

February 21, 2025

Joshua Tetzlaff
City Administrator
City of New Prague
118 Central Ave N
New Prague, MN 56071-1534

RE: Proposal for a Long-Term Financial Management Plan and Utility Rate and Connection Fee Study

Dear Josh,

On behalf of Ehlers, we are pleased to present this proposal to undertake customized long-term financial planning for the City of New Prague ("City"). We are excited to have this opportunity to work with the City and demonstrate our team's collective commitment and qualifications to deliver dynamic and practical financial planning tools.

We understand the City is considering major investments in its facilities and infrastructure in the near future, including a new police facility and upgrades to the sewer treatment plant. These projects could impact taxpayers, and the City is striving to maintain its financial health as well as a sustainable level of property taxes and utility rates. Ehlers proposes to assist the City by creating two integrated financial plans: a Financial Management Plan and a Utility Rate and Connection Fee Study. The City can opt to complete one or both studies. Together, the plans will give the City confidence to fund its projects with an understanding of how they will impact the financial position of the City.

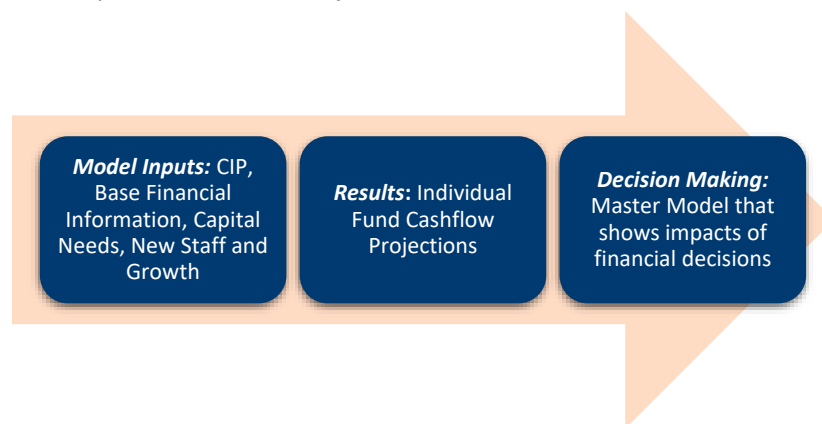
For over 65 years, Ehlers has helped municipal clients build strong and vibrant communities through financial planning, investment advisory, debt issuance and management, and economic development consulting services. **Our firm has completed 100+ long-term financial plans and more than 250 other fiscal studies in the last five years alone.**

Financial Management Plan

A Financial Management Plan (“FMP”) is a 10-year operating budget and capital improvement plan with a funding strategy developed through facilitated discussions with staff and City Council. It will guide the City’s financial future and determine how the City can fund its capital needs and other activities.

The FMP allows the City to ask critical questions about completing its capital improvements. For example, what will happen to the tax rate if the City undertakes project X? How can projects be financed to take advantage of expiring debt? What if we delay projects? Are there opportunities to lower the City’s local tax rate? The FMP provides a tool to explore these questions and develops a comprehensive funding strategy for the long-term needs of the City.

Ehlers will build a customized Excel model for the City with cashflow projections for each fund that roll-up into a summary forecast.



We propose including the following funds in the FMP:

- General Fund
- Park Improvements Fund
- Equipment Fund
- The following Debt Service Funds:
 - HRA – Senior Housing
 - 2007 CIP
 - 2009 CIP
 - 2011 CIP
 - 2013B Refunding Bonds
 - 2014 CIP
 - 2015 CIP
 - 2019 CIP
 - 2020A Refunding Bonds
 - 2020-2021 CIP
 - 2022 CIP
 - 2023 CIP
- General Projects Fund
- T.H. 19 Project Fund
- EDA Fund

As part of developing the FMP, Ehlers will engage the Council in facilitated discussions to develop consensus regarding the financial direction of the City. We will overview what the FMP is, the process that is undertaken with staff, inputs and impacts, policy decisions and projections. By understanding the financial impacts of decisions, the Council can establish spending priorities and develop consensus about an acceptable level of property taxes and other revenues. The FMP will provide the Council and public with an understanding of how today's decisions will affect constituents in the future.

