# Project Understanding

HDR is pleased to provide the City of Blair (City) with a scope of service for a water rate study. To meet the requested technical and professional services requested by the City, the following goals and objectives were developed:

- Develop the study using industry standard approaches (i.e., AWWA M1 Manual) and the City's specific system and customer characteristics.
- Calculate cost-based and proportional rates that meet the financial needs of the City's water utility.
- Develop a revenue requirement analysis which includes the current and projected future costs of providing water service.
- Develop a capital funding analysis that maximizes capital improvements while minimizing impacts to rate payers to the extent possible.
- Develop a cost of service analysis to proportionally distribute the total revenue requirement between the customer classes of service (e.g., residential, commercial, industrial, wholesale).
- Review and compare the current rate structures to industry standard approaches.
- Develop proposed rates for a multi-year period.
- Summarize the study approach, conclusions, and recommendations in a written document.
- Provide effective public presentations on the study results and recommendations.
- Provide the water rate model to the City at the completion of the study.

Given the identified goals, HDR has developed the following Scope of Work for the water rate study. To provide the City the information to make informed decisions to support rate projections the scope has been split into two phases. The first phase is the development of the revenue requirement to support short-term rate adjustments. Phase 2 is the development of the cost of service and rate design alternatives.

# Scope of Services

## Task 1 – Project Management

This task includes the general project management activities that are required for the water rate study to be completed on time and within budget. This includes allocating the appropriate labor resources to the project and working with the City to schedule project meetings and provide monthly invoices and progress reports.

**Task Approach:**

- Project manager is responsible for project administration and technical analyses
- Coordination with City staff.

**Expected City Support:**

- Monthly coordination with the HDR Project Manager on scope, budget, and schedule
- Review and process of monthly invoice

**Deliverables:**

- Monthly invoice

# PHASE 1

Phase 1 tasks include the development of the revenue requirement to establish the cost basis for the revenue necessary to support operating and capital expenses.

## Task 2 – Initial Data Request and Review

HDR will provide a written data request to the City prior to the Task 3 kick-off meeting so that outstanding data needs can be discussed and questions on the data needs resolved. The data and information requested should be readily available information (e.g., financial, statistical, customer billing). HDR will review the data and information and will provide the City with documentation of the data received along with further questions, clarifications, or outstanding data needs.

**Task Approach:**

- Develop a written data request and provide to the City electronically
- Review data and information provided by the City
- Identify outstanding data constraints or data issues and discuss with the City

**Expected City Support:**

- Gather the data requested in the written data request provided by HDR
- Discuss data constraints or outstanding data needs with HDR

**Deliverables:**

- An initial written data request provided electronically
- Documentation of data received, and a listing of outstanding data needs or clarifications will be provided electronically

## Task 3 – Initial Project Kick-Off Meeting

Bring the HDR project team and the City staff together at the start of the project so that both parties have a mutual understanding of the goals, objectives, issues, and concerns related to the water rate study. This meeting allows both parties to discuss in detail the overall goals and objectives for the water rate study, the approach, methodology, and schedule, while identifying issues or concerns that either party may have. It is proposed that the initial project meeting be held virtually and will be approximately two hours in length.

**Task Approach:**

- Schedule a two-hour virtual initial project meeting with the City project team

**Expected City Support:**

- Have key management/project team members attend a two-hour virtual kick-off meeting
- Confirm the goals and objectives for the water rate study

**Deliverables:**

- A meeting agenda outlining the objectives, tasks, and schedule for the virtual project meeting
- Meeting summary notes will be provided electronically

## Task 4 – Review of Financial and Rate Setting Policies

HDR will review the City's existing written financial and rate setting policies. As appropriate, HDR will provide recommendations for additional policies or modifications to the existing policies. This will include items such as target ending reserve levels, debt service coverage ratios, adequate funding of renewal and replacement needs, etc. It is important to understand that this task is not developing a specific set of written financial or rate setting policies for the City. Rather, this task is intended to gain an understanding of the level of written policy direction already provided within the financial planning and rate setting process and identifying areas for improvement to support the development of the rate study.

**Task Approach:**

- Review of the City's existing written financial and rate setting policies

**Expected City Support:**

- Provide a copy of the City's existing financial/rate setting policies
- As needed, respond to questions concerning the existing policies
- Provide feedback and input on recommended policies

**Deliverables:**

- Provide a summary memo confirming current policies and noting additional policies for the City to consider as part of the water rate study

## Task 5 – Revenue Requirement Analysis

Using a generally accepted rate-setting methodology, develop a revenue requirement analysis for a projected ten-year period. The focus of the analyses will be on the first five years for rate setting purposes. The revenue requirement analysis will establish the cost-based level of revenue to be collected from water rates (O&M and capital). The analysis will also examine key financial performance indicators such as debt service coverage and reserve levels as identified in Task 4.

