debt-financed projects over the same period. These outlays translate into an average annual cash outlay of $220,000, with debt service payments growing to about $300,000 per year by 2032. Total outlays by year are shown in the chart below.



As was discussed in our previous reports, the Sewer Fund is starting from a difficult position. The fund has shown negative income and negative cash reserves in the past couple of years; rectifying this imbalance was the primary driver of the 25% rate increase recommended and adopted for 2026.

As a result of its precarious starting position, the addition of capital expenditures to the Sewer Fund's requirements presents an outsized challenge. To meet its operating, capital, and debt service obligations, we recommend that the Water Fund implement 20% rate increases in 2027 and 2028, with an additional increase of 18% in 2029. The revenues generated by these increases should serve to put the Sewer Fund on a sustainable financial trajectory. In 2030 and thereafter, we anticipate that no rate adjustments will be required.

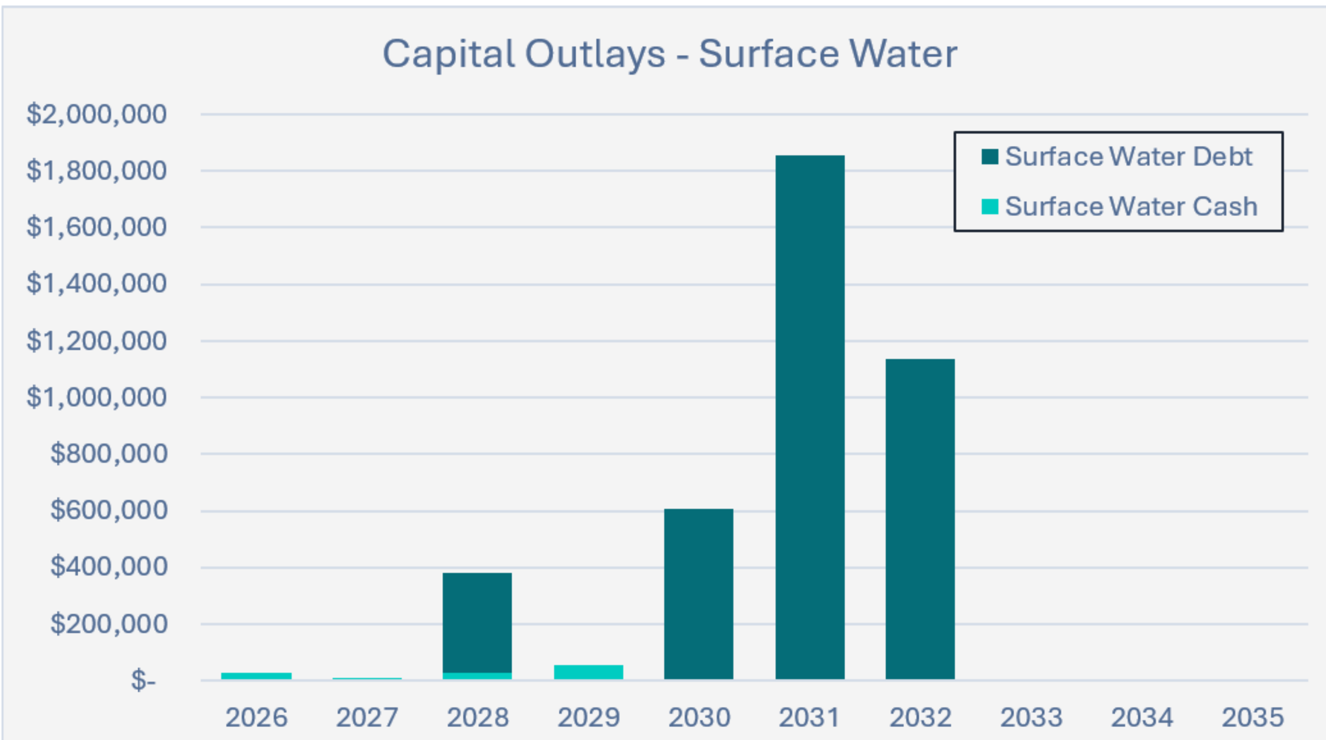
The chart below shows the Sewer Fund's projected cash position if the above adjustments are made. We anticipate that it will take until 2029 to establish a positive cash balance, and another two years to bring cash reserves to the minimum recommended levels.



CAPITAL SPENDING IMPACTS – SURFACE WATER FUND

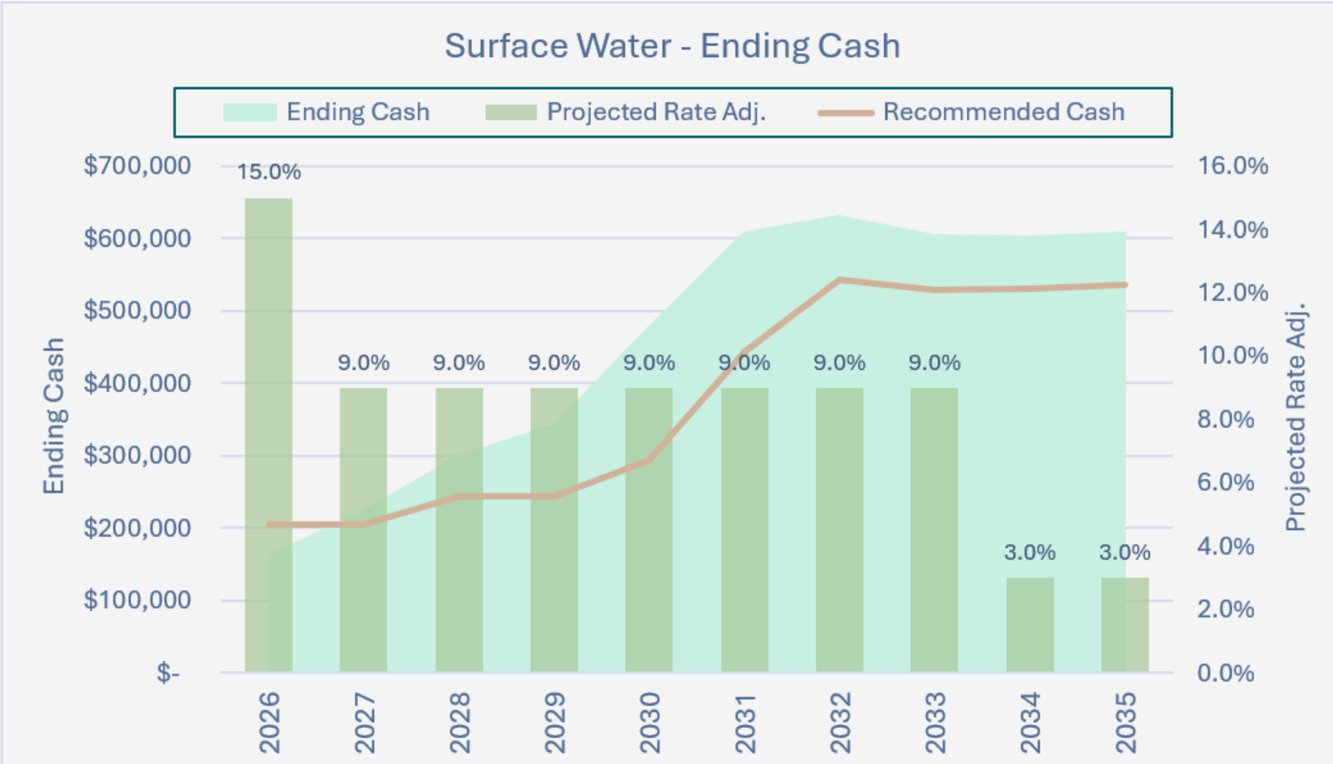
As we observed in our previous work, the Surface Water Fund is less than half the size of the Water and Sewer funds in terms of total operating revenues and expenses. As a result, capital spending has an outsized impact on the fund. For instance, a project like the Public Works building replacement carries an annual debt service obligation of around $150,000. For the Water Fund, this amount is less than 10% of the utility's expected revenues in 2031. For the Surface Water Fund, the 2031 revenues are expected to be less than $600,000. Adding $150,000 in new debt service expenses to this base is equivalent to a 25% increase.

