

Proposal for Water and Sewer Rate Analyses City of Tonganoxie, Kansas

Purpose and Need

This proposal describes the need, responsibilities, timing, investment and other issues for rate analyses (later referred to as “analyses”) of the water and sewer utilities for the City of Tonganoxie, Kansas (later referred to as “you”). These analyses will be performed by GettingGreatRates.com (later referred to as “I”). To adequately fund operation of your utilities, build and maintain reserves, fund capital improvements and related debt service, and establish rates that are fairly structured for ratepayers, you need to analyze your rates and fees, set them appropriately and periodically reset them. The services proposed are intended to support you as you satisfy those needs.

Expected Results

With completion of the analyses:

1. You will discover at what level your utilities need to be funded to accomplish needed system development, refurbishment, repair, maintenance and operation.
2. You will have the “proof” you need to convince council members, ratepayers and property owners why rates and fees should be set as modeled.
3. You will have the “proof” you need to show funding agencies and the lending market why your systems deserve the grants, loans and loan terms you desire.
4. You will successfully comply with your permit to dispense water, NPDES permit and other requirements from the regulatory agencies.

Firm Revenues, Qualifications and References

One-hundred percent of the firm’s revenues come from rate analysis and related work. Visit gettinggreatrates.com/ggr/freebies/ReferenceList.pdf and see the attached for detailed qualifications and references. The list includes all rate analysis clients since 2013. GettingGreatRates.com has one office in Jefferson City, Missouri but we operate nation-wide.

Carl Brown, President, will perform all analysis work for this project. He has been doing rate analysis work since 1993. For most of that time he has also been teaching practitioners all over the U.S. on rate analysis and rate setting, writing the rate setting book called, “How to Get Great Rates” and designing rate analysis software.

Jacki Hicks, the firm's Vice-president, will likely assist in these analyses by doing data testing and data input. Ms. Hicks prepares analysis models, especially those for analyses that require databases. Ms. Hicks has approximately 23 years of experience in accounting, financial assurance and complex spreadsheet and database design. Seven of those years have been devoted to utility rate analysis.

GettingGreatRates.com serves as the rate analyst for the Kansas RATES Program <https://krwa.net/TECHNICAL-ASSISTANCE/Rate-Reviews>. Kansas Rural Water Association (KRWA) member systems qualify for a 25 percent discount on all fees. The Association verified that Tonganoxie is a member system of KRWA, therefore, you qualify for this discount.

You may expect your analysis results package to look much like the rate analysis report package attached and others that can be found at the bottom of this Webpage <https://gettinggreatrates.com/freebies/freebies.shtml>.

Form of Agreement

This proposal and your acceptance (probably by e-mail message) of one or more service packages is all the agreement I need. Nearly all my clients acquire my services this way. However, if you prefer to attach a cover "letter of agreement" or signature page to this proposal, you are welcome to do so.

Guarantee

If you are not satisfied with our work, don't pay us.

Details: If you are unsatisfied with our work, simply tell me about it. I will do my best to make it right by you. If I still am not able to satisfy you, notify me by mail or e-mail. I will cease the services in question at that point, you will owe me nothing for those services and I will refund any payments you may have already made for those services.

This has been my guarantee policy from the day the company was formed. No client has invoked this guarantee to date and I don't plan to have you be the first.

Scope of Services That You May Select or Decline, at Your Option

The following service packages are intended to satisfy your rate analysis and rate setting needs.

- Service package 1 is analysis of your water utility's user charge and other fee adjustment needs. Analysis will include output from modeling of your current financial situation and, perhaps, several proposed rate scenarios that depict rate structures and other variables you may want to consider. All potentially productive scenarios that you or I conceive of will be modeled and reported to you.
- Service package 2 is the same as service package 1, except it is for the sewer utility.
- Service package 3 is for on-site visits. Each visit will be one instance of this service package. (I generally recommend one on-site visit to present the completed analyses and recommendations and to answer questions at a public council meeting. That is especially useful when I analyze more than one utility, or the analyses and rate adjustments are complex.)

You may add or drop service packages at any time.

Approach and Timeline

For most of my clients, rate analysis and eventual rate adjustments take about six months from start to finish. That is mainly because clients must gather data for the analysis and make some interim decisions as the project proceeds – that takes time. Completion time is only slightly affected by my workload. Generally, we are able to move analyses along almost as fast as data and guidance are available. If we start soon and you are able to gather data very quickly, we can have your analyses and report done by January 1, 2019.

Most analyses include the same basic elements, but they do not necessarily get completed in the same order. And, each situation calls for special considerations and treatments. However, your project will likely proceed approximately as follows:

1. I will call your contact person, probably the day I am notified that I will be doing the analyses, to discuss data needs and get the contact started on initial data retrieval.
2. Your staff will assemble and send to me data and information, most of which is described in the “Data Needs Sheet,” attached. I will guide your staff through the entire process. Where data is missing, I will create estimates or help you to create estimates. Initial data retrieval will be accomplished early on, preferably within a few weeks. But, some data will be acquired throughout the project.
3. I will analyze this data and information and build your rate analysis models.
 - a. Coordinating with your contact, I will target a set of goals ten years in the future. These will include, at least, covering all costs, including capital improvements over that time period, and building appropriate reserves.
 - b. I will model rates on a “cost-to-serve” basis to satisfy those goals. You may request other structures and I will model those, as well.
 - c. Key model building will probably be completed about three months into the project, if you collect data quickly. Some modeling will continue through nearly the end of the project.
 - d. Once models have been built, “what-if” scenarios will be run to find the optimum mix of rate and fee levels and structures, capital improvement funding options, reserve levels, etc. to suit the needs of your utilities.
4. During the last half of the project I will examine as many scenarios of your possible future as it makes sense. I will share with you all that are potentially useful.
5. You will likely choose to consider adopting rates and funding levels from the one or two most promising scenarios for each utility.

