2019-2023

River Falls Water Utility Business Plan

"Respecting our history while embracing our future"

http://www.rfmu.org/

When a water main break occurs, staff are quick to respond.

Introduction

The purpose of creating the 2019-2023 Water Utility Business Plan is to help guide River Falls Municipal Utilities (RFMU) toward defining its goals and strategies and identifying steps needed to work toward achieving those goals and strategies. Staff used internal and external cost projections for the business plan to identify future infrastructure improvements and to estimate growth and operating costs that will guide the water utility over the next five years.

Table of Contents

Letter from the Mayor and RFMU Director

The City of River Falls is a growing community that prides itself on providing quality services to residents. River Falls Municipal Utility is a service that is an excellent benefit to the community and one that is continually looking to improve.

To maintain excellence and to service customer needs, the creation of a Water Utility Business Plan is necessary to supply reliable and quality services that customers have come to expect. Creating a business plan will help guide the water utility for the next five years and allow for improvements on both the external and internal operations. This business plan will show where progress can be made and how to achieve our goals to provide safe and clean water to customers for the best overall value.

Thank you for your support in making River Falls a wonderful place to live, work and play.

Dan Toland, Mayor

As a local municipal water utility, we are focused on putting customers first. We are always striving to deliver water safely and reliably while providing the best overall value to our customers.

This business plan will help us look ahead to plan and prepare for changing customer expectations, innovative technologies and practices that will enhance customer experiences, and explore possibilities in water management systems to make our water system even more reliable. Water delivery methods, customer expectations, reliability, and integration of technology will be the main drivers in the water industry over the next five years and will also impact our decisions at the water utility.

We are proud to provide safe, clean and reliable water to River Falls, Wisconsin and thank you for your help with our business plan.

Kevin Westhuis, Utility Director

River Falls City Council and Utility Advisory Board

The City Council is the governing body for the City of River Falls and is comprised of the Mayor and seven councilmembers who are each elected for a 2-year term. The City is divided into 4 districts represented by one alderperson and three elected officials at large.

The City Council Bylaws guide the activities of the Council by defining and providing direction to the City Council in municipal matters. Except as otherwise provided by law, the City Council handles the management and control of City property, finances, highways, streets, utilities, and the public services. The Council acts for the government and good order of the City for its commercial benefit and for the health, safety, welfare, and convenience of the public.

The Utility Advisory Board (UAB) is comprised of six residents of the City who are appointed by the Mayor and approved by the Council to serve three-year terms, along with one appointed Council representative. Appointed annually.

The UAB advises the Council on matters regarding public utility property, plant, equipment owned by the City for the conduct of the electric, water, sewer, and storm sewer utilities, its facilities and infrastructure, subject to the general control and supervision of the Council. The UAB is integral in visualizing and developing the programs, policies, and projects that makes RFMU a successful organization.

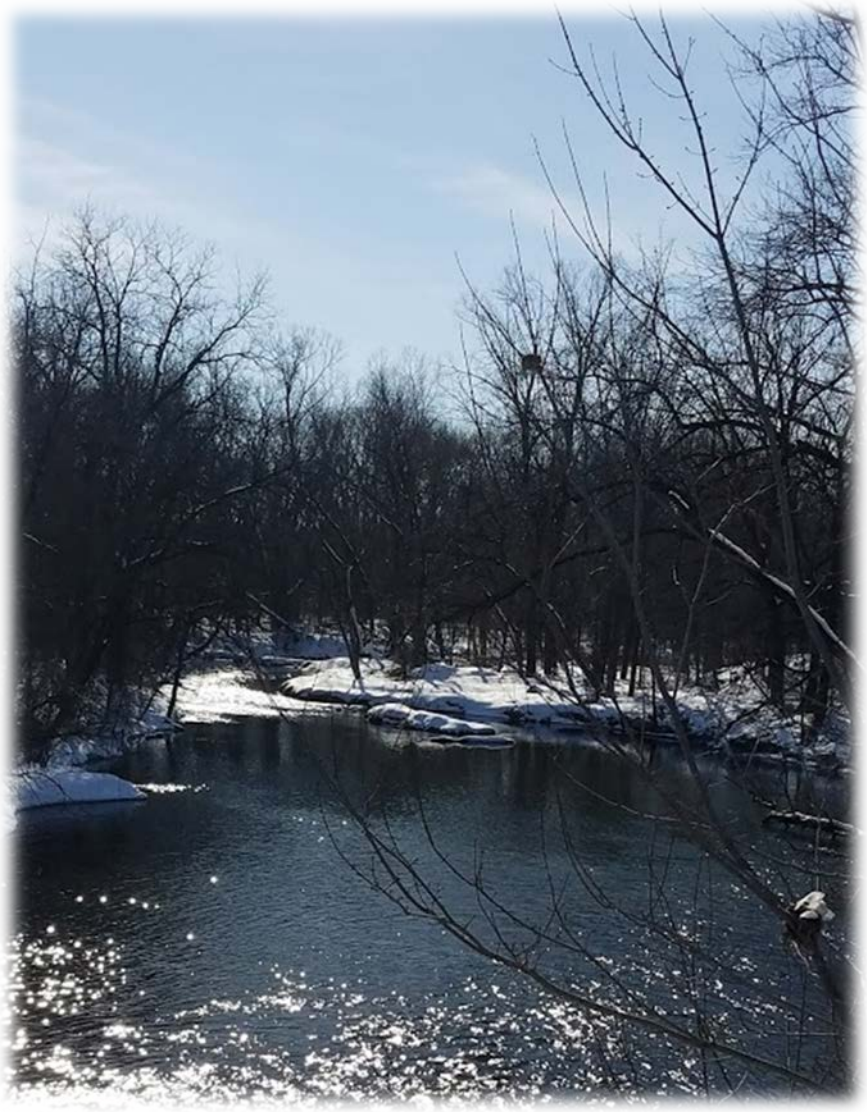
Snapshot of River Falls

River Falls was founded in 1848 and was incorporated as a City in April 1885. Today, the City of River Falls is home to over 15,000 residents.

While River Falls is known for its scenic beauty, outdoor activities, arts/cultural events, and hometown charm, it is also home to the University of Wisconsin-River Falls (UWRF), Chippewa Valley Technical College (CVTC), and multiple corporate parks housing numerous home-grown, regional, national --and international -- businesses.

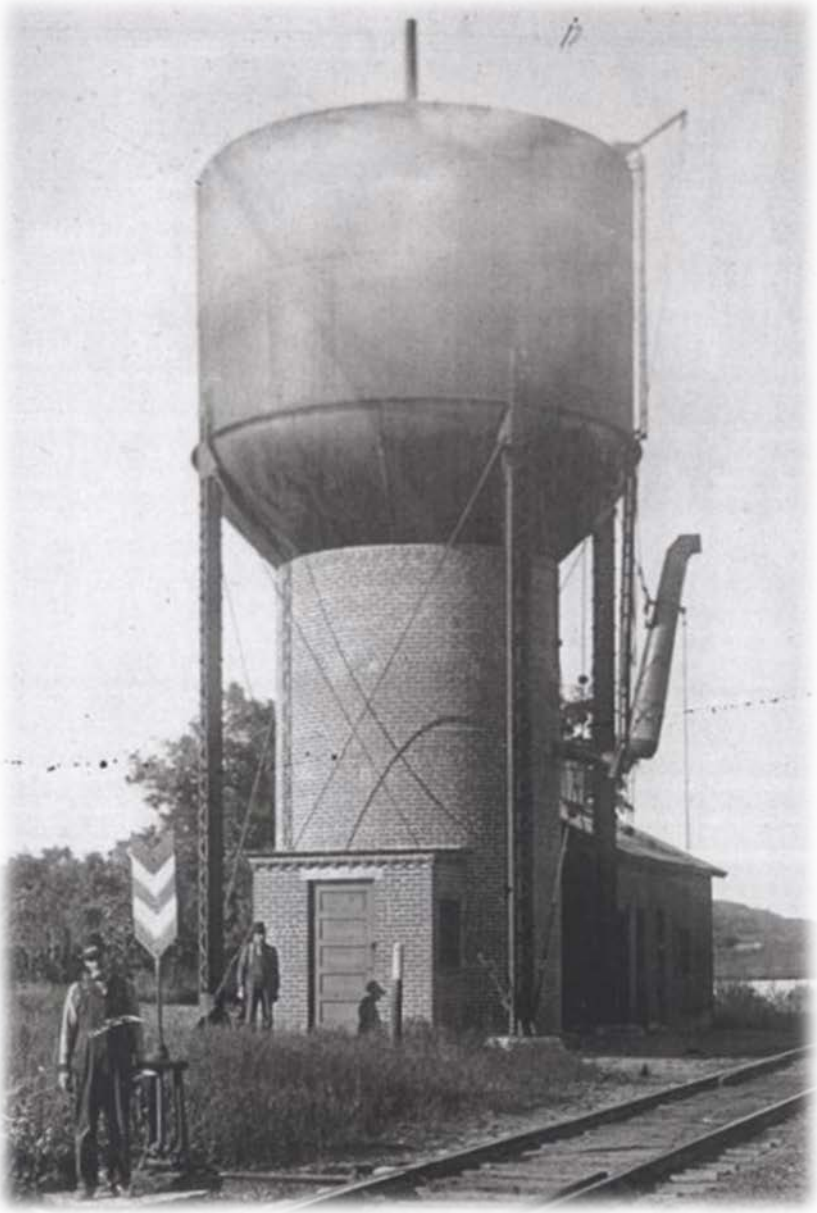
UWRF has been a staple of the River Falls community since 1874. The main campus is situated on 226 acres in the heart of River Falls and includes 26 buildings and two lab farms. Enrollment is approximately 6,500 students.