Looking at the ten years from 2026 to 2035, the Surface Water Fund is scheduled to spend $120,000 from its reserves and to finance nearly $4 million through long-term debt. Annual debt service on these projects is expected to grow to approximately $320,000 by 2032. This amount is very nearly the same as the fund's total revenues in 2025. The 15% increase adopted in 2026 helps to put the fund on the right path, but significant additional increases are required to provide the resources needed for the fund's future debt service payments. Total capital spending for the Surface Water Fund is shown below.



We anticipate that 9% increases will be needed each year from 2027 through 2033 in order to provide the resources needed for the Surface Water Fund's capital outlays. These increases are expected to keep fund balances above the minimum recommended levels. These also provide positive operating and net income over the course of the planning period, though debt service coverage may drop below 100% due to the comparative large debt service payments which come on line in 2031 and 2032. We encourage the City to work with its financial advisor ahead of these projects to address any complications arising from the projected coverage level. If additional revenues are likely to be required, it may be preferable to implement smaller additional increases at an earlier data, rather than a single large increase the year that debt is issued.

The two charts on the following page show the Surface Water Fund's projected cash balance and debt service coverage over the next ten years.


Surface Water - Ending Cash
Ending Cash
Projected Rate Adj.
Recommended Cash
Ending Cash
Projected Rate Adj.
$700,000
$600,000
$500,000
$400,000
$300,000
$200,000
$100,000
$-
16.0%
14.0%
12.0%
10.0%
8.0%
6.0%
4.0%
2.0%
0.0%
15.0%
9.0%
9.0%
9.0%
9.0%
9.0%
9.0%
9.0%
3.0%
3.0%
2026
2027
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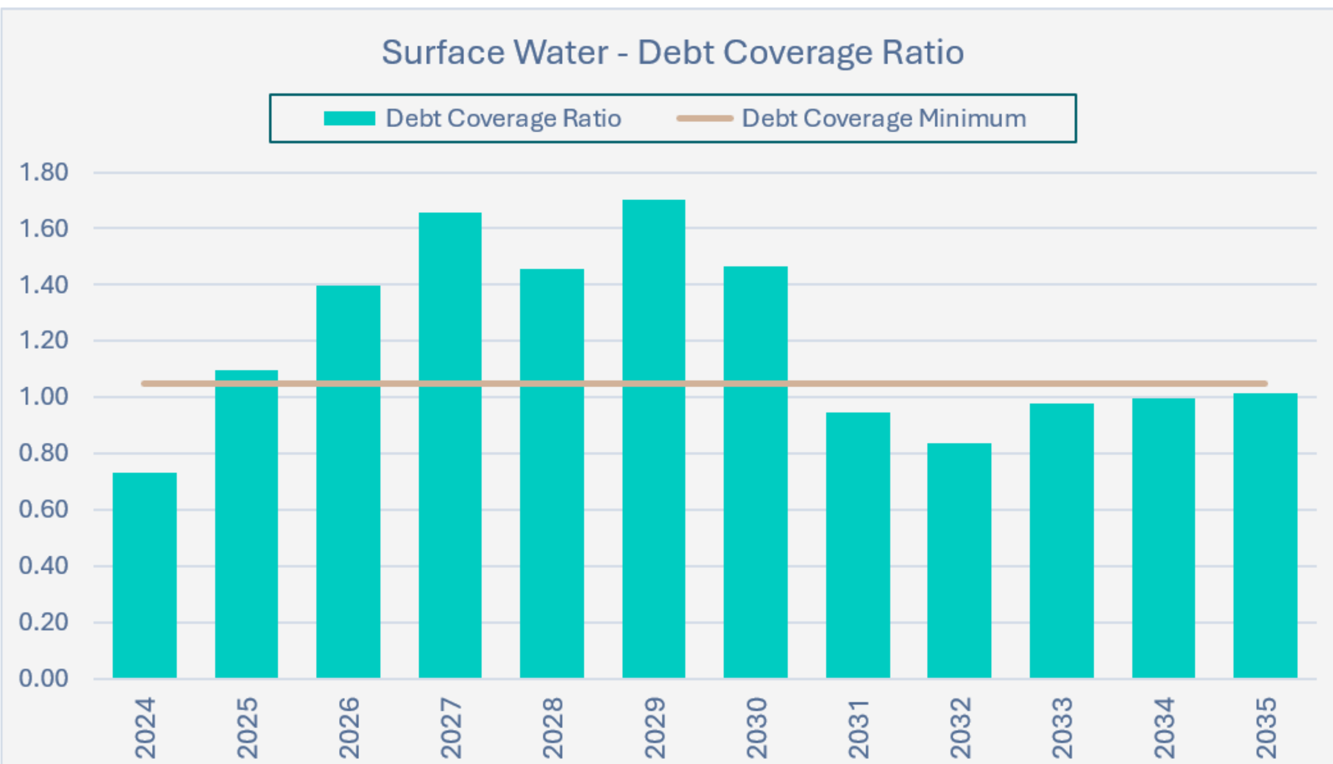
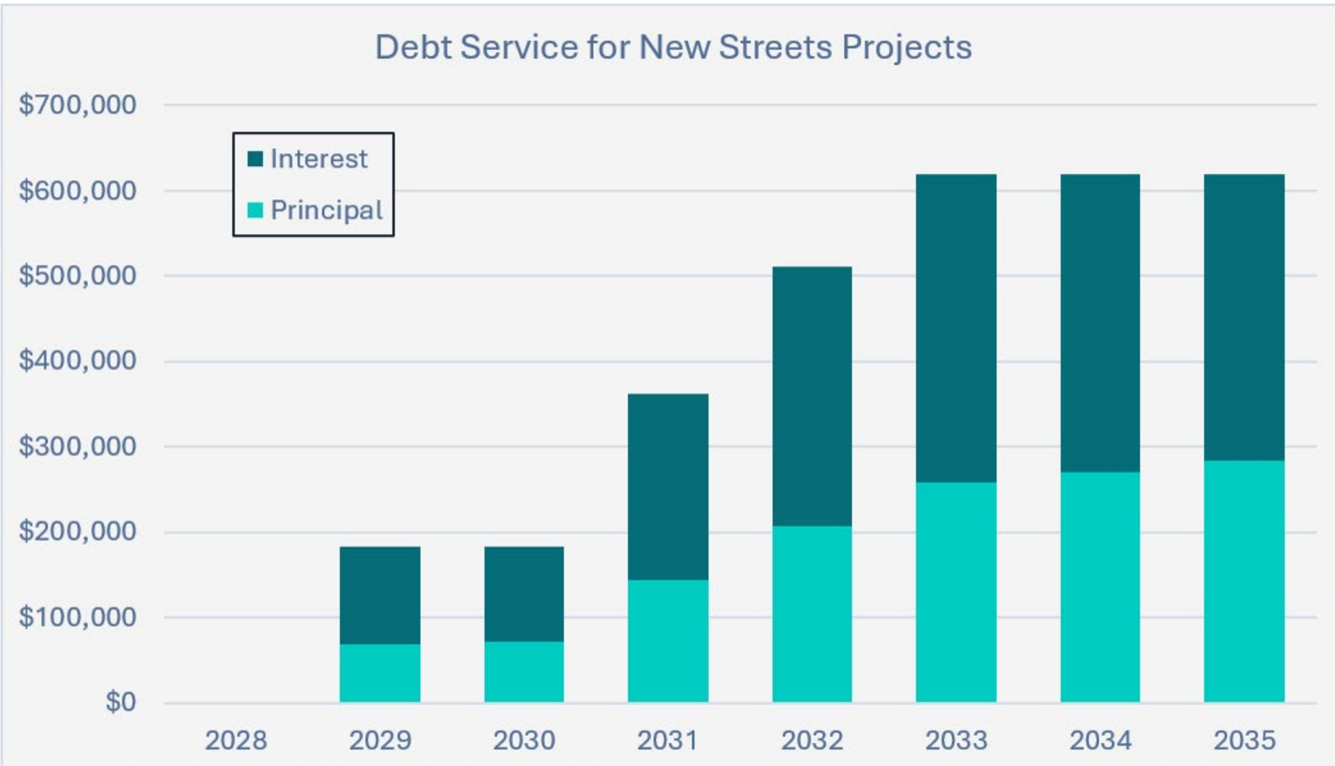
2032
2033
2034
2035


