



City of Delano  
Delano Municipal Utilities

*Final Report*  
*Organizational Exploration*

August 25, 2014



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TO: Delano Municipal Utility Commission  
Delano Mayor and City Council  
Hal Becker, General Manager  
Phil Kern, City Administrator

FROM: David Unmacht, Springsted Incorporated

DATE: August 25, 2014

RE: Final Report

On behalf of the Springsted team, I am pleased to present the Final Report on the Organizational Exploration. This document is an update to the August 18, 2014 Final Draft of the Report. There are no material changes between the Final Draft and the Final Report.

I want to thank Phil Kern and Hal Becker for their support and assistance in coordinating the many meetings and details that are required in a study of this nature. I also want to thank the Sub Committee for their dedication and commitment to reviewing documents and meeting over several months throughout the process. Their discussions and input helped to frame and shape the contents of the Final Report.

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## I. Study Introduction

According to Jack Kegel, Executive Director of the Minnesota Municipal Utilities Association (MMUA) in a lengthy conversation on June 3, 2014, he observed that it may not be common, but it is also not unusual for a City Council to ask the question, “How come the Utility is not part of the City?” When asked for comparisons of recent consolidations that we could use in this study, Kegel noted that the last one he remembers was Litchfield dating back over 10 years ago<sup>1</sup>. Just by that answer alone, it is clear that the policy question facing the City of Delano is truly a local choice with very little precedence or experience to use as benchmarks.

The City and Utility are seeking recommendations as to the optimal structure for public works and utility operations. Springsted Incorporated was hired to conduct the study. Our team approaches the study with an open-minded perspective. We understand the importance of remaining objective in our review and analysis.

The Request for Proposals provided background information on the Public Works/Municipal Utility Organizational Exploration. The purpose of the study is to seek assistance to examine the resources and organizational structures to explore if more efficient and/or effective models exist. Work today is planned, performed and managed separately by the City and Utility respectively. “While crews do work together on a case-by-case basis, planning and operations are managed by each separate entity. Capital improvement and equipment purchasing plans are also developed independently. The City and DMU desire to find an optimal operations structure to effectively manage the collective community resources while providing critical public services.” Considerations in the study include such factors as community demographics, community service expectations, additional infrastructure, and technology changes.

From our research we learned that prior to this study, the most recent “on record” occurrence of any public discussion of this question took place in April, 2013 at a City Council/Economic Development Authority meeting. From a review of the minutes, no action was taken on the agenda topic.

## II. Perspective

Why study the relationship between two statutorily independent, but interdependent entities? That question was raised by several stakeholders during the interview process. “We are doing a good job now.” “We work together very well – what more can we do?” “Why is this study being done?” These *simple* questions actually have *simple* answers.

City governments – and Utility agencies too – across the country, but especially in Minnesota, are addressing a multitude of complex simultaneous challenges including identifying efficient and effective delivery systems, meeting citizen and ratepayer expectations, and sustaining and maintaining mandated programs and services. This scenario is under the backdrop of an uncertain and unstable financial picture. For the past number of years, low property tax levy increases and flat-lined or even budget reductions have been occurring in cities of all sizes, small and large.

Conventional wisdom, local practices and policy-maker expectations reflect that city governments cannot continue to perform operations and business practices in the traditional methods. The City of Delano and

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<sup>1</sup> A summary of the Litchfield experience is included later in Section X.

Delano Municipal Utilities are asking important questions and delving into issues and business practices that have previously never been raised or seriously considered. Raising these questions and probing into historical business practices is not easy nor does it result in quick changes. Frankly, by asking tough questions, it can make people anxious or nervous about the future.

Several trends are important to highlight that support the rationale for the study. These trends directly impact the policy work of the City Council and Utility Commission and the ability of the staff to perform their important day to day functions.

- Flat and/or declining levels of staff
- Flat and/or declining budgets and resources
- Reduction and elimination of organizations operating in a “silo” culture
- Population growth and residential and economic development
- Position vacancy in the Public Works Director role, retirements and succession planning
- Strive for efficiencies and effectiveness

The business of managing city governments and utility departments is very difficult. Elected and appointed leaders are under continuous pressure to deliver value within a constrained financial environment. To be successful in this environment, city and utility officials must recognize these variables, manage them accordingly and introduce change processes and creative ideas to move their organizations forward. These conditions and factors are the reason these two entities are partnering in this study.

### III. Study Process

The study process used the following steps:

- Briefing with the Sub-Committee prior to starting the study
- Interviews with the City Administrator and General Manager
- Interviews with all Public Works and Utility personnel (May 8 and May 22)
- Review of City and Utility data
- Review of best practices for consolidating and restructuring
- Tour of the City and Utility facilities
- Review of the City Comprehensive Plan
- Interview with the Executive Director of the Minnesota Municipal Utilities Association
- Preparation of the Preliminary Findings and Observations
- Briefing on the Preliminary Findings and Observations with the Sub-Committee on June 30
- Preparation of the Draft Report
- Briefing on the Draft Report with the Sub-Committee on July 21
- Preparation of the Second Draft of the Report
- Briefing on the Second Draft to a joint meeting of the City Council and Utility Commission on July 29
- Preparation of the Final Draft Report
- Joint meeting of the City Council and Utility Commission on August 18
- The following 18 information sources were contacted for benchmarking:
  - Bill Radio, Director, Member and Public Relations, Missouri River Energy Services, Sioux Falls, SD
  - Dave Cziok, City Administrator, Litchfield, MN

- Brad DeWolf, President, Bolton and Menk, Inc., Mankato, MN and City Engineer, Litchfield, MN
- Chuck DeWolf, Bolton and Menk, Inc., Mankato, MN and Assistant City Engineer, Litchfield, MN
- Merton Auger, City Administrator, Buffalo, MN
- Calvin Portner, City Administrator, Elk River, MN
- Troy Adams, General Manager, Elk River Municipal Utilities, Elk River, MN
- Gary Neumann, Assistant City Administrator, Rochester, MN
- Mark Kotschevar, General Manager, Rochester Public Utilities, Rochester, MN
- Doug Nelson, Manager of Engineering, Department of Public Works, Rochester, MN
- John Crooks, General Manager, Shakopee Public Utilities Commission, Shakopee, MN
- Mark McNeill, City Administrator, Shakopee, MN
- Matt Podrahadsky, City Administrator, Chaska, MN
- Bob Louiseau, City Administrator, Detroit Lakes, MN
- Ben Martig, City Administrator, Marshall, MN
- Brad Roos, General Manager, Marshall Municipal Utilities, Marshall, MN
- Glenn Olson, Director of Public Works, Marshall, MN
- Vicki Willer, City Administrator, Sauk Centre, MN

## IV. Mission, Vision and Values

The following information offers a comparison in the two vision, mission and values. They reflect the uniqueness and distinctions of each entity at the same time are very closely connected and shared. Both of these sets of information were transcribed from the Utility and City websites respectively.

### Delano Municipal Utility

#### Mission and Vision (*Combined*)

Our mission is to provide consistent and dependable power and water services to our customers in a sustainable and economical manner.

#### Delano Municipal Utility Values

The following values are fundamental to the City of Delano's success and the fulfillment of our mission:

**1. Excellence and Customer Service.**

We believe we work on behalf of the residents of Delano and we feel our number one priority is to provide prompt local customer service.

**2. Fiscal Responsibility.**

We strive to ensure competitive electric and water rates by taking advantage of market conditions to control costs and maintain long term savings.

**3. Quality in the delivery of service.**

We make the City of Delano a better place to live and work by updating and maintaining a modern underground electric and water system.

**4. Treating citizens with respect.**

We treat all citizens with courtesy and respect.

**5. Ethics and Integrity.**

We believe that ethics and integrity are the foundation blocks of public trust and confidence.

**6. Professionalism.**

We believe that continuous improvement is the mark of professionalism and are committed to applying this principle to the services we offer and the development of our employees.

## City of Delano

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### **Mission**

The mission of the City of Delano is to continue to provide the highest quality public services that effectively address changing citizen and community needs in a fiscally responsible and friendly manner.

### **Vision**

Delano will continue its legacy as a friendly, outgoing community embracing its natural beauty while providing a safe, peaceful and progressive environment to live, work and play. Its spirit of community and small-town charm will be enjoyed by a strong and active multi-generational population.

### **City of Delano Values:**

**1. Excellence and quality in the delivery of services.**

We believe that service to the public is our reason for being and strive to deliver quality services in a highly professional and cost effective manner.

**2. Fiscal Responsibility.**

We believe that fiscal responsibility and the prudent stewardship of public funds is essential for citizen confidence in government.

**3. Ethics and integrity.**

We believe that ethics and integrity are the foundation blocks of public trust and confidence and that all meaningful relationships are built on these values.

**4. Treating citizens with respect.**

We strive to treat all citizens with courtesy and respect who deserve the best services we can provide.

**5. Open and honest communication.**

We believe that open and honest communication is essential for an informed and involved citizenry and to foster a positive working environment for employees.

**6. Cooperation and teamwork.**

We believe that the public is best served when departments and employees work cooperatively as a team rather than at cross purposes.

**7. Professionalism.**

We believe that continuous improvement is the mark of professionalism and are committed to applying this principle to the services we offer and the development of our employees.

**8. Visionary leadership and planning.**

We believe that the very essence of leadership is to be visionary and to plan for the future.

**9. Creativity and innovation.**

We believe that the City is best served when council members, commissioners, and employees are creative and innovative in the fulfillment of their responsibilities.

The **Professionalism Value** in both the City and Utility is the same wording. One need look no further than those words to understand and appreciate the rational and importance of this study.

**Conclusion**

These foundational pieces are reviewed for compatibility and organizational consistency. If there are significant distinctions or differences it can be a preview or a prediction of conflict or contradictions in efforts to work together. The City has a separate mission and vision (Utility is combined) and their values are more expansive, but overall, these statements are closely related and compatible. In fact, there are some similar statements which reflect shared values and compatible organizational foundations.

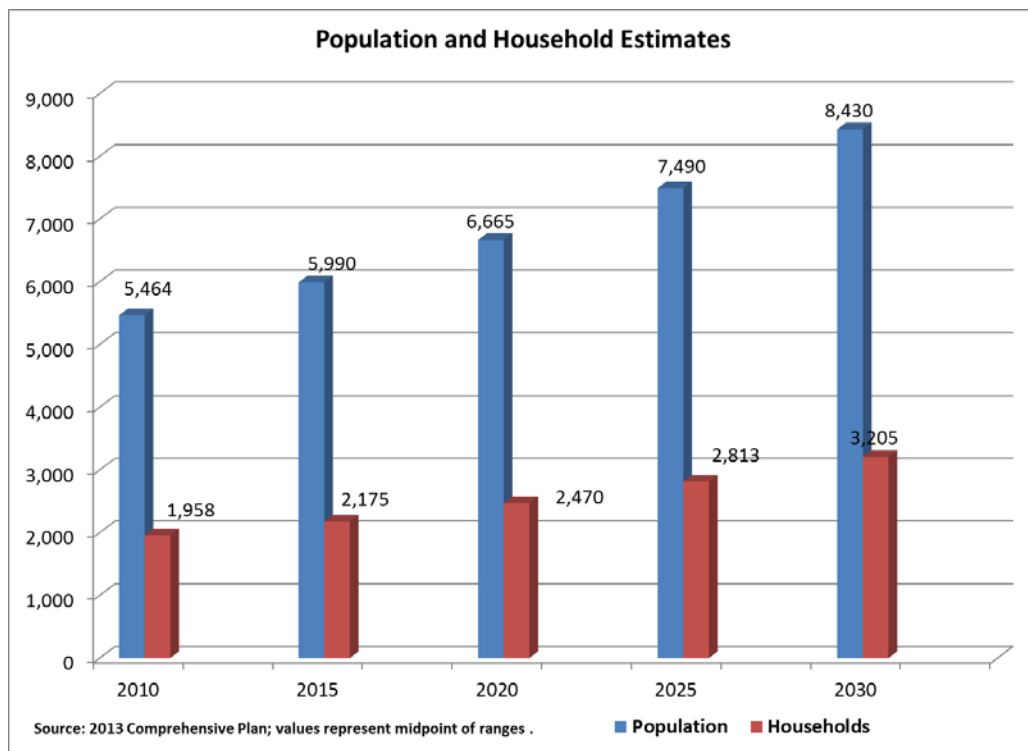
**V. Growth and Population**

Springsted reviewed the latest projections for residential, commercial and industrial development to determine if there would be any impact on the operations and organization of the City’s utility and public works infrastructure. This review is not intended to be a comprehensive review of the City’s public works and utility infrastructure and its ability to service future growth; rather, it is merely a cursory review to determine if future growth should be a major consideration in our findings and recommendations.

**Residential Projections**

Like most communities, especially exurban cities like Delano, the growth projections for residential development have been revised downward significantly following the recession from 2007 - 2009 and the slow economic recovery in the years following the recession. The City’s 2013 Comprehensive Plan projects the City’s population to grow at an average annual rate of 2.3% thru 2030, from the 2010 U.S. Census Bureau estimate of 5,464 to 8,430. Figure 1 below shows the residential and household projections outlined in the Comprehensive Plan.

**FIGURE 1**





### Commercial and Industrial Projections

Although the City is aggressive in promoting and incentivizing commercial and industrial development, the Comprehensive Plan's projections for commercial and industrial development are conservative as well. For commercial development, the City's emphasis is on maintaining the historic Central Business District and promoting infill development or redevelopment within the City's existing highway corridor. For industrial development, the emphasis is on the Northwest Industrial Park, which will be designed to accommodate heavy industrial users. Notwithstanding, the growth management policies outlined in the Comprehensive Plan emphasize the need to ensure any future growth is financially self-sustaining and does not negatively impact the City's current infrastructure.

