



REVIEW OF FINANCIAL MANAGEMENT PLAN FOR WATER, SANITARY SEWER, AND STORM WATER FUNDS

City of Lake Elmo, MN

Presentation to Finance Committee

October 11, 2016

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Member FINRA and SIPC

The information in this presentation is based on sources believed to be reliable, but does not purport to be complete and is not warranted by Northland Securities, Inc.

ITEMS TO COVER

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- ◎ **Study approach**
 - **Original Report, dated June 1, 2016**
 - **Other Alternative Scenarios**
- ◎ **Overview of conclusions and recommendations**
- ◎ **CIP and debt service**
- ◎ **Utility rates**
- ◎ **Financial plans**

ITEMS TO COVER

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- ⦿ **Other Alternative Scenarios - For this presentation, Northland was asked to present information on three scenarios that modify the original assumptions made in the final draft report dated June 1, 2016:**
 - **Scenario A**
 - ⦿ Assume 30% fewer REU connections and SAC/WAC
 - ⦿ Assume projected annual % increase in customers is 30% less per year
 - ⦿ Adjust water and sewer operating expense based on 30% reduction in the projected annual % change; no change to operating expense for storm water
 - ⦿ No other changes
 - **Scenario B**
 - ⦿ Assume 30% more REU connections and SAC/WAC
 - ⦿ Assume projected annual % increase in customers is 30% greater per year
 - ⦿ Adjust water and sewer operating expense based on 30% increase in the projected annual % change; no change to operating expense for storm water
 - ⦿ No other changes
 - **Scenario C**
 - ⦿ Assume no change in rates, rates to remain at 2016 levels; no other changes

ITEMS TO COVER

- **Other Alternative Scenarios**
 - **In considering the other scenarios, it is important to note the following disclaimers:**
 - The City's engineer and other consultants have not had the opportunity to consider the impact of changing the original assumption for REU connections and SAC/WAC and customers on the capital improvement plans, and operating expense included in the original report dated June 1, 2016.
 - Debt issuance plans and anticipated structure of debt was not modified for any of the alternative scenarios; there may be impact to both amounts, timing, and structure of future debt based on each the alternative scenarios.
 - Further review of the requested scenarios, and the impact on both revenues and expenses, including impact on fees, volume of water sold, and timing of planned capital outlays and structuring of related debt, may result in a different outcome than what is included in this presentation and the alternative scenarios requested by the City.
 - The updated reports for each of the alternative scenarios should be considered preliminary and subject to change upon further review and discussion.

EXECUTIVE SUMMARY

STUDY APPROACH – FOR ORIGINAL REPORT

- ◎ **City provided information on key inputs**
 - Historical spending and revenue trends
 - Projected growth in customers
 - Preliminary 2015 financial results (report was prepared before the City's final 2015 audited financial statements were available)
- ◎ **Meetings held with city staff and other consultants to review preliminary draft report**
- ◎ **Certain aspects not reviewed as part of the study**
 - Comparison of rates to other communities
 - Comparison to city prepared pro forma
 - Historical volume data by tier

EXECUTIVE SUMMARY

CONCLUSIONS AND RECOMMENDATIONS – FOR ORIGINAL REPORT

- ◎ **Growth in customer units**
 - Impact on CIP
 - Impact on future revenue estimates
- ◎ **Utility rate Increases**
 - 1% annual increase for sewer and water
 - \$10 annual increase for storm water
- ◎ **Management of Cash Balances and Assets**
 - Cash for operations, CIP, and debt service

EXECUTIVE SUMMARY CONCLUSIONS AND RECOMMENDATIONS

From Original Report

Table A Growth in Residential Equivalent Units <i>Total Projected Growth For Years 2016 Through 2025</i>	
Platted - Sewer Access	2,306
Platted - Water Access	1,965
Connected - Sewer	2,511
Connected - Water	2,487

Alternative Scenarios

Scenario A - 30% Fewer REU	Scenario B - 30% More REU
1,614	2,998
1,376	2,555
1,758	3,264
1,741	3,233

See disclaimer on Slide 4.



EXECUTIVE SUMMARY

CONCLUSIONS AND RECOMMENDATIONS – FROM ORIGINAL REPORT

TABLE B
Establishment of Utility Rates

Service	2016	2017	2018	2019	2020
WATER RATES					
Residential Quarterly Base Fee	\$20.00	\$20.00	\$20.20	\$20.40	\$20.61
Residential Tier 1: 0-15,000 gallons	\$2.00	\$2.00	\$2.02	\$2.04	\$2.06
Commercial Quarterly Base Fee	\$25.00	\$25.00	\$25.25	\$25.50	\$25.76
Commercial Tier 1: 0-15,000 gallons	\$3.11	\$3.11	\$3.14	\$3.17	\$3.20
Water Availability Charge	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Water Connection Charge	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
SANITARY SEWER RATES					
Sewer per 1,000 gallons	\$4.50	\$4.50	\$4.55	\$4.59	\$4.64
Sanitary Sewer Availability Charge	\$3,000	\$3,000	\$3,000	\$3,000	\$3,000
Sanitary Sewer Connection Charge	\$1,000	\$1,000	\$1,000	\$1,000	\$1,000
STORM WATER RATES					
Annual fee	\$50.00	\$60.00	\$70.00	\$80.00	\$90.00

Utility rate Increases

- 1% annual increase for sewer and water
- \$10 annual increase for storm water

Other Scenarios

- Scenario C – presented later in this presentation, is based on the assumption there are no rate increases between years 2017-2025



EXECUTIVE SUMMARY CONCLUSIONS AND RECOMMENDATIONS

From Original Report

Table C
Management of Cash Balances and Assets

Year	Combined Utility Funds		Cash as % of Net Assets
	Cash	Net Assets	
2015	\$4,139,984	\$17,695,463	23%
2016	\$6,027,123	\$19,548,501	31%
2017	\$9,512,080	\$23,868,177	40%
2018	\$10,502,094	\$26,933,282	39%
2019	\$12,361,080	\$30,575,311	40%
2020	\$13,157,837	\$31,666,610	42%
2021	\$13,993,165	\$32,947,730	42%

Alternative Scenarios

Scenario A - 30% Fewer REU	Scenario B - 30% More REU	Scenario C - No Rate Increases
Cash as % of Net Assets	Cash as % of Net Assets	Cash as % of Net Assets
23%	23%	23%
28%	34%	31%
34%	44%	40%
32%	44%	39%
32%	46%	40%
33%	48%	40%
32%	49%	41%

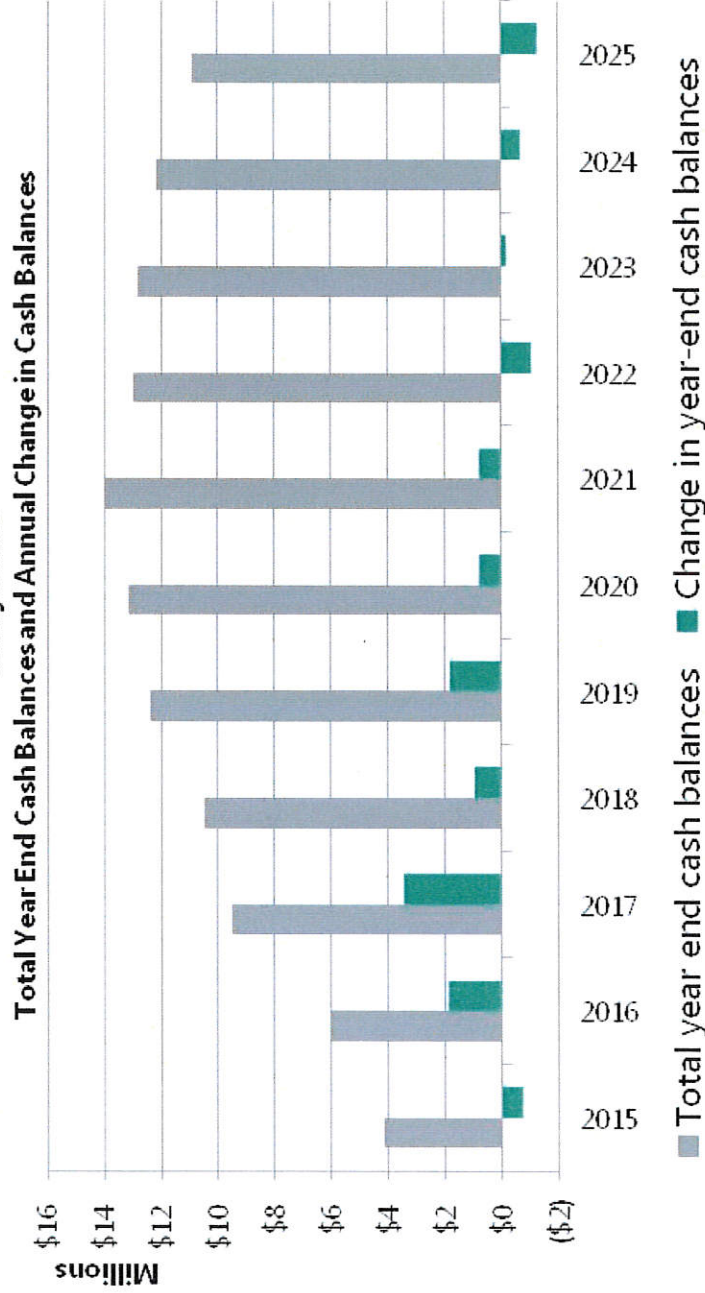
See disclaimer on Slide 4.