Surface Water - Debt Coverage Ratio
Debt Coverage Ratio
Debt Coverage Minimum
1.80
1.60
1.40
1.20
1.00
0.80
0.60
0.40
0.20
0.00
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033
2034
2035

CAPITAL SPENDING IMPACTS – OTHER FUNDS

In addition to our analysis of capital impacts on utility funds, we also reviewed the capital spending impacts on other funds which are scheduled to participate in the City's major projects.

In the updated capital improvement plan, approximately $7.7 million in outlays is expected to come from long-term financing linked to Streets budgets. In terms of debt service requirements, these projects are expected to generate approximately $180,000 in annual debt service payments in 2029, with a similar amount added in 2031. Additional debt service of $150,000 is expected in 2032, followed by $100,000 more in 2033. In total, the annual debt service paid through Streets funding is expected to grow to approximately $620,000 in 2033 and subsequent years.



Lastly, the City has scheduled $1.85 million of the Public Works building project to come from the Dock Fund. If the Dock Fund does not have this amount in reserve when the project is started, it may need to make debt service payments for its share of project costs alongside the other participating funds.

CLOSING

We trust that this analysis of capital spending impacts proves useful to the City of Excelsior at it continues its financial planning, budgeting and rate-setting processes. We look forward to discussing the analysis and answering the City's questions about these matters at the August 3 City Council work session.