### Current Capacity of Water and Sewer Infrastructure

Based on information provided in the City's 2013 General Obligation Bonds Official Statement and the Comprehensive Plan, the City has sufficient capacity. The City's water is supplied by municipal wells that serve 1,953 customers as of December 2013. The wells have a combined pumping capacity of 2,778 gallons per minute. Average daily demand is 526,323 gallons. The City also has a 1.5 million gallon water tower. The City's water treatment plant has a capacity to filter 3,200,000 gallons of water per day. The water treatment plant was completed and went on-line in October of 2006.

The City's sewage treatment plant has capacity for 1,500,000 gallons per day, with average daily demand at 436,000 gallons. The City's wastewater treatment plant was completed and went on line in December 2004.

### Conclusion

Based on the most recent estimates for population growth, the City's plan to manage commercial and industrial development as outlined in the Comprehensive Plan and with the excess capacity in its water and sanitary sewer systems, future growth is not a major consideration in our analysis.

## VI. Comprehensive Plan

The City has a detailed 2030 Comprehensive Plan that we reviewed for insight and direction. Comprehensive plans provide information on the city (past, present and future), policy guidance, priorities, goals and guiding principles for the planning and future of a community. Our purpose was to learn and understand the sections that connected the City with the Utility. We wanted to see if there were any specific statements or collaborative intentions that were outlined in the Plan. Although the integration and interconnectivity between the two entities may be embedded in many components of the overall Plan, there are clear policy and implementation areas that require coordination, consistency and cooperation. In the 2030 Plan these can be found in sections entitled: *Community Perspectives, Pace of Growth, Land Use, Community Facilities and Implementation*. We found that that these sections clearly recognize the importance of cooperation and coordination.<sup>2</sup> For example, here is a sampling of six specific statements:

**Pace of Growth – Goal Number 1:** Manage community growth and land uses in a manner that is fiscally responsible and will not result in premature extension of utilities or public services.

**Land Use – Goal Number 4:** A cohesive land use pattern which ensures compatibility and strong functional relationships among activities is to be implemented. "Prevent over intensification of land use

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<sup>2</sup> General Manager, Hal Becker, was a participant in the development of the Comprehensive Plan. He is listed under the acknowledgements category of City Staff.

development which is not accompanied by a sufficient level of supportive services and facilities (utilities, parking, access, etc.).”

**Land Use – Goal Number 2:** Promote continued industrial development in order to expand the local employment base and opportunities within Delano.

**Community Facilities:** Public Utilities are an important factor in regulating development of particular areas of the City. Requiring that utilities are present prior to subdivision approval can prevent leap frog or premature development.

**Community Facilities – Water System:** In 2002 the Utility constructed a new water tower along County Road 30 in western Delano. In October, 2006, the Utility constructed a water treatment plant near Tiger Drive. The Utility was also successful in coordinating water utility extensions with the City sanitary sewer extension providing utility availability to the Delano extraterritorial areas. “Delano’s growth has not reached the forecasted levels as such, capacity is not an issue of the community. The City and utility will seek new growth to expand utility use and lower costs.”

**Growth Management:** Pursue intergovernmental cooperation for sharing public services and facilities, to avoid duplication and economize on City investments.

### Conclusion

Similar to the Mission, Vision and Values, it is imperative to learn what the underlying relationship of the two entities is in the Comprehensive Plan. From our *high level* review we conclude that the intention of the Plan is to ensure strong coordination and connection between the City and the Utility.

## VII. Observations from Interviews

The process was focused on engaging the employees in interviews to learn their opinion about the workplace and possible enhanced partnerships between the City and Utility. Interviews were held on May 8 and May 22. The following represents a unique representation of the interview results. The study author is responsible for the categorization and inclusion of specific statements; the origin of the statements came from the staff participating in the City and Utility interviews.

Rather than list a summary of general comments, we have created a modified SWOT Analysis, which we hope can be integrated into the policy discussions. Although we did not undertake a traditional SWOT analysis, we are presenting information in the context of an easy to explain methodology. By definition, Strengths (S) and Weaknesses (W) are considered to characteristics that are clear and definable; mostly internal factors over which you have some measure of control. Further, by definition, Opportunities (O) and Threats (T) are considered to be both internal and external factors over which you have options and choices on how to evaluate and measure for their impact and influence on the organizations.

## Strengths

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Strengths can be either tangible or intangible. These are what you are well-versed in or what you have expertise and positive traits and qualities. In any new collaboration or consolidation strengths are qualities you want to retain or augment.

- Employees like to work for the City and Utility
- There is a sincere desire to improve the existing relationship<sup>3</sup>
- There is a willingness to help out as needed
- Crews genuinely like working with each other
- The relationship is informal and usually based on addressing an immediate need(s)
- The organizational foundations (mission, vision and values) are closely aligned
- The Comprehensive Plan connects the policy priorities of the two entities
- Both the City and Utility have experience in partnering with other entities<sup>4</sup>

## Weaknesses

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Weaknesses are the qualities that prevent you from accomplishing your work or reaching your potential. Weaknesses deteriorate influences on the department, the staff and the work performed by the employees. They also impact your ability to accomplish the mission and vision. Weaknesses are controllable, can be addressed and must be minimized and eliminated if possible.

- The unpredictability of one of the five public works staff due to other city obligations.<sup>5</sup> With five employees in the department, when he is absent the staff depth is reduced by 20%. With a small staff, this is a large percentage.
- There is a lack of ability to spend time on strategy, policy and leadership issues – the focus is almost solely on the day to day business. This may be a function of not having a Public Works Director, but we did not get a sense that this was a priority even with the most recent Director.
- There is no staff structure in place between the City and Utility to seek new ideas or additional ways to work together beyond what is already being done.
- The systems, processes and structures are independent of each other.
- In general, the Public Works crew believes they are more reactive and responsive than proactive.

## Opportunities

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Opportunities are presented within the environment we operate; these provide an organization an opportunity to enhance its work, business operations and customer service. Departments can increase their efficiency and effectiveness and strengthen their impact and influence. Leaders must recognize opportunities and be ready to grasp them whenever they arise. Opportunities may arise from collaborations, service changes, personnel, and external influences.

- General perception of residents that the City and Utility are “one-in-the-same”

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<sup>3</sup> The Springsted team was involved in a City-Utility Study in another state in 2013. The differences between the relationships with those two entities and the City and DMU are striking. Delano is in a much better position than those two entities were.

<sup>4</sup> The Utility provided many examples of where it works with others, most notably in the purchase of electrical power; the City also shared examples, most notably in the sewer maintenance and building inspection agreements with the City of Watertown.

<sup>5</sup> Robert Vanlith also serves as Fire Chief and responds to emergency calls; the exact number of calls he responds too is unknown; overall in 2014 there were over 450 calls for service in the City. This observation is not a reflection on his work, but rather his dual obligations. Source for calls – 2014 State of the City Fire EMS Calls.

- Vacancy in the Public Works Director Position
- The Public Works staff could report to the Utility Manager
- The Utility’s possible interest to manage the wastewater treatment plant
- Enhance the governance connection between the City Council and Utility Commission
- The City and Utility are non-union workplaces
- The ability to enhance and improve the work and services of the City and Utility with new partnerships

## Threats

Threats arise when conditions in the environment jeopardize the reliability and credibility of your future. They complicate and compound the reliability of your services. If left unaddressed threats can weaken your outcomes and ability to achieve your vision and accomplish your mission and goals.

- Historical autonomy of the two entities
- Cultures that make a distinction between a *ratepayer* from a *taxpayer*
- Perception that there is not an equal “safety” culture
- Fear of change – uncertainty of what the future may hold with a merger
- General philosophy between the City Administrator and General Manager
- Perception of differences in salary and compensation programs
- Perceptions about the sense of being “understaffed”

## VIII. Current Relationship

In our analysis we look for certain trends, issues, concerns or cultural distinctions. Some of these may be subtle, direct or obvious. We seek information from formal interviews, informal conversations and document analysis. It is not difficult to learn and understand the perceptions, conditions and working relationships between two entities. We spent two half-days in Delano listening, interviewing, learning and interacting with the work crews and staff.

### Budget

The Public Works Department Budgets for 2013 and 2014 are \$1,799,610 and \$1,848,750 respectively. In contrast, from 2014 budget documents the Utility has an annual operating budget for Water slightly under \$1,090,000 and Electrical around \$5,600,000. Hypothetically, and with rounding, if the Public Works and Utility functions were simply combined the total overall budget would be in excess of \$8.5 million with electrical accounting for approximately 66% of the total.

### Utility to City Financial Contributions

In 2013 the Utility contributions to the City were:

- |                               |           |
|-------------------------------|-----------|
| • Payments in lieu of taxes   | \$106,000 |
| • City electric franchise fee | \$166,791 |

The scope of services did not provide for an analysis of the Delano Municipal Utility contributions to the City, but there is no question that there is a financial interdependence between the two entities. In 2013, the annual contribution totaling over \$272,000 is slightly over 8% of the City’s general fund budget revenue of \$3,260,249. By all measures 8% is a significant amount and an important consideration in any policy discussion.

**Benchmark Communities – Electrical Operating Budgets & Utility to City Financial Contribution**

The Sub-Committee asked for information from our benchmark communities on the 2014 electrical department operating budget and the financial relationship between the City and Utility. The following information was collected.

- City of Buffalo: No response on Electrical Operating Budget. Payment in lieu of taxes about \$900,000 annually; no franchise fee.
- City of Chaska: Electrical Operating Budget is \$31,781,000. No payment in lieu of taxes; franchise fee of 10% of annual revenues which is about \$3.1 million annually.
- City of Detroit Lakes: Electrical Operating Budget is \$15,219,946 (includes \$1.16 million in purchased power costs). Payment in lieu of taxes between \$500,000 and \$550,000 annually; no franchise fee.
- City of Elk River: Electrical Operating Budget is \$31,400,000. Payment in lieu of taxes is 3% of annual revenues for customers within city limits. This equals about \$800,000 annually. Also provide in-kind labor services to city government which brings the amount closer to \$1.0 million annually. Utility donates all electricity to city buildings and properties with the exception of those covered by enterprise funds. No franchise fee.
- City of Litchfield: No response on Electrical Operating Budget. Payment in lieu of taxes is \$365,000 annually; no franchise fee.
- City of Marshall: Electrical Operating Budget is \$45,366,700. Payment in lieu of taxes is \$800,000 annually; no franchise fee. Also offer a \$500,000 grant/loan program to entice new business to the community.
- City of Rochester: Electrical Operating Budget is \$131,002,000. Payment in lieu of taxes between \$9.0 and \$10.0 million annually; no franchise fee.
- City of Sauk Centre: Electrical Operating Budget is \$4,813,000. No payment in lieu of taxes; \$120,000 to \$125,000 annual franchise fee.

**Facilities**

Tours of the facilities resulted in the following observations and assessments.

- Each entity operates its own facilities and equipment. Both Public Works and the Utility have one main site that is used for base operations.
- In 2000 the City constructed a 12,500 square foot public works building adjacent to the waste water treatment plant along County Road 30 (402 County Road 30E).
- The City and Utility share common warehouse space on Railroad Avenue for utility, public works equipment and supplies. Interview testimony noted that the City may be relocating its cold storage function to the main public works building site; thus allowing the Utility to relocate equipment presently outside to inside the existing buildings.
- The main office of the Utility is located at 11 Bridge Avenue West. This is a multi-purpose facility housing office staff, the power plant and the general operations of the Utility. But for the water treatment plant and wells the rest of the main Utility operations including all power generating equipment are located on this site.
- The office building is dated and adaptive for current use. There is a very small space for the lineman and laborers to meet in an upstairs kitchen area; although this may work, it is clearly not up-to-date or desirable. The second floor also has office space for one staff member and includes restrooms, storage and IT closets. The building does not appear to be ADA compliant.

- The water treatment plant is in a new facility with ample room for office space, but its location is not desirable or convenient for that purpose.

### Facility Observations

The Utility effectively utilizes all space on its present site. Clearly there is no room to move the Public Works operation to this location. The Public Works Building was built for an expansion in the City operations, but not for the addition of the Utility and the crew. However three thoughts remain:

- The main power generating equipment is located on the Utility site. These pieces of equipment will not move and will remain where they are located.
- Although not ideal, it is possible and practical to have two sites for the work crews; you do not have to consolidate the sites to increase collaboration or re-organize the departments. Two separate sites will require a different leadership and management style, but it is possible and common especially in larger public agencies.
- There appears to be sufficient space on the Public Works site for expansion and growth if the some or all of the staff operations were to be combined at some point in the future. In fact on page 17 of the Comprehensive Plan it states, “The City Facilities...have all been improved and are in excellent condition and have capacity to accommodate growth.”

### Information Technology

The scope of services asks that technology be a factor in the deliberation of the study question. We asked the City and Utility ten questions related to technology and collected the information. A few observations resulted from our review of the data is provided.

