

USING ASSET MANAGEMENT TO CREATE A FUNDING FEE FOR EAGAN INFRASTRUCTURE IMPROVEMENTS

Institute of Asset Management (IAM) – Minnesota Chapter
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Introduction of speakers

- Tammy Omdal, Northland Public Finance
- Josh Feldman, City of Eagan

Background for Eagan Plan

- City determined to undertake a process to develop a long-term plan to ensure the City's utility infrastructure is in good working condition to meet the continually evolving needs of the City and its customers
- City engaged AE2S for the purpose of developing a rehabilitation and replacement (R&R) plan
- AE2S provided data on capital needs for the development of the Long-Term Financial Management Plan for the City's Utilities Fund (Plan)
- Financial Plan developed by Northland is to serve as a guide for the on-going financial management of the City's Utilities Fund

Using Asset Management

- First Eagan needed to understand the long-term capital infrastructure funding requirements (the “Projects”)

...then a long-term funding plan for the Projects was developed

Focus of Financial Plan

- Revenue Sufficiency Objectives
- Rate Calculation Objectives

Revenue Sufficiency Objectives

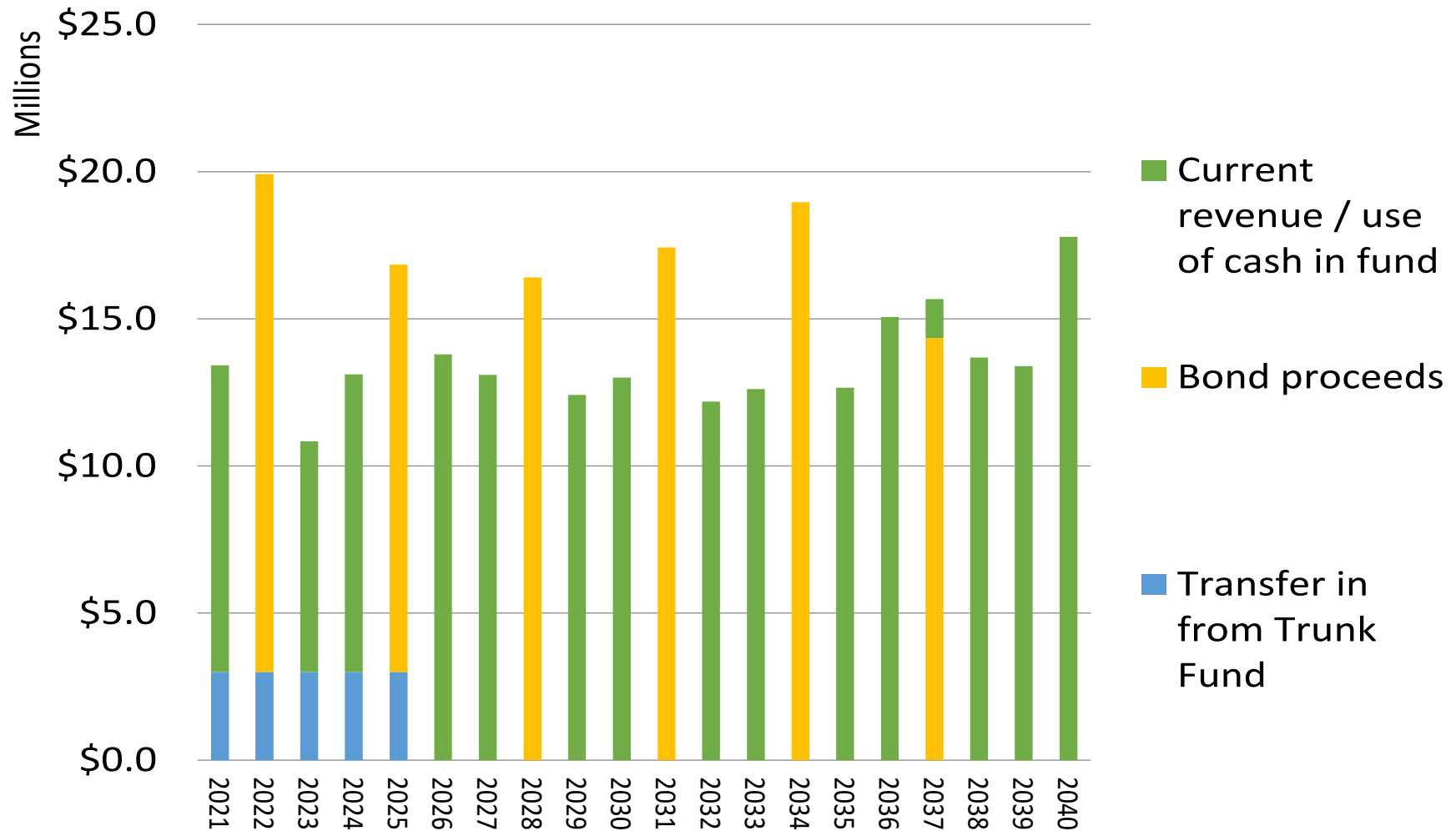
- Strategic use of debt to transition to “pay-go” funding for on-going capital needs
- Maintain cash sufficient to cover:
 - Three-months of operating expense
 - Following year debt service payments
 - Reserves for capital improvements
- Maintain unrestricted net position (equivalent of “equity”) of the Utilities Funds as percent of expense to not be less than 50%

