TRILOGY CONSULTING, LLC
MUNICIPAL & UTILITY ADVISORS

TO: City of La Crosse

FROM: Trilogy Consulting, LLC

DATE: December 1, 2025

RE: Proposal to construct a municipal water supply and distribution system in the Town of Campbell

Introduction

The City of La Crosse retained Trilogy Consulting to work with City staff to review the financial implications of the proposed Town of Campbell water supply and distribution system in relation to its petition for incorporation. This memo summarizes our review and findings.

Our analysis evaluated the revenue requirements and customer charges for a potential Town of Campbell water utility using standard ratemaking practices used by the Public Service Commission of Wisconsin (PSC). It also evaluated the potential revenue sources, other than user charges, that the Town claims will provide funding for the water system.

Revenue requirements and customer charges were evaluated based on three alternative cost estimates and funding plans:

1. Engineering and operation and maintenance cost estimates and estimates of grant funding provided by the Town's engineering consultant, Davy Engineering.
2. Engineering and operation and maintenance cost estimates provided by the City's engineering consultant, Donohue & Associates, with assumptions about grant funding used by the Town's engineering consultant, Davy Engineering.
3. Engineering and operation and maintenance cost estimates provided by the City's engineering consultant, Donohue & Associates, with assumptions about grant funding provided by the Town's engineering consultant, Davy Engineering reduced by half.

Current Water Service

The Town of Campbell does not currently have a municipal water supply. Most properties are served by private water wells. The vast majority of these wells are shallow, drawing from the sand/gravel aquifer. Since 2020, it was discovered that many private residential wells that were sampled detected some level of PFAS. This is the catalyst for the Town exploring the creation of a Town-wide municipal water utility and water supply and distribution infrastructure.

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Additionally, no new wells are being drilled on the entirety of French Island, where Campbell is located.

Municipal water service is provided by the City of La Crosse on French Island, to areas of the island that are in the City, primarily the airport and nearby industrial park. The City also provides water service to residential properties on Hiawatha Island that are located in the City. Adjacent Hiawatha Island properties located in the Town do not currently have municipal water service. The City abandoned three wells on French Island, and City customers on the islands are connected to the City's distribution system and are served by the City wells located on the mainland.

Standard PSC Ratemaking Practices

The PSC uses a utility basis method to establish water rates. Under this method, the amount of revenue that a utility is required to collect include operation and maintenance expenses, taxes (which primarily consist of a Payment in Lieu of Taxes, or PILOT, to the municipal general fund), depreciation expense, and a return on investment.

The return on investment is calculated by applying a standard or benchmark rate of return to the utility's investment in utility financed plant assets. Utility financed plant includes any assets that are paid for through user charges. Assets that are contributed by developers or paid for with grants, special assessments, impact fees, or similar contributions from customers are excluded from utility financed plant, and utilities are not allowed to recover depreciation expense or a return on investment on utility assets funded with these sources.

Together, the depreciation expense and return on investment that PSC allows utilities to recover through rates are used to cover debt service and routine reinvestment in water systems to replace or rehabilitate utility infrastructure. The PSC does not typically allow utilities to set customer rates to recover more or less than the benchmark rate of return.

After PSC establishes the revenue requirements for a utility, a detailed cost of service study is prepared to identify the costs associated with providing average daily, maximum day, maximum hour, storage, public fire protection, metering and billing, and services costs. These costs are then allocated to each customer class in proportion to the classes' use of water system services. Finally, the proposed rates are developed based on the allocated costs and the projected water sales and number of customers by meter size.

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As described below, the reports provided by the Town's engineering consultant did not provide any estimates of customer rates using PSC ratemaking practices or even all the information that would be needed to develop estimates of customer rates. Trilogy Consulting and Donohue & Associates developed estimates for the missing information based on available information, as described below.