- Over 10 years ago the City and Utility did have the same email server and domain; that is no longer the case.
- The City and Utility are connected by fiber, but not through a joint contract or service provider.
- The City and Utility have the same phone system and vendor; but do not partner in the contract administration and the software versions may not be the same.
- The Utility does the billing for the City.
- The City and Utility both perform in-house information technology services when possible.
- The City and Utility both outsource hardware and software support as needed.
- The City and Utility are both doing payroll in-house with different vendors.
- The City and Utility have distinctly different financial software programs.
  - The City’s is 20 years old; no major upgrades anticipated; possibly two modules to add in future
  - The Utility’s is 20 years old; no major software upgrade anticipated for 10 years or more; no modules to be added.
- The Utility information technology platform, foundation and needs are more complex with six separate automation areas.

### Conclusion

Today the major Utility and City systems are not compatible. There is no active initiative to integrate or connect the systems now or in the future. Within the public works and utility crews there is no joint functional technology that is being used – or may be needed – that we could determine.<sup>6</sup> No matter which

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<sup>6</sup> A listing of the information technology assets in the City Public Works Department included one iPad. The iPad is used for ArcGIS software used to map and store information on sewer and utility infrastructure.

policy option is selected and depending upon priorities, this is an area of potential that requires further study and evaluation. Right now the systems are separate; as they age, change and are in need of an upgrade the entities must explore the value and purposes of working together for greater integration and connectivity.

### **Capital Equipment**

The City presently has 28 pieces of equipment and capital assets and the Utility has 25. A side-by-side comparison is challenging in that the trucks and equipment are not the same. The names of common equipment used for electrical purposes are distinctive from that of general public works. For example:

- Electrical: Bucket, Digger, Trencher, Mudsucker, Bore Machine, Reel
- Public Works: Plows, Sweepers, Jetters, Crack Sealer, Dump Box, Front End Loader

The area of common overlap comes in the general equipment category such as: mowers, trailers, trucks, backhoes, and bobcats.

Based on interviews, the crews do share equipment today and routinely ask for help and support with capital assets that they know the other crew has. The policy question seems best stated as, “How can we cooperate in purchasing or sharing in the future?” The financial benefit is not the elimination of existing equipment, but the planning, coordination and purchasing and use of future equipment. To that end, we prepared two tables for discussion purposes: **Table 1** lists the five year capital improvement plans and **Table 2** lists the possible overlap within the capital improvement plan. The Capital Improvement Plan (CIP) for each entity is shown in the table below.



**TABLE 1**

<b>City Public Works</b>			<b>DMU</b>	
<b>2014</b>			<b>2014</b>	
	<b>Priority</b>	<b>Cost</b>		<b>Cost</b>
Tractor	3	\$ 25,000	Replace 2009 Service Trucks*	\$ 41,000
Pick-up Truck	2	\$ 15,000	Boring Rod Trailer	\$ 4,500
		<b>\$ 40,000</b>	New Bobcat	\$ 55,000
				<b>\$ 100,500</b>
<b>2015</b>			<b>2015</b>	
60" Mower	2	\$ 12,000	Upgrade Reel Truck	\$ 10,000
Computer Equipment	2	\$ 3,000	Upgrade 2012 Service Truck	\$ 5,500
Bobcat Club Car 2100	1	\$ 7,000	Upgrade 2012 Service Truck	\$ 5,500
Street Sweeper	1	\$ 125,000		<b>\$ 21,000</b>
		<b>\$ 147,000</b>		
<b>2016</b>			<b>2016</b>	
Computer Equipment	2	\$ 3,000	Upgrade 2013 Service Truck	\$ 6,000
Pickup	3	\$ 60,000	Upgrade 2013 Service Van	\$ 6,500
Asphalt Roller	3	\$ 20,000		<b>\$ 12,500</b>
		<b>\$ 83,000</b>		
<b>2017</b>			<b>2017</b>	
Street Sweeper	2	\$ 50,000	Boring Machine	\$ 155,000
Dump Truck	1	\$ 170,000		<b>\$ 155,000</b>
Pick-up w/Hooklift	3	\$ 60,000		
Spreader	4	\$ 2,000		
		<b>\$ 282,000</b>		
<b>2018</b>			<b>2018</b>	
Backhoe	3	\$ 80,000	Upgrade 2014 Service Truck	\$ 9,000
Loader	2	\$ 130,000	Upgrade 2014 Service Truck	\$ 9,000
		<b>\$ 210,000</b>	Upgrade 2014 Service Truck	\$ 9,000
				<b>\$ 27,000</b>
			*Capital Expenses worksheet provided indicates the 2009 Service Trucks will be upgraded for \$25,100.	



Of the two CIPs, the only item where there may be an overlap appears to be with the purchase/upgrade of trucks. The list of trucks included in the CIP by entity is shown in the table below.

**TABLE 2**

<b>Truck Upgrades/Purchases</b>		
<b>2014</b>	<b>Entity</b>	<b>Cost</b>
Replace 2009 Service Trucks	DMU	\$ 41,000
Pick-up Truck	City	\$ 15,000
		<b>\$ 56,000</b>
<b>2015</b>		
Upgrade 2012 Service Trucks	DMU	\$ 11,000
		<b>\$ 11,000</b>
<b>2016</b>		
Upgrade 2013 Service Truck	DMU	\$ 6,000
Pickup	City	\$ 60,000
Upgrade 2013 Service Van	DMU	\$ 6,500
		<b>\$ 72,500</b>
<b>2017</b>		
Dump Truck*	City	\$ 170,000
Pick-up w/Hooklift	City	\$ 60,000
		<b>\$ 230,000</b>
<b>2018</b>		
Upgrade 2014 Service Trucks	DMU	\$ 27,000
		<b>\$ 27,000</b>
<i>*DMU CIP Replaces Dump Truck in 2020 for \$50,000</i>		

It is a common belief that savings can result from sharing equipment and cooperative capital purchasing. Although that may be the case and certainly a more in depth analysis of each piece of equipment would be in order, upon a review of the data provided by the City and Utility, it does not appear that the savings will be significant, certainly in the short term.

### **Present Working Relationship**

During the course of our interviews we confirmed that there is a strong interconnectivity between the city work crews and the utility work crews. Testimony from the staff indicated that they work well together and partner on projects as needed. The relationship is defined by more informal and casual means, than it is by structure and formal mechanisms. In a small community, work is done more that way than by strict controls or organizational direction. Staff testified that they take calls, reach out when needed and work together as asked. We did not pick up any animosity or clear separation of motives and intentions. The discussion did center on the differences in compensation and benefits, but it did not appear that the two work crews let this impact their relationship. Three lengthy lists of projects and activities were provided

as examples of partnerships. These are indicative of a positive staff-staff relationship. A sample of these includes:

### **City Working with the Utility**

A list of 15 items, including, patching tar, haul away dirt and mud on projects, sharing and loaning equipment, and use of city wash station.

### **Utility Working with the City**

A list of 20 items including, assisting with locates, removing trees, sharing and loaning equipment, set culverts, assist with flood control, and supply man and truck for hauling snow.

### **Joint Projects between the City and Utility**

A list of 12 items including, installing fiber optic lines, replacing sirens, sharing and loaning equipment, assisting in project work, and assisting with questions and concerns about sewer and utility bills.

### **Supporting Notes**

The City Administrator reflected several times during the discussions that one of his main concerns about staffing is not necessarily during routine days, but not having enough personnel during “high-peak” demand. The City crew has high expectations for a new Public Works Director to be a working supervisor who can provide support, direction, coordination and leadership. The City crew has divided their areas of responsibility and specialty into the following general categories. Each crew member works together, but general assignments and accountability is divided into these five areas:

1. Drainage and signs
2. Parks, sweeping, painting (crosswalks)
3. Safety, compost site,
4. Facility maintenance, tree
5. Streets, sewers, jetting, locates

The City and Utility share meeting space and communication equipment to broadcast meetings. Two important areas of analysis that have not been explored in great depth are the relationships between:

- The General Manager and City Administrator
- The City Council and Utility Commission

It is worth noting that during the June 30, July 21 and July 29<sup>th</sup> Sub Committee and joint meeting the City Council members and Utility Commission members did engage in a positive and productive conversation about possible enhancements to their current relationship. In candid observations there was sentiment expressed that the relationship between the City Council and Utility Commission is not as harmonious as it should be.

### **Staffing Analysis**

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The evaluation of staffing levels in the Public Works Department and in the Public Utilities was done by comparing the staffing levels in the City of Delano with those in other Minnesota cities. The other cities were selected in consultation with the City staff and included those who had an electric utility. These comparisons are commonly referred to as “benchmarking”. The benchmarks are intended to provide a comparative analysis to evaluate current staffing levels and to provide a guide for future staffing

decisions. By analyzing the benchmarking data, decision makers can identify if the Public Works Department and Public Utilities operations are staffed at efficient and effective levels enabling you to identify opportunities for improvement. The following cities were used to benchmark Delano's Department of Public Utilities staffing levels:

- Buffalo
- Elk River
- Marshall
- Rochester
- Sauk Center

These cities were selected because their Public Utilities provided both electric and water services. The following cities were used to benchmark Delano's Public Works Department staffing levels:

- East Bethel
- Forest Lake
- Hastings
- Hugo
- Mendota Heights
- New Brighton
- Prior Lake
- Ramsey
- South St. Paul
- Stillwater
- Waconia

### **Qualitative Service**

It is important to understand that each city used for benchmarking has different resources, needs, and service demands which drive their programs, activities, and staffing levels. As a result, not all the cities have the same priorities. Each City Council is uniquely qualified to understand the history, experiences and needs of their citizens. Every year during budget cycles, elected officials and their staff do their best to optimize the “push-pull” of balancing service needs with property taxes. The same is essentially true in the Municipal Utility, but under different pressures and challenges. Consequently, when drawing conclusions from the data it is advisable to factor in what may be different or unique about the City and the Utility, the services, and the level of services provided by these departments. Due to time and cost, this analysis does not outline or define these distinctions, but they are available with further research.

### **Delano Public Utilities Staffing**

The Delano Public Utilities has a compliment of 19 employees. Two employees are seasonal and three are part-time. We did not include the seasonal employees as these employees were not included in the benchmarking data we received from the other cities. We assumed the part-time employees each were equivalent to a 0.5 full-time employee. This resulted in a staffing level of 15.5 full-time-equivalents (F.T.E.s).

The benchmarking was based on the miles of electric and water transmission lines per F.T.E. since the data we had did not enable us to allocate staff time to electric and water separately. Delano Public Utilities maintains 7.5 miles of transmission mains/F.T.E. which was somewhat more than Rochester, Marshall and Sauk Center Public Utilities and less than Elk River and Buffalo Public Utilities. The

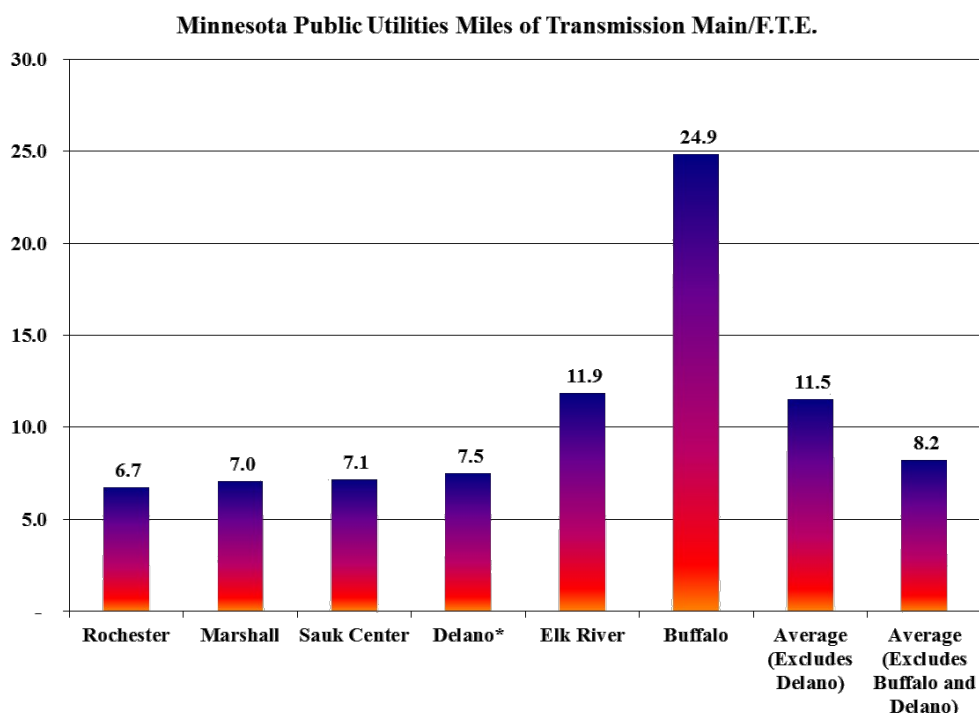
average of the utilities, excluding Delano, was 11.5 miles/F.T.E. which is greater than Delano’s 7.5 miles/F.T.E. However, the average is skewed by the 24.9 miles/F.T.E maintained by Buffalo Public Utilities employees. This amount of transmission main/F.T.E. is unusually high in our experience so we calculated an average that excluded Buffalo and Delano which came out to be 8.2 miles maintained/F.T.E. These benchmark comparisons are shown in the table below and the chart that follows.