Rate Calculation Objectives

- Plan for adoption of annual rate increases
- Implement “Infrastructure Fee”
 - Plan assumes each customer classification will pay same rate
 - City determined to show separate line item on the municipal utility bill
- Continue two-part rate structure (fixed/variable)
- Develop and implement communication plan for new Infrastructure Fee

Plan for source of funds for R&R and transition to pay-go funding

Public Utilities Fund (Combined)
Total Source of Funds for CIP for Utilities

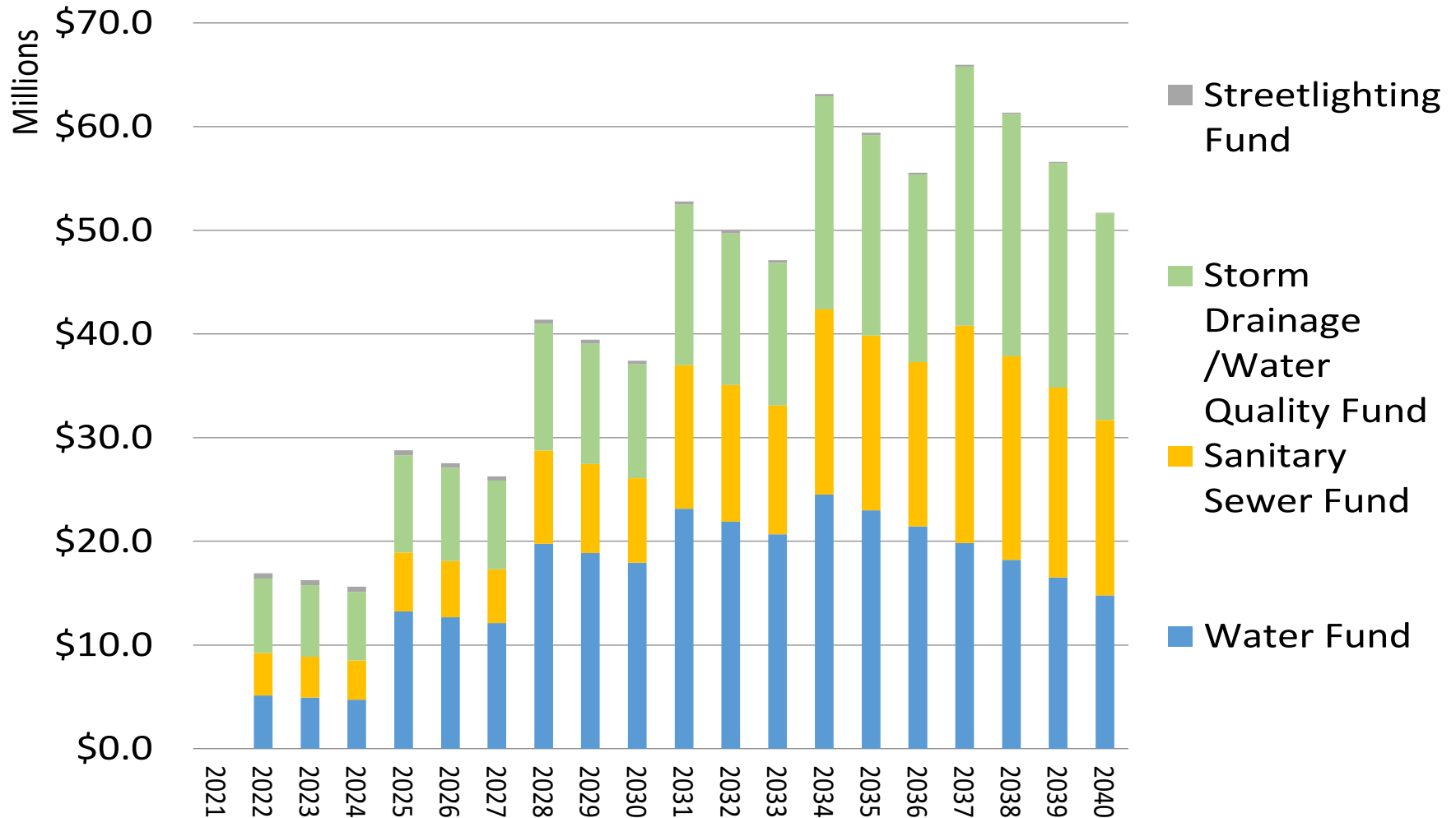


Balance between pay-go versus debt

- Many factors to consider
- Future customers benefit from improvements funded with “today’s dollars”
- Plan provides for transitioning over the next two decades to a pay-go strategy for R&R