The City is nationally known for its Kinnickinnic River, a Class 1 trout stream that flows through downtown. River Falls currently holds designations as a Bird City, a Tree City USA, a bronze-level biking community, a Monarch City USA community, Playful City USA and more.



Kinnickinnic River crossing at North Main Street

Water Utility Background



Old railroad water filling station, date unknown.

Our Origins

The creation of River Falls Municipal Utilities (RFMU) water utility began when the first system was installed in 1894 and consisted of 20,979 feet of watermain and 39 hydrants servicing approximately 2,000 residents.

Where We Are Today

RFMU has a steadfast reputation with customers that will continue to be a focus of the water utility. With over 4,500 residential, commercial and industrial customers using nearly 400 million gallons of water yearly utilizing 345,781 feet of water lines to provide the water to these customers. The water utility has a duty to maintain and build on the services to provide the reliable services that customers expect. This business plan will aid in keeping up with dependable customer service and water delivery.

Vision, Mission, and Values

Our Mission

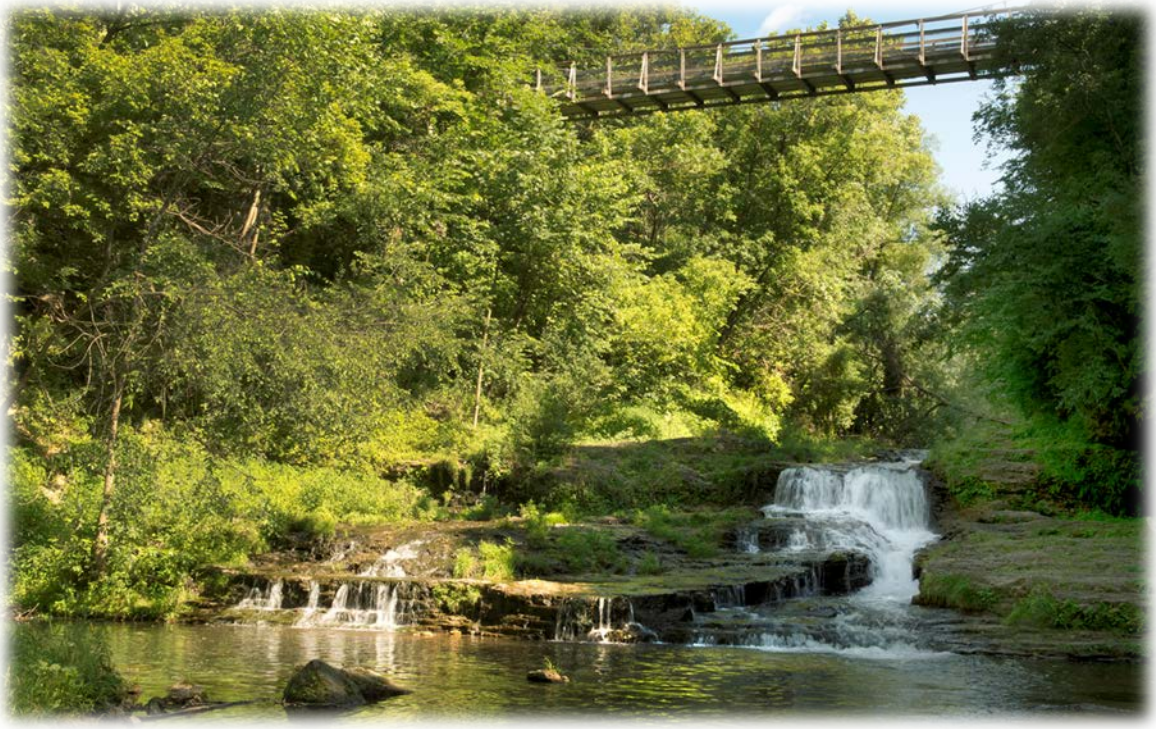
To provide customers with safe and reliable water at the best overall value.

Our Vision

To ensure we have a distinct, vibrant, and safe community with an abundance of nature and easy access to metropolitan amenities. A place where families, students and businesses flourish.