**Task Approach:**

- Utilize the adopted water budgets and a cash basis methodology to accumulate costs

- Develop a financial/rate model to project revenues and expenditures (operating and capital costs) for a ten-year period with the focus on the next five-year period for rate setting purposes
- Develop a capital funding plan for the water capital improvement plan (CIP) and a consistent annual funding source for renewal and replacement capital projects
- Utilize City specific financial policies and financial planning criteria (e.g., minimum reserves, debt service coverage)
- Develop a rate transition plan to smoothly adjust the overall levels of rate revenues for the water utility

**Expected City Support:**

- Provide as-needed assistance to clarify provided data and information
- Provide as-needed data refinements or additional data
- Attend a half-day in-person meeting to review the water revenue requirement analysis

**Deliverables:**

- A revenue requirement analysis for a projected ten-year period, with the focus on the first five years for rate setting purposes, that considers the identified operating and capital costs
- A capital funding plan within the revenue requirement analysis based on the water capital improvement plan
- As needed, a rate transition plan to "phase in" needed rate adjustments
- Recommendations regarding key financial indicators (e.g., debt service coverage, capital funding/replacement through rates, reserve levels)
- A half day in person project meeting to review draft results of the water revenue requirement.

## Task 6 – Council Workshop/Presentation

Given the results of the revenue requirement, and identification of the overall revenue needs to support the operating and capital costs of the water utility, a presentation will be provided to City management and Council to gain feedback and input on the proposed rate revenue adjustments. This will provide City staff guidance on the overall level of rate adjustment for the budgeting process.

**Task Approach:**

- HDR will provide a presentation to summarize the results and recommendations of the revenue requirement analysis.

**Expected City Support:**

- Review the presentation content
- Coordinate the date and time of the presentation

**Deliverables:**

- An in person presentation to City management and Council

## Task 7 – Summary Documentation

At the completion of the Phase I water rate study analyses, HDR will develop a draft technical memorandum (TM). The TM will summarize the approach, methodology, results, and recommendations of the analyses completed to support the projection of overall system rate revenue adjustments. Attached to the TM will be a printout of the technical analyses developed to support the recommendation. The draft TM will be provided to the City electronically for review and comment. A final TM will be provided to the City electronically to summarize and document the Phase I water rate study recommendations.

**Task Approach:**

- Development of a draft and final summary technical memorandum.

**Expected City Support:**

- Review and comment on the draft TM.

**Deliverables:**

- A draft and final summary TM provided to the City electronically (Word, PDF).

## Phase 2

Based on the revenue requirement developed in Phase 1, the cost of service and rate design analyses will be developed to support rate structure alternatives and proposed proportional water rates for the different water customer classes and rate schedules.

## Task 8 – Cost of Service Analysis

Using generally accepted methodologies as outlined by American Water Works Association (AWWA), and City's specific and unique water system and customer characteristics, proportionally distribute the revenue requirement for the water utility to the identified customer classes of service (e.g., residential, commercial, industrial, wholesale). A focus of the analysis will be a review of the infrastructure (investment) and costs to provide service to large users and wholesale customers. The cost-of-service analysis provides cost-based average unit costs for the purpose of designing proposed water rates.

**Task Approach:**

- Utilize generally accepted water cost of service methodologies as outlined by AWWA to proportionally distribute the revenue requirement to the identified customer classes of service
- Review of infrastructure that provides joint services to wholesale, large user, and City customers for cost allocation purposes
- Summarize the results of the analysis and develop average unit costs

**Expected City Support:**

- Discuss the City's water system, facilities, and customer characteristics
- Attend a half-day in-person meeting to review the draft cost of service analyses combined with Task 6 – Revenue Requirement Analysis project meeting.
- Review the key assumptions and results of the water cost of service analysis

**Deliverables:**

- A proportional distribution of the City's water revenue requirement to the identified customer classes of service
- Average unit costs (e.g., $/customer/month, $/1,000 gallons)
- A half-day in-person project meeting to review the cost-of-service results and recommendations
- Summary meeting notes will be provided electronically

## Task 9 – Rate Design Analysis

Utilize the cost information developed as a part of the previous tasks to develop proposed water rates for a five-year period for adoption by the City. This task includes the development of up to two alternative rate structures to address the City's rate design goals and objectives, while providing rates which recover the cost of providing service. Bill comparisons will be developed for each rate design to demonstrate the potential bill impacts from a change in the rate structure or the level of the proposed rates.