**TABLE 3**

City	Miles of Watermain	Miles of Electric Transmission Lines	Miles of Water Plus Electric	F.T.E.	Miles/F.T.E.
Rochester	578.4	787.8	1,366.2	203.0	6.7
Marshall	111.3	163.5	274.8	39.0	7.0
Sauk Center	35.8	44.8	80.6	11.3	7.1
<b>Delano*</b>	<b>51.0</b>	<b>65.0</b>	<b>116.0</b>	<b>15.5</b>	<b>7.5</b>
Elk River	70.0	428.0	498.0	42.0	11.9
Buffalo	98.5	150.0	248.5	10.0	24.9
<b>Average (Excludes Delano)</b>	<b>73.3</b>	<b>170.3</b>	<b>243.6</b>	<b>23.6</b>	<b>11.5</b>
<b>Average (Excludes Buffalo and Delano)</b>	<b>74.1</b>	<b>105.8</b>	<b>180.0</b>	<b>18.9</b>	<b>8.2</b>

\*Excludes seasonal and assumes part-time are 0.5 F.T.E each

**FIGURE 2**



**Conclusion**

It is our opinion the benchmarking data and other studies we have completed shows that the Delano Public Utilities is staffed at a level comparable to other Minnesota municipal public utilities.

**Delano Public Works Department Staffing**

The staffing level needed for the Delano Public Works Department was determined by evaluating the staffing levels of the comparable cities for all but one of the functional areas of the Public Works Department. The staffing levels for functional areas based on comparable cities included:

- Miles of streets maintained
- Miles of sanitary and storm mains maintained
- Acres of parks mowed
- Population/F.T.E for fleet
- Population/F.T.E. for administration

Building maintenance staffing levels were based on information from the International Facility Management Association. The number of F.T.E.s needed for the Public Works Department should be the sum of the number of F.T.E.s determined by these functional areas.

### Staffing Needed for Streets

The staffing for street maintenance varied from 38.80 miles of streets/F.T.E. in Ramsey to 9.33 miles of streets/F.T.E. in New Brighton with an average of 18.61 miles of streets/F.T.E. Based on this average, Delano would need 1.72 F.T.E.s. to maintain its 32 miles of streets (32 miles of streets/18.61 miles of streets/F.T.E. = 1.72 F.T.E.s.). Street maintenance staffing is shown in the table below.

**TABLE 4**

City	Population	F.T.E. Streets	Miles of Streets	Miles of Streets/F.T.E.
Ramsey	23,000	4.50	174.6	38.80
East Bethel	11,600	5.00	148	29.60
Forest Lake	18,500	5.00	130	26.00
Hugo	15,000	5.00	122.43	24.49
Stillwater	18,000	6.00	100.5	16.75
Hastings	22,500	6.25	103.5	16.56
Mendota Heights	11,000	5.00	71	14.20
Prior Lake	26,000	10.00	102	10.20
South St. Paul	20,160	8.00	75.2	9.40
Waconia	10,697	6.00	56.28	9.38
New Brighton	21,456	7.50	70	9.33
<b>Average</b>	<b>17,992</b>	<b>6.20</b>	<b>104.86</b>	<b>18.61</b>
<b>Delano Needed F.T.E</b>	<b>5,559</b>		<b>32</b>	<b>1.72</b>

### Staffing Needed for Sanitary and Storm Sewers

The staffing for sanitary and storm sewer maintenance varied from 76.0 miles of sewer/F.T.E. in Mendota Heights to 3.80 miles of sewers/F.T.E. in East Bethel with an average of 40.82 miles of sewers/F.T.E. Based on this average, Delano would need 1.64 F.T.E.s to maintain its 67 miles of sewers (67 miles of sewers/40.82 miles of sewers/F.T.E. = 1.64 F.T.E.s.). Sewer maintenance staffing is shown in the table below.

**TABLE 5**

City	Population	F.T.E. Sanitary and Storm Sewers	Miles of Sanitary and Storm Sewers	Miles of Sewer/F.T.E.
Mendota Heights	11,000	1.00	76	76.00
Prior Lake	26,000	2.00	107	53.50
Hugo	15,000	1.00	51	51.00
Forest Lake	18,500	2.00	91	45.50
Ramsey	23,000	1.50	63	42.00
Hastings	22,500	2.00	80	40.00
South St. Paul	20,160	2.00	78	39.00
New Brighton	21,456	2.00	77.52	38.76
Stillwater	18,000	3.00	100.5	33.50
Waconia	10,697	2.00	52	26.00
East Bethel	11,600	1.00	3.8	3.80
<b>Average</b>	<b>17,992</b>	<b>1.77</b>	<b>70.89</b>	<b>40.82</b>
<b>Delano Needed F.T.E</b>	<b>5,559</b>		<b>67</b>	<b>1.64</b>

### Staffing Needed for Parks

The staffing for park maintenance varied from 360.0 acres of parks mowed/F.T.E. in East Bethel to 22.22 acres of parks mowed/F.T.E. in New Brighton with an average of 88.29 acres of parks mowed/F.T.E. Based on this average, Delano would need 0.82 F.T.E.s to maintain its 72 acres of parks mowed (72 acres of parks mowed/88.29 acres of parks mowed/F.T.E. = 0.82 F.T.E.s). Park maintenance staffing is shown in the table below.

**TABLE 6**

City	Population	F.T.E. Parks	Acres of Parks Mowed	Acres of Parks Mowed/F.T.E.
East Bethel	11,600	1.00	360	360.00
Forest Lake	18,500	1.00	200	200.00
Ramsey	23,000	4.00	377	94.25
South St. Paul	20,160	3.00	150	50.00
Hugo	15,000	1.00	50	50.00
Prior Lake	26,000	7.00	300	42.86
Mendota Heights	11,000	3.00	100	33.33
Waconia	10,697	2.00	60.46	30.23
New Brighton	21,456	4.50	100	22.22
<b>Average</b>	<b>17,992</b>	<b>3.00</b>	<b>188.61</b>	<b>88.29</b>
<b>Delano Needed F.T.E</b>	<b>5,559</b>		<b>72</b>	<b>0.82</b>

### Staffing Needed for Fleet

The staffing needed for fleet maintenance was estimated based on population because the number of vehicles and equipment in each city's fleet was not readily available. The population/F.T.E fleet determined in this manner varied from 30,000 population/F.T.E in Hastings, to 10,080 population/F.T.E in South St. Paul with an average of 12,485 population/F.T.E. Based on this average, Delano would need 0.45 F.T.E.s to maintain its fleet (5,559 population/12,485 population/F.T.E. = 0.45 F.T.E.s). Fleet maintenance staffing is shown in the table below.

**TABLE 7**

City	Population	F.T.E. Fleet	Population/F.T.E Fleet
Hastings	22,500	0.75	30,000
Forest Lake	18,500	1.00	18,500
Stillwater	18,000	1.00	18,000
Ramsey	23,000	1.50	15,333
Prior Lake	26,000	2.00	13,000
Mendota Heights	11,000	1.00	11,000
New Brighton	21,456	2.00	10,728
Waconia	10,697	1.00	10,697
South St. Paul	20,160	2.00	10,080
<b>Average</b>	<b>17,992</b>	<b>1.11</b>	<b>12,485</b>
<b>Delano Needed F.T.E</b>	<b>5,559</b>		<b>0.45</b>

### Staffing Needed for Building Maintenance

The staffing needed for building maintenance was estimated based on square feet maintained/F.T.E. data from the International Facility Management Association because building maintenance staffing was not readily available for the comparison cities. It is also a source we have used in other similar studies. The International Facilities Management Association indicates that one F.T.E. is needed for each 47,000 square feet of building maintained. The Delano Public Works Department maintains 40,00 square feet of building space which would require 0.85 F.T.E.s by this standard (40,000 square feet/47,000 square feet/F.T.E. = 0.85 F.T.E.s)

### Total Staffing Needs

The total staffing needs for the Public Works Department is then the sum of the staffing needs determined by the individual functional areas. Adding these up, results in a staffing need of 5.98 F.T.E.s as shown in the table below. The department currently has 5.0 F.T.E.s which is less than the staffing need determined by this method. However, that does not necessarily mean the department is understaffed as there was a relatively wide range of staffing levels in the comparable cities in each functional area. In addition, there are a number of other factors like service levels, asset condition, and work load sharing between departments, and others that would affect the needed staffing level. That being said, the Public Works Department does not appear to be overstaffed and will most likely require the addition of staff as the City grows.

**TABLE 8**

Delano Public Works F.T.E. Needed	Average F.T.E.
Streets	1.72
Sewers	1.64
Parks	0.82
Fleet	0.45
Admin	0.51
Building Maintenance	0.85
<b>Total F.T.E Needed</b>	<b>5.98</b>
<b>Delano Current F.T.E.</b>	<b>5.00</b>

### Projected F.T.E

The number of F.T.E.s needed for the Public works Department and the Delano Public Utilities in the future as the City grows was projected based on the population projections in the City's Comprehensive Plan. The Comprehensive Plan provided a range of population in five-year increments up through 2030.

We have used those population ranges as a basis for projecting the range of F.T.E.s likely required for each department. We labeled the lesser population projections for each five-year increment the “Low Estimate” and the greater population estimates as the “High Estimate”.

The 2014 population for the low estimate and the high estimate was first determined by interpolating between the 2010 data and the 2015 projections in the Comprehensive Plan. This resulted in a 2014 low estimate of 5,813 and a 2014 high estimate of 5,957. These were then divided by the current F.T.E.s in each department to determine the 2014 F.T.E.s/ 1,000 population for the low estimate and the 2014 F.T.E.s/1,000 for the high estimate. The number of F.T.E.s in each future 5 year period for the low estimates were then projected by dividing the low estimate population by the 2014 low estimate population/F.T.E. The number of F.T.E.s in each future 5 year period for the high estimates were projected by dividing the high estimate population by the 2014 high estimate population/F.T.E. For Example, the Public Works Department has 5.0 F.T.E in 2014. Dividing the 2014 low estimate of 5,813 people by 5.0 F.T.E results in 1,163 people/F.T.E. ( $5,813 \text{ people} / 5.0 \text{ F.T.E.} = 1,163 \text{ people/F.T.E.}$ ). The 2030 low estimate of population is 7,890 people. Dividing the 2030 low estimate of population by 1,163 people/F.T.E. projects a need for 6.8 F.T.E.s ( $7,890 \text{ people} / 1,163 \text{ people/F.T.E.} = 6.8 \text{ F.T.E.s}$ )



**Conclusion**

The staffing levels projected by this method resulted in a range of 6.8 F.T.E.s to 7.5 F.T.E.s for the Public Works Department and a range of 21.0 F.T.E.s to 23.3 F.T.E.s for the Delano Public Utilities as shown in the table below and the charts on the following page. These staffing level projections assume the current level of services provided by these two departments is satisfactory and that they are neither overstaffed nor understaffed.

**TABLE 9**

Population	2010	2014	2015	2020	2025	2030
Low Estimate	5,464	5,813	5,900	6,430	7,100	7,890
High Estimate	5,464	5,957	6,080	6,900	7,880	8,970
<b>Public Works Department</b>						
2014 F.T.E.		5				
Low Estimate People/F.T.E.		1,163				
High Estimate People/F.T.E.		1,191				
<b>Public Works Department</b>						
		<b>2014</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Projected F.T.E. based on low Estimate		5.0	5.1	5.5	6.1	6.8
Projected F.T.E. based on High Estimate		5.0	5.1	5.8	6.6	7.5
<b>Delano Public Utilities</b>						
2014 F.T.E.		15.5				
Low Estimate People/F.T.E.		375				
High Estimate People/F.T.E.		384				
<b>Delano Public Utilities</b>						
		<b>2014</b>	<b>2015</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Projected F.T.E. based on low Estimate		15.5	15.7	17.1	18.9	21.0
Projected F.T.E. based on High Estimate		15.5	15.8	18.0	20.5	23.3