EXECUTIVE SUMMARY

CONCLUSIONS AND RECOMMENDATIONS – FROM ORIGINAL REPORT

Chart 1
City of Lake Elmo, MN
Utility Funds



Note: Year 2015 is (un-audited) actual. Years 2016 - 2025 are projected.

Cash balances are projected to increase over the next several years as a result of revenue collection from development.

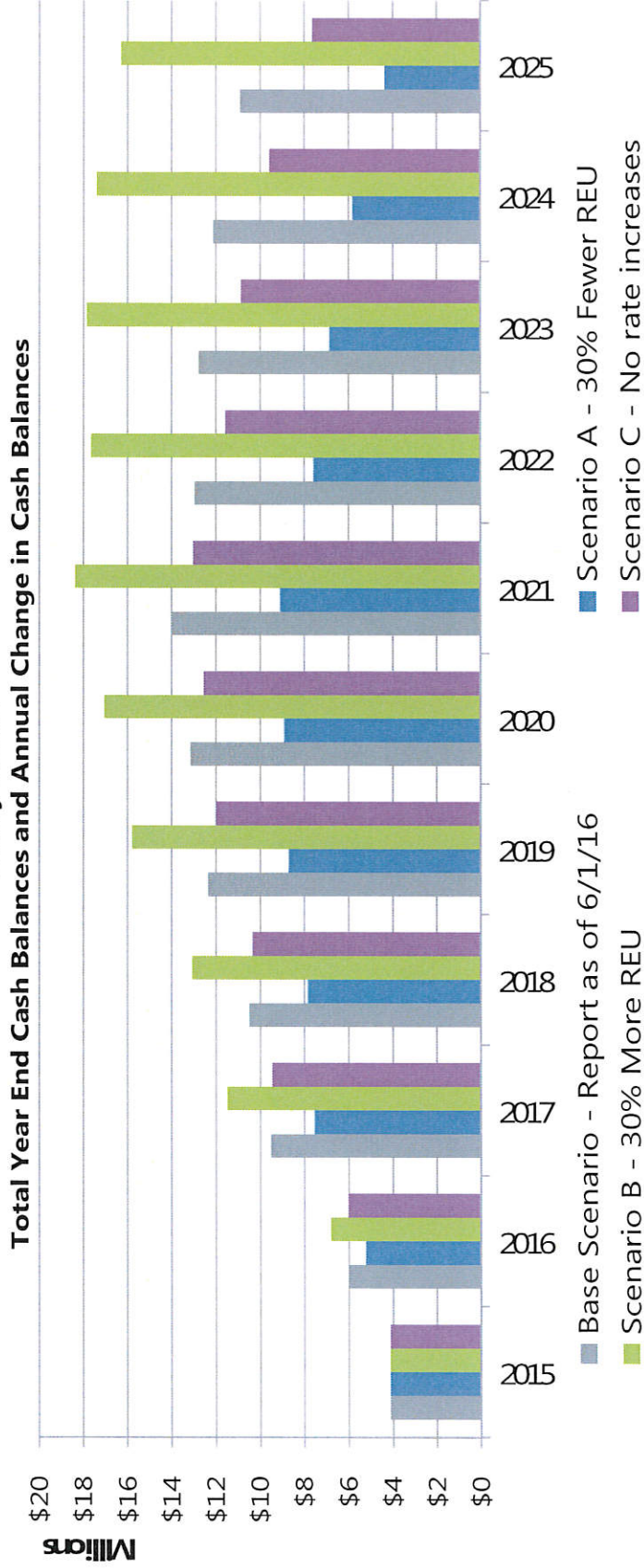
Cash will be needed to pay future debt service.



EXECUTIVE SUMMARY

CONCLUSIONS AND RECOMMENDATIONS

Chart 1 - Including Comparison of Scenarios
City of Lake Elmo, MN
Utility Funds



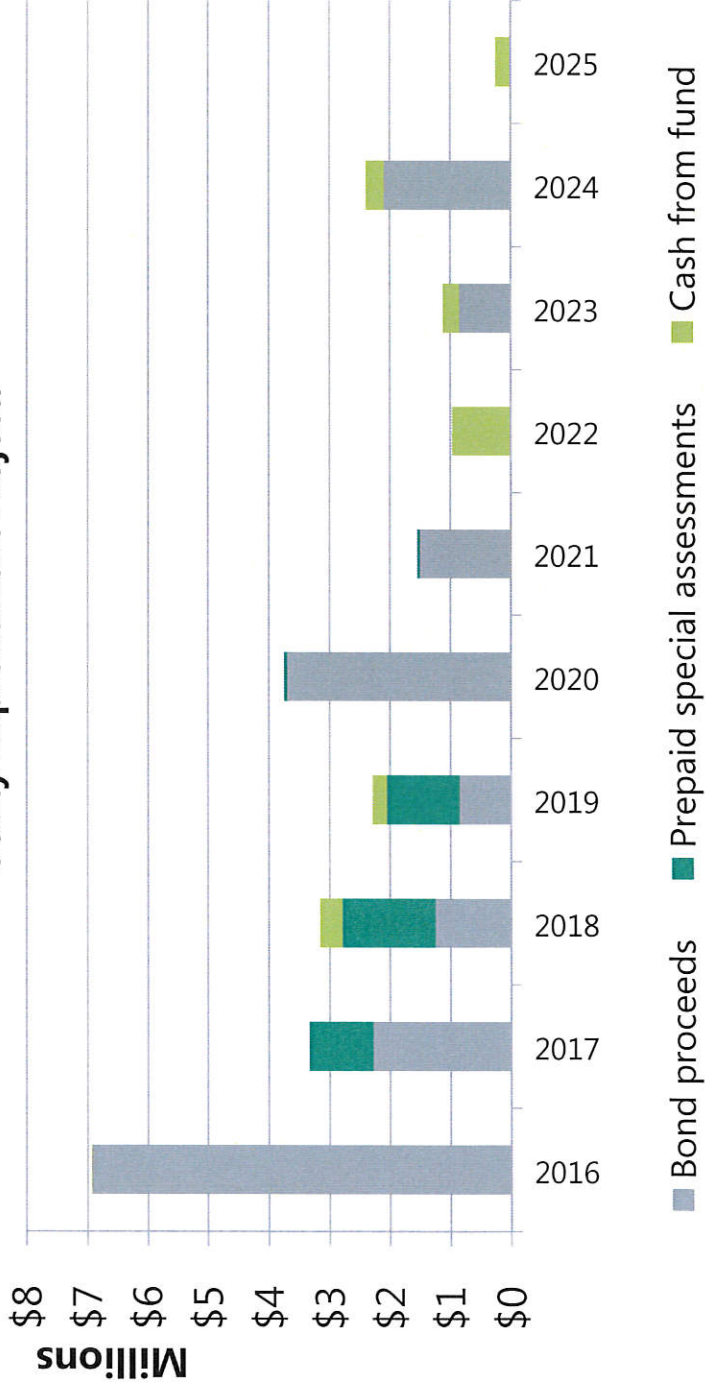
Note: Year 2015 is (un-audited) actual, Years 2016 - 2025 are projected.

See disclaimer on Slide 4.