City of Excelsior

Capital Planning Analysis and Projections

Matt Stark

August 3, 2026

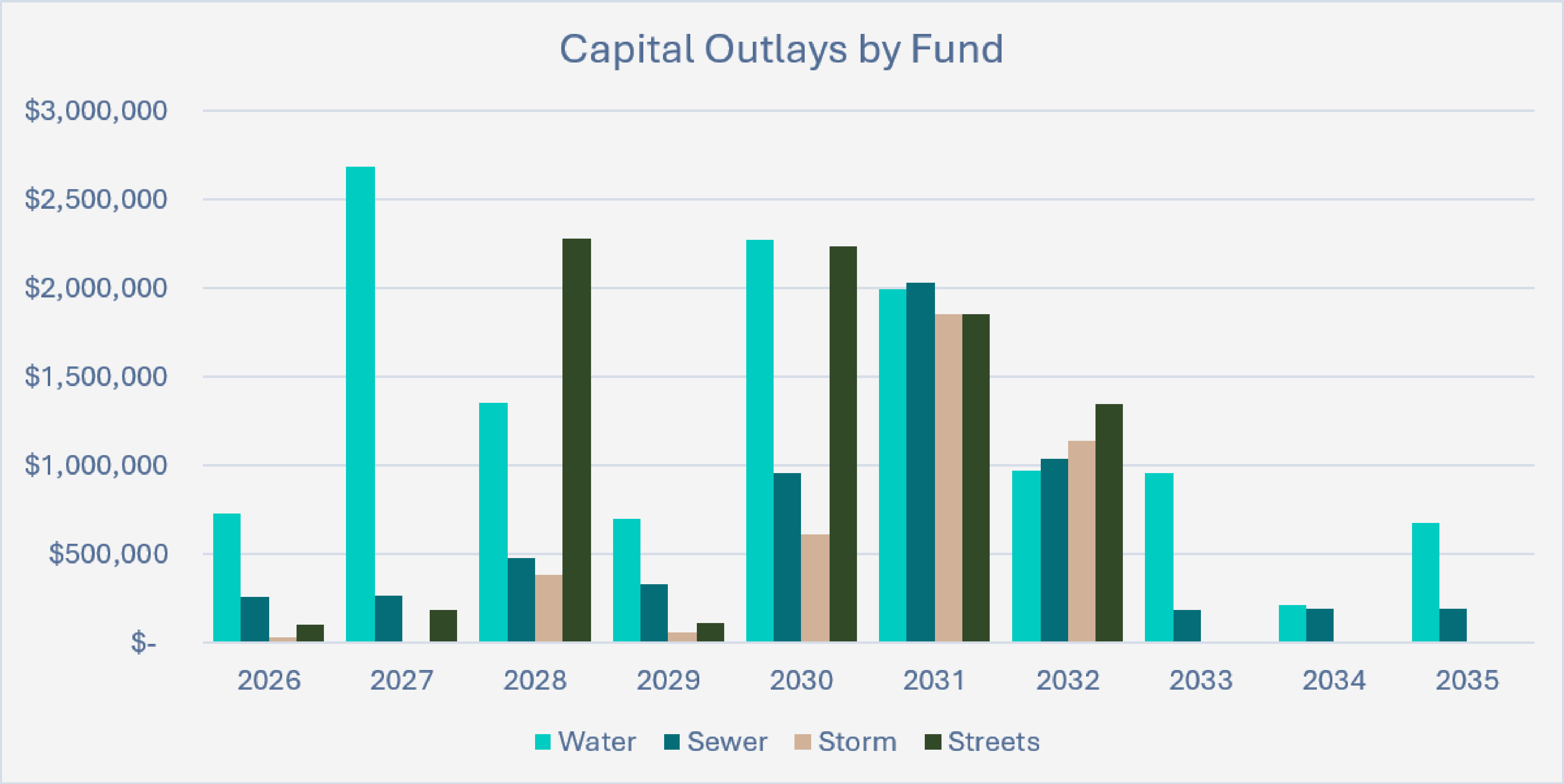
Capital Outlays

Major capital projects

- 2027: Water Treatment Plant Upgrades $2.5 million
- 2028: PMP Area 12 (local portion*) $3.2 million
- 2030: Elm Place Reconstruction $5.5 million
- 2031: Replace Public Works Building $9.3 million
- 2032: 3rd Ave Reconstruction $4.2 million
- 2040: Yard and Process Piping $2.4 million

* PMP Area 12 is projected to receive $5.6 million in State funding.

Capital spending



Capital funding assumptions

- Funds usually don’t have reserves to cover major capital outlays.
  - Projections assume long term funding will be 20 years at 5% interest.
- Smaller outlays for ongoing services and equipment are paid from fund reserves.