Davy Engineering Proposed Water System Study

In July 2024, the Town had a preliminary engineering report for a water system prepared by Davy Engineering. This study conducted an alternatives analysis for creation of a municipal water supply for the Town, prepared assumptions of water use and ultimately recommended that the Town create its own water supply and distribution system. This report was amended in July 2025 and included in the appendices that were submitted to the Public Service Commission as part of its Construction Authorization (CA) application for the proposed water system (referred to in this memo as the updated report).

In 2023, the Town completed a test well located in Wardwell Park, which is also the location of a permanent well. The Town proposes to build a pumphouse and treatment facility on the same site. Based on the test well, a Town water supply would require treatment of groundwater to reduce Radium (at levels almost double the maximum contaminant level (MCL)) Iron, and Manganese.

In addition to the water supply and treatment facilities, a Town water system would also require the construction of water storage facilities, and a water distribution system that would serve all Town properties. Currently, the Town does own a limited amount of water mains, but has no customers connected to them. The current cumulative length of main that the Town owns is 10,461 feet, consisting of 6-inch, 8-inch, and 12-inch diameter mains. As a part of the recommendation, the report proposes to construct a water main on Hiawatha Islands that would parallel an existing La Crosse main that serves City properties.

To estimate the water demand for the Town of Campbell, the report used available reported information from the City of Onalaska as a proxy, as well as existing sewer use data for Town of Campbell users. The estimated peak demand was determined to be 1.4 million gallons in one day, based on a peak per capita demand of 300 gallons per day, and the Town's design population of 4,405. If the USGS Upper Midwest Environmental Services Center connects to the system for domestic water use only, the peak demand would rise to 1.42 MGD. To provide peak hourly demand including fire protection, the preliminary engineering report estimated that the system

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would need two wells that could pump a combined 3,000 gallons per minute, plus water storage capacity of 700,000 gallons. An elevated tank was recommended to provide adequate storage.

Alternatives Analysis

The preliminary engineering report described three alternatives for consideration: an independent water system, a "joint" water system with La Crosse, and a "joint" water system with Onalaska. The La Crosse alternative was dismissed because the Town claims that the City will not agree to serve Town customers without annexation. Of the remaining two alternatives, the independent system was recommended, as it is estimated to cost less both to construct and to operate.

The revised construction cost estimate of the independent system is $64,775,500, based on the CA application, with an annual cost to operate and maintain the system of $396,000, as stated in the updated report and the CA application. About 72 percent of the total construction cost consists of the distribution system, including water meters and street reconstruction that would be required as part of the main installation. It does not include costs for private service laterals that are needed to connect buildings to the water main. Those costs would be borne directly by the connecting customer, and the report estimates that an average residential water service would cost $7,500. The details behind the estimates were not provided in the preliminary engineering report.

Funding Sources

The preliminary engineering report explored options for loan and grant programs that may be used to finance the construction of the water system, revenues that may be available to repay the debt service and fund operation and maintenance expenses, as well as estimates of the end cost to the customer. While the report does not recommend a specific financing plan, it does explore example plans that could be used in whole or in part.

Potential financing sources include a Safe Drinking Water Fund (SDWF) loan, principal forgiveness from the SDWF Emerging Contaminants program, an EPA Community grant secured by the Town, and a grant to the Town included in an Interior Appropriation Bill. The report claimed that the Town could be eligible for a Rural Development (RD) loan and a RD grant of up to 43% of project costs, although the availability of this level of funding would depend on using unused funds in other states' Rural Development programs.

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To repay the debt service, one option noted was to use special assessments to pay for supply and storage construction costs. Assessments of $65 per linear foot and 192,500 assessable street frontage would generate about $12.5 million in assessment revenue, to be paid in installments by the benefiting customer. A residential lot with 100 feet of street frontage would be assessed $6,500 under this option. However, more recent documents, including the updated report and the CA application, indicate that the Town is not intending to use special assessments as a source of funding. However, any proposed connection charge as discussed below would have to be implemented as a special assessment.

