

**City Council  
Agenda Item 13.A  
Meeting of December 8, 2025**



**Title:** 2026 utility rates and related items

**Report from:** Darin Nelson, Finance Director

**Submitted Through:** Will Manchester, P.E., Public Works Director  
Julie Wischnack, FAICP, Community Development Director  
Erik Nilsson, City Attorney  
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**Presenter:** Darin Nelson, Finance Director

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**Action Requested:** Public Hearing

**Form of Action:** Resolution

**Votes needed:** 4 votes

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**Summary Statement**

Annually the city council reviews and sets the rates for various utilities and utility related items. The proposed rates and rate increases are vetted through various sources including rate studies, indexes and investment rates. Enacting these new rates ensures utility enterprises will have sufficient funding to support operating, capital and debt needs. New rates would become effective with bills issued January 1, 2026, and thereafter.

**Recommended Action**

Motion to hold the public hearing and adopt the resolutions to enact various utility rates and set the deferred interest rate.

**Strategic Plan Relatability**

Infrastructure & Asset Management

Providing necessary funding for utilities aids in achieving the desired outcome of improving the reliability and efficiency of the utility systems.

**Financial Consideration**

Yes

The proposed 2026 utility rates are built into the proposed 2026 budget for the various enterprise funds.

**Background**

The City of Minnetonka has long held a policy of making decisions with the long-term in mind. Each year, the staff and council analyze the operating and infrastructure needs of the city's water, sewer, recycling and stormwater utility enterprises during its development of the Capital Improvements Program (CIP), which includes estimated costs and revenues for at least the future five years. The first year of these five-year enterprise plans is codified in the next year's budget, over which the council deliberates

during several meetings in the summer and fall and then adopts the final budget in December. Any changes in utility user rates and fees needed to enact the budget are further discussed at a public hearing prior to their specific adoption in December to become effective for billing the following year.

### **2026 Municipal Water and Sanitary Sewer Rates**

At the Oct. 27, 2025, council study session, the council reviewed both the citywide [Asset Management Renewal and Replacement Plan](#) and the related [Utility Rates Study](#). The asset management plan indicated a steep spike in infrastructure needs during the decade of 2040. This spike is a direct result of substantial infrastructure being installed throughout the city during the 1970s, with a vast majority of these assets needing replacement at or around the same time.

Paying for the replacement of water and sewer utility assets has historically been done through a combination of current and future users, which is often referred to as pay-as-you-go and pay-as-you-use financing. The latter is typically funded through debt financing, which allows current projects to be paid back through annual principal and interest payments, typically over the course of 20 years. Current and future utility rates must be sufficient to cover this debt service, along with existing operations and other capital outlays that are financed with cash on hand.

The city contracted with AE2S to perform the rate study, in part because they also conducted the asset management plan. AE2S was able to leverage this plan to forecast rate impacts in conjunction with future capital needs.

The city's last significant rate restructure occurred about a decade ago, aligning with a prior utility infrastructure assessment that focused mainly on vertical utility infrastructure, such as water towers and treatment plants. This current assessment focuses on all city assets, including both vertical and horizontal utilities (water and sewer lateral pipes).

AE2S and staff propose modifying the existing infrastructure fee. Staff receive many calls asking about the infrastructure fee and its quarterly cost, which is currently \$79.29. In theory, the infrastructure fee should cover a portion of the annual capital outlay, meet debt service needs, and provide a consistent revenue stream for the water & sewer fund. As noted earlier, the city's investment in utility infrastructure is significant, so ensuring a known revenue stream and that utility users contribute proportionally is essential. The recommendation is to split the current infrastructure fee into separate water and sewer infrastructure fees, providing clarity to customers and ensuring a steady and predictable revenue stream.

In addition to modifying the infrastructure fee, staff is also recommending reducing the city's tier structure from four tiers to three, which will simplify the bill for customers and continue encouraging conservation. In addition to eliminating a tier, the volume within the tiers is also proposed to change. The average water usage per household has decreased over the last 20 years due to the adoption of more efficient appliances and other conservation efforts by users. The average water usage for a home with 3-4 occupants is now closer to 5,000 gallons of water per month, versus the 6,000 gallons from years ago. Residential tiers would now be staggered at 15,000-gallon increments (5,000 gallons per month for 3 months), versus the current Tier 1 threshold of 18,000 gallons.

The rate outlook for future years stabilizes after 2026 and is typically in the 3 to 5 percent range for the next four years.