**Task Approach:**

- Utilize the results of the revenue requirement and cost of service analyses to establish the proposed water rates
- Review the study rate design goals and objectives (e.g., revenue stability, conservation, ease of administration, ease of customer understanding)
- Review the City's existing water rate structure and discuss potential alternatives
- Develop up to two rate design alternatives that meet the City's objectives and are cost-based and proportional
- Proposed water rates will be developed for up to a five-year period
- Provide customer bill comparisons for each alternative developed to demonstrate the potential bill impacts
- Two-hour virtual project meeting to review the rate structure alternatives

**Expected City Support:**

- Discuss the rate design goals and objectives and potential rate structure alternatives
- Review rate designs for appropriateness, provide direction for the preferred alternative
- Confirm that rate design alternatives are compatible with the current billing system
- Attend a two-hour virtual project meeting and confirm preferred rate structure

**Deliverables:**

- Review of the City's current water rates and development of up to two alternative structures for consideration
- Development of proposed water rates for a five-year period
- Collaborate with City staff on the compatibility of rate design alternatives with the current billing system
- Bill comparisons and graphs for the developed rate design alternatives
- One two-hour virtual project meeting to review and discuss rate design alternatives

## Task 10 – Written Report

At the completion of the technical analyses, HDR will develop a draft written report. HDR's written reports are intended to document the activities undertaken as a part of the project, along with our findings, conclusions, and recommendations. Attached to the report will be the exhibits developed as a part of the technical analyses (e.g., revenue requirement, cost of service, rate design) for the water rate study. The City will review the draft report and provide comments/corrections to HDR. Based on feedback, HDR will develop the final water rate study report.

**Task Approach:**

- Develop an electronic (Word, PDF) draft water rate study report for review and comment by the City
- Incorporate changes or comments from the draft report into the final report
- Provide an Adobe PDF copy of the final report

**Expected City Support:**

- Review and comment on the draft written water rate study report

**Deliverables:**

- A draft and final water rate study report in electronic format (e.g., Word, PDF)

## Task 11 – Public Presentations

To effectively communicate the results of the rate study, HDR recommends several "touch points" with City Management, Council, and the public. It is anticipated that two public presentations will be held. The first will be to present the rate study results and recommendations to the City Council, and the second a presentation to the City Council for rate adoption. HDR will prepare rate study related presentation materials (i.e., PPT) for the presentations. Should additional public meetings or presentations be required, they can be provided on a time and material basis

**Task Approach:**

- Develop the presentation materials for the water rate study
- HDR staff will attend the public meetings/presentations

**Expected City Support:**

- Review and comment on the proposed handouts for the public meetings

**Deliverables:**

- Up to two in-person public presentations to present the findings, conclusions, and recommendations of the study

## Task 12 – Rate Model

HDR will develop the water rate model in Microsoft Excel. The model will be specifically developed for the City's water utility. HDR rate models are designed and intended to be technically sophisticated, yet easy to use and update. At the conclusion of the rate study, HDR will provide the water rate model to the City.

**Expected City Support:**

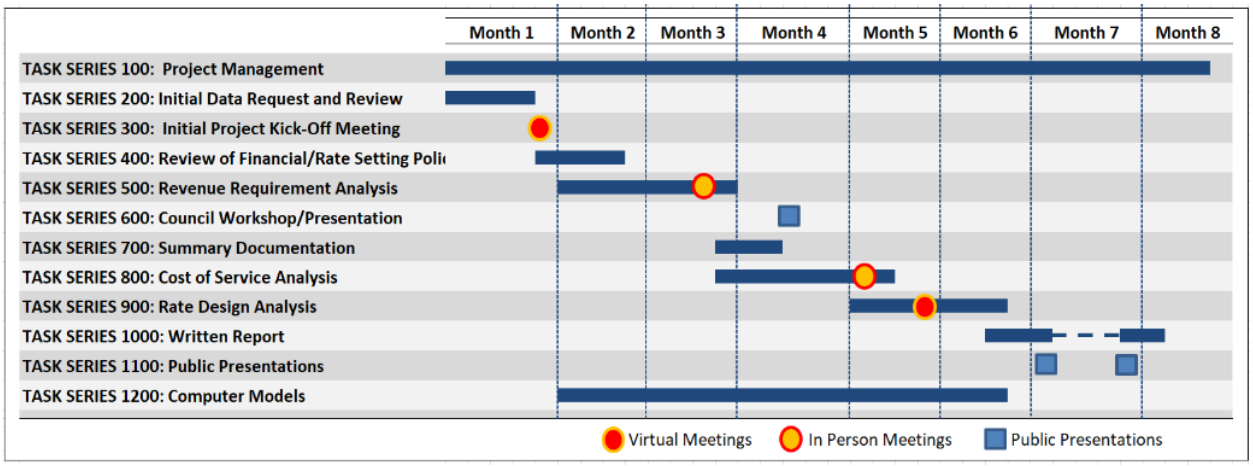
- Review with HDR the requested features and outputs of the model