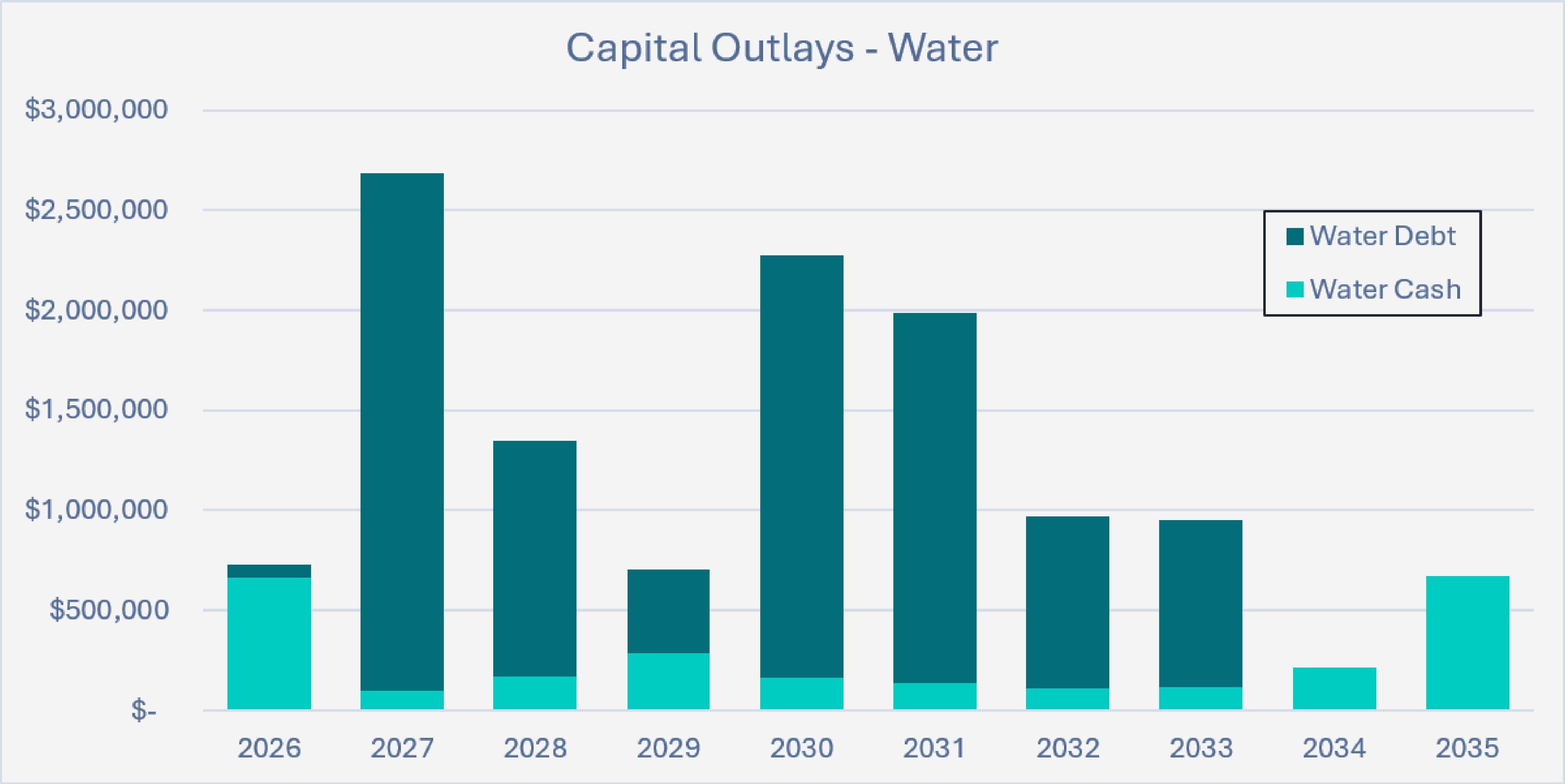
Capital Funding Impacts

Review of capital spending impacts

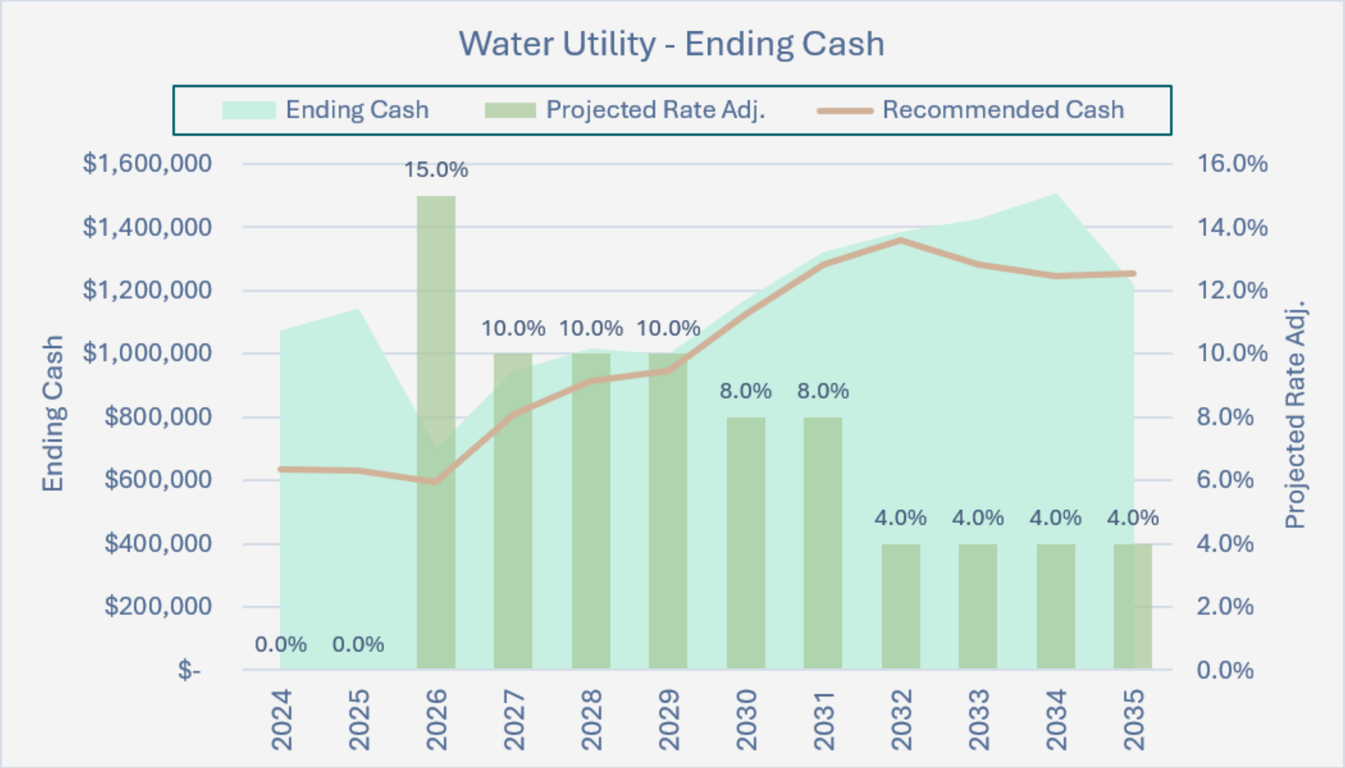
- Utility Funds:
  - Review rates needed to pay for updated capital investments.
- Other Funds:
  - Review projects paid with non-utility funds.
  - Review debt service needed to fund project costs.

