

City of Stacy, MN Sewer Rate Study

Work Plan

December 2021

Objective(s)

The purpose of this study is to assist the City of Stacy in evaluating the financial operations of the Sewer Utility to determine the necessary level of user rates that will provide adequate cash flow to pay for anticipated capital expenditures, anticipated future operating and maintenance expenses, debt service including principal and interest, utility improvements, asset replacement, and adequate cash reserves. Rate recommendations will reflect the Utility's recent cost experience as well as anticipated future costs during the nominal period for which rates are projected.

The tasks for completing this project are outlined below.

Task 1: Review Background Information

- Review historical financial information, volumetric rates, basic facility charges, connection fees and other fees and charges that provide sources of revenue
- Review current and historical billing data
- Review current funding practices, funding sources and policies related to financing capital improvements
- Review the City's capital improvement plan identifying the sources of funding for each improvement
- Review ordinances, policies and practices related to user fees, connection fees and other charges for utility services
- Review the historical growth of the customer base and projections for anticipated growth for the utility
- Review any engineering studies and other relevant studies related to the utility

Task 2: Conduct Study

Develop financial projections of the Sewer Utility that integrate all anticipated revenue sources, anticipated operating expenditures including existing and projected new depreciation, anticipated capital expenditures, existing debt service, projected debt service for identified projects and changes in the customer base over the planning period:

- Develop a ten-year forecast of revenues and expenditures to determine the adequacy of

- revenues provided by existing rates
- Evaluate the impact of anticipated capital improvement financing options on rates, fees, and charges
- Incorporate the City's projected customer growth and future service demands based upon the existing systems; run sensitivity analysis to anticipate rate increases at various growth projections
- Develop recommendations for the financing of the anticipated capital improvements based on the above impact analysis
- We will evaluate the impact of anticipated capital improvement and asset renewal and replacement financing options on rates, fees, and charges and develop recommendations for the financing of the anticipated capital improvements based on their impact on these revenue sources
- Identify the overall change in revenue required to provide for adequate funding for major capital improvement programs, to meet all recurring annual operating and capital expenditures, to cover all debt service requirements, and to maintain sufficient cash balances and capital reserves. The projections will be made using an income statement approach and will include a yearly cash flow analysis
- Develop preliminary rate schedules that provide revenue recovery at levels necessary to support the utility's operation as defined above.
- Perform a sensitivity analysis to illustrate the impacts of adverse assumption changes (e.g., future growth, operating costs, depreciation funding levels)
- If we make a recommendation to increase rates or charges, Baker Tilly will:
 - Evaluate and compare the proposed fee structure with the utility's current fee structure with the fee structure of five other similarly sized local government utility operations in the area
 - Prepare sample bills for customers from representative customer classes, comparing existing rates and charges to proposed rates and charges

Task 3: Prepare Report

Baker Tilly will prepare a Report of Findings that will contain our findings and recommendations. We will submit one electronic copy to the City for their review and comment. We will meet via Zoom to review and discuss the draft report prior to preparing a final report. Based on our discussion and review of the draft report, Baker Tilly will make modifications or changes, incorporating the City's comments into the final report, as appropriate.

Deliverables

Final Report and, if desired, an on-line presentation summarizing our analysis in a City Council regular or workshop session.

Expectations

In order to conduct this study, the City will need to designate a staff member to serve as a project manager. This person will be responsible for assisting Baker Tilly with gathering

accurate and timely data needed to complete the project and to assist in arranging for required meetings. At a minimum the following information will be needed to complete the study:

- Copy of your most recent and previous two years Comprehensive Annual Financial Reports
- Copy of your current and previous two years budgets including revenues and expenditures for the sewer utility
- A listing of all current year and anticipated capital expenditures for the planning period 2022 through the 2031 indicating item to be purchased, amount, and anticipated funding source for the sewer utility
- Copies of any current policies related to capital expenditures and/or funding for them
- Copies of any current policies related to fund balances and/or cash balances
- Listing of outstanding debt, i.e., bonds, equipment certificates, lease-purchase agreements to be repaid from the sewer utility
- Customer utility sales and billing information including the number of accounts by customer type (metered and non-metered & residential/commercial)
- Information related to the anticipated growth in both residential and commercial utility sales during the planning period
- Current schedule user fees and charges
- Copies of any engineering studies, cost of services studies and other relevant studies related to the utility and this study

Compensation & Timing

Baker Tilly proposes to complete this study as described for the lump sum fee of \$6,500. This amount assumes Zoom meetings. On-site meetings would be an additional \$500 per meeting. We will complete the Study within 6-8 weeks of receiving the requested information. The timeline provided assumes that all necessary information is made available to Baker Tilly in a timely manner and that City staff is available for required meetings. This draft schedule does not anticipate any unforeseen delays or other circumstances that would result in a later completion date.

The foregoing Agreement is hereby entered into on behalf of the respective parties by signature of the following persons each of whom is duly authorized to bind the parties indicated.

FOR CLIENT

Baker Tilly

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Name

Name

Title

Title

Date

Date