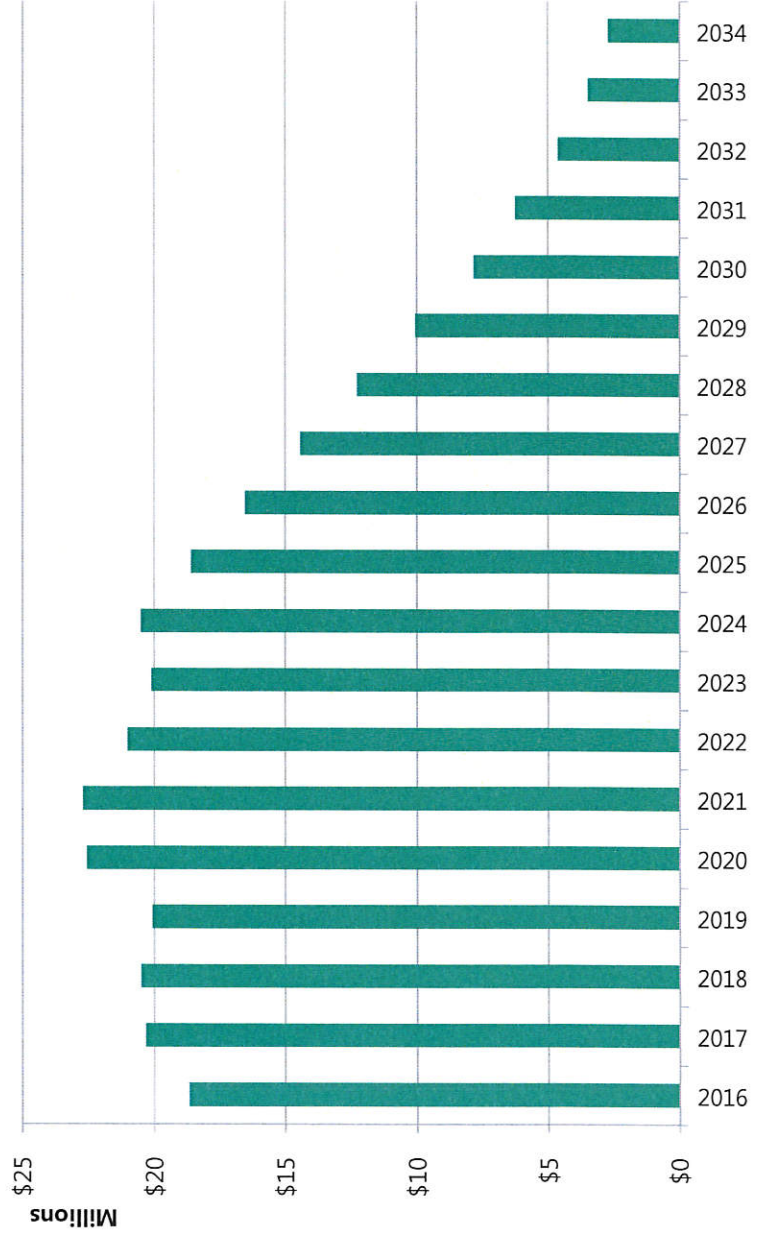
CIP AND DEBT SERVICE – FROM ORIGINAL REPORT

City of Lake Elmo, MN
Annual Source of Funds for Projected Capital Spending
Utility Improvement Projects



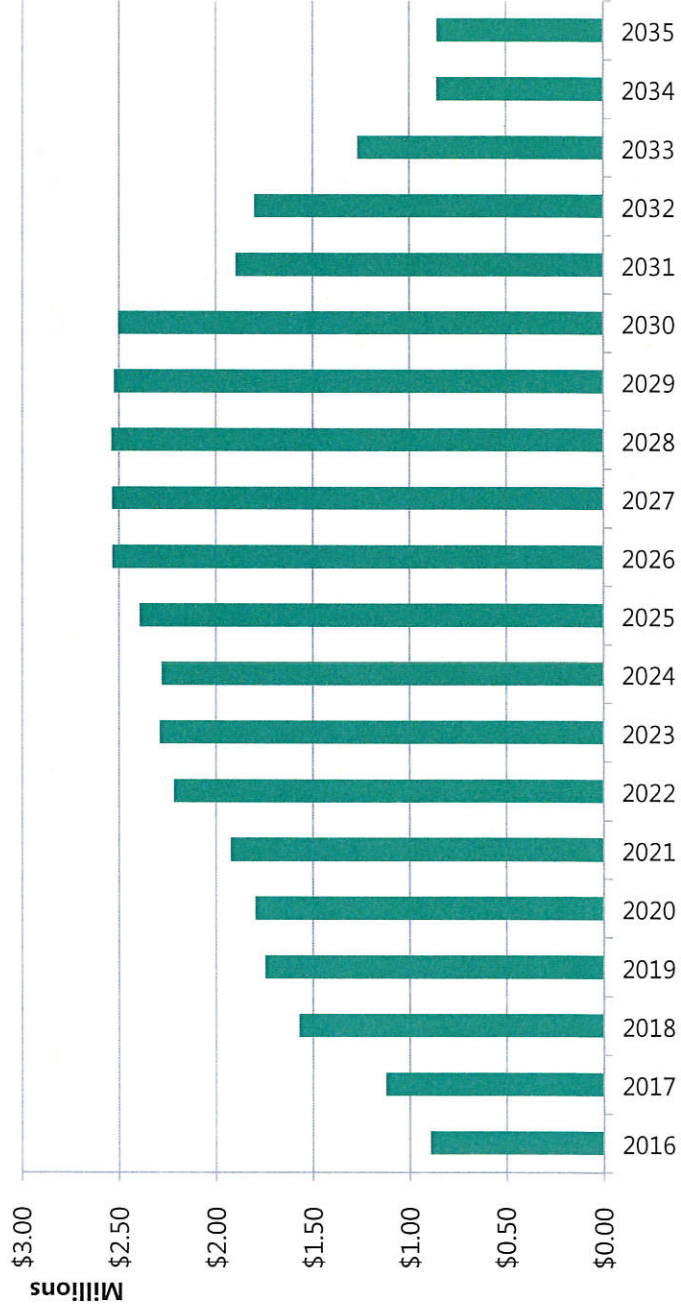
CIP AND DEBT SERVICE – FROM ORIGINAL REPORT

Chart 2
City of Lake Elmo, MN
Estimated Debt Outstanding at Year-End
Includes Existing Debt and Projected Debt Issuance
Includes Debt Supported by Utility Funds Only