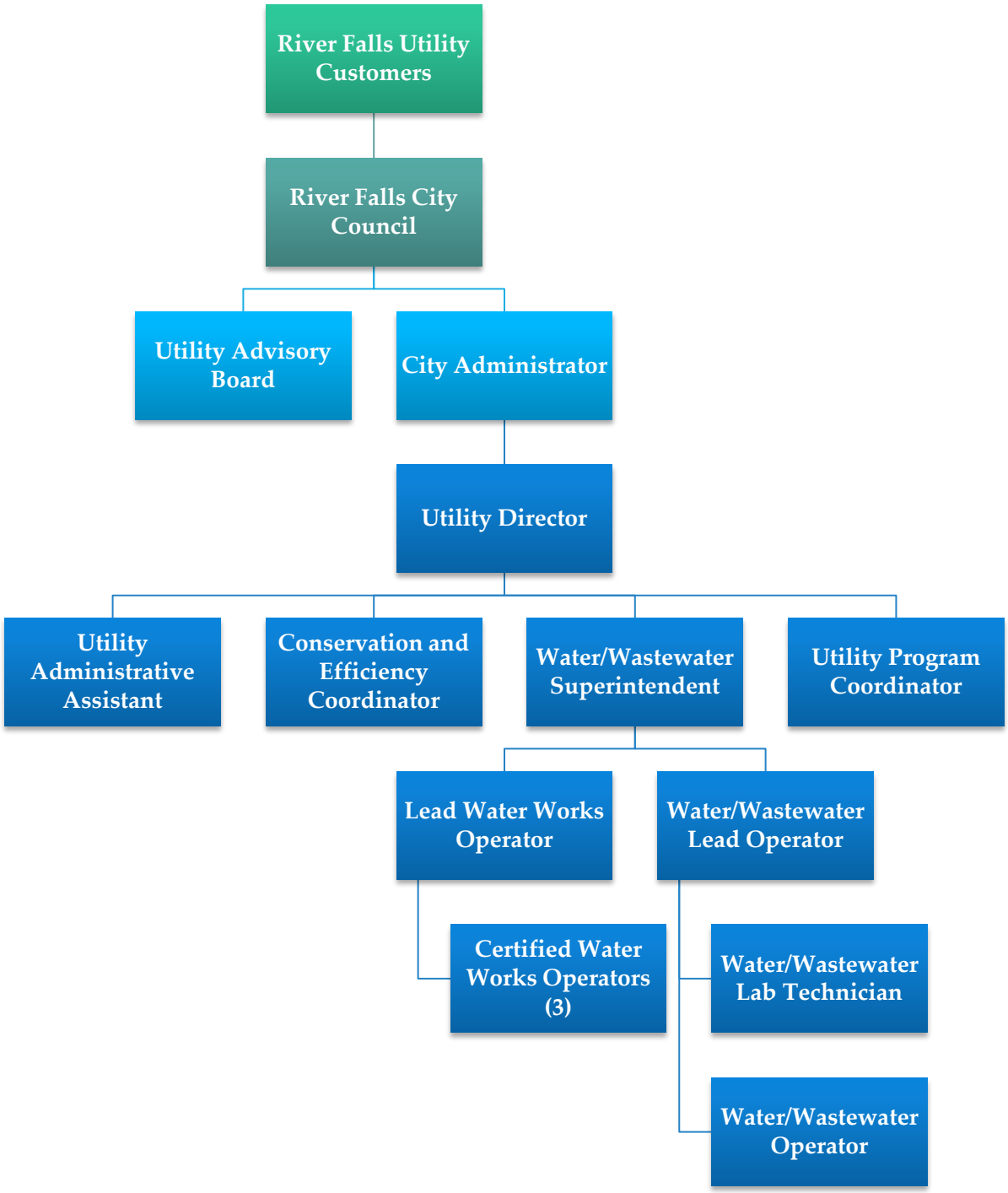
Our Values

- We put people first
- We pursue excellence
- We act with integrity
- We embrace change
- We serve our community
- We consider future generations

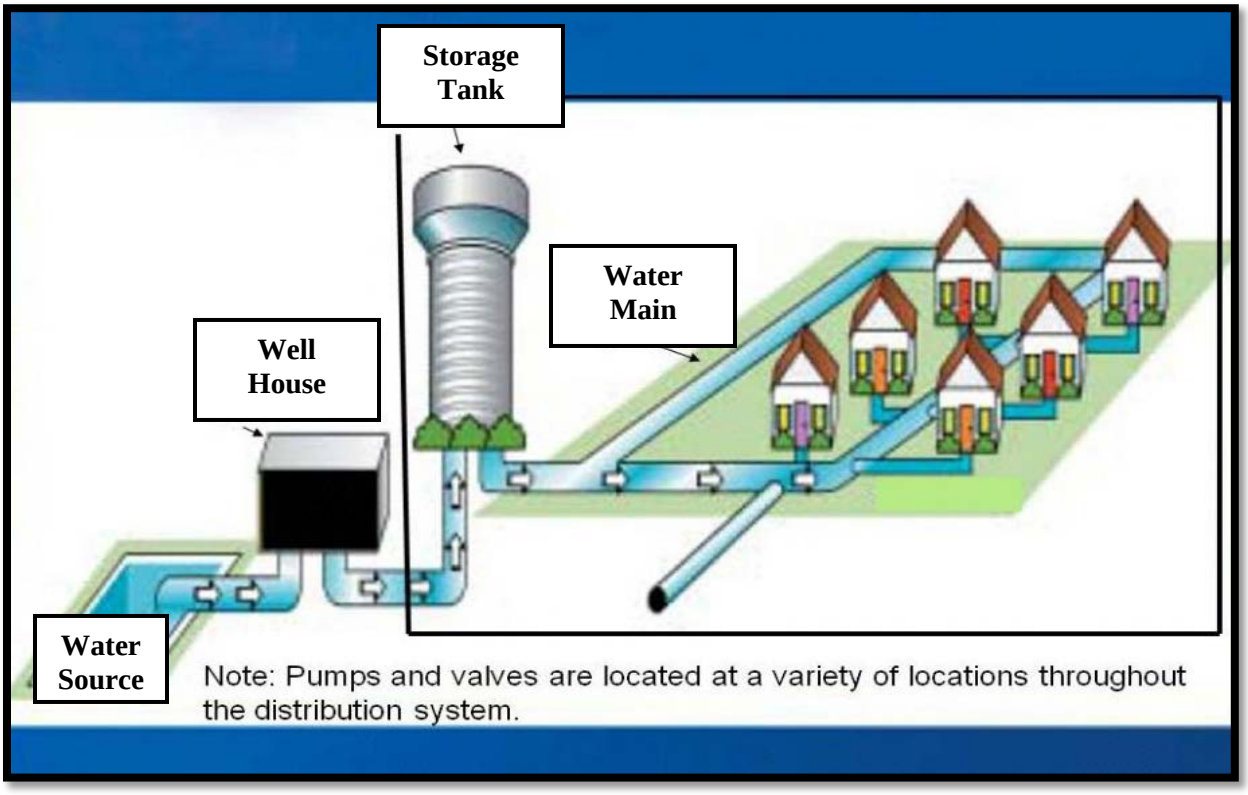


South Fork of the Kinnickinnic River and the Swinging Bridge

Organizational Chart



Water Service Overview



Graphic courtesy of the United States Environmental Protection Agency

Statistics	
Number of Active Residential and Multifamily Residential Water Accounts	4,360 (2018)*
Number of Active Commercial, Industrial, and Public Authority Water Accounts	388 (2018)*
Annual Water Distribution (in gallons)	398,651,000 (2017)
Total Amount of Water Mains (in feet)	345,781 (2017)
Number of Main Break and Service Break Repairs	8 (2017)
Water Sources	100% Groundwater

*As of October 31st, 2018

Our Objective

The Water Utility Business Plan serves as a guide for RFMU to innovate, anticipate, and advance water utility service in the City for its customers. Providing safe reliable water delivery at the best overall value to customers is the goal of RFMU and this business plan will aid in advancing the processes to make customer service and reliable water delivery even better than it already is. Embracing opportunities in a changing water utility environment is a key part of the business plan's success.

Value in customer service and a commitment to providing water through positive leadership, continuous improvement, and embracing planning and stakeholder communication are aspects that will maintain quality service to water customers. We manage and operate municipal utility infrastructure to provide reliable services to promote and support a sustainable environment and healthy community.

Our water utility staff is continually looking to improve services for the benefit of our customers.

SWOTT: A Strategic Analysis

RFMU prides itself on being collaborative and is always looking for ways to innovate and improve. Performing a SWOTT Analysis is a strategic way our water operations can breakdown and identify its strengths and weaknesses and look closely at opportunities, threats, and trends to provide a blueprint for RFMU to work from.

A SWOTT Analysis isolates specific items that can be continued with, improved upon, discarded of, or implemented on an organization wide scale. Identifying these items aids in the growth of the water operations and allows us to look at all available options for systems improvements. Internal and external SWOTT analyses performed by City staff and members of the community reflect the areas where water operational opportunities should be prioritized going forward.

Water Fountain at Veteran's Park

Strengths

River Falls water utility's current strengths puts itself in a position that will allow for continued growth and stability. These strengths improve business practices, customer service satisfaction, community collaboration, and stable water costs that provide high value.

Ample Water Supply

River Falls is positioned in an area where the water supply is currently abundant and of high quality. Because of this, RFMU water customers have the assurance that they will have water readily available that is safe and reliable. RFMU draws from three different aquafers (Jordan, Prairie du Chien and St. Lawrence) when many water utilities around the country draw from only one, thus giving peace of mind to water customers that there will be water available when needed.

Growing Industrial/Commercial Base

The growth of the industrial and commercial base in River Falls translates to greater water usage from these customers. Having this growth means that RFMU will continue to have dependable sources of revenue to maintain and expand the quality services that customers of the water utility expect.

Mapping and System Reliability

RFMU's access to accurate geographic information systems (GIS), water pressure monitoring, and mapping software aids in the water delivery system to ensure that customers get their water in a reliable way. Having these software capabilities allows for the water utility to monitor and maintain the water infrastructure to safeguard the water delivery system and give our water utility staff the necessary information to address any problems that may arise in the water infrastructure.

Water Monitoring System

RFMU has a certified water testing facility that tests and monitors the quality of the water daily, weekly, monthly, quarterly and annually before it goes out to customers. The water utility staff of 7 certified water operators and 2 apprentice water operators utilize modern equipment to perform testing checks for the presence of 77 different types of organic materials such as lead and copper as well as examining the water for safe levels of chlorine, fluoride and phosphate.

Weaknesses

Identifying our weaknesses is crucial to the implementation of this business plan as it allows RFMU to take in constructive criticism of our operations that need improvement or potential future vulnerabilities. Through self-critique and community input the weaknesses underscore the importance of developing a strategic approach to improving the services delivered to our customers.