Staff and Council Meetings for the FMP

The scope of work anticipates up to two meetings with staff and two meetings with the City Council. During the initial staff meeting, we will discuss policy issues to prepare a baseline model of the City's financial condition that incorporates existing operations, new staff and initiatives, plus all proposed capital expenditures. This baseline model will show financial impacts related to fund balances, tax impacts, and apparent trends and will be reviewed in a subsequent meeting with staff. This is the starting place for the conversation with Council. At the first Council workshop we will show the financial impact of accomplishing all the City's goals and determine if priorities need to be set between competing funding demands.

Based on staff and Council direction, we then refine the FMP with up to two scenarios that alter the timing of capital projects and staffing additions, among other considerations. After soliciting additional feedback, we will develop a fiscal strategy and make recommendations on financial policies at a second Council meeting or work session.

Financial Management Plan Deliverables

The FMP will deliver an achievable, comprehensive financial plan that has been reviewed by and agreed upon by the City Council.

The FMP includes:

- Annual projected budget numbers for each of the next 10 years
- Inclusion of all capital improvements identified by the City
- Inclusion of additional staffing and related equipment (if applicable)
- Tax impacts
- Facilitated discussions to reach consensus on prioritization of projects
- Presentation materials and attendance at up to two public meetings

Most importantly, the FMP process will result in a feasible funding plan for the City's operations and capital projects, as further described in [Appendix A](#).

Utility Rate and Connection Fee Study

We understand the City recently completed a water rate study where Ehlers can build on work already done, bringing it up to date while also incorporating the operating and capital needs of the sewer fund. Significant capital projects, including a potential new filter plant or extension of the sewer treatment plant will put pressure on the utility funds. The Utility Rate Study will provide a platform for the City to evaluate the sufficiency of the existing rates and make rate-setting decisions for the water and sewer utilities to ensure all operating and capital costs are covered.

The Utility Rate Study will result in:

- A full understanding of the anticipated financial needs of the utility systems
- Options and recommendations for utility rates and fees for the next 10 years
- Recommendations for appropriate cash balances and a strategy for maintaining reserves
- A funding plan for future capital projects and utility replacement
- A flexible planning tool that will help the City respond to changing circumstances, weather patterns, and changes in customer usage

The scope of work can be found in [Appendix B](#).

The Connection Fee Study will review the findings from the City's most recent sanitary sewer feasibility study and evaluate the costs of connecting to existing and future sewer infrastructure and with a focus on more affordability.

The Connection Fee Study for sewer will result in:

- The allocation of the value of unused capacity to future sewer users using the "Buy-In Approach" to establish connection fees
- A financial review of the City's Trunk Sewer Fund
- A comparison of existing and proposed connection fees to those charged by neighboring and comparable communities

Utility Rate Study and Connection Fee Study Project Deliverables

Upon completion, the City will have:

- Rate recommendations for the water and sewer funds for the next 10 years
- The rate study results in a PowerPoint presentation outlining inflationary rate-setting recommendations for the City Council to consider and a memo memorializing rate setting decisions
- Financial projections
- Established priorities developed with staff and City Council for capital spending
- A financial plan for maintaining adequate cash balances and funding capital projects
- A transparent decision-making process

Project Team & Schedule

The Project Team for the FMP will consist of Rebecca Kurtz, Keith Dahl, Jeanne Vogt and Megan Sandell. Rebecca &/or Keith will attend the Council meetings, as well as meetings with City staff, and oversee the project. Jeanne and Megan will complete the numerical analysis.

Proposed Cost

Ehlers proposes to complete the project at the not-to-exceed cost of:

- | | |
|---|----------|
| • Financial Management Plan: | \$30,000 |
| • Debt Study for 22 debt service funds: | \$18,000 |
| • Utility Rate Study: | |
| ◦ Water Fund Update | \$5,000 |
| ◦ Sewer Fund | \$10,000 |
| • Sewer Connection fee Study: | \$10,000 |

We propose that the project will be billed hourly at the hourly rate of \$295, for actual hours worked so that the final cost may be less. As the project unfolds, Ehlers will invoice monthly for the work completed in the prior month with descriptions of project activities and time expended. *If the City anticipates issuing debt in 2025, the cost of the FMP and rate study can be financed along with the capital project.*

Ehlers is committed to delivering, and showing value, in our work. Thank you for engaging with us in your financial planning discussion. We appreciate your consideration and look forward to discussing how Ehlers can best serve the City.