**FIGURE 3**

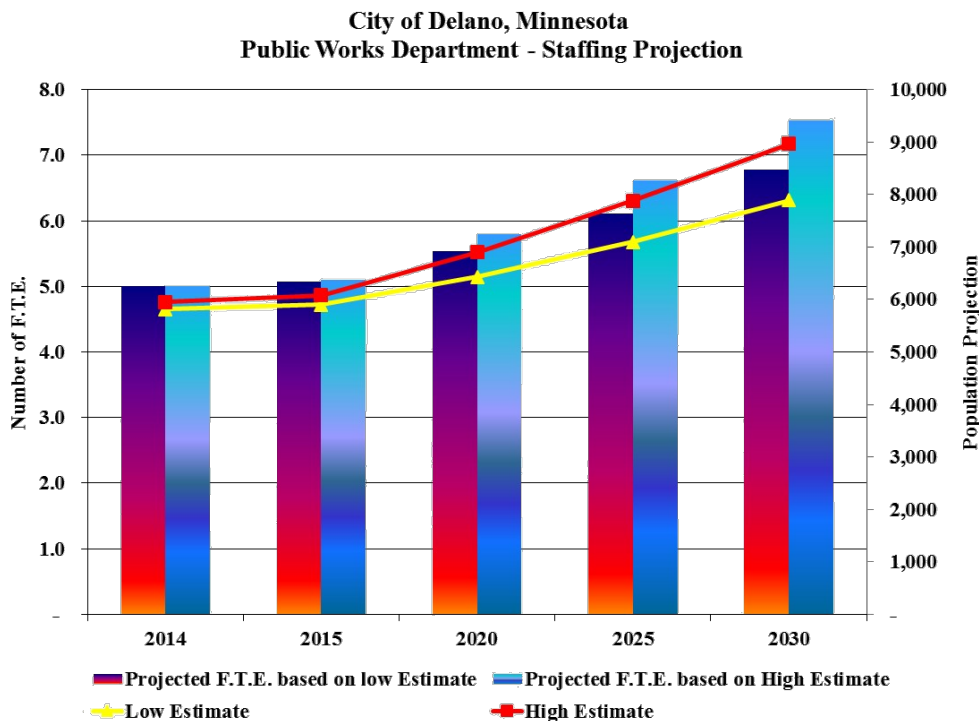
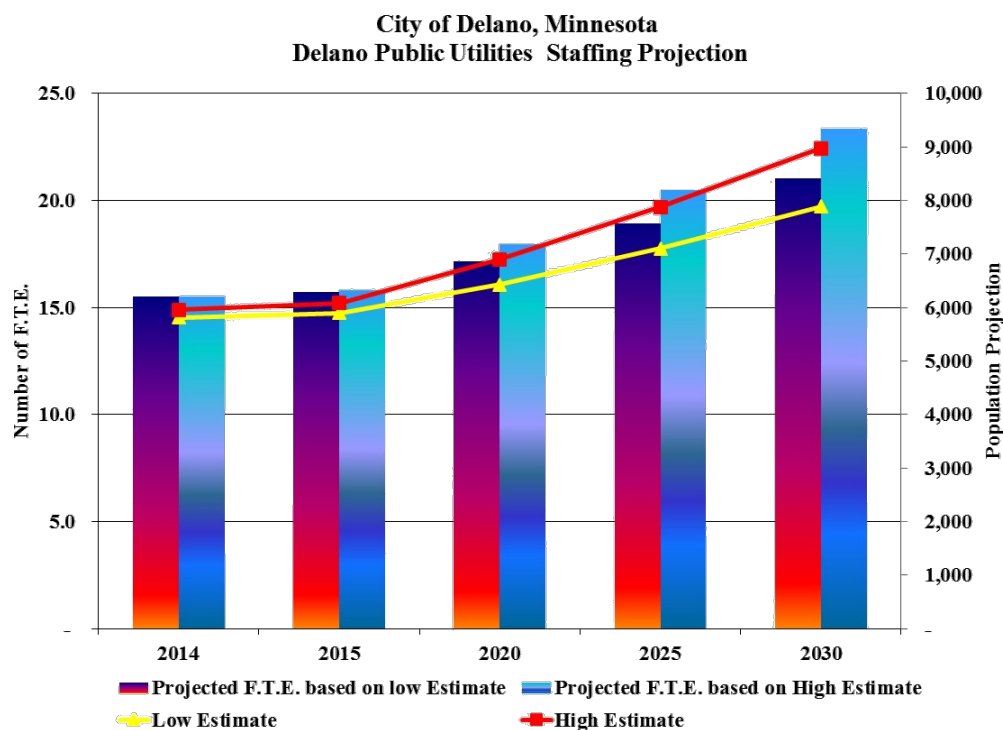


FIGURE 4



## IX. Two Entities

In some Minnesota cities, the municipal electric utility organized itself as a separate or quasi-government agency under the title of “Utility Commission.” In some cases, the water, and perhaps, even the wastewater operations were included under this commission.

Utility commissions were established with appointments made to the commission by the city council. Usually those appointed members would serve for a specified number of terms (set number of years), and are eligible for reappointment. In some cities, members could serve an indefinite number of terms while others would be subject to term limits. Also, some communities required that a member of the city council serve on the utilities commission as a voting member. This was to assure that the city council had an opportunity to express their wishes directly to the Commission through the elected liaison.

While some communities chose to have a separate governing body over the utility, other communities chose to combine the utility under the umbrella of the city government where policy decisions were made by the city council. The public utility, by its very nature, is an enterprise fund of the city. The goal is to provide safe and reliable electric service so that citizens receive quick responses to outages, personal service from dedicated staff and cheaper electric rates because some “profits” are returned to the city’s general fund (or for some other dedicated purpose).

### Reflection

Some Minnesota communities, like Delano, are organized with two separate and independent statutory bodies that must co-exist and partner to provide valuable public services. The fundamental question is how that relationship should be framed? As a matter of policy consideration historical and occasional tensions exist, that are often highlighted or manifested by the differences between the two entities. For

example, consider these four areas of distinction and difference. It is not any coincidence that in small communities where relationships are deep and rooted these differences takes on greater meaning and impact.

### **Two Employers**

The fact is that under the present environment the city has two “public employers” with different governance, different pay scales and benefits, different work rules, different personnel policies and different expectations.<sup>7</sup> They could even be as different to have different visions, missions and value systems (but in this case they do not). In Delano, neither is a very large entity and has relatively modest span of controls in the departments. Even though to the average resident it may all be “one-in-the-same” it is not the case and these two employers do not have to do things the same and often don’t. Communication is another distinction that often promotes competition. “Right, wrong or otherwise”, public utility commissions often are off the public’s radar screen and operate in relative autonomy; whereas the City Council, has different public involvement, expectations and roles. Public Utility Commissions are “apolitical” by design; an elected city council position is “political” in nature.

### **Narrow versus Broader Focus**

This is often reflected in the roles of the City Administrator and General Manager. It is as much inherent in the position and tradition as it is the person or individual. The General Manager is hired to run the operations whether that is electrical or water or both. They often view the Utility as a business and run it that way. A City Administrator is responsible for much broader authority and responsibility and is more comprehensive in his/her thinking about the community and its goals, expectations and future. A City Administrator may view a General Manager as more of a department head overseeing one function of a local government. The same point is true for the Utility Commission which oversees a narrow focus of authority, while the City Council has a broad scope of statutory roles over such services as community development, zoning, police, fire, parks, economic development, etc.

### **Business Plans**

With two separate entities it is critical that communication and planning be strong and consistent as there are work projects that do require ongoing coordination and cooperation – street projects, permitting, easement acquisitions, etc. The sequencing of work flow is an important work attribute. All indications in Delano are that this works well. However, tension can develop in areas such as development and redevelopment. The City has a motivation to create jobs, expand the tax base and promote economic development. They often have to compete in a market that requires incentives and various promotions such as reduction in fees, loosening of regulations and making other developer accommodations. Utilities may share the same goals or dreams for the community, but may not concur with the means or pressures that they may have to participate in the development. Simply put the Utility may view a water main extension as a tangible and clear business decision, while the City may view this extension as an intangible and essential act for its future.

### **Regulatory versus Public Services**

The regulatory requirements within the electrical industry are complex, significant and substantial. No matter what the structure, the skill sets to manage and oversee the regulatory environment are essential. The context of this tension often comes into play during bonding or financing of contracts. The Utility is connected to Central Minnesota Municipal Power Agency (CMMPA) which introduces the potential for

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<sup>7</sup> In Delano the Commission is composed of five members appointed by the City Council for rotating three year terms. The Commission meetings are televised except for periodic work sessions that are held in the Utility building.

greater risk and uncertainty from city officials who are not involved or do not understand the business. Another very common reflection is the difference in the perceived revenues – from rate payers to tax payers. Utility Commissions believe they are essential to protect ratepayers with the assumption that an elected body cannot or will not do the same. There is no proof of this, but for perceptions which are hard to change.<sup>8</sup>

## X. City Government and Utility Commissions

Although this section has been edited, the study author kept the first person account for authenticity of reporting the results of the interviews. We used an experienced public sector administrator who worked for a city with a utility to contact the cities and utility commissions to obtain direct information.

### Utility Commission Governance

Municipal utilities have a long history of being operated by a separate utilities commission. Many of the cities I spoke to indicated that because of the complexity of electric operations and to a certain extent, water operations, a separate commission is a good idea. Their focus is strictly on electric and/or water while the city council must spend its time on a variety of issues i.e., police, fire, emergency services, finance, parks and recreation, public works, etc.

Municipal electric and water systems are enterprise businesses.<sup>9</sup> They are meant to provide specific services but their intent is to have local control, safe and reliable service and low rates so that the general property tax can be kept low. If a commission is strong with knowledgeable members who are informed of issues, the separate commission tends to work better. If the commission is not strong and does not have members who have the knowledge, experience and interest it takes to run the business, it is not going to be as effective.

The general manager of the utility reports directly to the commission. The general manager does participate in department head meetings of the city, may attend city council meetings and can be part of the city team even though the commission operates separately. The actual application of these inclusive practices varies per city and per expectations, culture and tradition.

Financial authority, in most cases, occurs through the city council in the form of issuance of long-term debt, approval of major capital improvements and approval of rate increases. Since the municipal electric utility does not pay property taxes, an “in lieu of taxes payment” is often used. These amounts vary from city to city and are either determined as a flat amount contribution, formula based or a percentage of sales and/or kilowatt hours sold and are usually kept constant from year to year. Such a payment is usually required through city charter, ordinance, partnership agreement or resolution.

Another example of financial interaction between the utility commission and city is that the utility commission will, in some cases, provide grants or low interest loans to entice development into the community or provide monies for energy efficiency programs within business buildings to offset periods

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<sup>8</sup> The study authors hear this often in other city-utility business that we engage in.

<sup>9</sup> An enterprise fund establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Under enterprise accounting, the revenues and expenditures of services are separated into distinct funds with its own financial statements, rather than commingled with the revenues and expenses of all other government activities.

of high demand for electricity. These programs are generally offered on an annual basis and are coordinated with the city's economic development authority through a revolving loan fund.

**Cities contacted with separate utility commissions: Detroit Lakes, Elk River, Marshall, Rochester and Sauk Centre.**

**Detroit Lakes (Population 8,763)**

The municipal utility, which includes electric and water, has been in existence for many years. It is separate from the city government but is under the authority of the city council. Its jurisdiction even goes beyond city boundaries as it services customers with electricity that are not located within the city limits.

There is good communication among utility commission members and the city council. Each commission member is appointed for a three year term and is eligible to serve three consecutive terms. One city council member currently serves on the commission but this is not a requirement of the city's charter. In doing so, the city council member is able to communicate the actions of the commission to the city council on a regular basis.

The general manager reports to the commission but is considered a member of the city's staff, attends department head meetings and city council meetings. Utility operations are considered to be separate. Thus, the utility department and the public works department do not share equipment, personnel or workload with each other. The electric utility purchases wholesale power but also has the ability to generate, if necessary. The utility is responsible for the distribution system. The working relationship between general manager and city administrator is positive.

Although from time to time, individual city council members may bring up the idea of merging the utility operation with the city's general government operations, there has not been a concerted effort to do so. Most feel that the commission does a good job of providing safe, reliable service at a much lower rate than what a private utility can do. There is also a strong feeling that due to the complexity of the utility operation and the other services that the city must provide and manage, there is no reason to consider changing how the utility does business.

**Elk River (Population 23,147)**

Elk River began its utility operation in 1915 with a private family owning and operating the electric system. In 1945, the city of Elk River took over the utility but in 1947, it turned the operation over to a separate utility commission which has been operating it ever since. This was primarily due to the complexity of the operation and the time and effort it took to oversee and manage the operation. The city council believed at that time that although it was under a separate commission, it was still under the control of the council. The reasoning that it is separate today is due to strong leadership at the commission and staff levels with strong support from the city council and the city's administration. The general manager and city administrator have a very good working relationship. The utility also extends service to outside of the city boundaries as a result of its initial operation in 1915.

The city council appoints the commission members for four year terms. Members can serve an indefinite number of terms. The general manager reports to the commission. The utilities operation does share some equipment with the city's public works department. Vehicle maintenance is done by city mechanics on utility vehicles and equipment.

City government trusts the utility commission to provide safe, reliable power at low rates to the community. There is a good relationship between both entities. There have been efforts by past city councils' to suggest looking at the commission and questioning whether this operation should be under the city's direct control. Strong leadership by the commission, its staff, and city administration, has prevented the city from moving in this direction.

### **Marshall (Population 13,169)**

Marshall has had a separate and independent utility operating electric and water for many years. It is doubtful that the commission's existence has ever been challenged by the city council. The Council appoints the commission members for two-four year terms. There is a city council liaison who serves on the commission but is a non-voting member. This member communicates the activities to the city council on a regular basis.

The commission appoints a general manager who is accountable to them. The general manager does not participate in city department head meetings and does not appear before the city council on a regular basis unless there is a specific utility project that he needs to present. The general manager works closely with the director of public works and the general manager also works closely with the city administrator in the administration of the partnership agreement between the city and the utility. The working relationship between the general manager and the city administrator is positive. The relationship between the utilities commission and city council has been strong and positive as well.

The commission has its own personnel policies and it basically functions as an independent body. It is still under city control and must bring requests for the issuance of long-term debt to the city council for approval. The commission also transfers an in lieu of taxes payment to the city's general fund.

Equipment sharing occurs between the utility and the public works department but on a limited basis. There is some staff sharing related to utility billing and information technology between the utility and city.

The electric utility does not generate any power and only purchases and distributes power from wholesale power agencies. Although the community attempts to entice new development, the utilities commission does not provide "discount" or reduced power rates in order to attract new development. They believe it is better to keep the rates the same demonstrating that all businesses and/or property owners are treated the same.

### **Rochester (Population 108,814)**

Rochester Public Utilities (RPU) is quasi-independent. It is a department of the city, with a chartered board appointed by the Mayor and Council. Duties are set out in the Charter. They operate the electric system, water system towers and distribution, and a steam system that serves one customer, Mayo Medical Center. Water main design is typically done by the Public Works Department, but the maintenance and operation of the distribution system is the utility's responsibility. RPU follows the City's personnel policies and hiring practices similar to all other City departments. They receive the same central services from the City as the other departments i.e., Finance, Legal and Human Resources, etc. Due to their size they have their own information technology staff and a larger departmental finance staff. The City Council approves their budget, but typically there are no issues or detailed review of their budget as they have a separate board that is expected to perform that function. One member of the



Council serves on the RPU board for coordination and oversight. There is a good working relationship between the general manager and the city's administration.