Aging Water Infrastructure

Infrastructure ages and with that comes the need to plan for future investment to replace and update our existing infrastructure and continue providing customers the with high quality service. Investing in infrastructure such as new wells and water mains will be crucial in assuring that the water delivery system maintains is quality of product and delivery.

Lack of a Current Asset Management Plan

A current asset management plan is lacking for the water utility and having one in place is crucial to the growth of the organization. An asset management plan enables the organization to have the information required to make the right decision, at the right time, at the right cost, for the right reason. By implementing core asset management processes, the water utility will gain knowledge of the assets owned, the remaining useful life to manage, the amount of investment required, and the business risk it faces. Our water utility staff is currently in the process of creating an up to date asset management plan.

Emergency Communication

The emergency communication to customers about the water system could be improved upon, which requires the water utility staff from the top of the organization on down to have an effective chain of communication to let customers know about issues with the water system as quickly as possible. More utilization of real time updates (on social media, mobile apps, emails, push notifications, etc.) and providing information related to emergency situations (bottled water stations, conservation notices, water boil advisory, etc.) are aspects that need to be prioritized in the event of an emergency.

Geographical Challenges

Because of the geographical make-up of River Falls there are challenges to maintain quality service. Specifically, topographical challenges make it difficult to get water to customers in higher elevated areas. This also makes planning for future capital investments challenging because of the need to invest more in infrastructure that can handle the needs of customers.

Opportunities

Creating opportunities to innovate and advance the delivery of water to our customers. Staff continually strives to maintain the best service for our customers. Opportunities that enhance the customer experience are at the forefront of the decisions made every day at RFMU.

Planning for Expansion of the Water System Beyond Current City Limits

Expansion of the water system beyond City limits is a potential opportunity to capitalize on a growing customer base for RFMU. By planning for expansion of the water system, RFMU is committing to growing its customer base and showing the commitment to innovate.

Expanding Use of the Water Testing Facility

The opportunity to expand the use of the current water testing facility is a key piece in making the water quality that goes out to customers that much better. The capacity of the water testing facility has the potential to allow for extensive testing of more types of potentially harmful organic and inorganic compounds found in the water. Internal analysis would need to be done to review the feasibility of this opportunity.

Leak Locating Technology

Currently, RFMU loses approximately 9% of its water due to leaks in the water system according to the Public Service Commission (PSC). Leak locating technology has the capability of addressing these deficiencies in the water system in a faster and more accurate manner. Leak locating technology uses acoustic ground microphones and infrared technology to pinpoint exact areas where leaks are within water mains and pipes. Having this technology integrated into current water system operations has the prospect of addressing faults in the water system more efficiently.

Emphasis on Cross Training

To ensure that the water utility staff has the capabilities of taking on multiple facets of the organization, it is important to emphasize cross training between members of the water utility staff to get the most out of employees. Cross training allows all members of the organization to be well versed in the diverse array of duties within the water utility. Cross training also aids in getting employees the necessary training to potentially move up in the organization.

Threats

Threats to our water operations on a safety, administrative, and systematic scale are always present and identifying these threats and knowing how to react to them is a priority. Having a grasp on how our water operations could be threatened or compromised can better prepare RFMU to become more resilient in its preparations withstanding those threats.

Unregulated High Capacity Wells

Unregulated high capacity wells that do not operate under the jurisdiction of RFMU have the potential to impact our total customer base as well as the rates that customers pay. In addition, by not having regulation on the wells that puts its users at risk for potentially harmful organic and inorganic materials that do not go through the testing offered by RFMU or any other water utility provider. These types of wells have the potential to become more prevalent in the future and RFMU must be prepared to handle this type of threat.

Water Contamination

Agricultural run-off from farms in the area have the capability of releasing harmful organic and inorganic materials into the water supply. Nitrogen and bacteria are two of the main pollutants from farms and livestock operations and may have immediate and severe public health affects in groundwater. This can have a negative effect on the groundwater that RFMU sources its water from. Having systems in place, such as extensive lab testing of raw water and creating a wellhead protection plan, are vital in mitigating this problem and assuring that the water is safe for RFMU customers.

Future of Qualified Staff

The market for skilled workers for water utility operations is competitive and shows no signs of slowing down. Having qualified staff to perform the duties for the water utility is vital to continuing the excellent water utility operations. To address this potential threat, wages and benefits for water utility staff must remain competitive to attract the most qualified candidates for the jobs within the water utility.

Town Sprawl

The surrounding towns growth has the potential to threaten the water utility's ability to grow its customer base. This town sprawl boxes in the water utility and has the potential to limit future growth and can also lead to competing water utility providers to make a presence in the area. The City is discussing boundary agreements with some of the surrounding towns.

Trends

Reviewing what trends are occurring with other municipal water utilities and in the utility, industry helps provide ideas to consider updating our water system and processes. Understanding trends helps give customers services they desire and allows RFMU to stay current with best practices that are industry standard. Finding ways to improve services add value to the customer experience.

Water Conservation

People across the country are moving toward conserving water and that may lead to impacts on the gross revenue of water utility management. Since water revenues are currently based on usage, any decrease in usage negatively affects water revenues. Because of this, revenue models should consider alternative models such as a user fee-based structure with fixed costs.

Real-Time Service Ratings

Real-time rating of services has been a trend amongst consumers in the expanding "reputation economy". Rating of services is already a widespread practice on ride share apps like Uber and Lyft and hospitality sites such as Yelp with search engines like Google also using centralized ratings for an array of goods and services. Utilizing these platforms to get feedback on the water utility services may be used as a tool to improve customer service and system reliability as the real-time ratings can give feedback immediately. The use of a mobile app for both billing and customer interaction may be used to receive this feedback.

"Water Wars"

Water is being viewed more of a commodity as populations rise around the country, especially in warmer climates. Because of this, water rights and the ability to provide water is a challenge facing utilities in warmer parts of the country. Fortunately, with three aquafers that RFMU utilizes the challenges that other water utilities face is not as large of a problem.

Higher Regulation Standards

More water regulation means that management of water utilities could change. This may result in the need for more investment in water infrastructure which could also impact capacity and staffing levels of the water utility. Having a good sense for the direction of the state and federal regulations regarding water is critical in planning for the future of the water utility.

Operational Resiliency

The Water Utility Business Plan looks at how the organization can be improved and how it can provide its services in a reliable way for its customers and its employees. As a result, an assessment of how to provide reliable services are outlined so that RFMU can improve the overall quality of its services for its customers and employees is needed.

This assessment involves the identification of four main goals. The goals are:

Goal 1	Goal 2	Goal 3	Goal 4
Customer Service and Engagement	Workforce Development and Safety	Organizational Performance	Improve and Ensure System Reliability

These goals are then broken down into objectives with broad action plans that can be used to benchmark our water utility practices. By isolating the services/outcomes we can then establish measurements to track how successful we are at achieving the goals. The table below shows how the services/outcomes are broken down:

Service/Outcome	Benefit to Customers	How We Measure It
Dependable, Safe and Reliable Water	Safe and dependable water at your convenience.	Maintaining less than 10% water loss yearly.
Effective Customer Service	Timely response to customer problems and questions.	Advanced Metering Infrastructure (AMI) rollout and to respond to 100% of customer inquiries during the work week.
Transparency	Commitment to a transparent water utility.	Creating at minimum four customer engagement opportunities related to water on social media yearly.
Financial Stewardship	Maintain investment in infrastructure.	Review rates yearly and apply for either a conventional or simplified rate case from the PSC every 3-5 years.
Employee Investment	Improved organizational effectiveness.	100% of water employees fully certified in water operations as a target.

Goal 1: Customer Service and Engagement

River Falls residents expect responsive customer service that represent their interests and delivers water in a timely and efficient manner. Having objectives that represent a commitment to give customers easy access to water goods and services as well as avenues for communication are necessities that will provide the best customer experience with the water utility.

Objective: Proactive Customer Engagement

- Action Plan
  - Getting accurate and reliable information to customers.
    Improving our systems and practices to give customers the quality customer service and taking steps to address issues in a timely manner. This involves Advanced Metering Infrastructure (AMI) implementation which will begin in 2019.