Another source of revenue that the reports explored is a connection charge that would be intended to recover the cost of the utility's service lateral and the water meter. In the preliminary engineering report, a connection charge of $2,725 was proposed for a 1" service and 5/8" meter, which would serve most properties in the Town. In total, the report estimated that about $4.77 million could be generated through connection charges. It did not provide the legal authority for implementing such a charge; this is discussed further in the next section. However, the updated report states that the Town would prefer a lower connection charge of only $500 per Equivalent Dwelling Unit (EDU), which would only generate $840,500, should the proposed charge pass legal scrutiny.

Two example financing plans were provided in the preliminary engineering report. A revised cost estimate and financing plan were provided in the updated report. There are several cost estimate differences from the June 2024 report to the July 2025 report, but most of the reduction in costs was due to a reduction in engineering costs. From the detailed construction cost estimates contained in the appendices, construction cost estimates were reduced by about $1.9 million and engineering, legal, and contingencies were reduced by about $4.3 million. It is unclear why engineering costs were reduced so much more than the construction cost estimates.

The total estimated costs and the balance that would be financed by the utility and included in user charge rates under the various cost estimates and financing plans provided by the Town's engineering consultant are summarized in the following table.

	Ex. Financing Plan A (July 2024 Report)	Ex. Financing Plan B (July 2024 Report)	Ex. Financing Plan (June 2025

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			Updated Report)[1]
Total cost with construction interest	$72,703,050	$72,703,050	$63,850,400
Grants	$7,100,000	$36,873,630	$18,200,000
Connection charges	$4,768,000	$4,768,000	$840,500
General fund portion of Streets			$7,260,000
Sewer portion of Meters			$630,500
Balance of Utility Financed Plant	$60,835,050	$31,061,420	$36,919,400

These example financing plans do not include any deposits to utility operating reserve funds. Utilities should maintain reserves for numerous reasons, including fluctuations in revenues and expenses, unexpected capital needs, and ensuring funds are available to pay debt service. Campbell does not currently have any water utility reserves, so the above plans should include an annual deposit to establish and maintain some level of reserves, which would result in higher monthly costs than shown.

In addition, as explained in the following section, the method used to estimate water use charges in the preliminary engineering report and the updated report do not follow standard ratemaking practices used by the Wisconsin Public Service Commission.

Trilogy Analysis of the Cost Structure and Potential User Rates

After reviewing the Davy Engineering report and other documentation related to the proposed water system, Trilogy prepared a cost-of-service analysis that mirrors traditional ratemaking methods of the Public Service Commission, which would ultimately set the water user rates for any new utility. The purpose was to evaluate the assumptions used in the original Davy report, the updated report, and the CA application and determine the reasonableness of the conclusions regarding future customer bills.

Assumptions Used for the Rate Analysis

Most of the assumptions used were the same as contained in the Davy report, as updated and included in the CA application, which contains the most recent cost estimates. Certain

[1] Note: Figures for total construction cost and amount of grant funding do not match those submitted with the Construction Authorization application in PSC Docket 935-CW-102.

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assumptions were changed based on standard PSC policies and practices. Changes are explained below.