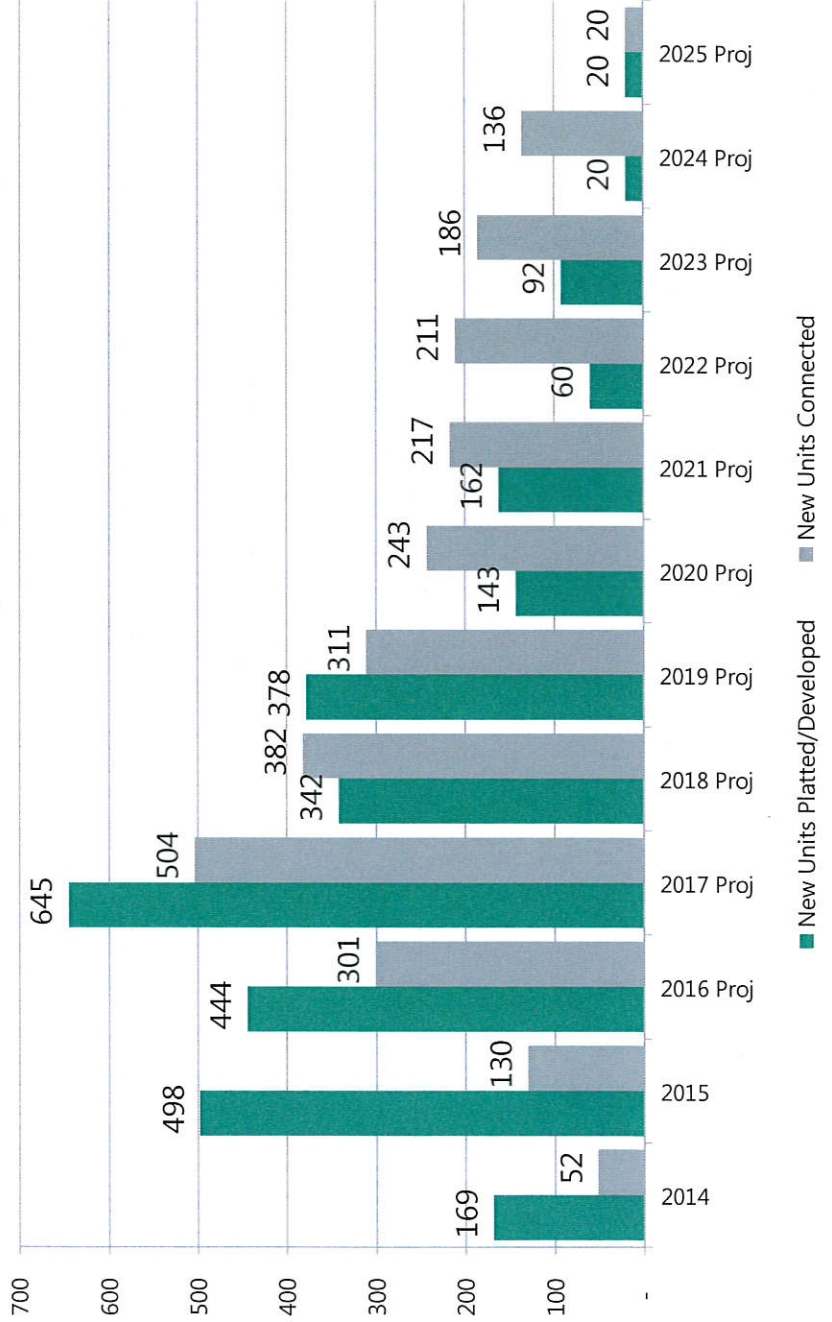
CIP AND DEBT SERVICE – FROM ORIGINAL REPORT

Chart 3
City of Lake Elmo, MN
Estimated Annual Debt Service
Includes Existing Debt and Projected Debt Issuance
Includes Debt Supported by Utility Funds Only



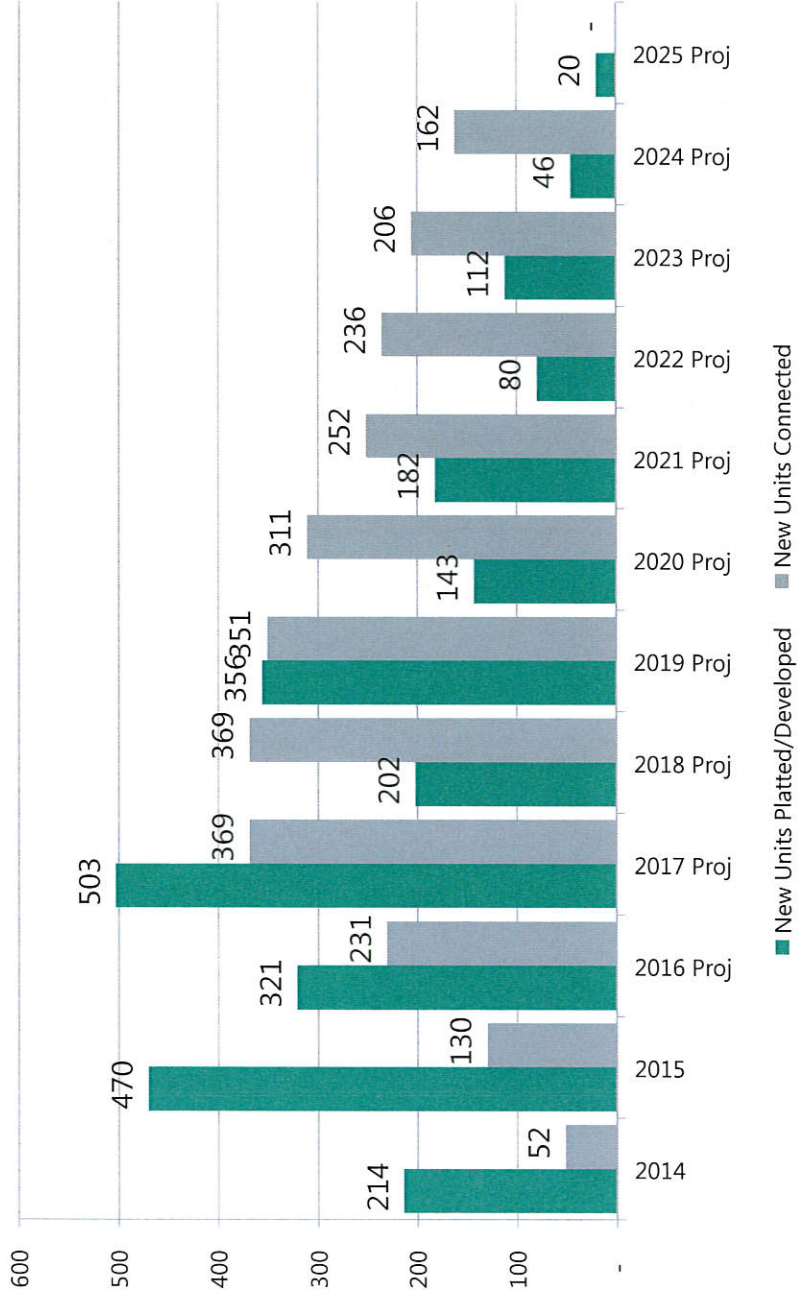
UTILITY RATES INCREASE IN CUSTOMERS – FROM ORIGINAL REPORT

Chart 4
City of Lake Elmo, MN
Residential Equivalent Units Platted and Connected to Sanitary Sewer
Used to Estimate Revenue from Availability Charges and Connection Charges



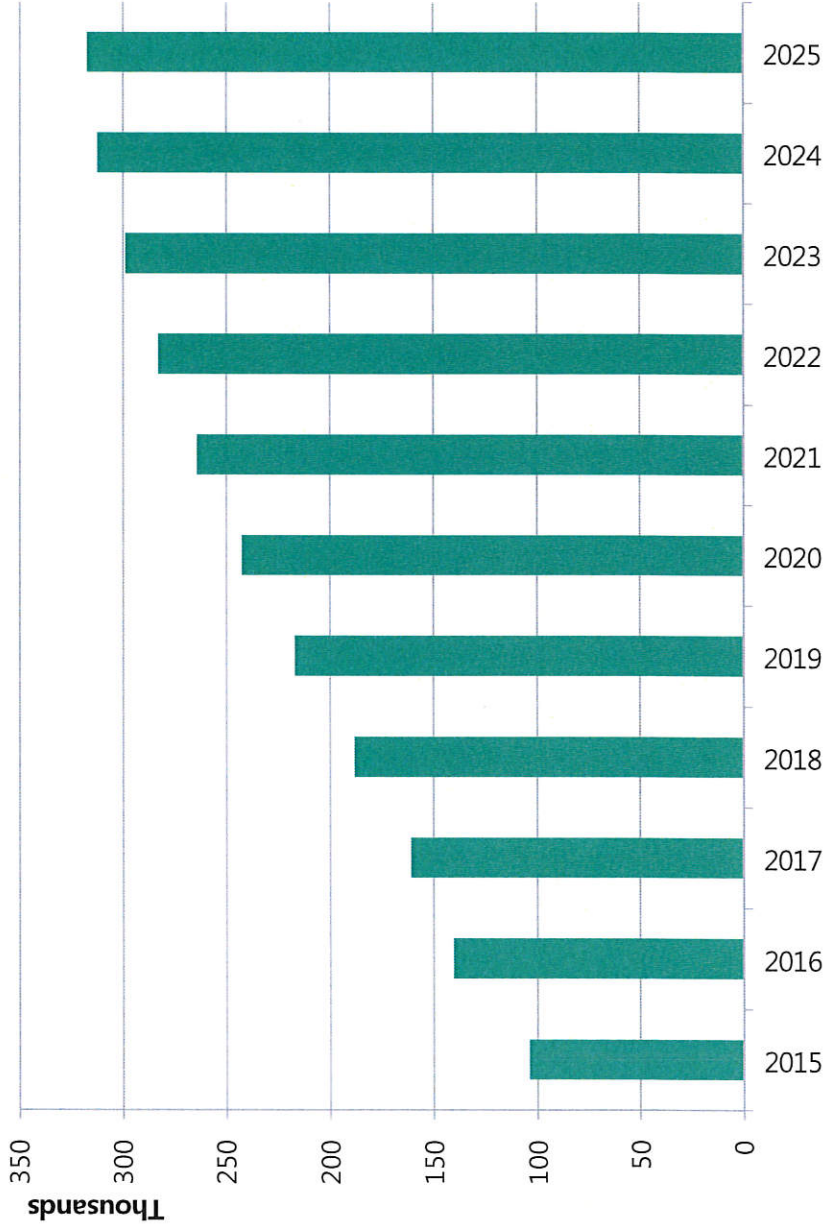
UTILITY RATES INCREASE IN CUSTOMERS – FROM ORIGINAL REPORT

Chart 5
City of Lake Elmo, MN
Residential Equivalent Units Platted and Connected to Water
Used to Estimate Revenue from Availability Charges and Connection Charges