The electric and/or water utility is a business and the separation of these businesses from general city government operations makes this the best approach for Rochester.

### **Sauk Centre (Population 4,344)**

Sauk Centre Water, Power and Light has the water, sewer and electric utilities under one umbrella. Sewer was added in the late 1980s. The philosophy behind the separation from the city government is that the utilities are to be operated as a business. The theory is that because it is a business there would be less politics and debate over things such as rate increases. The city council does have the ultimate authority regarding the utilities' operation. The utility cannot issue debt nor can they own any real estate. They do make a transfer in lieu of taxes payment to the city on annual basis. It is called a franchise fee and is based upon the tax capacity rate.

The utility superintendent reports directly to the commission. The superintendent and the city administrator have a very good working relationship and the commission and city council meet quarterly during the year to discuss issues of mutual concern. The utility and public works department do some sharing of equipment and manpower.

There has been some discussion in the past to consider merging the utility with the city government. The rationale for possibly merging focuses on the ability to put all operations under the city's umbrella creating more efficiency among services and an overall cost savings to the city. If the utility were to merge with the city, it would take a vote of the people.

### **City Council Governance – Background**

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Just as there are cities that have utility commissions to operate and manage their electric and/or water operation, there are cities which have these functions under the control of the city council. This model works well for cities who wish to have more control and involvement in utility operations.

The electric and/or water utility are actually a department of the city. The city administrator or manager is ultimately responsible for the day to day operations of the department. There is usually a manager or superintendent who oversees and manages the electrical generation and distribution system. Unlike the cities with utility commissions, the city council does have the ultimate authority over the utility operations. The major difference, however, is that the city council takes responsibility for all of the operation instead of relying on a separate board or commission. The city council continues to have the authority of issuing long term debt, approving budgets, approving major capital improvements, etc. Further, the city council is elected, not appointed, thereby making the utility department more accountable politically to its citizens/customers.

The utility is still a business despite how it is governed. It needs to provide safe, reliable service to its customers as well as keeping utility rates as low as possible. By having the city council responsible for these functions, there is some risk that the time and effort needed to focus on the utility will be taken up by other general governmental matters. However, if the council and staff possess strong leadership, the chance of the department being managed and operated more efficiently is greater. Having control of the utility would certainly bring together all aspects of municipal government and would enable the city council to better strategically plan for its future.

**Cities contacted that operate the electric and/or water utility under the control of the city council:  
Buffalo, Chaska and Litchfield.****Buffalo (Population 15,666)**

Buffalo has had its electric and water departments under city council control for many years. There have not been any attempts to separate them and place them under a utilities commission. The electric utility does make an annual transfer in lieu of taxes to the city's general fund. The city also issues all long-term debt and approves all major capital projects. The utility budget is also a part of the city's overall budget which receives approval by the city council. There is sharing of workload and equipment between the utility department and public works. The utility general manager reports to the city administrator. Both individuals have business backgrounds so they understand the nature of running a business. They are also active in the Minnesota Municipal Power Agency (MMPA), an agency that sells wholesale power to the city for its distribution.

The City of Buffalo has no interest in separating the utility from city council governance. This model works the best for their city and there has not been any interest expressed by the city council to operate differently.

**Chaska (Population 24,211)**

Chaska does not have a separate utilities commission and they have no interest in creating one. The city believes having the electric utility under its control is a huge economic development asset. For example, four data centers have located in Chaska because of local control over the utility and providing low rates to these centers. Chaska believes that local control provides greater reliability and rates charged are much cheaper than what a private utility would offer.

Chaska indicates that much of the complexity of running a utility is taken away by contracting for power supply from a power agency. This agency is a 12 member group of cities that rely on a third party energy contractor, to provide wholesale power to their members at reasonable rates for distribution. Although the city council oversees the utility operation, city administration and the staff of the third party contractor play the most significant role in what occurs within utility operations. Members of this power agency are cities with utility commissions and city council governing bodies.

**Litchfield (Population 6,688)**

For a long time, the utilities operation in Litchfield was under the control of a utilities commission. For several years, the issue of consolidation of the utilities into the city had been surfacing but in 2002, a serious attempt began and it was successful. One of the leading factors that led to this change was that the city council wanted to have monies transferred from the utility to build a new library. The commission didn't believe that this transfer was appropriate. The commission was opposed to this action and tried to stop it from occurring.

In addition, the city council believed that there were major capital improvements that needed to be made to the physical plant of the utility. The city council believed that these improvements were significant enough and should be completed. The utility commission did not have bonding authority and would have to make debt requests to the city council. The utility commission believed that the city council would not approve bonding for these improvements so the commission did not aggressively promote the projects. The city council became proactive and moved these projects forward. They also hired a city



administrator with an energy background who led the changeover from commission to city control. The administrator had the support of the city council and championed the consolidation which received community approval. Although there are still some hard feelings in the city from the merger, they are minimal. It is unlikely that the city would ever return to a utilities commission. As a result of the consolidation, the city was able to reduce the staff of the utility which resulted in cost savings.

### City Council – Utility Commission

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There is an interesting paradox that is often found in the City Council-Utility Commission relationship. The City Council appoints the Utility Commission members, yet the “culture, closeness of the relationship, autonomy, coordination and connection” is a function, in part from history and tradition but also of deliberate intentions. During the June Findings meeting a free-flowing conversation ensued that identified ways to improve the working relationship – more conversations like that are encouraged.

The second paradoxical reflection is that the Utility Commission members, by pure appointment only, are responsible for and designated to oversee an enterprise business with a budget over \$6.7 million. By all measures and experience, this business of delivering electrical and water service is complex, difficult and very technical. It could be argued that this responsibility requires certain minimum qualifications or standards to be considered for appointment, yet in reality, the City Council according to the discussion, is sometimes challenged to find citizens to serve. An appointment to the Commission then can become nothing more than “another appointment to an advisory commission.” Yet, the Utility Commission is anything but an advisory commission.

### Researcher Observations<sup>10</sup>

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From my past experience in managing an electric utility as part of the city government, it does work. It’s probably true that most cities that operate their own utility don’t have the technical expertise at the administration level but they usually have that experience at the electric superintendent level or from outside resources. City administrators have many duties and responsibilities and adding the electric utility to that list can be additional burden. However, realizing cost savings and efficiencies can be worth the extra workload. In the Chaska example, the city administrator is involved in the operation of the utility. However, much of the work is delegated to utility crews and the purchase and/or generation of power is handled by a much larger agency. Having local control of the utility does assure that the city can keep rates low and relieve some of the property tax burden. On the other hand, having a separate utility commission whose focus is just on the utility, takes away the responsibility of a multi-million dollar business. In either model, strong leadership is important to the success of the business. Both models do work; it depends upon the city and its history, culture, traditions, and expectations.

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<sup>10</sup> The researcher used for this study was Ed Shukle, former City Administrator in several municipalities in Minnesota and a long tenured professional administrator.

## XI. Compensation and Benefits

The following tables include information on the office staff and work crews. This is presented for comparison and discussion purposes.

**TABLE 10 – Office Staff**

	<b>Name</b>	<b>Position</b>	<b>Date of Hire</b>	<b>Exempt / Non-Exempt</b>	<b>Rate of Pay</b>	<b>FTE</b>
City	Phil Kern	City Administrator	1/8/2001	Exempt	\$3,975.20 bi-weekly	1.00
City	Brian Bloch	City Finance Director	9/27/2004	Exempt	\$3,051.20 bi-weekly	1.00
City	Jennifer Willems	City Finance Assistant	1/30/2006	Non-exempt	25.23/hr	1.00
City	Scott Dornfeld	Building Official	7/12/2004	Exempt	\$2,816.00 bi-weekly	1.00
City	Paula Bauman	Administrative Asst.	1/29/2001	Non-exempt	\$26.81/hr	1.00
City	Marlene Kittock	City Clerk	7/8/1977	Exempt	\$2,545.60 bi-weekly	1.00
City	Devin Massopust	Management Analyst	6/18/2013	Non-exempt	\$13.00/hr	1.00
City	Bobby Schoen	Admin. Intern	6/2/2014	Non-exempt	\$12.00/hr	1.00
DMU	Hal Becker	General Manager	3/16/1984	Exempt	52.73 per hour	1.00
DMU	Neta Bauman	Accounts Payable	5/13/1996	Non-exempt	27.69 per hour	1.00
DMU	Aimee Dreger	Accounts Receivable	1/12/2009	Non-exempt	26.79 per hour	1.00
DMU	Christopher Hart	Finance Director	10/1/2008	Non-exempt	35.68 per hour	1.00
DMU	Paul Twite	Energy Services Account Manager	4/9/2012	Non-exempt	35.68 per hour	1.00
DMU	Laurie Grimm	Temp - Office Staff	3/20/2006	Non-exempt	17.96 per hour	0.10

*\*The City recently authorized an additional 0.5FTE to assist the building official.*

**TABLE 11 – Office Staff Salary & Benefits**

	<b>Name</b>	<b>Salary</b>	<b>Medical</b>	<b>Dental</b>	<b>Life</b>	<b>Disability</b>	<b>Additional towards retirement</b>	<b>Vacation Accrued per Bi-weekly period</b>	<b>Sick Accrued per Bi-weekly period</b>	<b>Total Compensation</b>
City	Phil Kern	\$103,355.20	\$ 2,400.00	\$ 2,188.08	\$ 382.20	\$ -	\$20,881.20	6.15	3.69	\$ 129,206.68
City	Brian Bloch	\$ 79,331.20	\$ 7,478.00	\$ 729.48	\$ 317.40	\$ -	\$ 2,125.12	4.62	3.69	\$ 89,981.20
City	Jennifer Willems	\$ 52,478.40	\$ 8,439.72	\$ 2,188.08	\$ 22.20	\$ -	\$ -	4.62	3.69	\$ 63,128.40
City	Scott Dornfeld	\$ 73,216.00	\$ 8,609.12	\$ 729.48	\$ 11.40	\$ -	\$ 1,300.00	4.62	3.69	\$ 83,866.00
City	Paula Bauman	\$ 55,764.80	\$ 7,900.00	\$ 729.48	\$ 11.40	\$ -	\$ 2,009.12	5.85	3.69	\$ 66,414.80
City	Marlene Kittock	\$ 66,185.60	\$ 13,332.39	\$ 2,188.08	\$ 11.40	\$ -	\$ -	6.15	3.69	\$ 81,717.47
City	Devin Massopust	\$ 27,040.00	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 27,040.00
City	Bobby Schoen	\$ 24,960.00	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 24,960.00
DMU	Hal Becker	\$109,678.40	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$1,123.32	\$ -	9.23	3.69	\$ 127,963.40
DMU	Neta Bauman	\$ 57,595.20	\$ 15,738.00	\$ 1,018.20	\$ 32.88	\$ 874.44	\$ -	6.15	3.69	\$ 75,258.72
DMU	Aimee Dreger	\$ 55,723.20	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$ 846.36	\$ -	4.62	3.69	\$ 73,731.24
DMU	Christopher Hart	\$ 74,214.40	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$1,126.32	\$ -	4.62	3.69	\$ 92,502.40
DMU	Paul Twite	\$ 74,214.40	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$1,123.32	\$ -	6.15	3.69	\$ 92,499.40
DMU	Laurie Grimm	\$ 1,724.16	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 1,724.16
	<b>Totals</b>	<b>\$855,480.96</b>	<b>\$126,849.23</b>	<b>\$ 15,334.08</b>	<b>\$ 920.40</b>	<b>\$5,093.76</b>				<b>\$ 1,029,993.87</b>

**TABLE 12 – Public Works and Utility**

<b>Entity</b>	<b>Name</b>	<b>Position</b>	<b>Date of Hire</b>	<b>Exempt / Non-Exempt</b>	<b>FTE</b>
City	Tim Schrupp	Streets Foreman	6/1/1999	Non-exempt	1.00
City	Mike Huncha	Public Works Laborer	10/14/1998	Non-exempt	1.00
City	Tim Matter	Public Works Laborer	5/4/2006	Non-exempt	1.00
City	Paul Swearingen	Public Works Laborer	4/26/2010	Non-exempt	1.00
City	Matt Matter	Temp. Public Works Laborer	3/24/2011	Non-exempt	1.00
City	Robert Van Lith	Fire Chief	8/4/1993	Exempt	0.50
City	Robert Van Lith	Public Works Laborer	8/4/1993	Non-exempt	0.50
City	Existing PW Director	???	???	Exempt	1.00
DMU	Matt Coyle	Lineman	3/27/2000	Non-exempt	1.00
DMU	Gerald Domjahn	Laborer	11/9/1995	Non-exempt	1.00
DMU	Dave Graham	Lineman	8/31/2006	Non-exempt	1.00
DMU	Bret (Jim) Greibel	Foreman	9/21/1987	Non-exempt	1.00
DMU	Daniel Hanson	Lineman	3/20/2002	Non-exempt	1.00
DMU	Randy Hausladen	Laborer	6/10/1997	Non-exempt	1.00
DMU	Ardean Kellerhuis	Lineman	5/29/2012	Non-exempt	1.00
DMU	Les Reinhart	Sr Equip Operator	12/17/2001	Non-exempt	1.00
DMU	Ed Williams	Temp - Water Plant Operator	3/1/2009	Non-exempt	0.35
DMU	Mike Olson	Temp - Lineman	6/1/2013	Non-exempt	0.10
DMU	Robert Randall	Temp - Custodial	3/1/2011	Non-exempt	0.35
DMU	Jon Dahl	Temp - Seasonal Help	5/14/2014	Non-exempt	0.50
DMU	Tyler Hanson	Temp - Seasonal Help	5/21/2014	Non-exempt	0.50

