



## STAFF REPORT

DATE: June 20, 2023

**CONSENT**

**AGENDA ITEM:** Financial Planning Agreement – Utility Funds

**SUBMITTED BY:** Clarissa Hadler, Finance Director

---

### **BACKGROUND:**

The City first engaged Northland Securities Inc. to develop a utility pro forma in 2016. The pro forma was updated in 2018 and again in 2020. In order to update the council on budget impacts in the utility (water, sewer, and stormwater) funds, staff reached out to Northland to update the pro forma again in 2023.

### **ISSUE BEFORE COUNCIL:**

Should Council approve the Financial Planning Agreement with Northland Securities Inc?

### **PROPOSAL:**

As the city continues to grow and expand the water, sewer, and stormwater systems, it will be important to maintain awareness around our long-term financial needs of the utility funds. The update of the city's utility pro forma will be based on new information such as operational costs, recent and pending development, policy changes, and new CIP projects. This plan does not look at the city's rate structure but similar to previous update will recommend rate changes as necessary.

### **FISCAL IMPACT:**

\$4,128 from the water fund, \$4,128 from the sewer fund and \$2,064 from the stormwater fund.

### **OPTIONS:**

- 1) Approve the Financial Planning Agreement with Northland Securities Inc
- 2) Amend and then approve the Financial Planning Agreement with Northland Securities Inc
- 3) Do not approve the Financial Planning Agreement with Northland Securities Inc

### **RECOMMENDATION:**

If removed from the consent agenda:

***“Motion to approve the Financial Planning Agreement with Northland Securities Inc.”***

### **ATTACHMENTS:**

- Financial Planning Agreement

# **PROFESSIONAL SERVICES AGREEMENT**

**BY AND BETWEEN  
THE CITY OF LAKE ELMO, MINNESOTA  
AND  
NORTHLAND SECURITIES, INC.**

## **FINANCIAL PLANNING SERVICES FOR ENTERPRISE FUNDS**

This Agreement made and entered into by and between the City of Lake Elmo, Minnesota (hereinafter "City") and Northland Securities, Inc., of Minneapolis, Minnesota (hereinafter "NSI").

### **WITNESSETH**

WHEREAS, the City desires to use the services of NSI for financial planning services for updating a long-term financial planning model for the Enterprise Funds and preparation of a report (hereinafter "Project").

WHEREAS, the Project is intended solely for financial planning purposes and NSI is not providing advice on the timing, terms, structure or similar matters related to a specific bond issue.

WHEREAS, NSI desires to furnish services to the City as hereinafter described.

NOW, THEREFORE, it is agreed by and between the parties as follows:

### **SERVICES TO BE PROVIDED BY NSI**

The services to be provided by NSI (the "Scope of Work") is based on the following factors:

1. The projected future year ending cash and net position for the Enterprise Funds needs to be developed to ensure adequate reserves exist to meet ongoing requirements.
2. The analysis needs to consider future capital improvements and related financing.
3. The analysis needs to develop future projected amounts for fees and charges for municipal utility services.
4. The following City Funds will be included for the Project: Water Fund (601), Sewer Fund (602), Storm Sewer Fund (603) (together, the "Utilities").

NSI will undertake the following tasks (hereinafter "Tasks"):

1. **Kick-off Meeting.** Conduct kick-off meeting with City staff to review the objectives for the Project, set meeting schedule and discuss background data. City staff shall serve as the Project Management Team (the “PMT”).
2. **Data Collection.** Identify information and documents for City to provide to NSI. City has the responsibility for collecting and providing NSI with information needed for the Project. Information requested from NSI includes, but is not limited to the following:
  - a. Number of estimated new customers of the Utilities, by City defined customer type, projected to be added during years 2023-2032.
  - b. Utility billing customer data (including customer count, volume data, by customer type), for years 2021 and 2022.
  - c. Capital improvement plans for the Utilities for years 2023-2032.
  - d. Recurring interfund transfer information.
  - e. Any staffing additions or staffing changes that need to be modeled and included in the report.
  - f. 2022 Budget detailed line items for the Utilities.
  - g. 2023 Budget detailed line items for the Utilities.
  - h. 2021, 2023, and 2023 adopted Fee Schedules for the Utilities.
  - i. Adopted financial management policies.
3. **Model Preparation.** The financial planning model developed by NSI for the Utilities will be updated to meet the City’s needs consistent with the Scope of Work. NSI will use to use two years of “base” data from City’s audited financial statements as the base for financial projections. The planning period will be a ten-year period, inclusive of years 2023-2032. The following will be built into the model:
  - a. Growth assumptions created in Task 2, including residential, commercial, and other types of customer data.
  - b. Changes in operations and services as may be identified by City.
  - c. Projected revenue sources for the Utilities.
  - d. Estimated costs for capital improvements and planned sources of revenue by year.
  - e. Pro forma for each of the funds for the Utilities to be modeled. The pro forma will include detailed information on revenue and expenses, and assets and liabilities.
  - f. Projected utility rates and utility volume/activity/residential equivalent unit amounts.
4. **Data Input and Assumption Development.** This task involves the analysis and input of historical data and assumption development (input of assumption factors) for projecting future revenue and expense, and assets and liabilities. NSI will prepare the initial assumptions for presentation to the PMT for review and modification.