- O&M Expenses
  - The O&M expenses used in the analysis are identical to those estimated in the Davy report, of $396,000 per year.
- Construction Cost
  - The total cost used in the analysis was based on the detailed cost estimates found in the appendices of the updated report. This amounted to $56,885,000, and was placed into the various standard PSC accounts, based on the CA application. This amount excludes the portions of construction that would be paid by non-utility entities (General Fund, Sewer). Any actual plant constructed would be recorded based on detailed construction records.
- Basis for Rate Estimating
  - The preliminary engineering report and updated report used an estimated amount of debt service plus O&M expenses to estimate annual cost to the average end user. However, standard PSC ratemaking uses the utility basis for setting rates, which does not factor in annual debt service. Instead, depreciation and an annual return on investment (ROI) on net investment rate base are used to determine the amount of revenues that should be generated to pay for capital improvement needs. No depreciation expense or return on investment may be recovered for contributed assets, meaning any construction that is funded through special assessments, grants or principal forgiveness, any type of connection fee, or any other type of contribution would not be eligible for rate recovery and would not be included in the analysis of rates. The assumptions used in the Trilogy analysis include the following:
    - $0 in contributions through special assessments. If the Town imposed special assessments for any costs, no depreciation or ROI would be collected through rates for that portion of the water system.
    - $17,306,000 in contributions through various grants. In the CA application, it is claimed that three different programs could provide grant funding for a total of the above amount. This amount was assumed to be contributed to all assets, except for mains , services, and meters, meaning it would also be excluded from depreciation or ROI for purposes of rate setting. However, the amount of potential federal or state grant funds is uncertain

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and the Town has not provided any documentation that it has been awarded any grants as part of its CA application. Should any portion of this presumed grant funding not be available, rates would need to be increased proportionately.

- The CA application assumed $840,500 would be collected through connection charges. However, the legal basis cited for the authority to charge such a fee to new connections in the preliminary engineering report was the special assessment statute. PSC policy generally has been that any fees related to water utility service that is not otherwise authorized through Wisconsin statutes is a rate and can only be authorized by the PSC. As such, connection fees for water utilities are generally seen as illegal and cannot be utilized for water utility purposes. Any fee would need to be implemented through other legal means, such as special assessments or impact fees. Additionally, the preliminary engineering report based the amount of the connection fees on the cost of the service lateral and meter for each connection to the system. Assessing properties for the cost of meters and utility-side service laterals (which would then be recorded as contributed assets) is highly unusual in Wisconsin. It is very rare for a Class C utility (which would apply to the Town of Campbell) to have any meters recorded as contributed, and any service contributions usually occur when entire subdivisions are built and all basic infrastructure is paid for by developers. However, the base Trilogy analysis assumes that these "connection fees" will be allowed, and that $850,400 of services and lateral construction will be contributed, with the remaining costs for services and lateral construction utility-financed and recovered through user rates.

  - The current benchmark rate of return on net investment rate base for purposes of determining the amount of ROI to include in rates is 6.70 percent. This was used in the Trilogy analysis, but any rate would be determined by the current benchmark at the time of establishing rates.

- Payment in Lieu of Taxes
  - The preliminary engineering report and updated report do not address the potential for the Town of Campbell to collect a payment in lieu of taxes (PILOT) on water utility property. Most utilities in the state make a PILOT to the general fund of the owning municipality, based on standard methodology utilized by the PSC.

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Municipalities can choose to collect any amount up to the maximum calculated, or nothing at all. Since the Town's engineering reports do not address this, the Trilogy analysis assumes that there will be no PILOT on water utility assets.

- Water Demand and Sales
  - Based on information from the engineering reports, it was assumed that there would be 1,692 customers. Of these, 1,507 would be classified as residential, 132 multi-family, 45 commercial, 1 industrial, and 7 public authority. In total, there would be 1,616 5/8" meters, 45 1" meters, 27 1.5" meters, and 4 3" meters.
  - Neither the preliminary or updated engineering reports attempted to project actual billed water sales, only total annual pumpage projected for purposes of the design of the water system. It is necessary to have an estimate of billed water sales to develop appropriate rates per unit of water sales. In consultation with Donohue & Associates, the Trilogy analysis is based on total estimated annual water sales of 152,245,000 gallons.
  - It was also assumed that since there is no historical data on which to design a rate structure, that all volumetric water rates would be a uniform rate charged to all customer classes, with a single tier for all usage.