6. Final output will include a cover letter, a narrative report of my findings and recommendations and copies of the analysis scenarios that interest you.
 - a. The project is “complete” when you say it is. Until then, I will reanalyze and issue supplemental reports until you are satisfied.
7. If you choose the on-site visit service package, I will present my final analysis results and recommendations to your council in person. While there I would also like to meet with staff to discuss how to make needed changes to billing, equipment replacement scheduling and any other administration or operational issues that are discovered.
8. As you draft proposed amendments to your ordinances and budgets to make the rate, fee and other changes, at your request I will review those changes to assure that they will accomplish what you intend to accomplish.
9. The council will pass ordinance amendments to set new rates and fees and make budget revisions and other changes. From this point forward, your utilities will be headed to a better financial future.

Work Coordination and Contacts

Generally, I will only communicate with your designated contact(s) about the analysis. There are degrees of exceptions:

1. I keep KRWA informed of my activities through the RATES Program. Therefore, I copy them on proposals, invoices, rate analysis reports and similar importance level communications. But, I have an understanding with them that they will not divulge to others, information I share with them. Other than, perhaps, using your project as a teaching example, they have little call for discussing your situation anyway.
2. It is rarely, but sometimes, beneficial for me to contact funding or permitting agencies, and similar entities, about funding options and such. But, I would discuss that with your contact first.
3. On occasion, a ratepayer, developer or someone else who would be affected by new rates will call or e-mail me direct. In those situations, I speak courteously with people and give them general information about how I perform analysis and the like. But, I do not divulge important specific information about the client’s analyses. I leave that up to the client. I apply Point Number 3 above to council members, staff and other people who are not designated contacts but who are concerned about the rate analysis or they want to “guide” the analysis even though they are not one of my contacts.

Early on you will probably designate your finance director and public works director or delegated staff to be my contacts. This stage is primarily a data gathering and modeling function. When we progress to the reporting out stage you may want to also designate a policy-related staff person or governing member as I prepare rate, fee and proposed policy action recommendations.

I sum up my contacts policy like this. You are my client. I work for you. When I give my work product to your designated contact, it becomes your property and no one else's until you make it public.

Use of Electronic Technology

I do almost all analysis work electronically and remotely, receiving and sharing data and information by e-mail attachment. I prefer to receive numerical data in a spreadsheet format and textual material in a word processor format, but we can work with other formats, too. When I return material to you that you need to manipulate further, such as a revised ordinance, I will return it electronically in a format you can conveniently use. You will receive my analysis reports, the analyses and my recommendations electronically as PDF documents.

Investment

Because Tonganoxie is a member system of KRWA, you qualify for the 25 percent Kansas RATES Program discount. Therefore, following are your complete investments for my services, materials and travel costs, based upon the service descriptions above:

- **Service package 1**, water rate analysis – full fee of \$7,703, less the Kansas RATES Program 25 percent discount of \$1,926 yields a **net fee of \$5,777**
- **Service package 2**, sewer rate analysis – full fee of \$7,703, less our multi-study discount of \$1,155, and less the Kansas RATES Program discount of \$1,637 yields a **net fee of \$4,911**
- **Service package 3**, on-site visits – \$887, less the Kansas RATES Program discount of \$222 yields a **net fee of \$665 per visit**

If you choose service packages 1, 2 and one visit from package 3, the group of services you most likely need, the total investment will be \$11,353, including total multi-study and Kansas RATES Program discounts of \$3,784.

Once the project gets started you may add or drop service packages as your needs become clearer.

Proposal Acceptance

This proposal is effective through December 31, 2019, if you choose at least one service package by November 1, 2018. Once you tell me what service packages you desire, and you provide data to work with, I will immediately start to produce the analyses.

Promptly given the data I need, there is no good reason why I cannot complete the analysis part of the project by January 1, 2019.

Action item: If you accept this proposal call me to tell me what services you desire. Or, give me the same information in writing by e-mail message.

Payment

I will first invoice you the day of, or perhaps the day after I am notified you want me to do the analyses. In that invoice you will have the opportunity to pre-pay (make payment by the 30-day due date) and capture an additional 2.5 percent pre-payment discount. **For packages 1, 2 and one visit from package 3, that discount would amount to \$284.**

If you choose not to pre-pay (about two-thirds of my clients select that option), I will re-invoice you for one-half of the project dollar amount after 90 days from proposal acceptance and the balance when I submit the final report package. You shall promptly pay the full amounts of those invoices. If you request and pay for services but later cancel those services, I will refund those fees to you. If I cancel any services in this proposal (I have yet to do such a thing), you will owe me no fees for those services and I will refund any fees you have already paid for those services.

In Closing

I am looking forward to the opportunity to conduct your rate analyses, so you can get your utility rates and finances set on an excellent course.

Best regards,
GettingGreatRates.com



Carl E. Brown
President