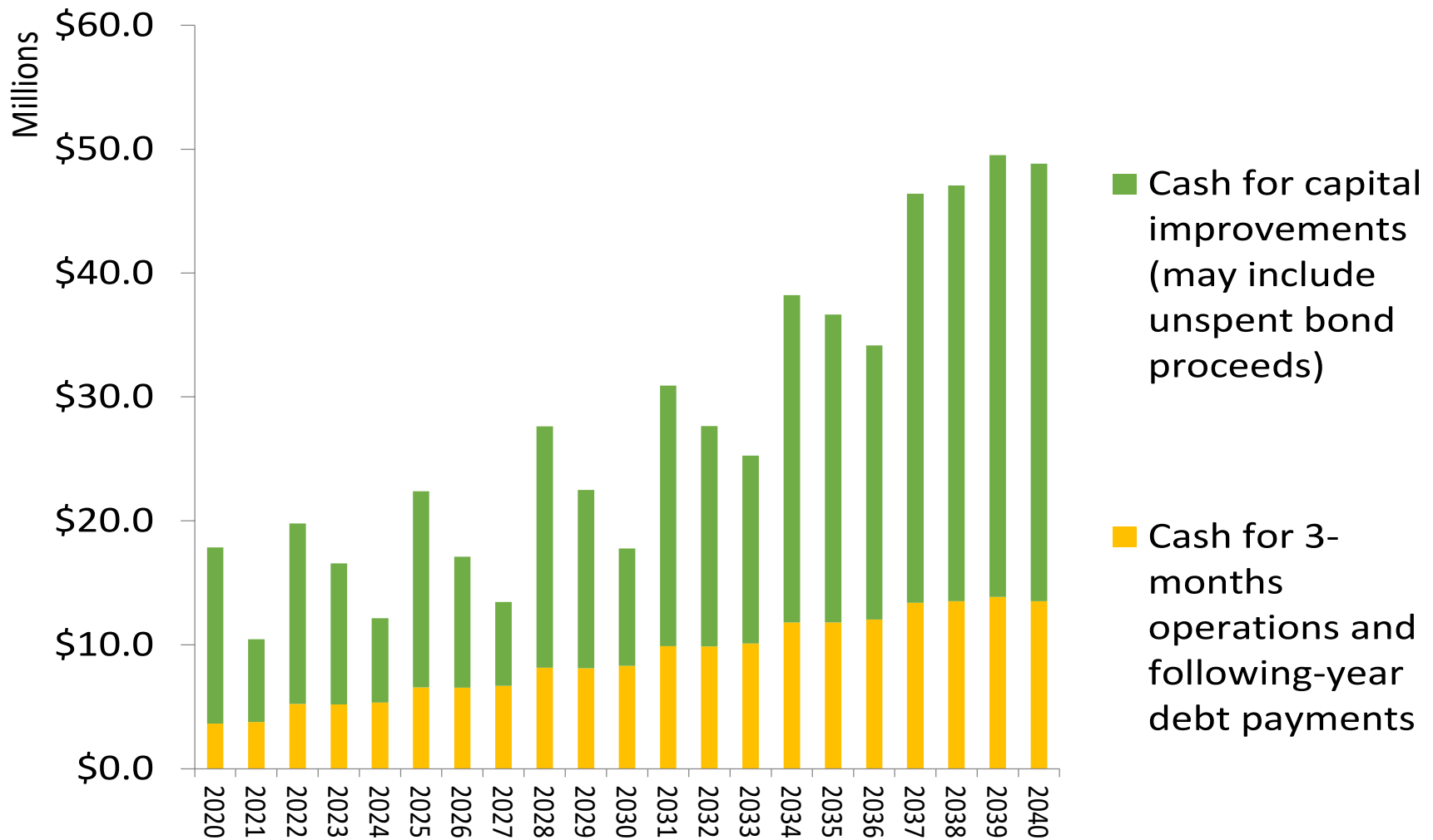
Bonds outstanding will increase

Public Utilities Fund (Combined)
Outstanding Bonds at Year-Ending, Estimated based on Plan



Available cash balance will increase

Public Utilities Fund
Projected Total Ending Cash



Water rate calculation

Current Rate Structure

- Base fees (administrative)
- State testing fee
- Off-season rate water volume billed at first tier/block rate (winter billing cycle)
- In-season water volume billed based on two tiers / block rates (all other quarters)

Proposed Rate Structure

- Base fees (administrative)
- **Infrastructure fee (\$5.00)**
- Off-season rate water volume billed at first tier/block rate (winter billing cycle)
- In-season water volume billed based on two tiers / block rates (all other quarters)

Sanitary Sewer rate calculation

Current Rate Structure

- Base fee (administrative)
- Volume billed at one tier/block rate based on total water billed during the winter billing cycle

Proposed Rate Structure

- Base fee (administrative)
- **Infrastructure fee (\$2.00)**
- Volume billed at one tier/block rate based on total water billed during the winter billing cycle

Average quarterly customer bill will increase

Average Quarterly Bill Example for Residential Customer

Based on 20,000 Gallons of Water Usage*

	2020 Actual	2021 Actual	Projected in Plan				
			2022	2023	2024	2025	2026
Total Quarterly Bill Example (City Utility Services)							
Total Utility Bill	143.70	150.51	169.00	185.63	198.24	208.58	219.26
Dollar Change for Quarterly Bill Example							
Water	2.46	2.22	11.06	8.84	4.88	5.01	5.16
Sanitary Sewer	3.33	3.33	5.13	5.26	5.24	3.87	4.01