Summary Results of the Rate Analysis

The analysis of the revenue required for the proposed Campbell Water Utility based on the cost estimates contained in the Town's engineering reports includes $396,000 of O&M expenses, $974,748 of annual depreciation expense, and $2,603,030 in ROI, for a total of $3,973,778. This is the amount that is expected to be included in the rates that will be charged to the assumed number of customers, both residential and non-residential. Using standard cost of service principles and ratemaking methodology used by PSC, this would result in a monthly service charge of $24.60 for a 5/8" meter, a monthly public fire protection charge of $56.80 for a 5/8" meter, and a user rate of $14.42 per 1,000 gallons of water used. For an average residential customer that uses 4,560 gallons of water per month (based on the average residential customer from the Donohue analysis), this results in a monthly bill of $152.76, or $1,833.06 per year. This is in addition to the initial cost to connect the customer to the water system, consisting of the Davy-estimated private-side lateral cost of an average of $7,500 and the connection charge of $500. This all is in addition to a higher property tax bill that will be needed for all properties in the Town from taking on a portion of street reconstruction. This cost would be even higher if less grant money is awarded to the Town, or if annual O&M expenses are higher than initial estimates.

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Noteworthy is that the Public Service Commission of Wisconsin estimated that water rates could result in customer bills as high as $302 per month, or about $3,624 per year, if no grant is received and the full water system is implemented. This estimate was also based on standard PSC ratemaking procedures using a utility basis for setting rates, with recovery of O&M expenses, depreciation, taxes, and rate of return on rate base.[2] This estimate has not been verified as PSC assumptions are unknown (e.g. the inclusion of a tax equivalent payment), but it confirms that standard PSC rate making principles would result in a significantly higher user rate and customer bill than is projected in the Town's engineering reports.

Donohue & Associates Report

The City asked its engineering consultant, Donohue & Associates, to review the Town's water system plans and estimates and provide an independent cost estimate. The Donohue analysis determined that the Town's estimate of O&M expenses is too low.. The Donohue analysis also provides several areas where the Town under-estimated the capital construction costs of the proposed water utility.

- O&M Expenses
  - The revised estimate of O&M expenses that Donohue provided totaled to $598,973, just over $200,000 higher than the Town's estimate. The significant areas where O&M expenses were under-estimated according to the Donohue report were in:
    - Pumping expenses, specifically operating labor and energy costs, with an increase of about $90,000;
    - Water treatment expenses with an increase of about $143,000, including operation labor, chemicals, and maintenance of plant equipment;
    - Transmission and distribution expenses of about $80,000, most of which is maintenance of the water mains. Davy had estimated that there would be zero cost under this category.
    - Customer accounts expense of $30,000 for meter reading labor. Again, Davy estimated zero costs for this category of expenses.
  - Additionally, the Donohue report estimated a smaller amount of expenses for general and administrative expenses of about $138,000. Despite this, their

[2] PSC Incompleteness Determination letter, dated August 22, 2024, Supplemental Question 2, PSC REF#: 514837

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independent cost estimate was over $200,000 higher than the original Davy estimate.

- Construction Costs
  - Donohue estimated that a more realistic cost of the construction of the proposed water utility was $70,297,005. The categories of construction that differed significantly consisted of capital assets within the distribution system, including mains, services, and hydrants. Other categories of costs were adjusted up or down according to the Donohue estimates.
  - This estimate included only 20% of street reconstruction costs can be included in the water utility costs, per DNR rules. This means that the amount of street reconstruction that would have to be borne by either the general fund or the sewer utility will be higher than the original Davy estimates by $4,455,000
- Basis for Rate Estimating
  - The same assumptions regarding grant funding and other fees and funding sources that offset the costs that go into water rates were used in the analysis using Donohue's cost estimates. The same rate of return on investment of 6.7% was used to estimate rates, although it is applied to a higher rate base, as described above.
- Payment in Lieu of Taxes
  - Again, it was assumed that the proposed water utility would not make a payment in lieu of Taxes to the municipality.
- Water Demand and Sales
  - There was no adjustment to water demand and sales under this analysis, as the same assumptions were used to evaluate the water rates using the Davy operating and capital cost estimates.

