

City of Breezy Point, Minnesota

RE: Sewer Rate Analysis

DATE: May 28, 2024

This Scope Appendix is attached by reference to the above-named engagement letter (the “Engagement Letter”) between the City of Breezy Point (the “Client”) and Baker Tilly.

Scope of work

The purpose of this study is to assist the City of Breezy Point in reviewing the fees charged for sanitary sewer services (“Utility”). This study will provide a financial plan for the Utility over the next ten years. We typically conduct rate studies with a ten-year horizon with the understanding that the near-term forecasts will be more accurate, but longer-term forecasts are important for planning and ensuring the financial operations of the Utility are sustainable.

Project approach and methodology

Baker Tilly will perform the following services:

Task 1 — Confirm scope, objectives and timing

The project will begin with a data request and a kick-off meeting via Teams. Baker Tilly will request that the City provide key data and documents and then review the project approach. We will:

- Discuss and confirm the study objectives, scope and approach
- Arrange logistics including data collection, dates for meetings and presentations, and specific deliverables needed by the City
- Finalize the work plan, including any revisions

Task 2 — Review background information

We will review background information for the Utility, including a review of the following data sources:

- Current rate schedules
- Current and historical billing data
- Current and recent operating budgets and Annual Comprehensive Financial Reports
 - If projections are needed at a finer level of detail than what is provided in these reports, additional financial details will be required
- Debt service repayment schedules for existing debt obligations
- Anticipated investments in capital improvements, including expansions and major repair/replacement of existing infrastructure
- Current financial policies
- Projected growth of customer base
- Recently completed engineering study and other relevant studies as available

Task 3 — Analyze information and develop preliminary model

We will develop a Microsoft® Excel-based financial rate model that will identify the overall revenues required to provide adequate funding for operations, capital expenditures and debt service requirements, and to maintain appropriate cash balances. Details about the model include:

- Projections based on an income statement approach, including operating revenues and expenses and a yearly cash flow analysis
- Expenses related to capital investments and related debt service requirements
- Recommended annual ending cash balances and reserve levels for cash flow, infrastructure replacement, emergencies and other needs
- Projected customer growth and future service demands
- Graphics to provide visual representations of historical and projected financial performance

Baker Tilly will populate the model with data for the baseline scenarios of the Utility and review with the City. Based on this review, Baker Tilly will make changes to the model which reflect the City's comments as appropriate.

Task 4 — Develop and review financial projections

Using the financial model, we will develop a 10-year financial projection which integrates the Utility's revenue sources, operating expenditures, anticipated capital expenditures, existing and projected debt service and changes in customer base over the planning period. We will:

- Determine revenues required to provide adequate funding for annual operating expenses, capital investments, debt service requirements, and to maintain sufficient fund balances
- Develop recommendations for the financing of anticipated capital improvements
- Develop recommendations for cash reserves

Baker Tilly will recommend rates sufficient for the Utility to meet the requirements above. To the extent that recommended rate adjustments would not be achievable, we will work with the City to identify alternative revenue sources and to prioritize cost reductions required to keep the utility fund sustainable. We will provide comparisons of recommended charges to the Utility's current rates and demonstrate the effect of proposed rate changes on typical utility customers.

City staff and the Baker Tilly team will meet to review the financial projections and analyses. Based on this review, Baker Tilly will make modifications to the model and projections which incorporate the City's comments as appropriate.

Task 5 — Prepare and present findings

Baker Tilly will prepare a summary report containing our findings and recommendations. We will provide the City with an electronic copy and present a summary of our findings to the City.

Project deliverables

The deliverables for this study will include a summary report of our findings and recommendations which includes our projections of the Utility fund's financial performance over ten years. In addition, we will provide a summary of our findings and recommendations suitable for presentation at a public meeting.

Nonattest services

As part of this engagement, we will perform certain nonattest services. For purposes of the Engagement Letter and this Scope Appendix, nonattest services include services that the *Government Auditing Standards* refers to as nonaudit services.

We will not perform any management functions or make management decisions on your behalf with respect to any nonattest services we provide.

In connection with our performance of any nonattest services, you agree that you will:

- Continue to make all management decisions and perform all management functions, including approving all journal entries and general ledger classifications when they are submitted to you.
- Designate an employee with suitable skill, knowledge, and/or experience, preferably within senior management, to oversee the services we perform.
- Evaluate the adequacy and results of the nonattest services we perform.
- Accept responsibility for the results of our nonattest services.
- Establish and maintain internal controls, including monitoring ongoing activities related to the nonattest function.

Anticipated timing

Baker Tilly will commence work on the project within two weeks of receiving the notice to proceed. We will complete the project within 16 weeks of receiving the notice to proceed, provided that all necessary information can be obtained in a timely manner and provided that City staff are available for necessary meeting in accordance with the schedule.

Should any unforeseen circumstances arise, Baker Tilly can draw on its staff of professionals to keep the project on schedule to the greatest extent possible.

Compensation

We have prepared the below fee estimate to meet your needs and objectives. Our fees allow for thorough and insightful advice from experienced professionals without unnecessary add-on or startup charges.

SERVICES	FEES
Tasks 1 – 5: Model development, financial projections, summary report and Council presentation.	\$16,500
TOTAL FOR ALL SERVICES	\$16,500

Baker Tilly will perform the tasks outlined in Tasks 1 -5 for a fee of \$16,500. The proposed fee assumes that Baker Tilly staff can meet with City staff remotely to complete the tasks and includes attendance at a City Council meeting to present the results of the study. To the extent that additional in-person meetings are required, we would discuss travel expenses and charge the additional costs after approval by the City.

Baker Tilly will invoice once the project is completed.

Additional work

Should the City of Breezy Point request and authorize additional work outside the scope of services described in this proposal we would invoice the City at either our standard hourly fees or at an agreed upon fee based on the additional scope requested.

Conflicts of Interest

Attachment A to the Engagement Letter contains important disclosure information that is applicable to this Scope Appendix.

We are unaware of any additional conflicts of interest related to this Scope Appendix that exist at this time.

Termination

This Scope Appendix will terminate according to the terms of the Engagement Letter.

If this Scope Appendix is acceptable, please sign below and return one copy to us for our files. We look forward to working with you on this important project.

Sincerely,

BAKER TILLY US, LLP

Signature Section:

The services and terms as set forth in this Scope Appendix are agreed to on behalf of the Client by:

Name: _____
Title: _____
Date: _____

The information provided here is of a general nature and is not intended to address the specific circumstances of any individual or entity. In specific circumstances, the services of a professional should be sought. © 2024 Baker Tilly US, LLP. Baker Tilly US, LLP is currently undergoing a restructuring of its organization, which is anticipated to occur on or around June 1, 2024. Following the closing of such restructuring, all consulting and tax engagements will be performed by Baker Tilly Advisory Group, LP. All assurance engagements will continue to be performed by Baker Tilly US, LLP.

Baker Tilly US, LLP, trading as Baker Tilly, is an independent member of Baker Tilly International. Baker Tilly International Limited is an English company. Baker Tilly International provides no professional services to clients. Each member firm is a separate and independent legal entity, and each describes itself as such. Baker Tilly US, LLP is not Baker Tilly International's agent and does not have the authority to bind Baker Tilly International or act on Baker Tilly International's behalf. None of Baker Tilly International, Baker Tilly US, LLP nor any of the other member firms of Baker Tilly International has any liability for each other's acts or omissions. The name Baker Tilly and its associated logo is used under license from Baker Tilly International Limited.