Objective: Timely Customer Service

- Action Plan
  - Timeliness of response to customer inquiries.
    Utilization of real-time ratings to improve our customer service and to address problems quickly and efficiently. Goal is for addressing customers inquiries within 24 hours during the work week. More integration of real time ratings on social media and the online utility billing system will be key to achieving this.

Objective: Social Media Communication

- Action Plan
  - High engagement numbers with customers.
    Communicate via social media with customers on a regular basis and track the number of people engaging with the accounts. Minimum of four water related customer engagement opportunities per year involving video, live streaming, and interactive posts on social media.

Objective: Real Time Service Ratings

- Action Plan
  - Create a customer feedback system allowing for immediate customer feedback.
    Implementing services for customers to rate our services immediately following interaction with the water utility. Integration of AMI and more interactive use of utility bills are ways that the water utility can gain insight into customer's immediate feedback.

Goal 2: Workforce Development and Safety

Addressing the water utility's workforce challenges are crucial as risks in the workforce infrastructure in terms of retaining and providing ample safety to employees is essential. These objectives allow the water utility to assess employees and their work environment to provide appropriate safety measures and opportunities to grow within the organization.

Objective: Invest in Employee Training

- Action Plan
  - Evaluate appropriate training levels.
    Identifying the appropriate trainings for employees to give them the best tools to supplement the organization.

Objective: Invest in Workforce Flexibility and Efficiency

- Action Plan
  - Review the roles of employees to eliminate redundancies.
    Assess duties, job titles, and job descriptions of utility workers to support and enhance organizational, City, and customer needs. Promotion of a positive workplace culture and emphasizing employee safety is also key.

Objective: Cross Training

- Action Plan
  - Establish cross training methods to assure that water utility staff has proper training.
    Having 100% of the water utility staff certified as water operators as a target.

Objective: Succession Planning

- Action Plan
  - Establish clear paths for succession.
    Create a succession plan process to recruit employees, develop their knowledge, skills, and abilities, and to prepare them for career advancement into larger roles within the organization.

Goal 3: Organizational Performance

Improving the organization is a continuous goal that the water utility strives for to bring customers the best quality and employees the best tools to perform their job functions. Reviewing the water utility and predicating the needs of the future are outlined in these objectives to get the most out of the water utility for customers and employees.

Objective: Public Accountability

- Action Plan
  - Making published reports easily accessible.
    Upload and promote reports on the RFMU webpage and social media accounts to inform the public on new documents relating to the utility as they occur. Getting information out in the physical and online bills as well as potential integration of a mobile app will be a way to promote information to customers.

Objective: Financial Forecasting

- Action Plan
  - Updating and reviewing financial forecast models on a biennial basis.
    Resolve previous projected financial estimates and evaluate future impacts on capital improvement projects and affordability of services. This includes proactive reporting that will be included in packets for the Utility Advisory Board and updated with the report for the next water utility business plan.

Objective: Maintaining A Positive Rate of Return

- Action Plan
  - Monitor and adjust rates when necessary
    Reviewing rates annually to maintain a positive rate of return and applying for a conventional or a simplified rate case from the PSC every 3-5 years.

Objective: Asset Management Plan

- Action Plan
  - Implement an asset management plan to inventory infrastructure and project capital improvements expenses.
    Work with residents, businesses, and community leaders to identify ways to better manage assets in the water utility by creating a comprehensive asset management plan that identifies ways to plan for future expenses and infrastructure needs.

Goal 4: Improve and Ensure System Reliability

An up to date water system is imperative for the water utility provide quality services to customers. System improvements require investment by the water utility and the public to have water be readily available for all customers. Reviewing and analyzing system improvements allow RFMU to plan so that it may continue to provide water in a dependable and secure manner.

Objective: System Reliability

- Action Plan
  - Improve the infrastructure system on a regular basis.
    Maintaining water lines and making sure that the water system is continuing to be reliable even when problems occur with the system. Utilizing the asset management plan to prioritize water line maintenance will be key to achieving this.

Objective: Reliable, Stable, and Efficient Water Management

- Action Plan
  - Integrating leak locating technology to provide up to date and accurate information on the water system.
    Keeping the water utility's loss rate to under 10% annual water loss by investing in leak locating technology.

Objective: SCADA System Implementation

- Action Plan
  - Implement updated software to manage the water system in real time.
    Proceed with rolling out SCADA and ensuring that it is implemented effectively.

Objective: Planning for Water Service Area Expansion

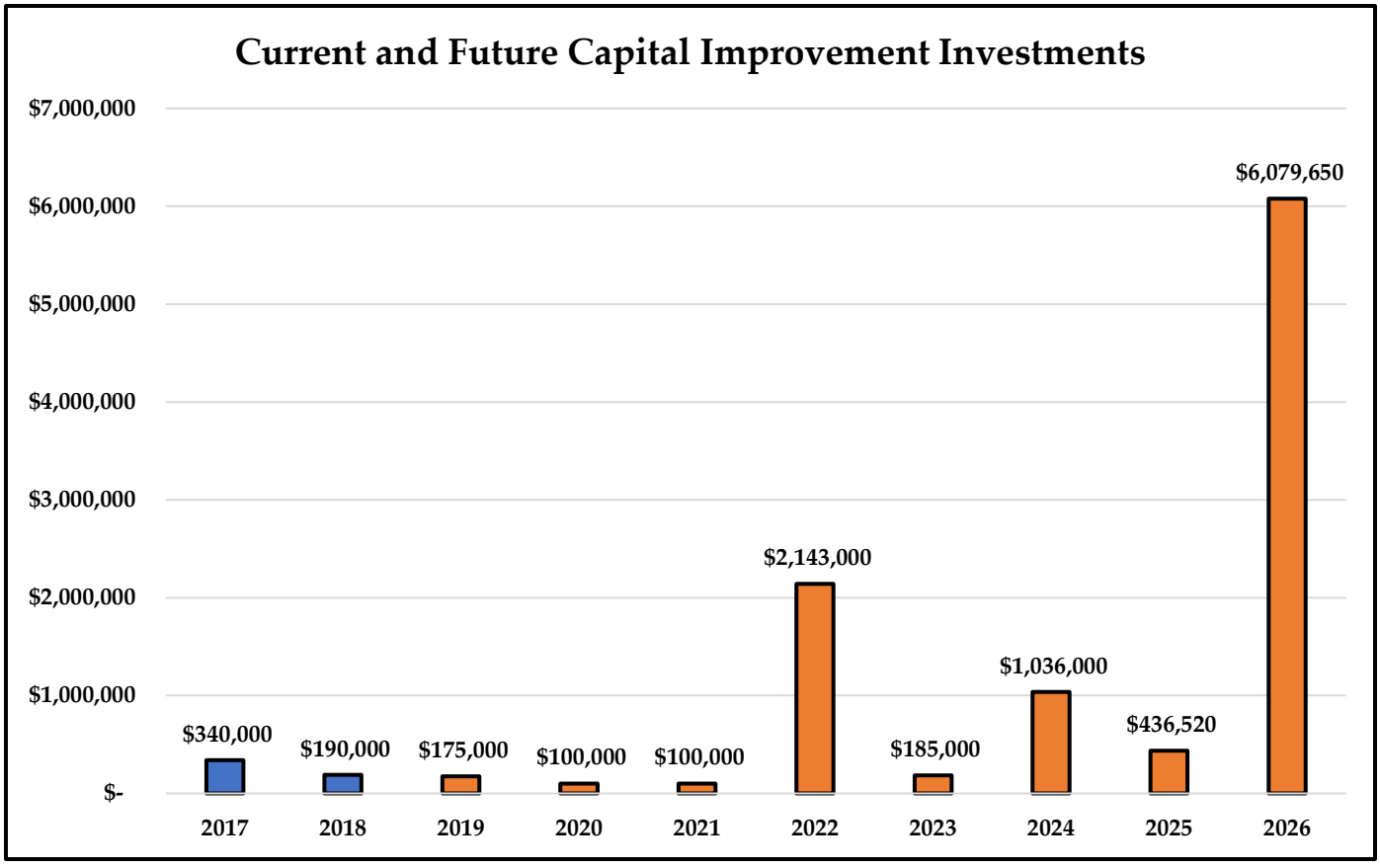
- Action Plan
  - Develop a plan to address our future growth needs within our extraterritorial boundaries
    Create a strategy to address future growth of our service area. This includes monitoring the amount of unregulated high capacity wells within both the existing and future water service areas.