**TABLE 13 – Public Works and Utility Salary and Benefits**

Entity	Name	Salary	City/DMU Portion				Disability	Additional towards retirement	Vacation Accrued per Bi-weekly period	Sick Accrued per Bi-weekly period	Total City Compensation
			Medical	Dental	Life						
City	Tim Schrupp	\$ 53,788.80	\$ 9,300.00	\$ 729.48	\$ 11.40	\$ -	\$ 609.12	6.15	3.69	\$ 64,438.80	
City	Mike Huncha	\$ 52,353.60	\$ 9,300.00	\$ 729.48	\$ 11.40	\$ -	\$ 609.12	6.15	3.69	\$ 63,003.60	
City	Tim Matter	\$ 49,358.40	\$ 9,300.00	\$ 729.48	\$ 11.40	\$ -	\$ 609.12	4.62	3.69	\$ 60,008.40	
City	Paul Swearingen	\$ 46,633.60	\$ 10,353.00	\$ -	\$ 297.00	\$ -	\$ -	3.08	3.69	\$ 57,283.60	
City	Matt Matter	\$ 29,120.00	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 29,120.00	
City	Robert Van Lith	\$ 28,579.20	\$ 4,389.00	\$ 364.74	\$ 5.70	\$ -	\$ 565.56	3.08	3.69	\$ 33,904.20	
City	Robert Van Lith	\$ 26,176.80	\$ 4,389.00	\$ 364.74	\$ 5.70	\$ -	\$ 565.56	3.08	3.69	\$ 31,501.80	
City	Existing PW Director	\$ 72,612.80	\$ 9,909.12	\$ 729.48	\$ 11.40	\$ -	\$ -	3.08	3.69	\$ 83,262.80	
DMU	Matt Coyle	\$ 73,985.60	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$ 1,123.32	\$ -	6.15	3.69	\$ 92,270.60	
DMU	Gerald Domjahn	\$ 53,164.80	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$ 806.76	\$ -	6.15	3.69	\$ 71,133.24	
DMU	Dave Graham	\$ 73,985.60	\$ 15,738.00	\$ 1,018.20	\$ 32.88	\$ 1,123.32	\$ -	4.62	3.69	\$ 91,898.00	
DMU	Bret (Jim) Greibel	\$ 79,352.00	\$ 15,738.00	\$ 1,018.20	\$ 32.88	\$ 1,180.32	\$ -	6.15	3.69	\$ 97,321.40	
DMU	Daniel Hanson	\$ 73,985.60	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$ 1,123.32	\$ -	4.62	3.69	\$ 92,270.60	
DMU	Randy Hausladen	\$ 53,164.80	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$ 806.76	\$ -	6.15	3.69	\$ 71,133.24	
DMU	Ardean Kellerhuis	\$ 73,985.60	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$ 1,123.32	\$ -	3.08	3.69	\$ 92,270.60	
DMU	Les Reinhart	\$ 73,985.60	\$ 15,738.00	\$ 1,390.80	\$ 32.88	\$ 1,123.32	\$ -	4.62	3.69	\$ 92,270.60	
DMU	Ed Williams	\$ 14,784.00	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 14,784.00	
DMU	Mike Olson	\$ 8,870.40	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 8,870.40	
DMU	Robert Randall	\$ 8,866.00	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 8,866.00	
DMU	Jon Dahl	\$ 8,320.00	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 8,320.00	
DMU	Tyler Hanson	\$ 8,320.00	\$ -	\$ -	\$ -	\$ -	\$ -	-	-	\$ 8,320.00	
	<b>Totals</b>	<b>\$ 963,393.20</b>	<b>\$182,844.12</b>	<b>\$ 14,028.60</b>	<b>\$ 617.04</b>	<b>\$ 8,410.44</b>				<b>\$ 1,172,251.88</b>	

The following series of statements summarizes a few observations about the distinction and difference in compensation between the City and the Utility.

- Salaries of City Public Works Laborers are lower than those of Utility Laborers.
- Salary of the existing Public Works Director position is approximately 35% lower than that of the Utility General Manager (assuming the position stays the same).
- City provides \$10,650 to each employee to pay for insurance premiums; if any extra it is additional compensation towards retirement.
- Utility provides benefits valued between \$17,664 and \$18,285 providing significantly higher medical and dental premium coverage.
- Utility provides disability insurance; City does not.

- City Finance Director is Exempt; Utility Finance Director is Non-Exempt.
- Vacation offered between the two entities ranges from two weeks to six weeks annually, assumedly based on tenure.
- Sick leave accrual rate the same for all City and Utility full-time employees.

## Compensation and Benefits

One of the “issues” that was noted in the interviews and confirmed in the data is the difference in compensation practices from the Utility to the City. According to Ann Antonsen, Springsted compensation expert, that is a common practice in the marketplace.<sup>11</sup> However, for the difference to be a real issue it presumes an inequity such that the functions, job duties, position requirements, qualifications and work conditions of the positions are the same. In all likelihood that is not the case. For study purposes we want to recognize the distinction, but not offer an opinion about what an outcome may be. In this case and it is clear, it would be advisable if a merger would proceed that a compensation and classification study needs to be done to “equalize the system and point each position” in a new compensation plan. This step is necessary in order to produce a fair, equitable and understandable compensation structure. If a merger would take place and this not to occur, then lingering questions and morale issues would persist.

## XII. Legal Brief

The following information was provided by Mark Johnson. This section is unedited.

The City of Delano (“City”) established the City Water, Light and Power Commission (the “Commission”) pursuant to the provisions of Minnesota Statutes sections 412.331 through 412.391. Delano Code § 206.01, subd. 1. The Commission has “full jurisdiction and control over the City-owned water, light, power and gas system, including the water, light, power, and gas plant, and all apparatus and materials used in operating said plant. *Id.*, subd. 2. Further, the Commission has “the authority to maintain the water, light, power and gas plant and system, and to set rates for usage of water, light, power, and gas.” *Id.*

Under Minnesota law, the Commission is a “public utilities commission,” the establishment of which is expressly authorized by statute. Minn. Stat. § 412.331 (2014). Minnesota Statutes section 412.391 prescribes the procedure by which a city council may abolish the Commission or transfer its jurisdiction to the council. Minn. Stat. § 412.391, subd. 1 (2014).

To abolish the Commission, the Delano City Council may act on its own initiative or upon a petition signed by voters equal in number to at least 15% of the electors voting in the last previous city election. Minn. Stat. § 412.391, subd. 2. The abolishment may only be accomplished through the use of a ballot question; upon receipt of a sufficient petition, the Council *must* put the question on the ballot. *See id.* The ballot question must state substantially as follows: “Shall the public utilities commission be abolished?” *Id.*

The same process applies to transfer the jurisdiction of the Commission to the Council, with the ballot question stated substantially as follows: “Shall jurisdiction over [the Commission] be transferred from the public utilities commission to the council?” Minn. Stat. § 412.391, subd. 3. This provision allows for the

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<sup>11</sup> The Utility also completed a salary comparison in 2013 of other Utilities. There was no accompanying analysis with the spreadsheet.

transfer of jurisdiction from the Commission “over any one or more of the utilities previously placed under its jurisdiction.” *Id.*

To effectuate the abolition of the Commission or the transfer of its jurisdiction to the Council, the pertinent ballot question must be answered in the affirmative by a majority of the votes cast in the election. *Id.*, subd. 4. If passed, the abolition or transfer is effective 30 days after the election. *Id.* As with any special election or ballot question, the City must comply with all statutory requirements for special elections, such as those addressing the form of the ballot and notice to the public. *See* Minn. Stat. §§ 205.01–205.84 (2014).

The statutes contain no guidance as to the practical consequences of a transfer of jurisdiction from the Commission to the Council, such as the effect on current Commission employees. As with other City functions, however, the Council presumably has the authority to either retain or terminate such employees. *See* Minn. Stat. § 412.111 (2014) (stating that a city may “appoint officers, employees, and agents for the city as deemed necessary for the proper management and operation of city affairs”). Further, the City also has the broad authority to “make all necessary rules and regulations for the protection, maintenance, operation, extension, and improvement [of a public utility] and for the sale of its utility products.” Minn. Stat. § 412.321, subd. 1 (2014).

### XIII. Catalysts for Organizational Change

In practice, organizational leaders design or redesign their structures to increase coordination and integration of services, to combine similar functions, and/or to alter the present span-of-control environment. Cost savings are often a desired outcome, but experience has shown that this should not be the sole determinant or consideration. It is also important to note that in many cases, there is an up-front investment of resources required to create or change a structure. As each policy body contemplates its options, these considerations – and more – should be included in your thoughts.

In making your decisions, consider whether the consolidation will accomplish the following:

- Improve integration and coordination of work in units that share functional areas.
- Rectify situations where span of control is unequal or inconsistent.
- Provide focus on community, organizational and strategic issues.
- Repair existing structures which do not meet current expectations, standards or trends.
- Enhance the level of organizational consistency in policy, operations and culture.

Similarly, as you seek to work together, there are five considerations to avoid or be cautious of:

- Reorganize to work around current personalities.
- Reorganize out of convenience, as opposed to logic and anticipated outcomes.
- Reorganize around historical conflicts or problems.
- Reorganize to consolidate control and power (or to take it away).
- Reorganize believing that restructuring by itself will fix organizational issues.

Catalysts to changing structures often come in several forms: a change in personnel (generally when a top administrator leaves or retires); a facility/space change (a new or renovated building); a change in policy from the governing boards; and/or a change in client service philosophy (a city seeks to gain efficiencies through integration and improved client coordination and access to services).

It is not uncommon for local governments to have several motivations at work at the same time and that is certainly the case in this study.

## XIV. Policy Options

There are three primary options for consideration:

- Retain your current business model (status quo)
  - This can be expanded with identified projects and activities, but not in any formal, policy driven or organized manner.
- Retain your current organizations, but develop a more formal relationship and partnership
  - This may be accomplished in a number of ways including a joint powers agreement, contracts, memorandums of understanding, etc.
- Initiate steps to combine the Utility and City

## XV. Policy Option – Discussion

The three policy options are restated with pros and cons for each. Note the pros and cons are identified as a starting point. The list is not meant to be exhaustive, but a place to begin discussions. Note: the listing of ideas is not in any order of priority or importance. Another source for possible pros and cons can be found in the SWOT summary on pages eight and nine.

### OPTION 1 -- Retain your current business model

Option number one is the status quo option. Although the City and Utility do a good job of partnering and cooperating, there is no state mandate, law or directive that requires you to do anything more than what you already have in place.

#### **Pros:**

- The relationship is good and should continue to operate as is.
- You can spend time on other important city and utility business.
- The Public Works Director position can be posted and hired.

#### **Cons:**

- Missing an opportunity to do more.
- Would not meet the vision, mission and values principles of the City or Utility.
- Does not provide optimal service to the ratepayers or taxpayers.

This list could be expanded, but from the information in this study, it is advisable that this option not be the top priority.



## OPTION 2 – Retain your current organizations, but develop a more formal relationship and partnership

This step would involve the City Council, Utility Commission, City Administrator and General Manager working together to formalize and organize a new relationship and partnership.

### **Pros:**

- The relationship can be determined on a “project-by-project” basis.
- This is a more simplified approach than Option 3.
- You have many areas that you can explore, including but not limited to:
  - Review priorities within the Comprehensive Plan
  - Create internal process improvement teams with city and utility staff
  - Develop a joint strategic plan
  - Schedule regular meetings with the Utility Commission and City Council
  - Plan and coordinate joint training and cross training
  - Plan and coordinate infrastructure improvement projects
  - Plan and coordinate capital improvement processes and purchases
  - Develop system integration and common technology plans
  - Enhance joint communications and websites
  - Integrate personnel into various and existing “team” meetings
  - Develop a joint succession plan for staff retention and development
  - Seek to combine operations to obtain savings
- The study Sub-Committee can be used to explore and develop ideas.
- Two entities allows for independent bookkeeping and accounting.
- You do not have to invest the time and expense of an election that has an uncertain outcome.
- A contested election could create animosity within the community.
- With creativity and willingness you can make significant changes to your systems, processes, structure and culture without having to merge.
- There are no unions to negotiate or bargain with.
- Could improve resources available to respond to an emergency or to just deal with the work that needs to be done.
- Maintains public utility commission as a non-elected governing body removing the perception of politics from rate making decisions.

### **Cons:**

- There is no guarantee that the two entities will make improvements in the relationship. This option relies entirely on the volunteer cooperation of two entities and the leadership within the City and Utility.
- If City or Utility priorities change and/or if leaders change through election or appointment the interest in this policy objective may change or be altered.
- To change historical relationships and cultures takes time and effort; there are very few quick and easy fixes.
- Could carry forward any existing inefficiencies or other undesirable practices since there will still be two entities and departments.
- Loss of potential administrative cost savings.
- Maintains any pay and benefit differentials between departments.

### OPTION 3 -- Initiate steps to combine the Utility with the City

This step would involve the determination to hold an election to seek voter approval to combine the City and the Utility.

