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Solutions-Oriented Consulting

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PETERSBURG BOROUGH

WATER, WASTEWATER, AND SANITATION RATE STUDY

The following work tasks have been developed to provide a pricing estimate and level of effort to Petersburg Borough ("the Borough") for a water, wastewater, and sanitation rate study. Similar to the study completed in 2012 for the Borough, the rate study will review the revenue requirements of each utility on a stand-alone basis to evaluate the sufficiency of each utility's existing rates. Our approach offers transparency in documentation, collaboration with staff and clear communication with the Borough management team and the Assembly on policy considerations.

Based on a discussion with Chris Cotta on February 5th, the task plan also includes an optional cost of service and rate design analysis with the rate study. These study elements can help the Borough develop equitable and cost-based customer rates for the three utilities.

The resulting financial plan from this study will establish a blueprint for achieving revenue stability, sufficiency and equitable cost-based utility rates. As outlined in the task plan, we follow a structured method to arrive at rate conclusions, which will enable us to perform the work in an orderly, efficient and results-oriented manner. The tasks noted below will be completed for each utility unless specifically noted otherwise.

TASK PLAN

TASK 1 | PROJECT INITIATION MEETING

A project initiation meeting will be scheduled before the commencement of the project with the consultant and Borough project team. This meeting will establish the goals and objectives of the overall project and focus the efforts of the project team. The items covered at the meeting include review of the scope of work, identify project objectives, expectations and deliverables, outline the project schedule and key milestone review points and discuss appropriate lines of communication. We have budgeted this meeting to be conducted via remote session.

TASK 2 | DATA COLLECTION AND VALIDATION

Prior to the project initiation meeting, FCS GROUP will provide a data needs list encompassing historical and projected revenue, expenses, fiscal policies, capital plans, fund balances, comprehensive plans and customer use data. The data will be reviewed, analyzed and validated for inclusion in the study process. Consistent with the 2012 study, we will worked with Borough staff to develop a rate revenue forecast based on current revenue levels and an estimated revenue growth rate for each utility.

As part of the optional task "Cost of Service Analysis", we will also validate historical customer billing statistics data with the revenue generated. Validation of the customer billing statistics and rate

revenue is critical to the cost of service analysis. This approach offers consistency through the study process by using one validated dataset to develop customer, water demand, wastewater flow, and solid waste tonnage forecasts, as well as revenue projections, and cost allocations. This process has also proven beneficial in uncovering anomalies in data and/or incorrect billing units that can impact forecast revenue.

TASK 3 | MULTI-YEAR REVENUE REQUIREMENT

The revenue requirement analysis determines near- and long-term revenue needs to ensure that utility rates can fully recover the costs of each service. Costs include annual obligations for maintenance, operations and administration; prior debt service; and prevailing fiscal management policies. Beyond that, a thorough revenue requirements analysis develops a capital funding strategy to accomplish known and estimated capital improvement programs.

Developing a funding strategy for this ongoing, substantial expenditure within the framework of a utility rate study will help the Borough prioritize capital needs and avoid excessive rate impacts by taking measured steps and considering alternative financing before expenses peak. It also provides the justification for active and successful utility financial reserve management, which can enable more stable revenue patterns, phased rate plans and intergenerational equity.

For this task, recommended rate increases will be applied equally to each customer class and to each rate component (e.g., fixed charges, water consumption charge). Structural changes to these rate components can also be analyzed and are included as part of the optional task “Rate Design”.

TASK 4 | MEETINGS AND PRESENTATIONS

In addition to the project initiation meeting (Task 1), we will prepare materials for and facilitate the following meetings and presentations:

- Two review meetings to discuss interim results with Borough staff. We have budgeted these two meetings to be conducted as remote meetings via GoToMeeting or other similar format. We anticipate one additional review meeting needed if the optional tasks are included in the project.
- One on-site presentation to the Borough Assembly to present the study results, policy considerations, and rate recommendations. Additional on-site meetings can be included at the cost of time and materials.