UTILITY RATES INCREASE IN CUSTOMERS – FROM ORIGINAL REPORT

Chart 6
City of Lake Elmo, MN
Estimated Annual Gallons of Water Billed (Thousands of Gallons)



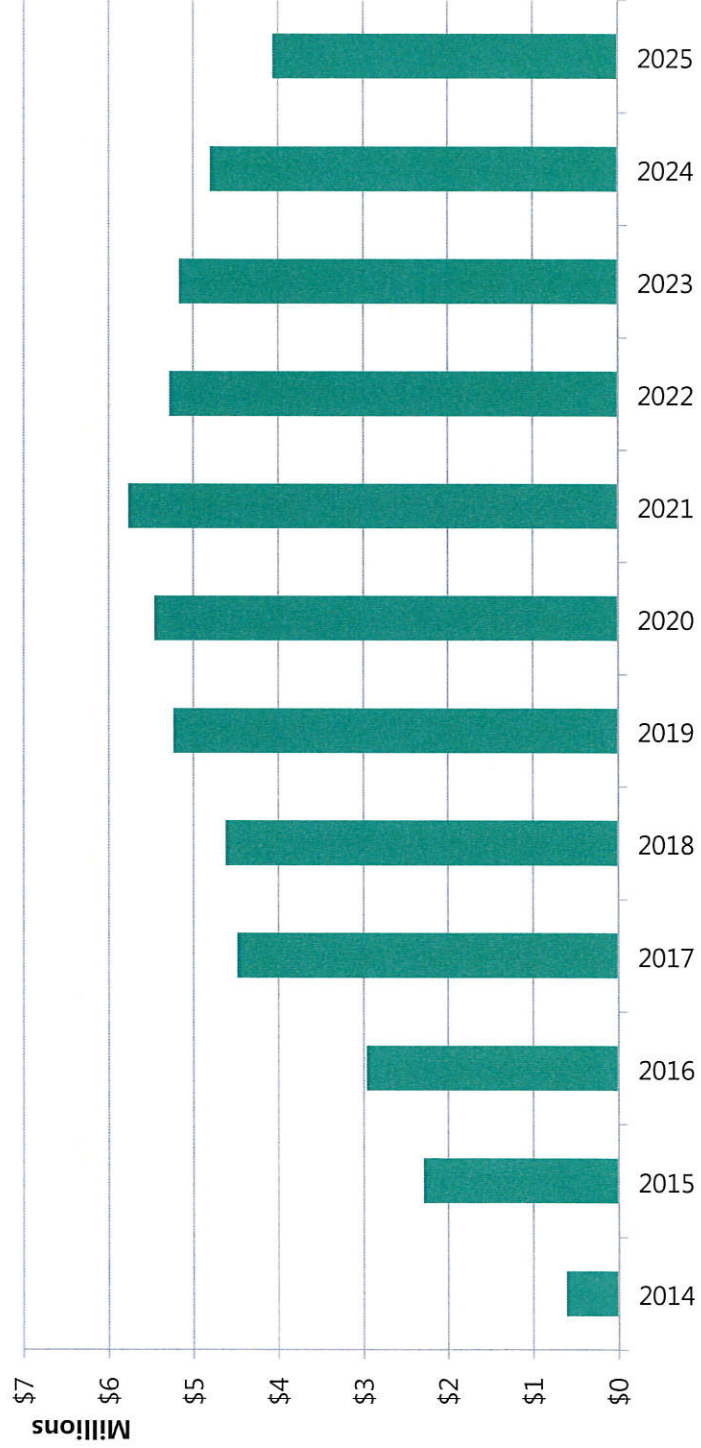
FINANCIAL PLANS

WATER FUND – FROM ORIGINAL REPORT

- ◎ **Water Fund is in sound financial condition**
- ◎ **Future performance will be impacted by the timing of future development and receipt of future fees and charges**
- ◎ **1% annual fee increase is assumed**
- ◎ **Based on CIP, annual debt service is projected to increase from \$0.6M in 2016 to \$1.5M in the next ten years**

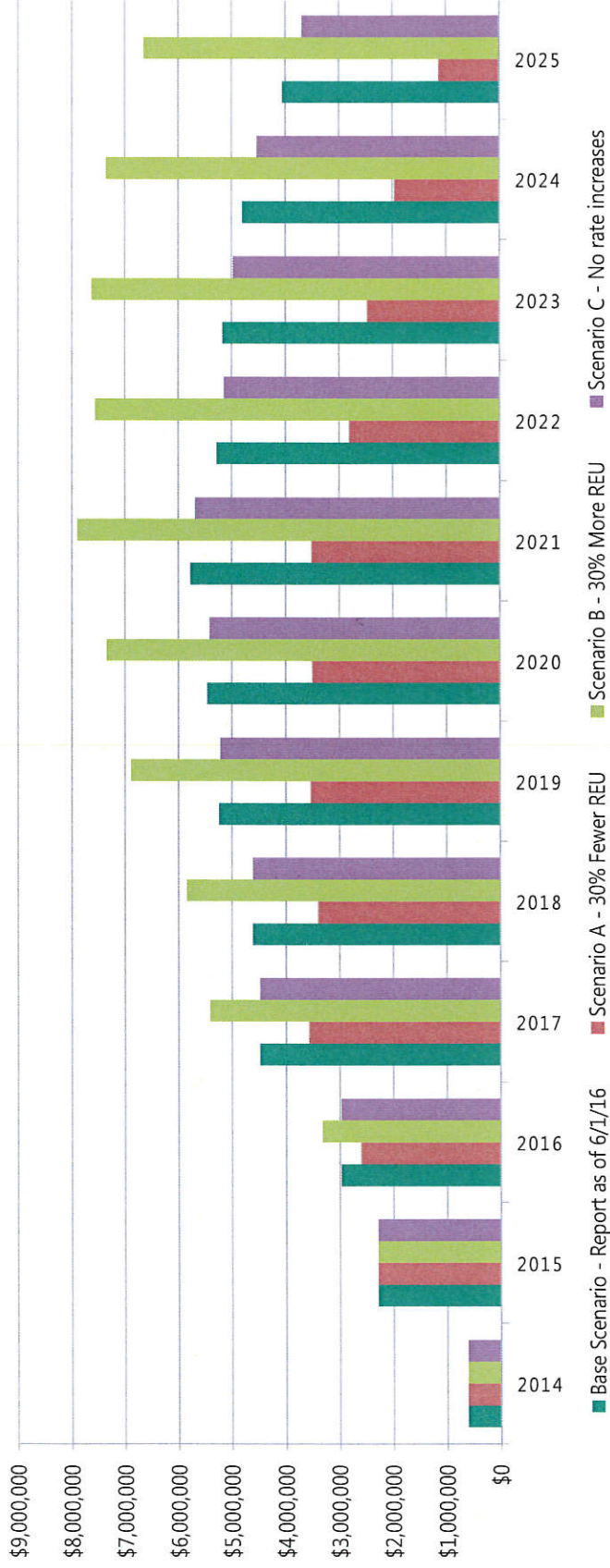
FINANCIAL PLANS WATER FUND – FROM ORIGINAL REPORT

Chart 7
City of Lake Elmo, MN
Water Fund
Year End Cash Balance
(Does Not Include Cash Held in Escrow in Year 2014 for Refunding of Bonds)