Water Fund

Water Fund – updated capital outlays



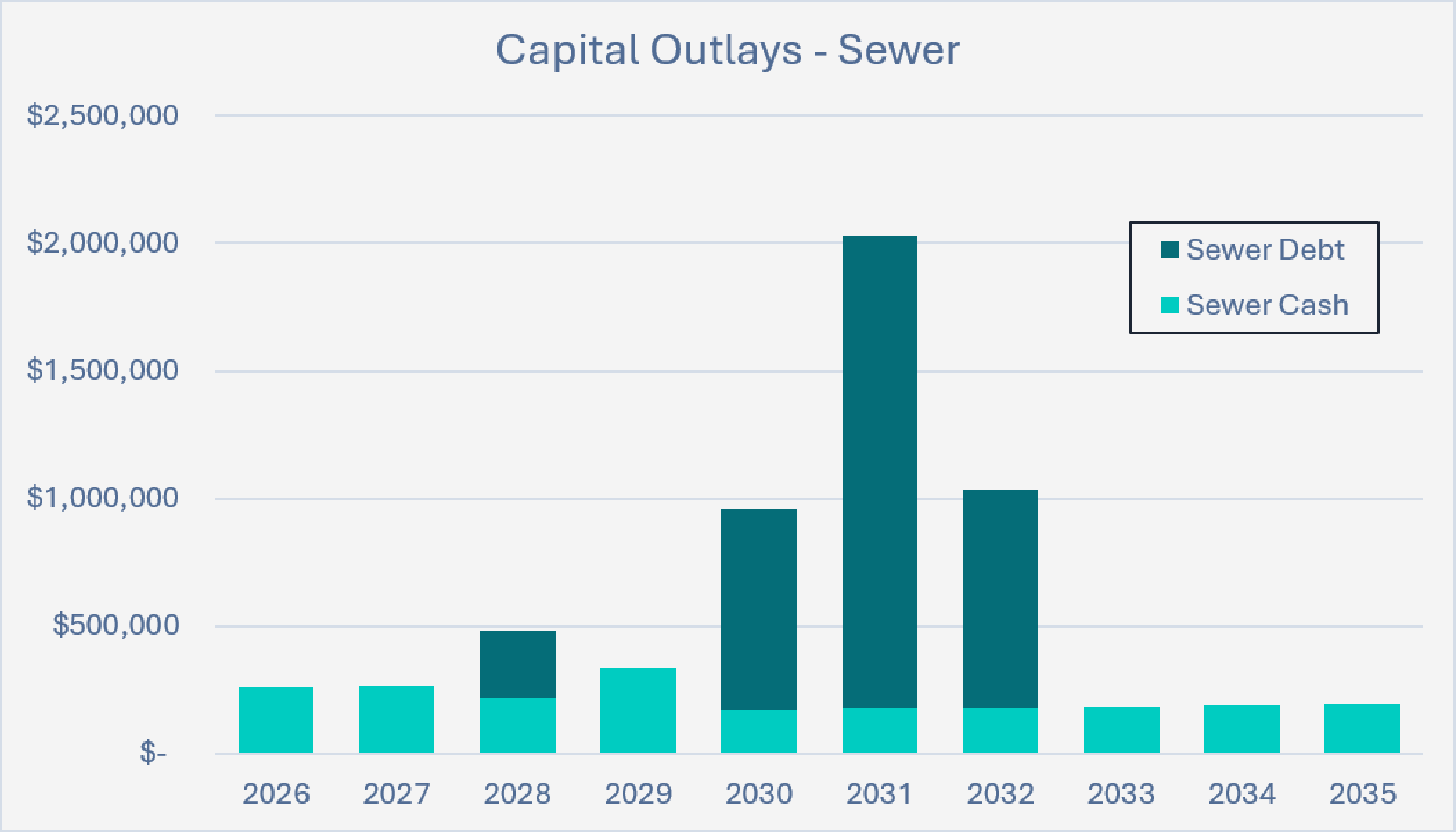
Water Fund – rate adjustments



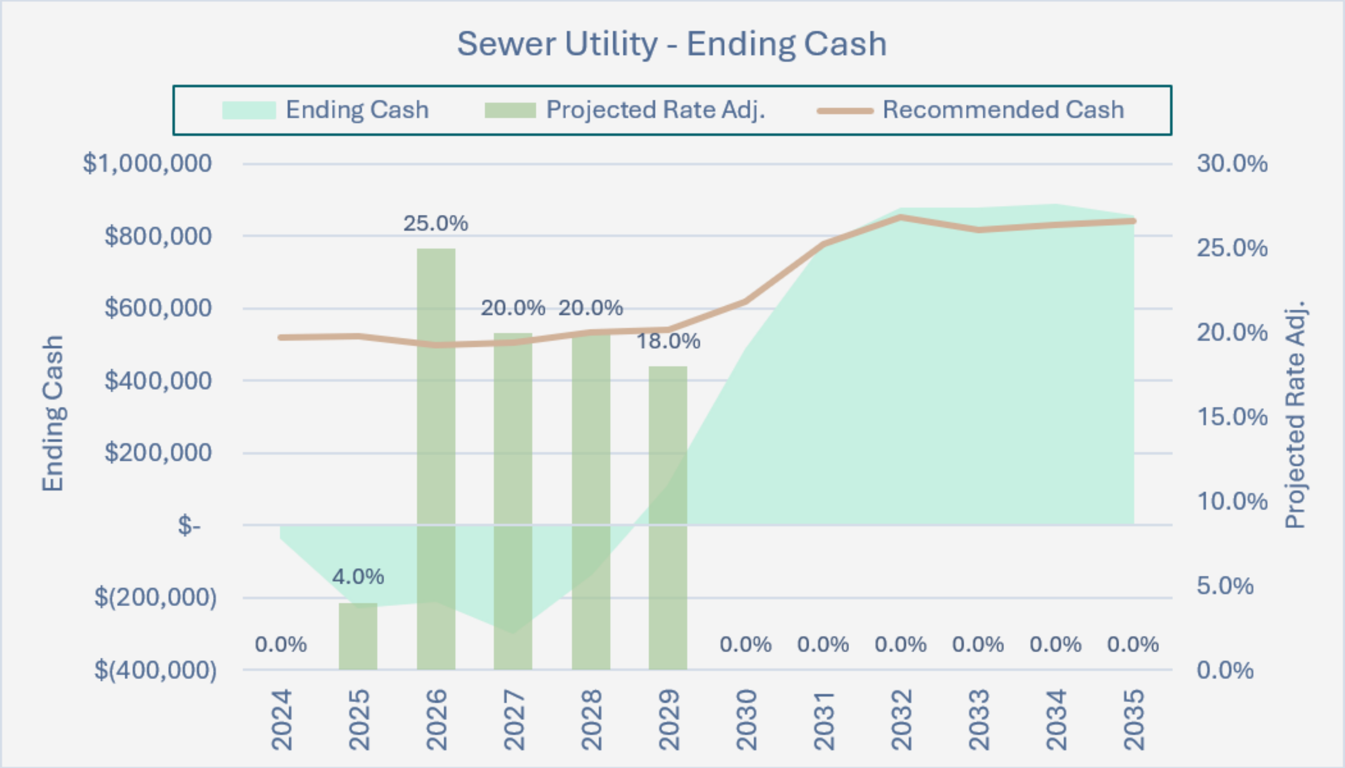
- To pay for projects and maintain cash reserves, water rates will need to increase by 10% in 2027, 2028 and 2029.
- 8% increases needed in 2030 and 2031.
- Increases will put Water Fund in good position to pay for piping replacements in 2040.

