

LAKE WASHINGTON SANITARY DISTRICT
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September 15, 2015

Dear Property Owner:

To Board of Managers of the Lake Washington Sanitary District has been reviewing the current Sewer Rates, and has determined that a rate increase is necessary. The Board analyzed information from the City of Mankato, as well as the Districts financial requirements for the operation of the system. Below you will find the results of the study.

Some of these impacts are being seen in 2015 and will become more apparent in 2016. In order to maintain sufficient revenues to fully operate the LWSD wastewater system it is necessary to implement adjustments to the User Rates.

There are several items that require this adjustment to the Sewer User Rates:

- The City of Mankato has adjusted the wastewater treatment fees to reflect the actual costs of treatment and ongoing upgrades to the Wastewater Treatment Facility (WWTF);
- The Schwickerts operating services contract will increase with the addition of the Madison-Ballantyne service area;
- There has been some normal increases in the general operating costs to the District (billing services, and utility services);
- The District desires to establish a "Reserve Fund" which is based on a ratio of existing depreciation and funded thru user fees.
- In addition, several items previously covered by user fees will now be allocated to the Taxing Sub-Districts established by the Board (i.e. unique debt service and allocated special costs).

The City of Mankato has made significant adjustments to their fee structure for wastewater treatment services. This adjustment will result in higher wastewater treatment cost to the Lake Washington Sanitary District. The impacts of the increase is estimated to include:

- The annual Mankato fee is expected to increase from \$47,000 to \$98,000,
- The cost per 1000 gallons delivered to the Mankato WWTF is anticipated to increase from \$2.16 / 1000 gallons to \$3.65 / 1000 gallons, approximately a 69% increase,
- The average treatment cost per connection is anticipated to be \$11.64, an average increase of 55% per connection

The Schwickerts Operations contract was adjusted in January 2015 with new monthly base fees and rates for special services. There are two items that will increase with this contract:

- The addition of 235 +/- connections in the Madison / Ballantyne area will have a separate identified monthly base fee that represents the new service area,
- The Special services (call –outs, pump servicing, etc.) is a highly variable number and based on the 2015 history a projected \$105,000 is special services will be necessary for the entire District. This item was under estimated in the past.

The General Sewer Operations of the District has not been adjusted for several years and with the new service area a new budget was developed. Included in this budgeting is:

- General Utility services (power, plowing, utility locates etc.)
- Utility Billing services , postage , printing
- The overall increase in this item is approximately 20% since the last adjustment in 2013.

The District has discussed the need for a “Reserve Fund” but has never developed a funding source or basis for this special replacement fund. The new rate schedule identifies a basis for developing this fund. The funding basis established includes:

- A set-aside of 10% of the previous years allocated Depreciation into an identified fund for future replacement activities.
- The 2015 basis is: 10% of the 2014 depreciation of \$224,500

Previous rate schedules also set aside funds for debt service on bonds affecting a special project in the Washington / George area. This debt service amount will be removed from the rates and placed into the Taxing Sub-District that benefitted from the project.

Overall the rate impact represents approximately a 40% increase per connection per month. Individual connections may experience higher increases based upon the amount of sewer flow generated by each individual user. The following table illustrates the individual items discussed above.

Lake Washington Sanitary District 2015 - 16 User Rate Budgets and Increase Estimates

Sewer Operating Budget Item	2015-6 Budgeted	2015-6 Ave \$ / Conn / Mo	2013 - 2016 Ave % Change / Conn / Mo
Mankato Treatment	\$97,946	\$11.64	55.0%
Mankato Lift Station Maint	\$8,080	\$0.96	New
Schwickerts Base - LWSD District Wide	\$95,218	\$11.32	50.7%
Schwickert's Extra Services	\$105,000	\$12.48	203.5%
LWSD Operations	\$38,310	\$4.55	20.1%
Engineering	\$10,000	\$1.19	-33.5%
Contingencies	\$0	\$0.00	-100.0%
Depreciation - Reserve Fund	\$22,450	\$2.67	New
2012 Bond Debt Service	\$0	\$0.00	-100.0%
TOTAL	\$377,004	\$44.82	40.4%

To assure adequate operating revenue the Sewer Rates have been recommended to increase from the existing \$18 Monthly Base and \$4.75 per 1000 gallons, to \$21 Monthly Base and \$7.50 per 1000 gallons.

I can assure you that the Board has taken a lot of time sifting through all of the information and feels that to maintain the System, and keep our Lake Quality High, this increase is needed. If you have any questions, please feel free to contact myself or any of the Board members.

Sincerely,

Larry Maruska
Chairman