FINANCIAL PLANS WATER FUND

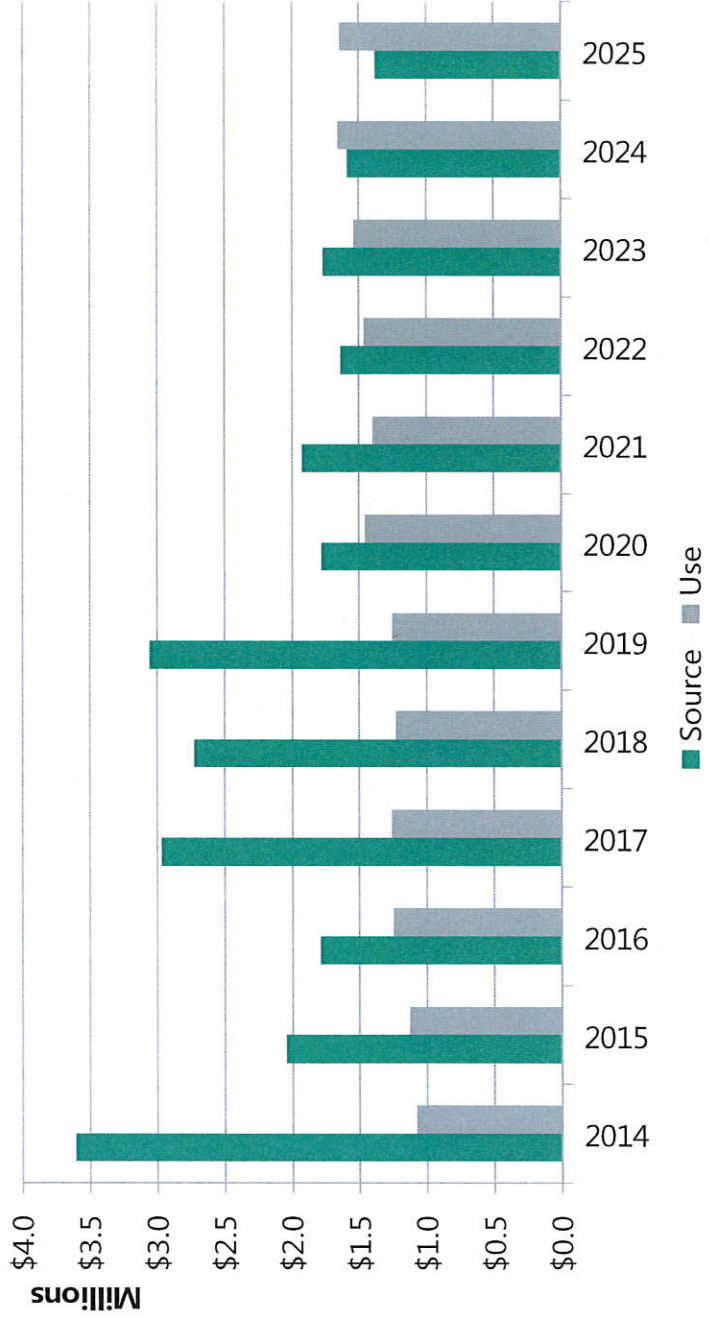
Chart 7 - With Scenarios
City of Lake Elmo, MN
Water Fund
Year End Cash Balance
(Does Not Include Cash Held in Escrow in Year 2014 for Refunding of Bonds)



See disclaimer on Slide 4.

FINANCIAL PLANS WATER FUND – FROM ORIGINAL REPORT

Chart 8
City of Lake Elmo, MN
Water Fund
Difference Between Source and Use of Funds (Change in Net Assets)



FINANCIAL PLANS

SANITARY SEWER FUND – FROM ORIGINAL REPORT

- ◎ **Sanitary Sewer Fund is in sound financial condition**
- ◎ **Future performance will be impacted by the timing of future development and receipt of future fees and charges**
- ◎ **1% annual fee increase is assumed**
- ◎ **Based on CIP, annual debt service is projected to increase from \$0.3M in 2016 to \$0.5M in the next ten years**

FINANCIAL PLANS SANITARY SEWER FUND – FROM ORIGINAL REPORT

Chart 9
City of Lake Elmo, MN
Sanitary Sewer Fund
Year End Cash Balance



FINANCIAL PLANS SANITARY SEWER FUND

Chart 9 - With Scenarios
City of Lake Elmo, MN
Sanitary Sewer Fund
Year End Cash Balance

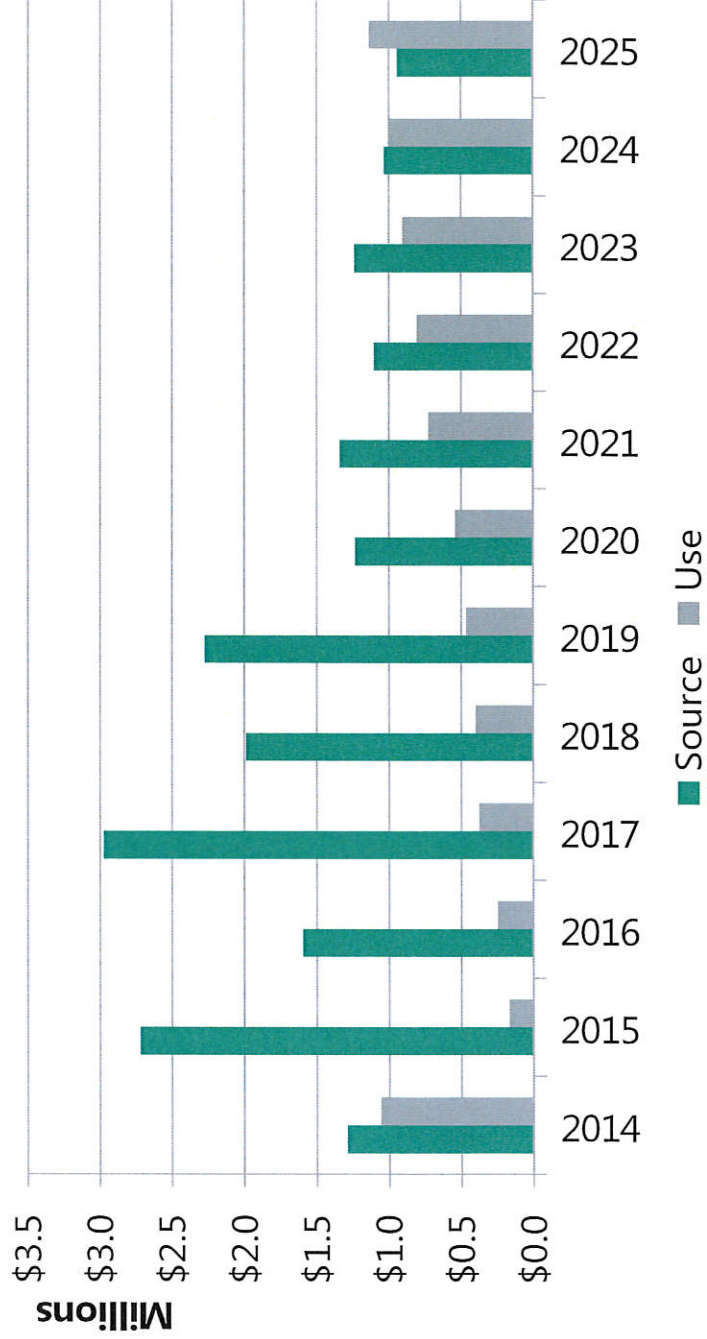


See disclaimer on Slide 4.



FINANCIAL PLANS SANITARY SEWER FUND – FROM ORIGINAL REPORT

Chart 10
City of Lake Elmo, MN
Sanitary Sewer Fund
Difference Between Source and Use of Funds (Change in Net Assets)