Sewer Fund

Sewer Fund – updated capital outlays



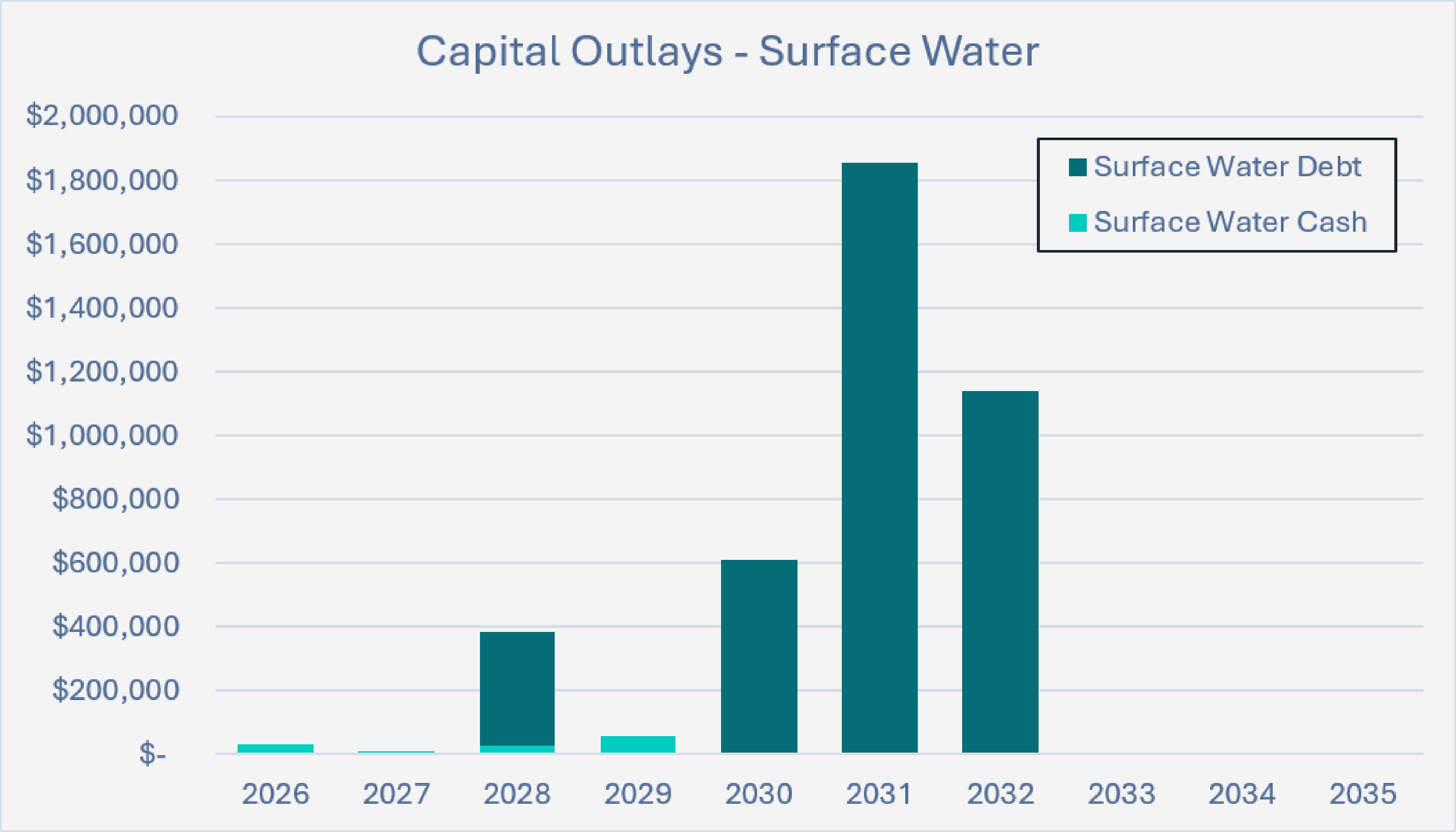
Sewer Fund – rate adjustments



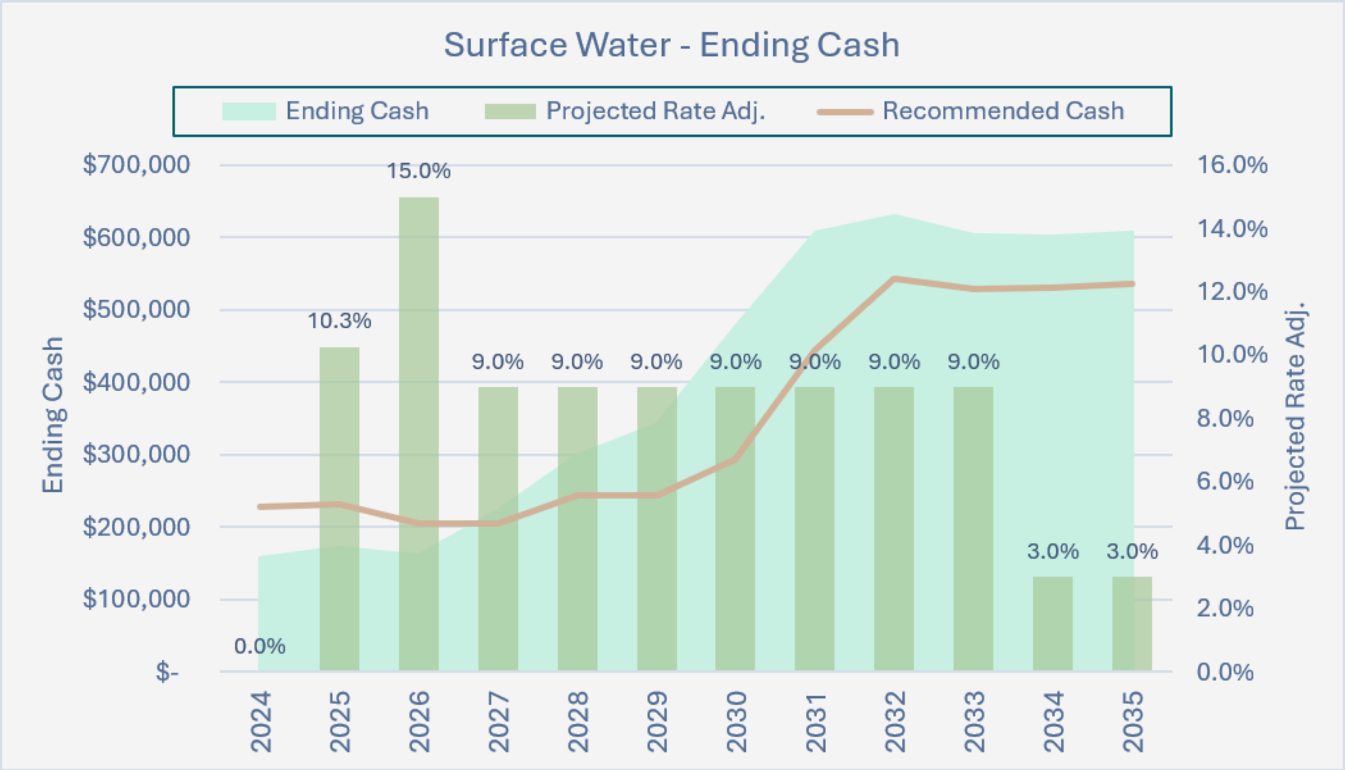
- Sewer Fund starts from a very weak position.
- To pay for projects and maintain cash reserves, sewer rates will need to increase by 20% in 2027 and 2028
- 18% increase needed in 2029.
- No increases projected for 2030 and after.