Stormwater	0.87	0.90	1.91	2.10	2.31	1.27	1.34
Streetlighting	0.36	0.36	0.40	0.42	0.18	0.18	0.18
Total Utility Bill	7.02	6.81	18.49	16.63	12.61	10.34	10.68
% Change for Quarterly Bill Example							
Water	5.6%	4.8%	22.8%	14.9%	7.1%	6.8%	6.6%
Sanitary Sewer	4.9%	4.6%	6.8%	6.6%	6.1%	4.3%	4.2%
Stormwater	5.0%	4.9%	10.0%	10.0%	10.0%	5.0%	5.0%
Streetlighting	5.0%	4.7%	5.0%	5.0%	2.0%	2.0%	2.0%
Total Utility Bill	5.1%	4.7%	12.3%	9.8%	6.8%	5.2%	5.1%

* Assumes 12,000 gallons billed at Tier 1 and 8,000 gallons at Tier 2. State testing fee collected by the City and payable to the State of MN is not included.

Eagan fees are lower than other cities

- Eagan utility customers pay less in fees compared to most other comparative metro cities
- Low water volume customers in Eagan pay what are estimated to be the “lowest” combined charges compared to other cities

Impact of Plan on low volume customers

- Low water volume customers will see a larger % increase compared to other customers
 - Fixed portion of utility bill (as % of total bill) is higher for lower volume customers
- After implementation of proposed fee changes, all Eagan customers will *still* likely pay less compared to most other cities
 - Assuming other cities maintain current level of fees with annual inflationary adjustments

Summary Eagan Plan

- Focuses on **revenue sufficiency** to meet objectives for cash balance
- Provides for **rate calculation** that results in equitable and competitive charge to customers
- City shared information with its customers on proposed changes prior to implementation

Thank you

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