#### **Pros:**

- Enhance customer service by creating a single line of accountability through a one-stop shop for public work and public utilities services and possibly for finance services.
- Maximize the available resources to respond to an emergency or to just deal with the work that needs to be done by having one manager assigning staff to fill current needs.
- A merger will ensure that the vision, mission, goals, objectives and business plans of both entities are aligned.
- A merged entity will provide the opportunity to increase the redundancy and reliability in duties and responsibilities.
- Creates an economy of scale in terms of acquiring and use of equipment, supplies, technology, and professional services.
- A successful outcome will memorialize the relationship forever.
- Depending upon which structure is pursued the short term savings to combine the two entities could result in a reduction of two administrative personnel. The estimated savings will be a function of how the new combined entity is staffed and structured.
- There are possible more savings in the finance and operations area that could be realized with time and further study.
- The organizational foundations are closely aligned which should make a merger easier.
- There are no unions to negotiate or bargain with.
- The two entity scenario as identified in the report will no longer exist.
- Eliminates duplicative efforts in all aspects of operations from management to accounting to operations.
- Improves coordination of infrastructure improvement projects.
- Create consistency in policies for affected employees.
- Creates the opportunity to more broadly train staff.

#### **Cons:**

- A merger will require a strong organizational change process and commitment. The time and effort for a small community and small staff may take away work and commitments from other city and utility priorities.
- If the election is not successful and if the opposing sides become adversarial, what does that mean for your future relationships or opportunities that exist in Option 2?
- Conventional wisdom suggests that merging public agencies comes with up-front costs; the up-front costs have yet to be determined and need further consideration.
- You will have added costs for the election (if run during a general election that may be nominal), but none-the-less there will be miscellaneous staff time and expenses.
- Potential loss of citizen participation if Public Utilities Commission is eliminated (assuming no other advisory commission is created.)
- Potential for more “political based” decision making especially as it relates to rates and charges.
- Need to reconcile compensation, seniority and other personnel issues.
- Although purely a local decision, merging a City and Utility is not a common occurrence in Minnesota.

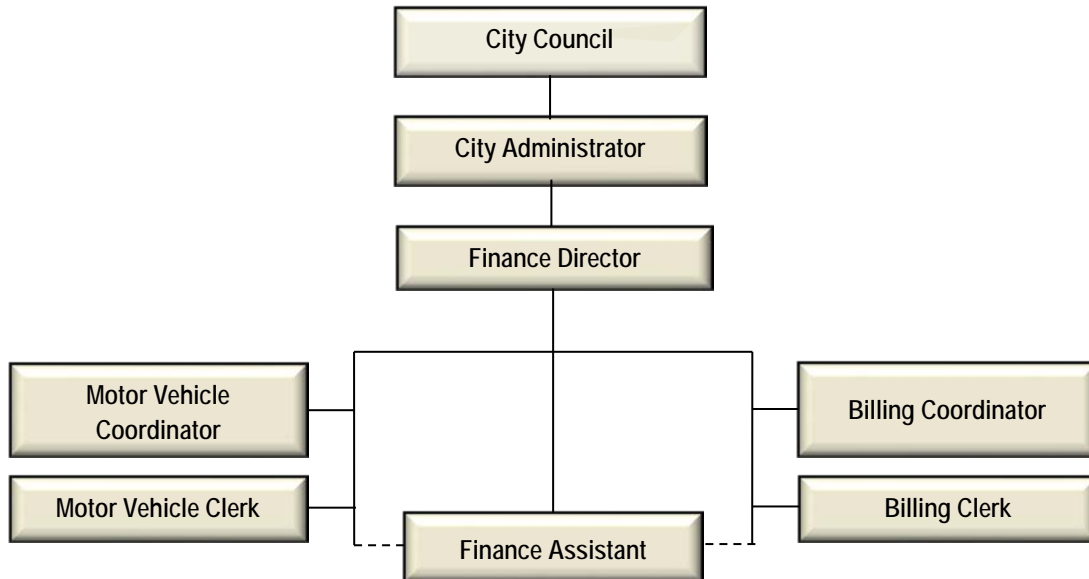
## XVI. Staffing Concepts

We want to provide you with several ideas on what a combined Utility and City function may look like. These structures are for illustration and discussion purposes only and require review and consideration. They are not mutually exclusive, meaning the concepts could be combined. There may be other ideas that surface in discussions. A brief discussion occurred on the diagrams at the July 29 joint meeting.

As noted in the original Sub Committee meeting, Springsted's concern should not be on the implementation details, but on presenting ideas and suggestions. A second step for the City would be to "address the details and tackle governance as it relates to implementation."

## City of Delano

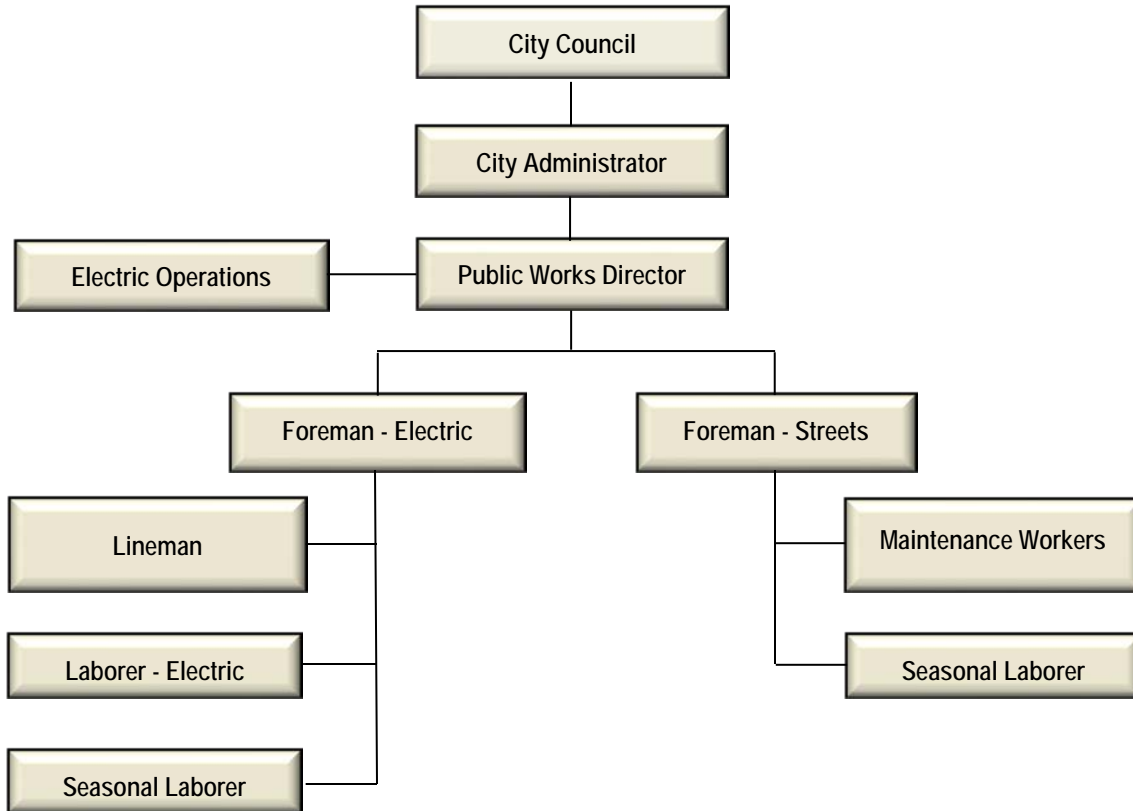
### Option A - Finance



#### ASSUMPTIONS

1. There is duplication and overlap with the Finance Director and Office Manager positions
2. The two distinct functions are integrated with the Finance Assistant role supporting all financial operations
3. Cross training would occur in the department.
4. The Utility part-time office help could be covered by other city personnel
5. System integration will be a capital and operational priority
6. One counter "one-stop shop" would be a long term goal

## City of Delano Option A - Public Works

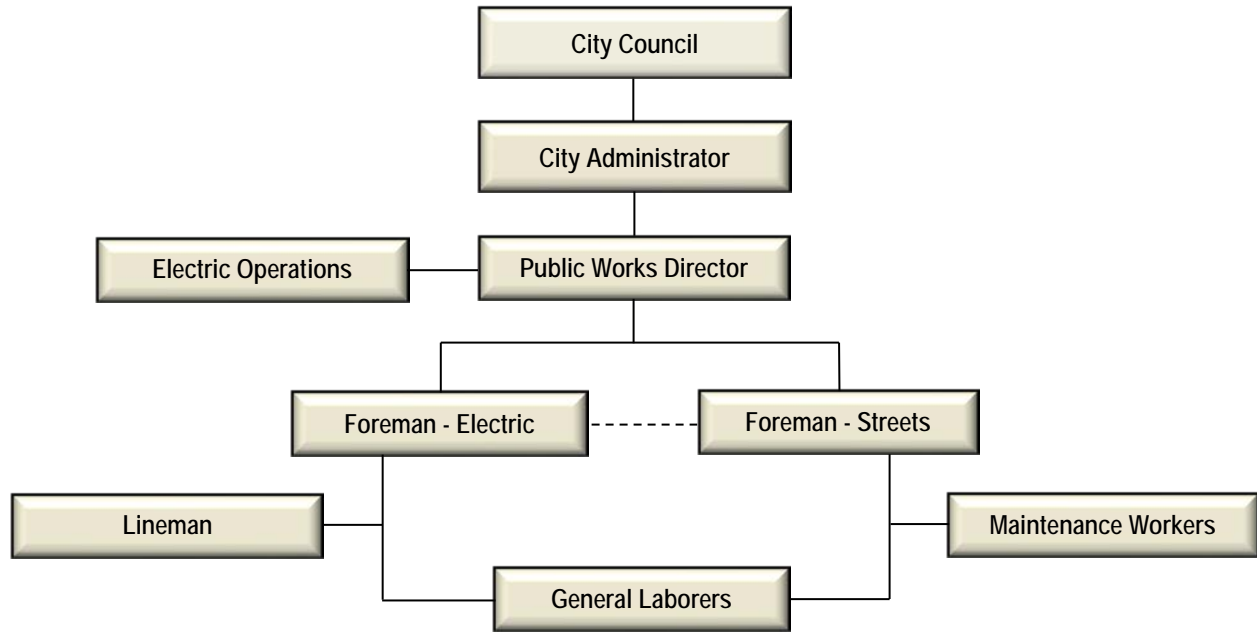


### ASSUMPTIONS

1. The Public Works Director will have a strong electrical background (external)
2. An Electric Operations position will handle day to day electrical work (internal)
3. Foreman are working supervisors
4. Foreman will coordinate and schedule work between functions
5. The staffing of the water treatment plant will not change
6. The main work of each function will be divided along the same lines today
7. Laborers are distinct due to training and overlap in timing of use

## City of Delano

### Option B - Public Works



#### ASSUMPTIONS

1. The Public Works Director will have operating knowledge of electrical work (external)
2. An Electrical Operations position will handle day to day electrical work (internal)
3. Foreman are working supervisors
4. Foreman will coordinate and schedule work between functions
5. The staffing of the water treatment plant will not change
6. The main work of each function will be divided along the same lines today
7. General Laborers are shared and they overlap functions

## XVII. Decision Analysis

The community of Delano must ask itself what is the status of the relationship between the utility commission and city council? The policy question that persists is how can each work together to accomplish their collective mission and vision and in what manner? Is consolidation the real answer or are the issues really about building better relationships? Is better collaboration on the delivery of services needed? How can better communication between the two entities be achieved? These are questions that should be addressed in the discussion before considering consolidation<sup>12</sup>.

The decision to change delivery systems is driven by policy-makers – primarily and ultimately elected officials. Such an act is a significant policy decision and therefore comes down to the sum difference of the competing values of decision-makers. It is important to note that staff can inform the decision but their preferences should not drive the decision. We also learned in our study that there is no real guidance or preference in the marketplace – each city (and utility) is unique and distinct. What works in one may not work in another. So, Delano does have choices.

What goes into a decision to change delivery systems? The typical values are stakeholder opinions, political support, governance, financial, program effectiveness, outcomes, and quality of services. We offer a series of suggestions and ideas for your consideration.

**Yes or No:** Do key decision makers agree that there is an organizational problem(s) that need to be fixed through a systems change OR is this simply an opportunity to improve the system over time in significant ways? What else can be done to accomplish your objective?

**Yes or No:** Does this moment appear to represent an "open policy window"? This means that key decision makers appear to support a systems change; there is a consensus for change; and there are critical events that may drive a change (see catalysts above).

**Yes or No:** Is remaining the same, or considering a change flow with the movement of historical changes in consistent with other entities? What is the practice and experience of your peers?

**Yes or No:** Do we have the energy, passion and patience needed to consolidate two entities? Do we have the knowledge to ensure that the organizations merge not only in name, but in culture?

**Yes or No:** Can I present a convincing support of my decision to the electorate and key stakeholders?

**Yes or No:** Is the value for the dollar in terms of efficiency, effectiveness, quality and governance, worth the investment it will take? Do the benefits outweigh the costs in the short term and the long term? What will be the impact of changing or not changing delivery systems be 10 years from now? Would we have a more robust set of services under another model?

**Yes or No:** Are there issues and problems that can result if the different entities do not have aligned mission, vision, and goals? If so, how do the organizational structures play into the alignment and what is necessary to make sure both entities are moving in the same direction at all times?

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<sup>12</sup> MMUA Executive Director Jack Kegel pointed out that in his experience, "there always seems to be something that isn't right; these consolidation conversations typically have underlying motives that are driving them."

**Yes or No:** From an operational perspective, is there acceptable ability to be flexible with resources as community needs and expectations change and evolve?