

CITY OF BAINBRIDGE ISLAND

TASK PLAN – 2018 WATER/SEWER RATE STUDY & SPF UPDATE

The City of Bainbridge Island has requested a review of rates and system participation fees (SPFs) for its water and sewer utilities. We have developed the following task plan to meet the City's needs:

Task 1: Initial Project Meeting

At the beginning of the project, FCS GROUP will attend an initial “kickoff” meeting with the City's project team to establish a mutual understanding of study goals, issues, and concerns. Ideally, this meeting would include representatives from departments that address financial, engineering, customer service, and administrative issues. It will cover the project scope, objectives, deliverables, schedule, and appropriate lines of communication.

Task 2: Data Collection

FCS GROUP will provide a data request outlining key information required to complete the study, working with City staff to resolve questions and obtain additional records as needed. Task 2 includes reviewing and validating data provided for the study, identifying any potential data anomalies that could impact the integrity of the study's findings or resulting recommendations.

Task 3: Water/Sewer SPF Analysis

Task 3 includes an update of system participation fees (SPFs) for the City's water and sewer utilities based on a pro rata share of the cost of each system. By recovering an equitable share of costs from growth, the City can promote equity between existing and future customers and mitigate the burden of capital investment on existing ratepayers. Consistent with industry standards and the parameters outlined in the Revised Code of Washington (RCW), this analysis will consider:

- The cost of existing assets, as documented in the City's fixed asset schedules
- The cost of future capital projects, presented in the City's Water System Plan and General Sewer Plan
- The applicable customer base, expressed in terms of units appropriate to each utility (e.g. meter equivalents for water SPFs, equivalent residential units for sewer SPFs).

FCS GROUP will develop up to three (3) alternatives based on different assumptions and/or methodologies, each of which will define an equitable share of system costs for growth.

Task 4: Water/Sewer Rate Study

Task 4 involves the core analytical elements of a rate study for the City's water and sewer utilities:

- ***Revenue Requirement Analysis:*** A multi-year financial plan that meets each utility's projected needs. This analysis defines the level of revenue that each utility needs to meet its annual cash flow obligations (e.g. operation and maintenance expenses, principal and interest payments on outstanding debt, capital funding through rates) and comply with any applicable debt covenants (e.g. debt service coverage). It also includes the development of a capital funding strategy to pay for the projects contemplated in the City's water and sewer capital improvement programs. FCS GROUP will develop up to three (3) scenarios based on changes in economic assumptions, growth rates, capital costs, or other factors of interest to the City.
- ***Cost-of-Service Analysis:*** A two-tiered allocation of the revenue requirement based on a methodology consistent with industry-standard ratemaking principles. This methodology involves (1) allocating costs to functions of service (e.g. customer service, base/peak capacity, fire protection, wastewater strength) and (2) distributing the costs assigned to each service function to customer classes based on their demands. FCS GROUP will also review the City's customer class structure to verify that it appropriately groups customers with similar service characteristics, considering the pros and cons of any potential modifications to the existing structure.
- ***Rate Design Analysis:*** Development of rate structures (including both fixed and variable charges) that recover the cost allocated to each customer class. FCS GROUP will develop up to three (3) rate alternatives for each utility and will prepare a bill impact analysis and comparative survey for up to ten (10) jurisdictions of interest to the City.

Task 5: Documentation

Task 5 includes the development of a written report documenting the methodology, key assumptions, results, and recommendations for the rate study and SPF update. This report and its technical appendices will serve as supporting documentation for the recommended rates and charges, also providing the City with a foundation for future updates. FCS GROUP will submit a draft version to the City, and will revise it to incorporate input from City staff.

The City will receive five (5) bound copies, one (1) unbound camera-ready copy, and one (1) electronic copy of the draft and final deliverables. The City has requested to receive the electronic copy of the deliverables in Microsoft Word and Excel formats, as appropriate.

Task 6: Meetings & Public Process

In addition to the kick-off meeting contemplated in Task 1, Task 6 contemplates our attendance and participation in nine (9) onsite meetings:

- Up to three (3) staff review meetings to review draft results

- Up to five (5) public committee/Council meetings to discuss study results and recommendations
- One (1) additional meeting related to the project. This meeting could include an interactive workshop to discuss rate policy objectives in support of the rate-design element of Task 4, or another topic of interest to the City.

We will bill the City for these meetings based on time and materials expended. While we have budgeted these meetings as onsite meetings to be conservative, we could conduct some or all of the staff review meetings as remote conference calls (e.g. RingCentral) to reduce the overall cost. We would propose a similar billing policy for any additional meetings requested by the City, and anticipate that such meetings could cost up to \$2,500 each depending on the number of attendees and level of effort involved (e.g. developing a presentation).

BUDGET

The proposed level of effort to complete the Water/Sewer Rate Study & SPF Update is shown below.

| | Estimated Hours | | | | Total | Total Budget |
|---|-----------------|-----------------|------------|----------------|------------|------------------|
| | Principal | Project Manager | Analyst | Admin. Support | | |
| <i>Hourly Billing Rates:</i> | \$260 | \$185 | \$140 | \$85 | | |
| PROJECT TASKS | | | | | | |
| Task 1: Initial Project Meeting | 6 | 6 | 6 | 2 | 20 | \$ 3,680 |
| Task 2: Data Collection | 1 | 4 | 8 | | 13 | 2,120 |
| Task 3: Water/Sewer SPF Analysis | 8 | 16 | 32 | | 56 | 9,520 |
| Task 4: Water/Sewer Rate Study | | | | | | |
| Revenue Requirement Analysis | 6 | 20 | 40 | | 66 | 10,860 |
| Cost-of-Service Analysis | 6 | 20 | 38 | | 64 | 10,580 |
| Rate Design Analysis | 6 | 16 | 24 | | 46 | 7,880 |
| Task 5: Documentation | 8 | 20 | 40 | 4 | 72 | 11,720 |
| Task 6: Meetings & Public Process | 46 | 58 | 26 | | 130 | 26,330 |
| Direct Expenses (Mileage/Ferry, Up to 9 Meetings) | | | | | | 270 |
| TOTAL LEVEL OF EFFORT | 87 | 160 | 214 | 6 | 467 | \$ 82,960 |