Busting Open the Books: Financial Breakdown

RFMU is keenly aware that the financial decisions we make regarding how we operate today and how we position for tomorrow impact the rates on our customers. Therefore, we work hard to ensure our financial decisions and policies are analyzed, projected, and meet the present and future needs of our customers and RFMU.

Because we are a public not for profit utility, the rate revenues go to support improving services and insuring long term stability and reliability.

Revenue captured through rates goes a long way into ensuring services are provided as reliable and cost effective as possible. As the chart below illustrates, RFMU makes and plans for new large investments to ensure continued service quality is delivered on a continuous basis.



Source: City of River Falls Capital Improvement Plan

Busting Open the Books: Financial Breakdown

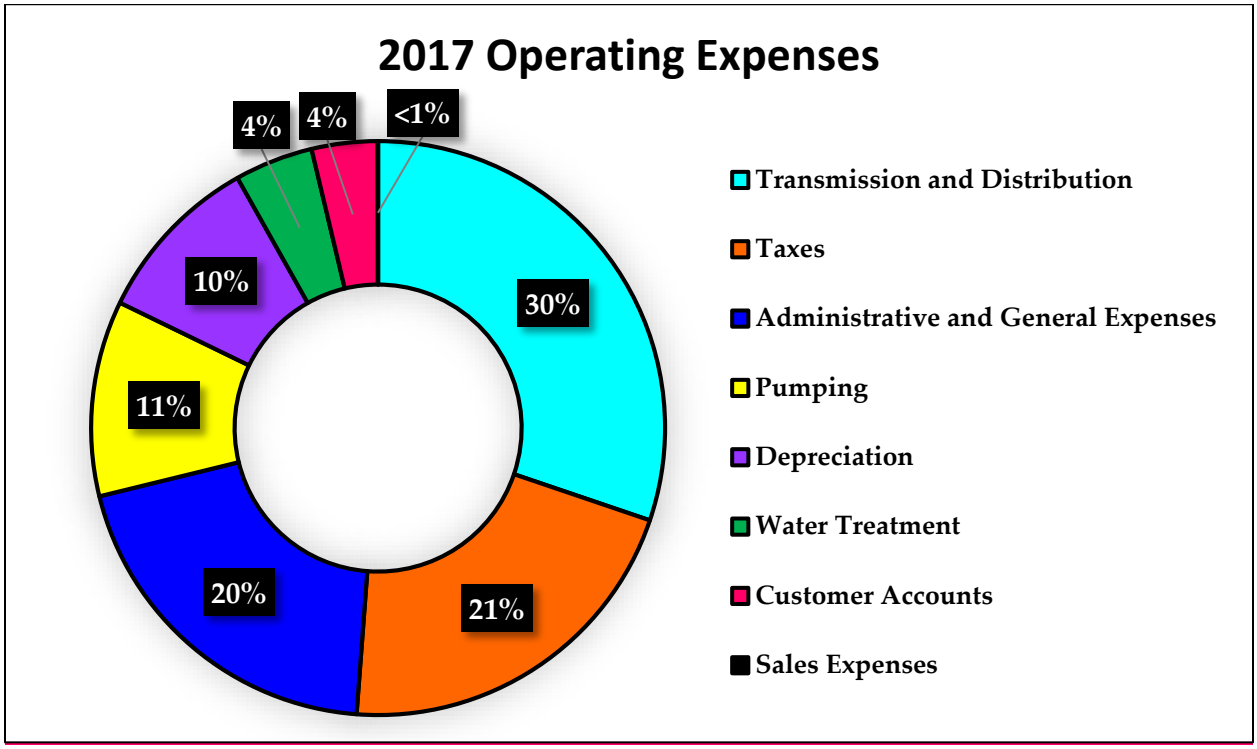
Planned Major Capital Improvement Projects		
Project	**Projected Completion Date**	**Projected Cost**
N. Zone Water Tower	2022	$2,000,000
W. Cedar St. Water Main Replacement	2022-2024	$1,064,000
Well #7 Construction	2025-2026	$1,700,000
Highview Water Tower	2025-2026	$1,950,000
Second Street Watermain Replacement	2025-2027	$2,052,790
N. Loop Water Main Extension	2019 (land acquisition), 2026	$2,495,000
Total Projected Cost: $11,261,790		

Source: City of River Falls Capital Improvement Plan

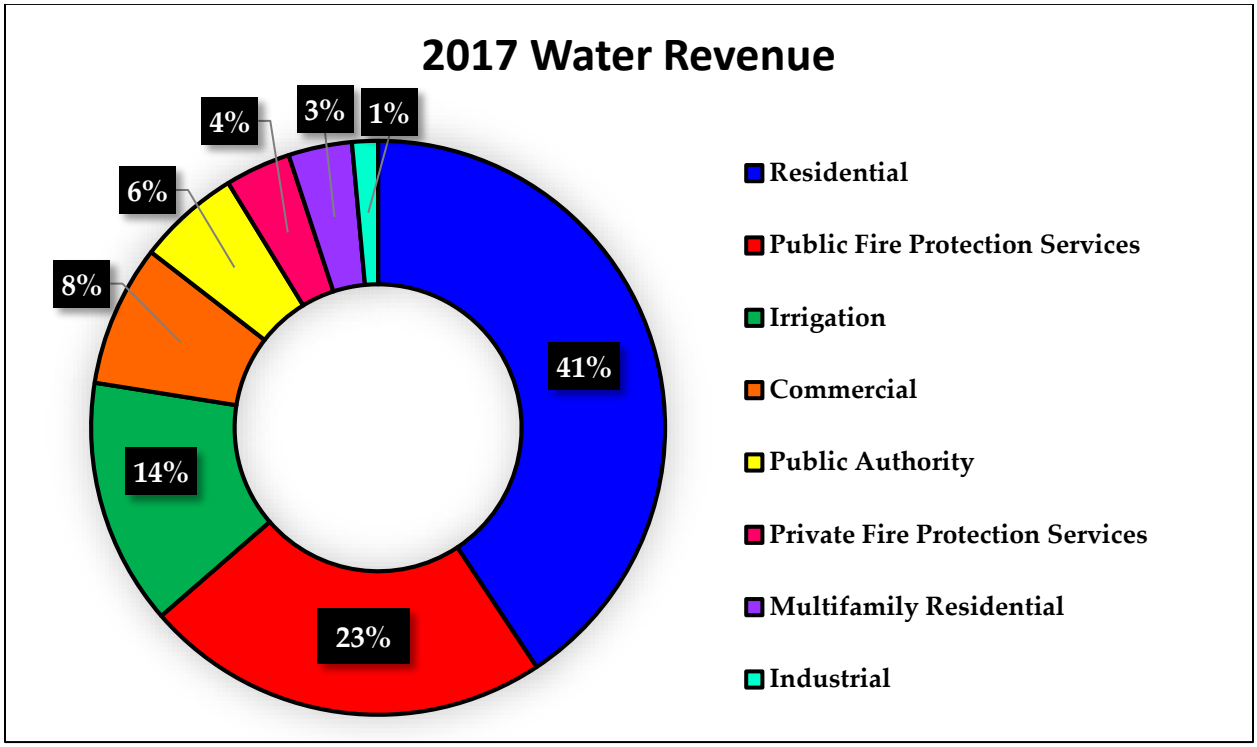
With these infrastructure needs, the capital improvement projects above are a necessity to keep River Falls water delivery services reliable. Because of expansion of service in the City due to growth in residential, commercial, and industrial areas these infrastructure improvements are needed to continue providing quality water delivery services to RFMU customers now and in the future.