TASK 5 | DOCUMENTATION

A technical memo documenting the rate study process, methodology, key assumptions, results and recommendations will be provided to the Borough. All technical exhibits will be included in the memo as appendices. FCS GROUP will also provide an Excel-based cost of service rate study toolset for each utility.

TASK 6 | PROJECT MANAGEMENT

Perform administrative and management procedures for efficient completion of the study. Monthly progress updates will be provided to the Borough which will describe recent consulting efforts, potential future considerations, as well as the status of the study progress, schedule, and budget. I will be in regular contact with both Mr. Cotta and Mr. Hagerman via telephone and email to address issues as they arise.

OPTIONAL TASKS

OPTIONAL TASK 1 | COST OF SERVICE ANALYSIS

Beyond the level of revenue required, a utility rate study can also addresses the equity of pricing: Are customers paying for their proportionate use of the system? Are customer classes representative of the customers being served? The cost of service analysis (COSA) develops a series of functional allocations to create cost pools for utility functions. Functional cost pool examples for each utility include:

- Water: peak, base, fire, and customer management
- Wastewater: flow, strength, and customer management
- Sanitation: collection, transfer, material processing, disposal, and customer management

These functional cost pools are then distributed to classes of customers based on the proportionate share of costs required to serve their demand. This two-step allocation process distributes the costs of the utility to each customer class and provides a defensible, cost-based approach to setting future utility rates.

OPTIONAL TASK 2 | RATE DESIGN

The final technical element of the rate study is the design of an actual rate structure: the system of fixed and variable charges that drive customer bills. Whereas the cost of service analysis focuses on interclass equity, quality rate design can achieve better intraclass equity, yielding customer bills that achieve proportionality between individuals. Further, we will identify the portion of revenues anticipated to be collected from the fixed and volume rate components to provide for an appropriate balance of revenue stability and the ability of customers to control their bill by changing behavior. The rate designs proposed will be consistent with the Borough's fiscal policies, billing system capabilities and other policy and financial objectives.

BUDGET

We have developed our cost estimate to accommodate the technical and study process elements of the project. Our estimate for the cost of completing the core project tasks is an amount not to exceed $39,695, which includes one on-site presentation to the Borough Assembly.

The total project budget with the two optional tasks is estimated not to exceed $79,125 and includes the cost of service analysis and rate design elements as well as additional budget for data validation, documentation, presentation development, and one additional remote review meeting.

Task Detail		Sanchez Virnoche Principal	Hobson PM	Sr Analyst	Admin Support	Total Hours	Budget Estimate
	Hourly Billing Rates	$ 260	$ 175	$ 140	$ 85		
Task 1	Project Initiation Meeting					Below	
Task 2	Data Collection and Validation	0	4	20	0	24	$3,500
Task 3	Multi-Year Revenue Requirement	12	36	90	0	138	$22,020
Task 4	Meetings and Presentations						
	- Project Initiation Meeting	2	2	3	1	8	$1,375
	- Two Remote Review Meetings	4	4	5	0	13	$2,440
	- One On-Site Assembly Meeting						
	Presentation Development	2	2	6	0	10	$1,710
	On-Site Meeting	12	0	0	0	12	$3,120
Task 5	Documentation	2	4	20	0	26	$4,020
Task 6	Project Management	0	3	0	1	4	$610
	Total Labor Hours	**34**	**55**	**144**	**2**	**235**	
	Total Labor Budget	**$8,840**	**$9,625**	**$20,160**	**$170**		**$38,795**
	Expenses						$900
	Total Budget Estimate						**$39,695**
Optional	Cost of Service Analysis (COSA)	14	46	128	-	188	$29,610
Optional	Rate Design	6	20	34	-	60	$9,820
	Total Labor Hours for Optional Tasks	20	66	162	-	248	
	Total Labor Budget for Optional Tasks	$5,200	$11,550	$22,680	$0		$39,430
	Total Budget Estimate with Optional Tasks						$79,125