

**Minutes**  
**Avon City Council Workshop**  
**August 26, 2024**

**THE FOLLOWING MEMBERS WERE PRESENT**

Jeff Manthe – Mayor, Katie Reiling, Doug Schaefer, Mark Schulzetenberge, Aaron Goebel - City Councilors  
Corey Nellis – Police Chief and Jodi Austing-Traut, City Clerk-Administrator

The Pledge of Allegiance was recited and the meeting was opened at 6:30 pm.

**BUDGET WORKSHOP**

Jason Murray of David Drown Associates gave a presentation on the city's debt service responsibilities. Murray explained that the city borrowed capitalized interest for the Fire Hall which will make up the 2024 payment, so regular interest and principle payments will begin in 2025 at around \$177,000. The city will need to add about \$70,000 per year to its levy to pay for the fire hall bond. Avon Township and Collegenille Township will also participate via the fire service contract.

Murray explained that the revenues vs. cost of *operations* in the sewer department have continued to run at a deficit – this is not even including the debt service payments which push the sewer fund into a far greater deficit. Year end 2023 Audit showed negative cash flow of **-\$93,981** in the sewer department even *after* the \$100,000 transfer the council made in March of 2023 from the water fund to the sewer fund which was intended to lessen the need to increase sewer and water rates substantially. The actual deficit in 2023 for the sewer fund was nearly \$200,000. Murray explained that it is not fiscally wise for the city to continue on this trajectory. All reasonable attempts should be made to correct this by increasing the levy and/or increasing water and sewer rates. Murray did say that there is a possibility that using small calculated spend down transfers from the general fund to the sewer fund could be used in conjunction with the other two options to lessen the impact to residents and businesses, however, S&P ratings may not look as favorably on that approach. The Council did increase water and sewer rates slightly in June of 2023 and again in January 2024 based on the MN Rural Water Study using data from the 2021 audit. At that time, the public was notified that there would need to be ongoing increases to sewer and water rates to attempt to stabilize the funds. Additionally, staff has been working diligently with consultants to try to find ways to run these systems more efficiently to try to cut down on electric and natural gas costs. Sewer and water wages are also being reallocated to a 50-50 split to take some pressure off of the sewer fund. Previous allocation was 70% SW – 30% WA.

The updated rate MN Rural Water study using 2023 year-end audit data shows:

Current water rate is \$3.43/1,000 gal – the rate necessary to cash flow water dept in 2025 \$3.98/1,000 gal

Current sewer rate is \$7.32/1,000 gal – the rate necessary to cash flow sewer dept in 2025 \$10.04/1,000 gal

City Council discussed at length various options for deal with cash flow needs throughout the remainder of the life of the bond. The sewer bond will be paid off in 2032. Additionally, with the wastewater treatment plant aging there will be things that will need replacement and upgrades over the life of the treatment plant.

Council collectively expressed interest in working toward a combination of a levy increase, rate increase, and possible SAC and WAC increase. Staff will check with area cities to compare rates. Consensus that council will take this issue up over the next couple of months and continue to come up with a plan. It is likely that any water/sewer rate and SAC/WAC increases effective for the January 2025 billing.

Council consensus to set tax rate around .6687 with a proposed preliminary levy of \$1,700,000 which will include debt service levies as follows:

\$190,000 for the wastewater bond

\$130,000 for the 2019A bond

\$70,000 for the 2024A fire hall bond

\$77,000 for the 2014A bond

Leaving a general levy of \$1,233,000 for operations

Council may lower the levy at the time of final certification in December, but may not raise it once the preliminary levy is set.

*Adjourned at 7:55 pm.*

Respectfully Submitted,  
Jodi Austing-Traut - City Clerk/Administrator