Giving out water at Walk with Walker

Busting Open the Books: Financial Breakdown



Source: 2017 RFMU Annual Report (via the PSC)



Source: 2017 RFMU Annual Report (via the PSC)

Busting Open the Books: Financial Breakdown

Top 10 RFMU Water Customers (by Gallons) in 2017	
Customer	Percent of Total
UWRF	9.6%
River Falls School District	2.3%
Comforts of Home	2.3%
Rise Baking (Best Maid)	1.7%
Cudd's Court (Mobile Home Park)	1.6%
Crystal Finishing Systems	1.4%
River Falls Housing Authority	1.4%
River Falls Soccer Club	1.2%
Sterling Heights Condo Association	0.9%
River Falls Area Hospital	0.9%
Total	**23.4%**

Source: Based on information collected from City Utility Billing System

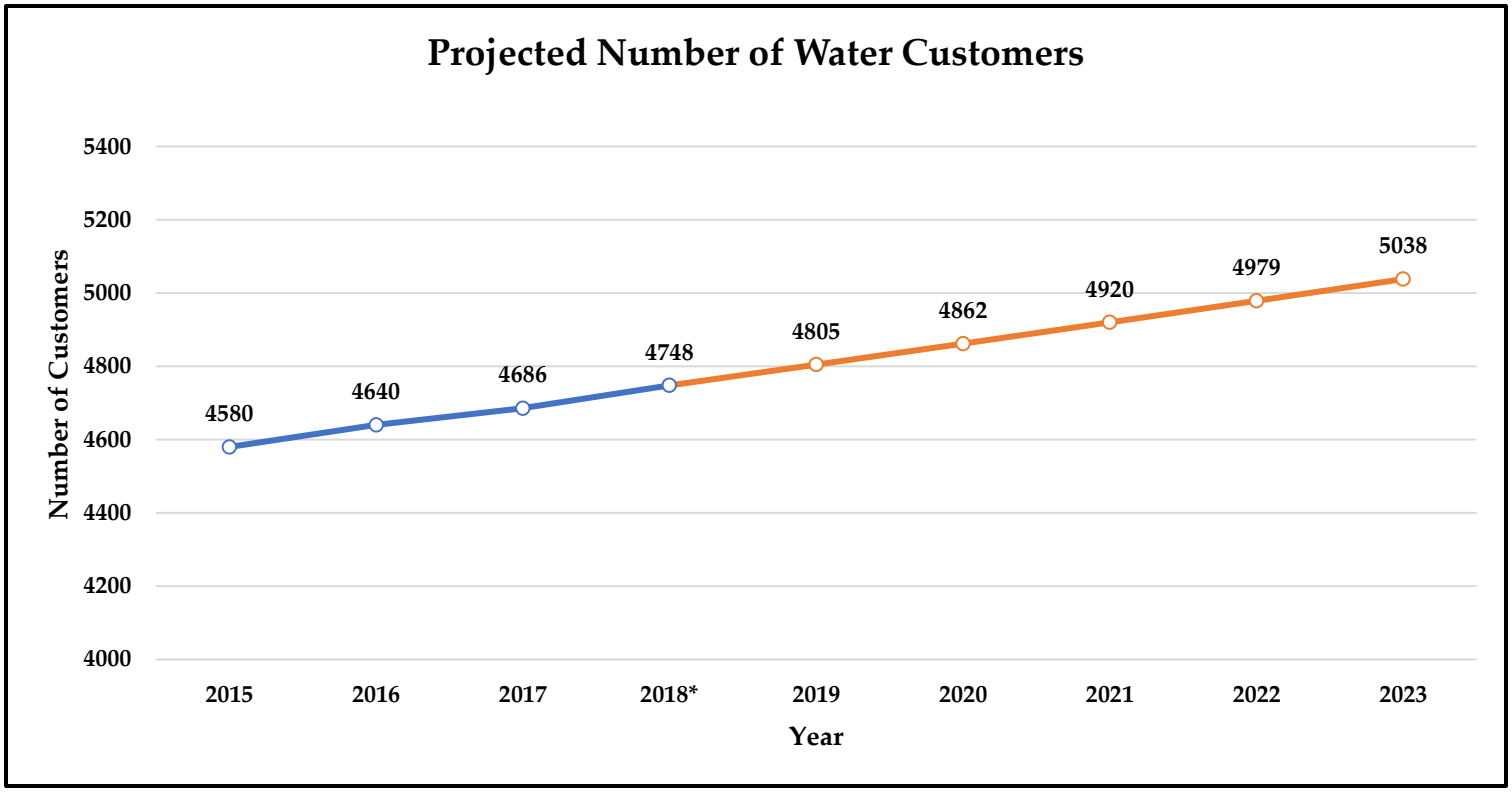
Top 10 RFMU Water Customers (by revenue) in 2017	
Customer	Percent of Total
UWRF	5.5%
River Falls School District	1.8%
Comforts of Home	1.4%
River Falls Housing Authority	0.8%
River Falls Soccer Club	0.7%
Cudd's Court (Mobile Home Park)	0.7%
Rise Baking (Best Maid)	0.6%
River Falls Area Hospital	0.5%
Sterling Heights Condo Association	0.5%
Crystal Finishing Systems	0.5%
Total	**12.9%**

Source: Based on information collected from City Utility Billing System

Busting Open the Books: Financial Breakdown

Top 10 Largest Gallon Usage Increases by RFMU Water Customers from 2014-2017	
Customer	**Percent Increase**
Rise Baking (Best Maid)	572%
NCCM Company	142%
O'Keefe	117%
Cabrio Companies	73%
State Farm	68%
Bakken-Young Funeral Home	61%
Sears	51%
Song Garden Restaurant	24%
Minnesota Rubber and Plastics	18%
Foley United	15%

Source: Based on information collected from City Utility Billing System



Source: 2017 RFMU Annual Report (via the PSC) and projections based on historical trends
*As of October 31st, 2018

Busting Open the Books: Financial Breakdown

Water Impact Fees

The water impact fees have been in place in the City since 2002 and are imposed by the City on new development projects to pay for the cost of providing water services to these new developments.

In 2014, the City hired Trilogy Consulting to conduct an impact fee analysis to determine a more efficient way to levy impact fees in the City. The recommendation of Trilogy was to adjust impact fees based on inflation rates on an annual basis with the adjustment based on the year-to-year change in the Midwest Consumer Price Index for All Urban Consumers (CPI-U) during the previous twelve (12) months. This change began effective January 2016 and is reflected in the City Code and the fee schedule. No changes to impact fees, other than the projected CPI-U, are being proposed in this business plan.

Based on the historical trends for inflation using the CPI-U it is anticipated that water impact fees will increase an average of 2% yearly for all meter sizes. The table below illustrates the fee projections from 2018-2023:

Projected Water Impact Fees by Meter Size						
Meter Size	Actual 2018 Fee	2019 Fee	2020 Fee	2021 Fee	2022 Fee	2023 Fee
¾"	$2,336	$2,383	$2,430	$2,479	$2,529	$2,579
1"	$5,841	$5,958	$6,077	$6,199	$6,322	$6,449
1 ½"	$11,683	$11,917	$12,155	$12,398	$12,646	$12,899
2"	$18,692	$19,066	$19,447	$19,836	$20,233	$20,637
3"	$35,048	$35,749	$36,464	$37,193	$37,937	$38,696
4"	$58,414	$59,582	$60,774	$61,989	$63,229	$64,494
6"	$116,828	$119,165	$121,548	$123,979	$126,458	$128,988
8" or larger	$186,923	$190,661	$194,475	$198,364	$202,331	$206,378

New construction is broken down into residential equivalent units (REU) and commercial/industrial categories to track revenue. Based on these projections of the water impact fees, the revenue from new development is projected as follows:

Water Impact Fee Projected Revenue						
Revenue	2018*	2019*	2020*	2021	2022	2023
Residential Revenue**	$140,160	$140,580	$153,114	$123,949	$126,428	$128,957
Commercial/Industrial Revenue***	$46,732	$47,667	$48,620	$37,194	$37,938	$38,697
Total Water Impact Fee Revenues	**$186,892**	**$188,247**	**$201,734**	**$161,143**	**$164,366**	**$167,654**