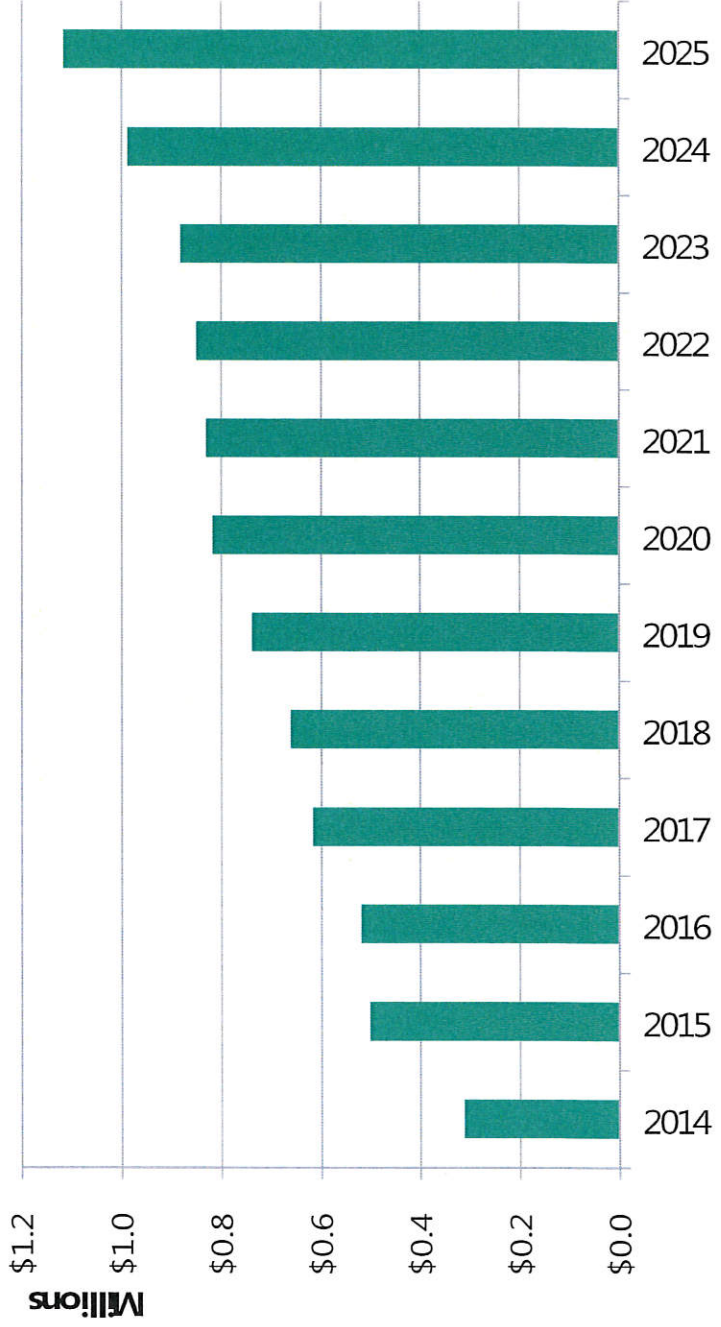
FINANCIAL PLANS

STORM WATER FUND – FROM ORIGINAL REPORT

- ◎ **Storm Water Fund is in sound financial condition**
- ◎ **Future performance will be impacted by capital project spending**
- ◎ **\$10.00 annual fee increase is assumed**
- ◎ **Based on CIP, annual debt service is projected to increase from \$0M in 2016 to \$0.4M in the next ten years**

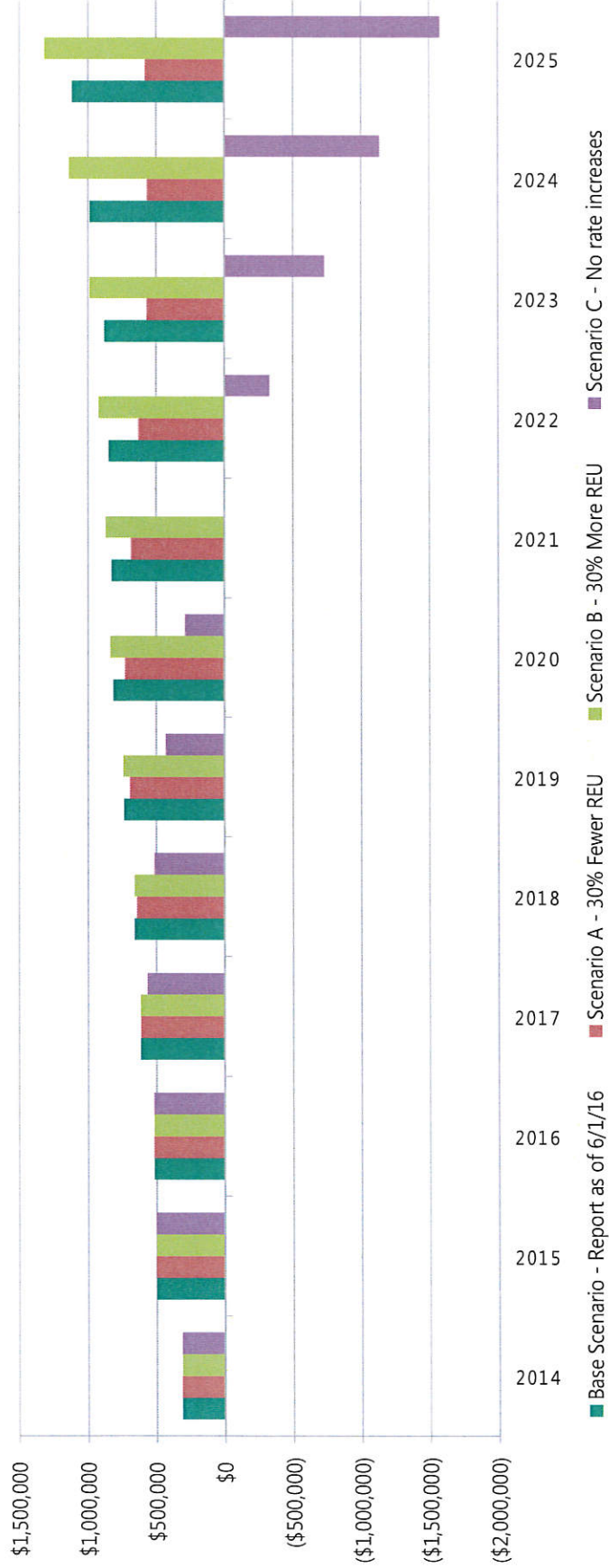
FINANCIAL PLANS STORM WATER FUND – FROM ORIGINAL REPORT

Chart 11
City of Lake Elmo, MN
Storm Water Fund
Year End Cash Balance
(does not include cash held in escrow for refunding of bonds)



FINANCIAL PLANS STORM WATER FUND

Chart 11 - With Scenarios
City of Lake Elmo, MN
Storm Water Fund
Year End Cash Balance
(does not include cash held in escrow for refunding of bonds)

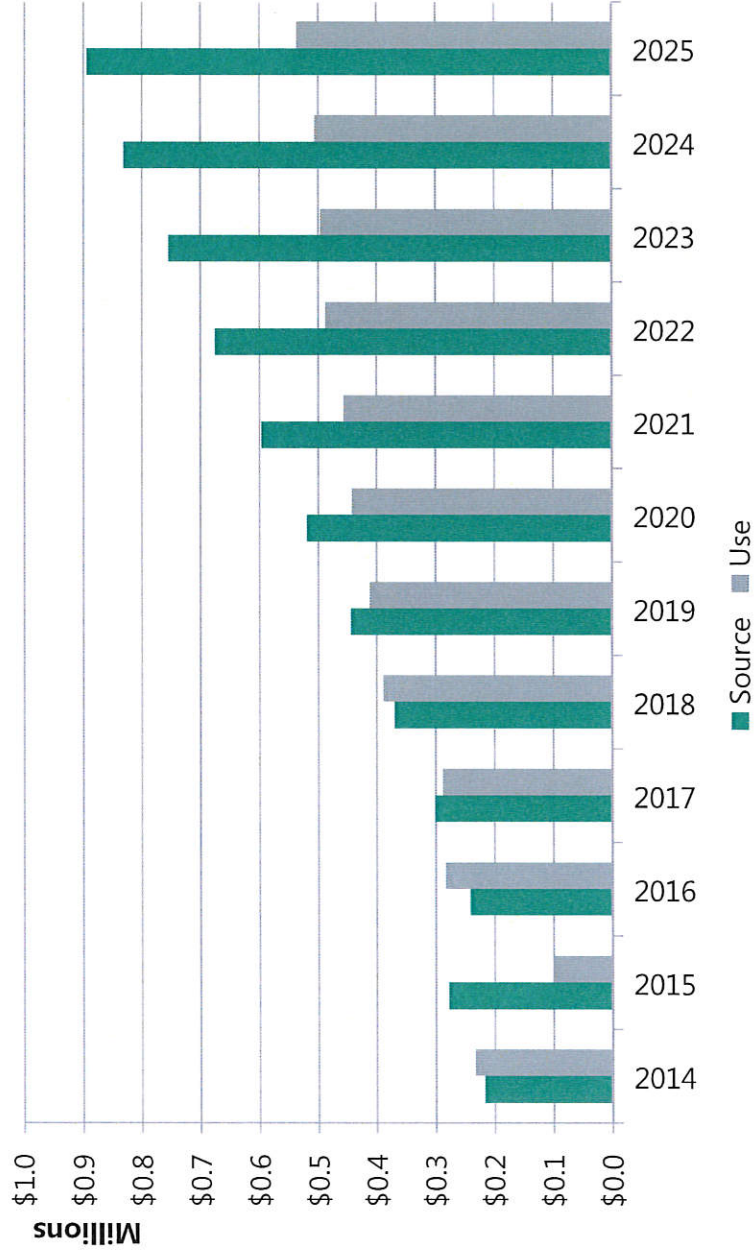


See disclaimer on Slide 4.