**Deliverables:**

- A copy of the computer spreadsheet model used to develop the City's water rate study

# Project Schedule

Given the above scope of services a project schedule has been developed. HDR will collaborate with the City to develop the final project schedule as part of the initial kick-off meeting. Provided below is the estimated project schedule for the water rate study.




# Project Team

Provided below is a brief summary of each of the project team members.

## Shawn Koorn – *Technical Lead*



- Nationally recognized financial/rate expert with over 25 years of experience in utility rate and connection fee setting.
- Co-instructor for the AWWA *Rate Setting Essentials* Seminar.
- Contributing author to the AWWA M-1 and M-54 manuals
- Provides effective presentations to boards, city councils, the public, and industry conferences (e.g., AWWA, WEF)

## Steve Hanna – *Project Manager*



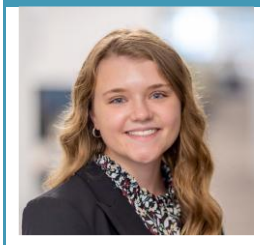
- Over 9 years of experience on drinking water projects and over 2 years of experience managing drinking water projects.
- Over 5 years of experience working with the City of Blair on drinking water projects including the Phase V Water Treatment Plant Expansion and Black Elk Pump Station Modifications.
- Professional Engineer licensed in Nebraska.

## Josiah Close – *QA/QC*



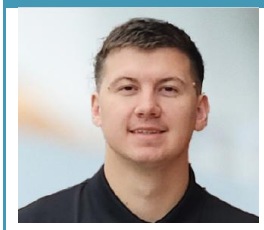
- Over 15 years of experience in developing rate and fee studies for water, recycled water, sewer, and stormwater systems
- Project manager for recent rate studies in Kansas, Missouri, California, and Oregon
- Presentations to Councils, Boards, and industry conferences on utility rate and fee setting topics.

## Sara Anderson – Rate Analyst



- Over 3 years of industry experience in developing water rate studies
- Worked with water utilities across the U.S. most recently in Washington, Minnesota, North Carolina, California, Nevada and Utah

**Jack Adams– Rate Analyst**



- Jack has nearly two years of water rate and fee study experience
- Worked with water utilities across the U.S. most recently in Missouri, Kansas, Washington, Minnesota, California, Oregon,

# Project Fee Estimate

Based on the above scope of services provided below is a summary of the estimated fees for the water rate study.

| TASK | HOURS | FEE |
|---|---|---|
| TASK SERIES 100: Project Management | 43 | $ 7,425 |
| TASK SERIES 200: Initial Data Request and Review | 6 | $ 891 |
| TASK SERIES 300: Initial Project Kick-Off Meeting | 9 | $ 2,047 |
| TASK SERIES 400: Review of Financial/Rate Setting Policies | 9 | $ 1,854 |
| TASK SERIES 500: Revenue Requirement Analysis | 42 | $ 9,177 |
| TASK SERIES 600: Council Workshop/Presentation | 11 | $ 3,078 |
| TASK SERIES 700: Summary Documentation | 11 | $ 2,324 |
| TASK SERIES 800: Cost of Service Analysis | 45 | $ 10,085 |
| TASK SERIES 900: Rate Design Analysis | 24 | $ 4,661 |
| TASK SERIES 1000: Written Report | 19 | $ 3,511 |
| TASK SERIES 1100: Public Presentations | 22 | $ 6,154 |
| TASK SERIES 1200: Computer Models | 3 | $ 532 |
| **Subtotal** | **-** | **$ 51,739** |
| Expenses | - | $ 5,625 |
| **TOTAL** | **244** | **$ 57,364** |