### **2026 Stormwater Fees**

AE2S was also contracted to review the storm water utility rates. This utility has been in place since 2003 and has never undergone a formal rate study. With the ever-increasing costs of storm water infrastructure and regulations impacting this utility, ensuring sufficient funding is also critical for this fund.

In general, AE2S's analysis indicated that the city's storm water rate structure is deemed adequate and provides the necessary resources for operations and capital needs. Capital needs are expected to

increase in the future, and rate increases will need to be adjusted upward to cover these rising costs. At some point, the city will need to consider storm water bonds to pay for some of these long-term infrastructure projects. Unlike the water and sewer fund, the storm water fund has never issued debt. The storm water infrastructure is very similar to the water and sewer infrastructure in that the underground utilities have a life expectancy of several decades, and both current and future users should share the responsibility for replacement. Incorporating some pay-as-you-use financing would provide marginal rate relief to current users of the system, who have been bearing all the costs since the inception of the storm water fund.

Staff is recommending a three percent increase in storm water fees for 2026, which mirrors the recommendation by AE2S.

### **2026 Environmental Recycling Fees**

The city entered into a three-year extension with Republic Services last year to provide both traditional and organic recycling services to all single-household residents. The organic recycling fee is based on a sliding scale, depending on the number of active participants. Initially, the city started in the lowest tier with 10 percent or less resident participation, which amounted to \$3.10 per month per household. The agreement called for increases in the organic rate as various participation thresholds were met. Since the organized organic collection started earlier this year, the city's participation percentage has climbed two tiers, and we are now in the 15-20 percent participation range at a fee of \$4.10 per month per household, with the expectation that we will be jumping to the next tier in the near future. However, residents are still being charged the initial \$3.10 per month, which means the city is losing \$1.00 per household per month since the second jump in participation percentages.

Staff is recommending the 2026 recycling charge for traditional and organic recycling be increased to \$12.90 per month which includes, the Republic Services contract increase of 4.6 percent, the assumption the city will reach the next organic recycling tier (20 to 25 percent) in the near future, and the costs to operate the leaf and brush drop off site including other special recycling events. This new rate represents an increase of \$2.09 per month or \$6.27 per quarter. However, residents are likely still paying less for organic recycling than if they were still contracting with their private hauler.

### **Municipal Water and Sanitary Sewer Connection Fees**

City Council Policy 12.4, Sanitary Sewer and Water Connection Fees, directs the city's Residential Equivalent Charge (REC) to be indexed for annual inflationary changes per the "Engineering News Record." The REC is used as a multiplier against the Metropolitan Council established units of SAC (sewer access charge) in determining city water and sewer connections fees.

Per the policy, the 2026 water REC should be increased \$326 to \$2,473 as the current construction index for Minneapolis indicates a 15.2 percent increase from November 2024 to November 2025. In addition, the 2026 sewer REC should increase \$184 to \$1,393. Last year, the city adopted a 3.0 percent rate increase for 2025 fees.

Staff will continue to examine the revenues and costs associated with the city's REC charges prior to the annual rate adjustment each year to ensure the current inflationary benchmark is appropriate.

### **SAC/REC Deferral Program**

On May 22, 2017, the city council approved an agreement with the Metropolitan Council regarding the establishment of a program for deferral of Sewer Access Charges (SAC – Met Council) and Residential Equivalency Charges (REC – city) and approved a resolution to implement the program by amending Council Policy 12.4, Sanitary Sewer and Water Connection Fees, and adding Council Policy 12.10, SAC/REC Payment Deferral Program. On June 12, 2017, the city council adopted an ordinance to implement the SAC/REC deferral program and adopted a resolution establishing interest rates on deferrals.

Each year, the city council must establish the interest rate for the program and must amend the interest rate by resolution. Staff is proposing reducing the interest rate from 3.0 percent to 2.88 percent for 2026, which is based upon the current ten-year composite municipal AAA bond rate at the time of annual enactment.

**Residential Impact**

The impacts of the utility increases (water, sewer, storm and recycling) depend upon a household's water usage. Low water users consuming 9,000 gallons per quarter will see an overall increase of \$29.64 per quarter. Heavier or more average users consuming 15,000 gallons per quarter will see an increase of \$34.56 per quarter.

Staff is preparing an in-depth article for the January Minnetonka Memo that will provide detailed information on the billing format changes and additional insight into the city's utility infrastructure needs.

**ATTACHMENTS:**

[Resolution - water and sanitary sewer rates](#)

[Resolution - stormwater fees](#)

[Resolution - environmental recycling fees](#)

[Resolution - water and sanitary sewer connection fees](#)

[Resolution - SAC and REC deferral interest rate](#)