



City Council Memorandum

To: Mayor Fasbender & City Councilmembers
From: Julie Flaten, Administrative Services Director
Date: March 2, 2020
Item: Accept Agreement with Ehlers Inc. for Utility Rate Study Review

Council Action Requested:

Approve the attached agreement with Ehlers Inc.

Background Information:

The City worked with Ehlers Inc. during 2016 – 2017 on a study to consider changes to the City's utility rate structure and associated fees. Identified goals of the study were to provide a clear understanding of the costs of municipal utility services and to provide a structure to generate revenue that was financially solvent, fair to end-users, and in alignment with the City Council's philosophy of user fees. In May of 2017 a new rate structure was adopted.

As part of that approval City Council directed that staff review the actual revenues and expenses compared to study forecasts and propose adjustments as necessary. The City is proposing to work with Ehlers Inc. over the next few months on that review and have the results available for the upcoming 2021 budget discussions.

Financial Impact:

The cost of \$9,000 for the review was budgeted in 2020.

Advisory Commission Discussion:

N/A

Council Committee Discussion:

N/A

Attachments:

N/A

February 27, 2020

Julie Flaten
Administrative Services Director
City of Hastings
101 4th Street E
Hastings, MN 56007-2421

Re: Proposal for a Utility Rate Study Update

Dear Julie,

Thank you for the opportunity to provide you with a proposal to undertake a Utility Rate Study for the City of Hastings. We are deeply appreciative of our long-standing relationship with the City and hope that our past efforts and this proposal demonstrate our team's collective qualifications to deliver the City's full scope of services as requested – and to surpass your expectations for quality and value.

Ehlers last completed a utility rate study for the water, sanitary sewer, and storm water funds for the City in 2017. We propose an update to the rate study to incorporate changing circumstances and to ensure it remains a useful guide to maintaining the financial health of the utility funds.

Ehlers proposes to take the following steps in updating the rate study. Our approach is flexible and has proven to deliver the information, recommendations and facilitated discussion essential to setting utility rates with confidence and accuracy.

Step 1. Solicit feedback on concrete objectives that the City wants to achieve with the study

Ehlers will work with staff to make sure we fully understand the City's financial situation, including outstanding and planned capital projects, and the City's short and long-term goals.

Step 2. Gather data

Rate studies and financial plans are a team effort. Ehlers will work with you to ensure that we receive the necessary data for the study.

Step 3. Complete a review of the City's Capital Improvement Plan

We will use information from City staff and consulting engineers, if applicable, to compile a detailed Capital Improvement Plan for water, sanitary sewer, and storm water utilities.

Step 4. Update rate study and financial plan

This step will provide recommendations for water, sewer, and storm water rates and updated financial plans for the utility funds. Ehlers will:

- Compare current year utility data usage to prior usage patterns and perform usage sensitivity analysis as needed;
- Update the existing pro forma cash flow statement for the water, sewer, and storm water funds showing projected usage, total operating revenues and total expenses, including operations and maintenance costs, depreciation, department servicing, net operating income, capital improvements, etc. to test adequacy of proposed rates and charges;
- Review and recommend utility rates and user charges;
- Address issues identified by Ehlers or the City such as:
 - The use of debt vs. cash to pay for future capital improvements
 - Minimum cash balances for the funds
- Identify whether any adjustments need to be made to the current conservation rates for water per M.S. 103G.291

Step 5. Review of Sewer & Water Connection charges

Working with staff, we will identify past and future capital improvements related to redevelopment and growth which may be paid for with connection fees and area charges. For each utility, we will determine the appropriate level of connection fees to reimburse the City over time for growth and redevelopment related expenditures, such as trunk oversizing/replacement and regional storm water facilities (*We have dedicated 4 hours to this task and any time required above that for various options will be billed on an hourly basis as noted below under Project Timing and Cost*).

Step 6. Recommendations

The rate analysis will give customized recommendations for the staff and Council to consider. The recommendations will address annual adjustments to water, sewer and storm water rates and development fees, and the timing and pace of utility and street capital improvements.

Step 7. Presentation to the Council and the Community

We will present the findings to the City Council at a workshop or meeting.

Upon completion, the City will have:

1. Rate recommendations for the water, sanitary sewer, and storm water funds for the next ten years;
2. The Utility Rate Study presented in Power Point format;
3. Financial projections;
4. Established priorities developed with staff and Council for utility capital spending;
5. A framework for the timing and amount of future debt issues;
6. One meeting with the City Council with a facilitated discussion; and
7. A transparent decision-making process.

Project Timing and Cost

The Utility Rate Study Update can be completed within twelve weeks, depending on meeting schedules. Ehlers is prepared to commence the work immediately.

Ehlers will perform the Utility Rate Study Update for a total cost of \$9,000. It is anticipated that \$1,000 or 4 hours is dedicated to options related to the City's SAC and WAC connection fees and the remaining time is dedicated to the rate study. Additional work outside the scope outlined above, if requested by the City, will be performed at our normal hourly rate of \$250/hour.

Thank you for the opportunity to serve the City of Hastings.

Respectfully submitted,



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