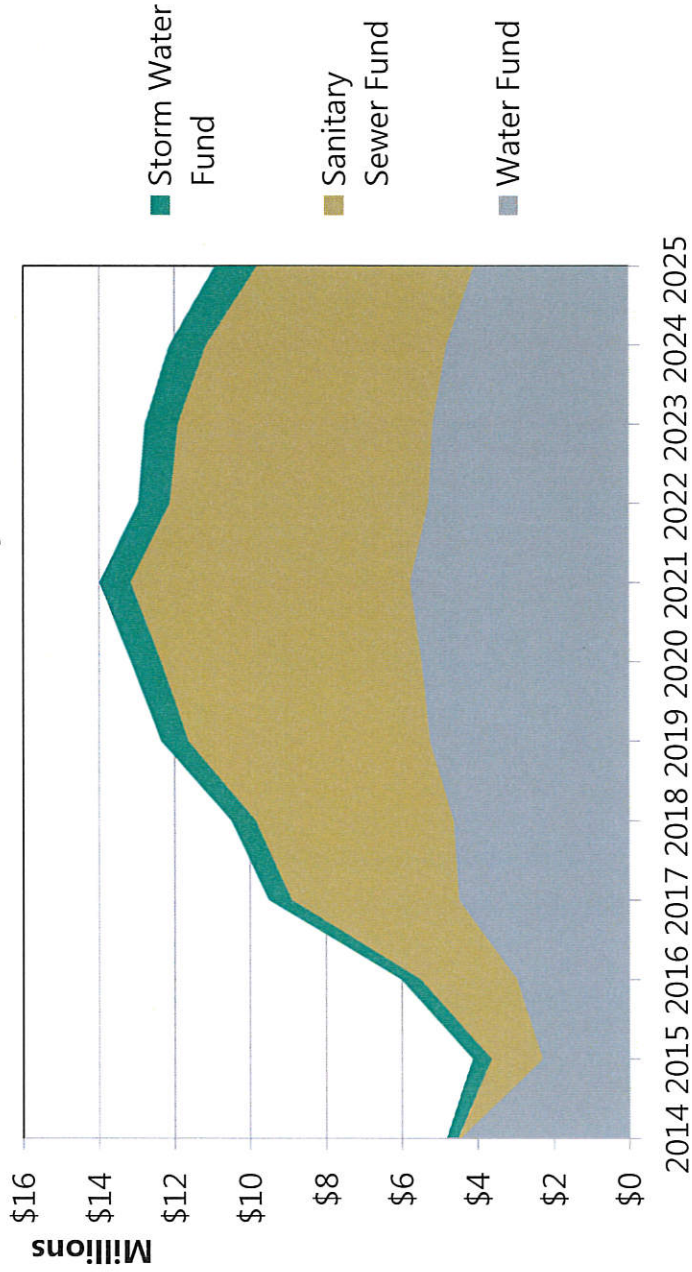
FINANCIAL PLANS STORM WATER FUND – FROM ORIGINAL REPORT

Chart 12
City of Lake Elmo, MN
Storm Water Fund
Difference Between Source and Use of Funds (Change in Net Assets)



FINANCIAL PLANS YEAR END CASH PROJECTIONS – FROM ORIGINAL REPORT

Appendix E
Chart 13
Year End Cash Estimates By Fund



Note: Year 2015 is estimated (un-audited) and years 2016 through 2025 are projected based on financial plans (pro forma) for each of the funds.



FINANCIAL PLANS YEAR END CASH PROJECTIONS – ORIGINAL REPORT AND ALTERNATIVE SCENARIOS

Scenarios	Year 2015 (Un-Audited,										
	Preliminary)	Year 2016	Year 2017	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025
Report as of 6/1/2016, Base Scenario	\$4,139,984	\$6,027,123	\$9,512,080	\$10,502,094	\$12,361,080	\$13,157,837					
Scenario A - 30% Fewer REU	\$4,139,984	\$5,242,023	\$7,538,978	\$7,848,682	\$8,716,734	\$8,914,090					
Scenario B - 30% More REU	\$4,139,984	\$6,812,223	\$11,533,574	\$13,276,903	\$16,245,176	\$17,878,992					
Scenario C - No Rate Increases	\$4,139,984	\$6,027,123	\$9,465,020	\$10,345,362	\$12,021,879	\$12,555,957					
Scenarios	Year 2021	Year 2022	Year 2023	Year 2024	Year 2025						
Report as of 6/1/2016, Base Scenario	\$13,993,165	\$12,968,845	\$12,788,482	\$12,137,166	\$10,911,755						
Scenario A - 30% Fewer REU	\$9,108,005	\$7,585,596	\$6,860,366	\$5,827,597	\$4,359,872						
Scenario B - 30% More REU	\$19,709,761	\$19,624,667	\$20,559,060	\$20,992,705	\$20,809,673						
Scenario C - No Rate Increases	\$13,042,250	\$11,577,389	\$10,859,940	\$9,573,671	\$7,625,685						

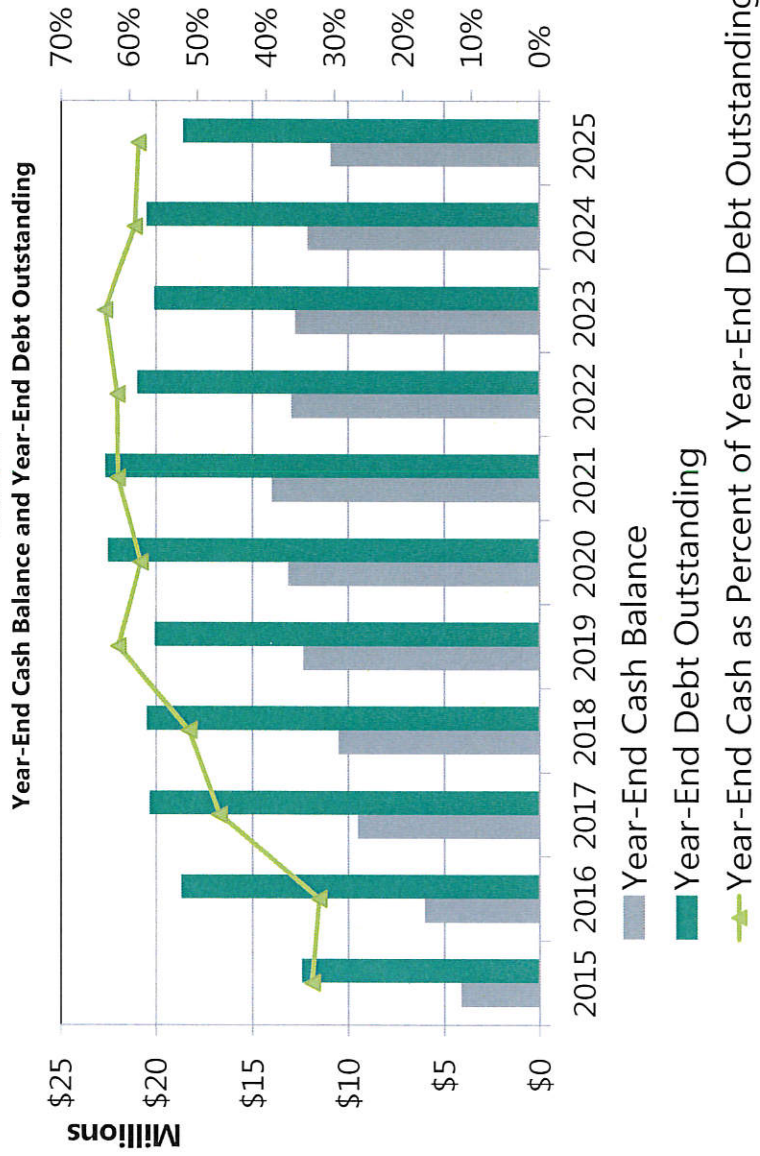
Notes:

- The Base Scenario includes a 1% annual increase for sewer and water usage charges (no increase for connection and SAC/WAC) and a \$10 annual increase for storm water. Scenario C assumes there is no change to rates between years 2017 and 2025.**
- The City's final 2015 Audited Financial Statements were not available prior to the completion of the final draft of the Financial Management Plan, dated June 1, 2016.**
- See Disclaimer on Slide 4 regarding Scenarios A, B, and C.**



FINANCIAL PLANS YEAR END CASH PROJECTIONS – FROM ORIGINAL REPORT

Appendix F
Chart 14



Note: Amounts for Year 2015 are un-audited actual. Years 2016-2025 are projected



QUESTIONS/ANSWERS

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