*Projections based on budgeted revenue

**Assumes ¾" meters with 60 new REU's in 2018, 59 in 2019, 63 in 2020, and 50 each year from 2021-2023

***Assumes 1 ½" meters with 4 new commercial/industrial developments from 2018-2020 and 3 each year from 2021-2023

Busting Open the Books: Financial Breakdown

Projected Balance Sheet with Current Rates

Assets		2017	2018	2019	2020	2021	2022	2023
Current Assets								
	Cash & Investments	$ 1,490,153	$ 1,864,649	$ 2,176,597	$ 2,808,774	$ 3,175,640	$ 3,470,081	$ 3,648,319
	Other Assets	214,338	221,838	229,338	236,838	244,338	251,838	259,338
	Infrastructure Assets Net of Depreciation	14,975,327	14,640,426	14,382,796	14,041,166	13,705,385	15,355,795	15,025,789
	Total Assets	16,679,818	16,726,913	16,788,731	17,086,778	17,125,362	19,077,714	18,933,446
Deferred Outflows		127,495	128,770	130,058	131,358	132,672	133,999	135,339
Liabilties								
Current Liabilities								
	Accounts Payable	33,051	33,382	33,715	34,052	34,393	34,737	35,084
	Other Liabilties	156,310	157,873	159,452	161,046	162,657	164,283	165,926
	Debt Payable	1,645,262	1,600,262	1,550,262	1,500,262	1,445,262	3,390,262	3,261,693
	Total Liabilities	1,834,623	1,791,517	1,743,429	1,695,361	1,642,312	3,589,282	3,462,704
Deferred Inflows		50,929	51,438	51,953	52,472	52,997	53,527	54,062
Net Position								
	Net Investment in capital Assests	13,139,346	14,640,426	14,382,796	14,041,166	13,705,385	15,355,795	15,025,789
	Debt Service	41,060	32,578	34,267	34,333	36,025	36,595	37,790
	Unrestricted	1,741,355	$ 404,880	$ 774,878	$ 1,463,470	$ 1,893,366	$ 249,703	$ 564,020
	Total Net Position	$ 14,921,761	$ 15,045,306	$ 15,157,674	$ 15,504,636	$ 15,598,750	$ 15,605,498	$ 15,589,809

Projections Based off Pro Forma Analysis of RFMU Financial Data

Busting Open the Books: Financial Breakdown

Projected Income Sheet with Current Rates

Water Fund	Actual	Estimated*	Budgeted	Budgeted	Projected	Projected	Projected
Year	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Operating							
Sales of Water	1,598,137	1,613,644	1,587,538	1,629,114	1,653,551	1,678,354	1,703,529
Other Operating Revenues	143,268	134,356	146,167	148,255	133,115	130,450	127,785
Total Operating Revenue	1,741,405	1,748,000	1,733,705	1,777,369	1,786,665	1,808,804	1,831,314
Salaries	374,601	389,741	380,359	393,107	404,900	417,047	429,559
Benefits	115,124	150,170	139,333	145,082	150,885	156,921	163,198
Operation and Maintenance	370,642	410,546	422,253	422,652	443,785	465,974	489,273
Depreciation	441,491	449,901	441,630	441,630	435,781	508,840	515,006
Total Operating Expense	1,301,858	1,400,358	1,383,575	1,402,471	1,435,351	1,548,781	1,597,035
Operating Income	**439,547**	**347,642**	**350,130**	**374,898**	**351,314**	**260,022**	**234,279**
Non-Operating							
Interest Income	13,007	40,000	21,540	21,540	25,000	25,000	25,000
Interest Expense	(63,122)	(68,860)	(58,640)	(55,840)	(56,373)	(54,537)	(128,701)
Capital Contributions	515,866	186,000	286,880	400,172	161,143	164,366	167,654
Transfers to other Funds	(408,342)	(450,187)	(545,592)	(450,223)	(450,000)	(450,000)	(450,000)
Total Non-Operating	**57,409**	**(293,047)**	**(295,812)**	**(84,351)**	**(320,230)**	**(315,171)**	**(386,047)**
Change in Net Position	**496,956**	**54,595**	**54,318**	**290,547**	**31,084**	**(55,149)**	**(151,768)**

Projections Based off Pro Forma Analysis of RFMU Financial Data

*Operating revenue and expenses from MUNIS program estimates for the water utility

Busting Open the Books: Financial Breakdown

Projected Rate of Return with Current Rates

Rate of Return	Actual	Estimated	Budgeted	Budgeted	Projected	Projected	Projected
Year	**2017**	**2018**	**2019**	**2020**	**2021**	**2022**	**2023**
Utility Plant in Service	7,091,489	7,206,489	7,390,489	7,490,489	7,590,489	9,749,739	9,934,739
Materials and Supplies	9,940	-	-	-	-	-	-
Net Utility Plant	7,101,429	7,206,489	7,390,489	7,490,489	7,590,489	9,749,739	9,934,739
Less Average							
Reserve for Depreciation	3,015,637	3,019,470	3,026,204	3,029,537	3,032,870	3,105,929	3,112,095
Regulatory Liability	190,958	161,580	132,202	102,824	73,446	44,068	14,690
Average Net Rate Base	3,894,834	4,025,439	4,232,083	4,358,128	4,484,173	6,599,742	6,807,954
Net Operating Income	**219,751**	**64,761**	**49,145**	**67,852**	**176,406**	**85,115**	**59,372**
As a % of Average Net Rate Base	**5.64%**	**1.61%**	**1.16%**	**1.56%**	**3.93%**	**1.29%**	**0.87%**

Projections based on 2017 RFMU Annual Report (via the PSC) and pro forma analysis of RFMU financial data

Financial Wrap-Up

Based on the projections and financial analysis of future revenues and expenses for the water utility, the RFMU rate structure in its current form will need to be adjusted to account for projected capital improvements and increases in operations and debt expenses.

Key Takeaways

- Due to the projected rate of return falling below the PSC's authorized rate of return and the estimated net position, it is recommended that the water utility apply for a conventional or a simplified rate case before 2022. A simplified rate case requires the utility to pass either a rate of return test that falls below the annually updated benchmark rate of return or have the net operating income fall below 6% of total operation and maintenance expenses of the water utility. To apply for a conventional rate case the water utility would need to conduct a cost of service study to accompany its application for a rate adjustment to the PSC.
    - The water utility can only apply for a simplified rate case if the requested effective date of the simplified rate case is within 5 years of the effective date of the last conventional rate case. In this case the utility would need to qualify before 2021 as the last conventional rate case took place in 2016.
    - If the water utility does not qualify for a simplified rate case, then the water utility may apply for a conventional rate case with the accompanying cost of service study to review and potentially adjust rates.
- The recommendation is to have a comprehensive or simplified rate case occur at or before 2021 to keep up with the cost of running the water utility as well as the projected expenses to occur with capital investments both during and after the life of this business plan.
- A review of the water impact fees is recommended either by performing an internal analysis or by contracting with a consultant to evaluate future revenues and to determine if the fees are adequate for the growth anticipated by the City in time for the 2021-2022 budget.

What it All Means

This business plan is intended to be a guideline for RFMU to follow for the five-year period between 2019 and 2023. The following metrics will be used to ensure that the water utility is monitoring the progress that this business plan puts in place by:

- Reviewing rates annually to monitor the rate of return and change in net position and applying for a conventional or simplified rate case from the PSC no later than 2021 is recommended. After that apply to adjust water rates every 3-5 years with either a conventional or simplified rate case.
- Full implementation of the AMI project and incorporating it into the water system to respond to 100% of customer inquiries during the work week.
- Achieving less than 10% water loss yearly and investing in leak locating technology to accomplish this.
- Completion of the water asset management plan.
- Internal and/or external review of the water impact fees (both the rates and the projected revenue) for the 2021-2022 budget.
- Expanded use of social media and utility billings and implementing mobile app technology to better engage with customers and to receive feedback regarding interaction with the water utility.
- Targeting 100% of water employees being fully certified in water operations.

These metrics are intended to track progress and to show that the water utility is investing the time and resources to benefit customers as much as possible.

To track the progress there will be two reviews conducted for this business plan. The first review will be conducted in 2021 with another review occurring in 2023. These reviews will show how the water utility has done at following the benchmarks of this business plan and how to continue the improvements going forward.

In addition, an updated business plan will be drafted and completed by the end of 2023 to set new goals and strategies to account for changes in the water utility and the adjustments that need to be made to reflect current practices and trends in water utility operations. The next business plan will cover the years of 2024-2028.

For more information please visit
http://rfmu.org/