5. **Test Assumptions and Finalize Model.** This task will focus on ensuring the model is functioning properly and the results are accurate and reflect the City's objectives for unrestricted net position (reserves) within the Utilities. The evaluation will consider not only the effect of assumptions on changes to current cash position and net position of the Utilities, but also the impact on future fees and charges to customers of the Utilities. Customer impacts will be calculated and included in the report.
6. **PMT Check-in Meeting to Discuss Assumptions.** NSI will meet with the PMT to review work to date with a focus on projected utility rate evaluation. Guidance from the PMT will be used to shape revised analysis and assumptions in the model and for the report development.
7. **Draft Report / Presentation Summary Development.** NSI will draft a report. The report will include the following sections: Executive Summary, Background, Capital Improvement Plans, Utility Rates, and Financial Plans. The Financial Plans section will include a pro forma for each of the Utilities, with projected revenues and expenses, and assets and liabilities for years 2023-2032.
8. **Meet with PMT to Review Draft Report / Presentation.** NSI will meet with the PMT to review the draft report and presentation. Based on feedback from PMT, NSI will update the drafts.
9. **Finalize Draft Report and Presentation and Submit to PMT.** Based on input and feedback from the PMT, NSI will finalize the draft report and presentation and submit to the PMT for further review and comment. Any additional comments and feedback from the PMT will be incorporated into the model and the draft report and presentation. Depending on the comments and feedback received, a meeting with the PMT may be scheduled.
10. **Present Report to City Council.** NSI will present the final draft report to the City Council.
11. **Meet with PMT to Review Outcomes of Presentation to City Council.** NSI will meet with the PMT to review outcomes from City Council meeting to determine the need for follow up analysis and address any issues related to the preparation of the final report. The draft final report will be submitted to the PMT for final review.
12. **Deliverables to City.** NSI will prepare and deliver the final report and planning model to City.

This Scope of Work includes two (2) meetings with PMT and one (1) meeting with the City Council.

### **COMPENSATION**

For the services specified, NSI will be paid the not to exceed amounts as detailed in Table A. The amounts are based on the estimated number of hours required to complete the Tasks at an hourly billing rate of \$215 per hour plus reimbursable expenses for travel, printing, and mailing. NSI will bill monthly for actual services performed and actual reimbursable expenses no later than

the last day of the month following the month service was provided. NSI invoices will detail the scope of work performed, compensation for the period, and show amounts previously billed.

**Table A**

Water Fund	\$4,128
Sewer Fund	\$4,128
Storm Sewer Fund	\$2,064

The City may at its discretion authorize NSI in writing to undertake additional tasks, including meeting attendance, beyond the Tasks listed under the Scope of Work. Additional services will be billed monthly at a rate of \$215 per hour.

**ASSIGNED NORTHLAND EMPLOYEE**

The NSI employee responsible for providing services pursuant to this agreement and for the services performed is Tammy Omdal, Managing Director.

**SUCCESSORS OR ASSIGNS**

The terms and provisions of this Agreement are binding upon and inure to the benefit of the City and NSI and their successors or assigns.

**DISCLAIMER**

In performing service under this agreement, NSI is relying on the accuracy of information provided by the City and the services provided by NSI are based on current State of Minnesota law. The parties agree that the Minnesota property tax system and other laws may change and may affect the accuracy and validity of services provided by NSI. NSI will perform its work using the best available information.

**TERM OF THIS AGREEMENT**

This Agreement may be terminated by thirty (30) days written notice by either the City or NSI. In the event of early termination by the City, NSI shall provide the City with an itemized hourly statement of services already provided. All billable hours by NSI shall be billed at the stated hourly rates should early termination occur.

Dated this \_\_ day of \_\_\_\_\_, 2023.

**Northland Securities, Inc.**

By: Tammy Omdal

Tammy Omdal  
Managing Director, Public Finance

**City of Lake Elmo, MN**

By: \_\_\_\_\_

Name \_\_\_\_\_

Title \_\_\_\_\_