Sincerely,

A handwritten signature in dark ink, appearing to read "Rebecca Kurtz". The script is fluid and cursive.

Rebecca Kurtz
Senior Municipal Advisor
(651) 697-8516

A handwritten signature in dark ink, appearing to read "Keith Dahl". The script is fluid and cursive.

Keith Dahl
Municipal Advisor
(651) 697-8595

Appendix A: Scope of Work

The Financial Management Plan (“FMP”) will be completed in the following general steps.

- Step 1.** Review City’s current financial position, policies, and practices.
- Step 2.** Aggregate and outline all future capital needs and program requests from City staff and consultants. A comprehensive list of major capital items and operational needs will be developed with the staff leadership.
- Step 3.** Assist in identifying other policy issues to be discussed and establish a framework for such discussion.
- Step 4.** Evaluate the impact of any tax base changes. Potential changes in the tax base due to growth, redevelopment or anticipated business closures will be included in the FMP model, as well as expiring TIF Districts (if applicable).
- Step 5.** Create the FMP Base Model that shows the impact of including all capital requests. The Model will follow the City’s financial statements and show projected ending fund balances for each fund for each of the next ten years.
- Step 6.** Analyze options to best meet the City’s needs. Options might include varying the timing of capital projects, changing capital funding policies, or modeling alternative revenue sources. The financial impact, including determining bond rating impact(s), of up to two (2) scenarios will be shown.
- Step 7.** Prepare an achievable, comprehensive financial plan that helps the City fund capital and operating priorities and builds Council consensus.

Appendix B

Scope of Work for Utility Rate Study

Ehlers proposes to take the following steps in completing the Utility 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. Gather data from City staff

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

Step 2. 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 the water and sanitary sewer funds.
- We will ensure all utility-related costs, such as equipment and capital improvement projects are included in the Capital Improvement Plan.

Step 3. Solicit feedback on concrete objectives that the City wants to achieve with the study. At our initial meeting, Ehlers will work with staff to make sure we fully understand the utility's financial situations, including outstanding and planned capital projects, the City's short and long-term goals, and future estimates of land use and growth.

Step 4. Complete rate study and financial plan

This step will focus on providing up to two options for water and wastewater user rates for residential and commercial customers. Ehlers will:

- Assemble and review existing historical utility system financial information
- Develop a pro forma cash flow statement for each fund showing total operating revenues and total expenses, including operations and maintenance costs, depreciation, department servicing, net operating income, capital improvements, etc. to test the adequacy of existing and proposed rates
- Review rates and user charges to determine if the rates and charges are sufficient to pay for operations and capital improvements
- Identify any additional issues, such as:
 - ✓ The use of debt vs. cash to pay for future capital improvements, with an emphasis on financing capital improvements with cash.
 - ✓ Minimum cash balance for the funds
 - ✓ Address city-identified issues
- Develop inflationary rate recommendations for each utility for the next ten years

Step 5. Provide up to two options for new water rate structures (optional)

- Analyze twelve months of utility billing data
- Restructure rates to achieve equity in use vs. payment, assure tiers are set appropriately so majority of users aren't captured in the 1st two tiers and to create tiers that promote conservation
- Ensure new rate structures will achieve revenue requirements for the water and sanitary sewer funds

Step 6. Review preliminary findings with City staff

- Review preliminary findings and seek direction for any revisions.
- Facilitate discussion to prioritize projects, if necessary, and develop proposed charges.

Step 7. Prepare Recommendations

The rate analysis will give recommendations for the staff and Council to consider. The recommendations will be customized for the City of New Prague and will address annual adjustments to rates, cash balance policies, and the timing of capital improvements.

Step 8. Presentation to Council and the Community

The rate analysis will include one City Council workshop or meeting.