Summary Results of the Rate Analysis

The impact of this higher cost, even if the Town were to receive $17.3 million in grant funding, is significant. The analysis of the revenue required for the proposed Campbell Water Utility based on the cost estimates contained in Donohue's report includes $598,973 of O&M expenses, $999,533 of annual depreciation expense, and $3,501,634 in ROI, for a total of $5,100,139. This is the amount that is expected to be included in the rates that will be charged to the assumed number of customers, both residential and non-residential. Using standard cost of service principles and ratemaking methodology used by PSC, our analysis shows that Donohue's estimates of O&M expense and capital costs would result in an average customer using 4,560

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gallons of water per month paying $194.40 per month or $2,332.82 per year for water service from the proposed Town water utility. This is comprised of fixed charges of $101.50 per month in fixed charges and $18.86 per 1,000 gallons in water consumed. In this case, the fixed charge alone would make the proposed Town water utility the most expensive Class C utility in the state, before adding any cost for water consumption.

Donohue Report Cost Estimates with Reduced Grant Funding

For this analysis, the assumptions for O&M expenses, capital costs, the rate determination methodology, and water sales were the same as was used to estimate rates under the Donohue analysis. The only change made in this analysis was to test the impact of the Town not receiving the full amount of grant funding and principal forgiveness that it has stated it expects to receive. Based on all documentation reviewed to date, no document has been filed either with PSC or IRB that shows that the Town has in fact received such funding. This lack of documentation was noted as a deficiency by the PSC in its incompleteness determination letter regarding the Town's application for authorization to construct a water system.

If the Town does not receive the full amount of grant funding it is assuming, then the impacts to customer rates would be even greater. If even half of the amount of grants of $17.3 million are not realized for the proposed system, then the impact on customers would be an increase of over 15 percent more than the analysis using the Donohue estimates. Under this scenario, an average Town customer would pay $225.46 per month for water service, or over $2,700 per year. This is comprised of fixed charges of $117.00 per month and $22.25 per 1,000 gallons of water consumed. This is in addition to any increase in both sewer rates and property taxes that would need to be implemented to cause this water utility to come to fruition.

Conclusions

1. An analysis of user rates, using the assumptions contained in the Davy reports and the CA application and standard PSC ratemaking practices, results in significantly higher user charges and customer bills than estimated in the Davy reports.
2. The assumptions regarding capital costs may be unreasonable, based on an independent analysis from Donohue & Associates. Any increases in capital costs, whether through underestimation of capital costs or inability to procure all grant funding will increase the cost to proposed utility customers.

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3. The assumptions used for estimated water sales and annual O&M expenses may be unreasonable, based on an independent analysis from Donohue & Associates, an engineering firm.
4. The user rates for a proposed Town of Campbell water utility under any of the scenarios described above would be some of, if not the, highest in the state, using the quarterly water bill comparison tool on the PSC's website.[3]

The following table summarizes the resulting rates under each analysis and the monthly and annual cost to customers of the proposed water utility, using standard PSC ratemaking principles and PSC financial benchmarks.

	Scenario 1 - Davy Estimates	Scenario 2 - Donohue Estimates	Scenario 3 – Less Grant Funding
Total Costs included in Water Rates	$3,973,778	$5,100,139	$5,955,788
Monthly Fixed Charges	$81.40	$101.50	$117.00
Consumption Charges per 1,000 gallons	$14.42	$18.86	$22.25
Average Residential Customer Monthly Use	4,560 Gallons	4,560 Gallons	4,560 Gallons
Average Monthly Water Bill	$152.76	$194.40	$225.46
Average Annual Water Bill	$1,833.06	$2,332.82	$2,705.52

[3] PSC Quarterly Water Bill Comparison: https://apps.psc.wi.gov/RATES/waterbill/default.aspx

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