Surface Water Fund

Surface Water Fund – updated capital outlays



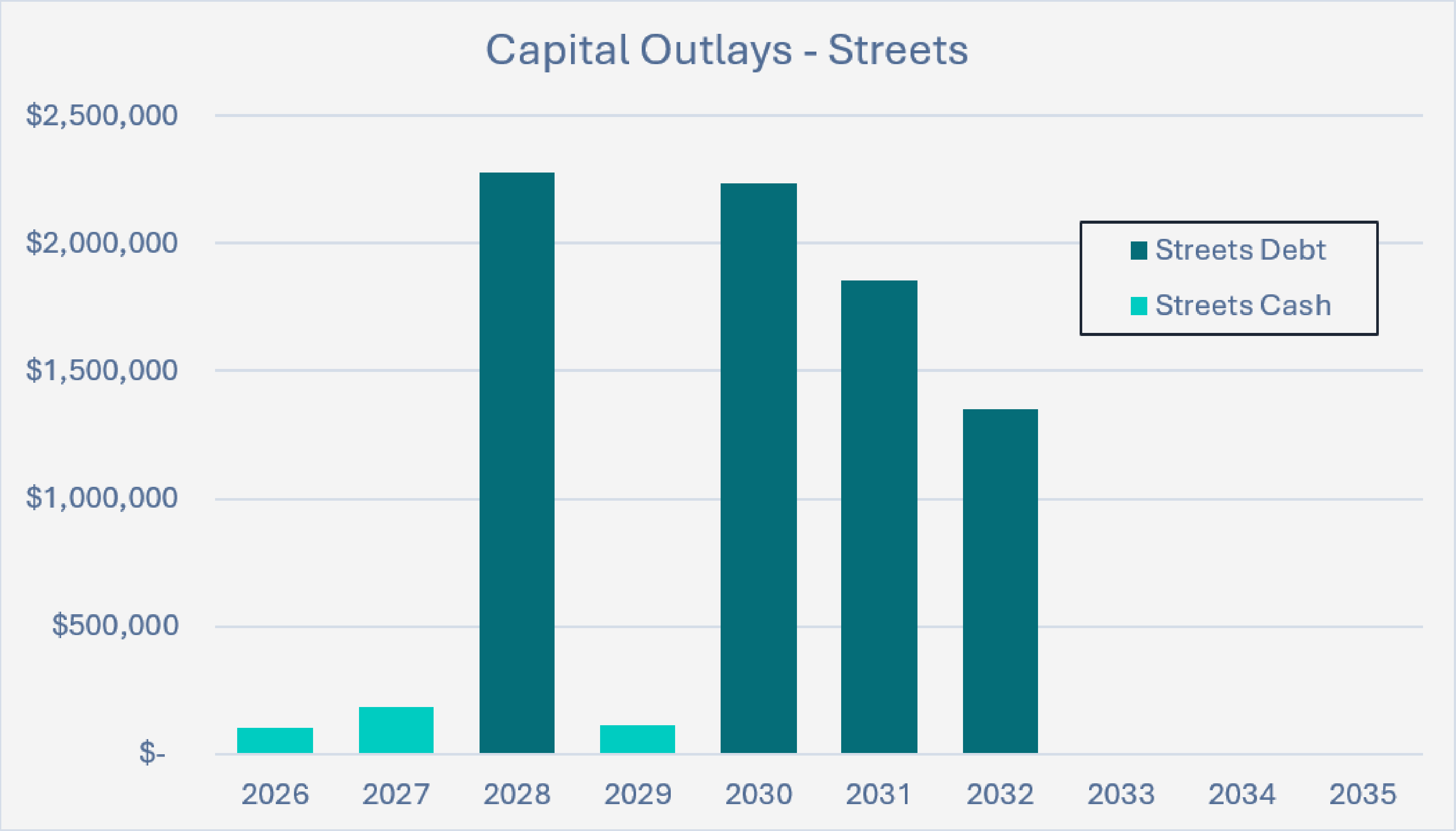
Surface Water Fund – rate adjustments



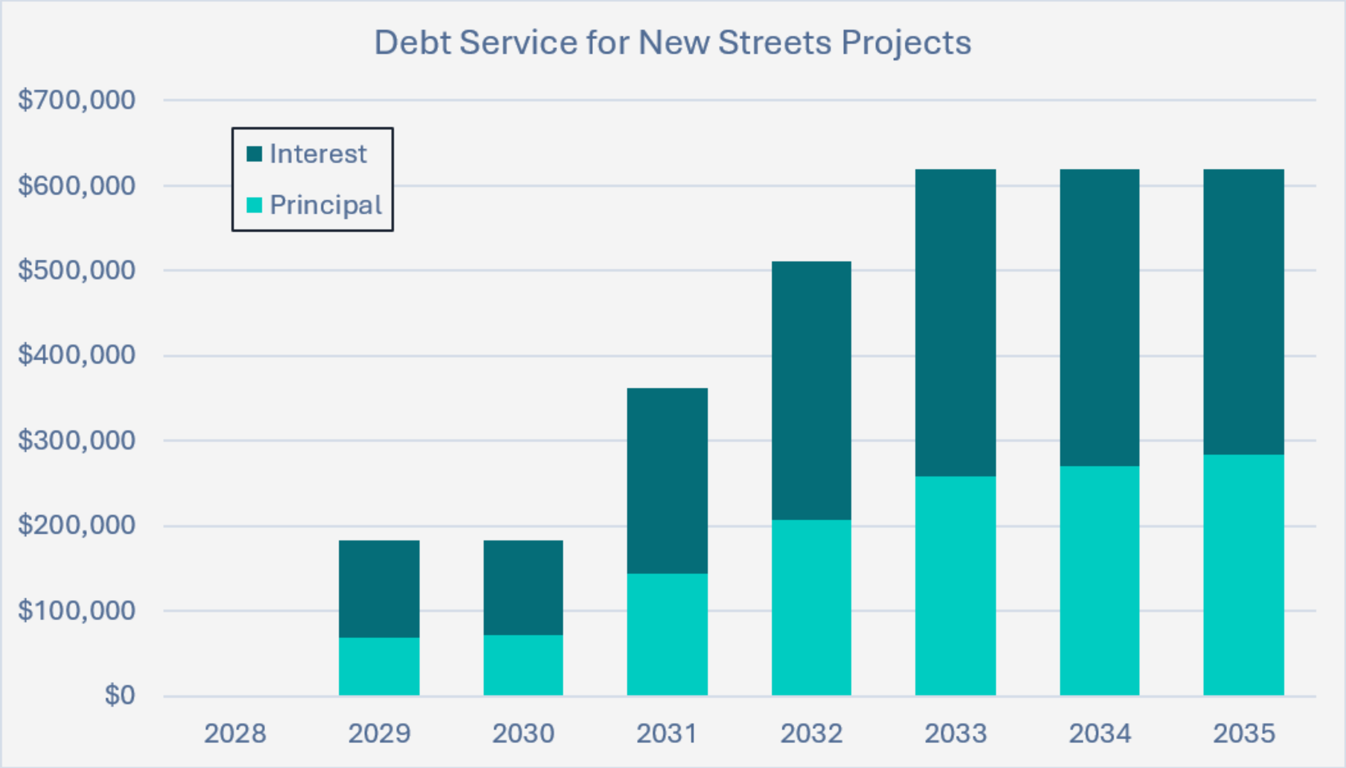
- Capital costs represent a very large share of fund revenues.
- Rates will need to increase by 9% annually through 2033 to cover debt service on projects in 2030-32.

Other funding

Streets – updated capital outlays



Street funding – debt service impacts



- Projects in 2028 and 2030 each add about $180,000 in annual debt service requirements.
- PW building in 2031 adds $150,000 to debt service.
- 3rd Avenue project in 2032 adds another $100,000.
- Total debt service for Streets accumulates to $620,000 annually after 2033.

Dock Fund

- Dock Fund is scheduled to contribute $1.85 million to Public Works building replacement.
- If Dock Fund cannot pay from cash reserves, then debt service would be about $150,000 annually for 20 years.

Questions

bakertilly

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Manager

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