

## Proposal for Water Rate Analysis Arkansas City, Kansas

### **Synopsis**

You need rates that are adequate and fairly structured. Rate analysis examines your incomes, costs, capital improvement needs, impacts of high-volume and high-capacity customers and other things and calculates such rates and fees.

### **Purpose and Need**

This proposal describes the need, responsibilities, timing, investment, and other issues for rate analysis (later referred to as the “analysis”) of the Arkansas City, Kansas water utility (later referred to as the “City” or “you”). This analysis will be performed by GettingGreatRates.com (later referred to as “I”). To adequately fund operation of your utility, build and maintain reserves, fund capital improvements and related debt service, and establish rates that are fairly structured for ratepayers, you need to have your rates and fees analyzed, so you can set them appropriately and periodically reset them in the future on your own.

### **Expected Results**

With completion of the analysis:

1. You will discover at what level your utility needs to be funded to accomplish needed system development and funding, refurbishment, repair, maintenance, and operation.
2. You will have the “proof” you need to convince commission 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 system deserves the grants, loans, and loan terms you desire.
4. You will successfully comply with your permit to dispense water, and other requirements from the regulatory agencies.

### **Revenues, Qualifications and References of GettingGreatRates.com**

The firm’s revenues all come from rate analysis and related work. See the attached references list for details. The list includes all rate analysis clients since 2019.

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 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 guidance, including the rate setting book, “How to Get Great Rates,” the “Rate Setting Best Practices Guide,” and designing rate analysis software.

Jacki Hicks, Vice-president, will assist in the analysis by doing data testing and data input. Ms. Hicks prepares analysis models, especially those for analyses that require databases. Ms. Hicks has approximately 26 years of experience in accounting, financial assurance and complex spreadsheet and database design. Nine of those years have been devoted to utility rate analysis.

You may expect your analysis results package to look much like the rate analysis report packages that can be found on the right side of this Webpage <https://gettinggreatrates.com/freebies/freebies.shtml>.

### **Form of Agreement**

This proposal and your acceptance, perhaps 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.

### **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 from the day the company was formed. No client has invoked this guarantee to-date and I do not plan to have you be the first.

### **Insurance**

The firm carries the following insurance:

- Professional liability, \$2,000,000 limit, United States Liability Insurance Company (USLI)
- General liability, \$1,000,000 limit, USLI
- Auto liability, \$1,000,000 limit, American Family Insurance Company

### **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. Modeling will cover all important issues that are expected to arise over the next ten years. It will arrive at the rates and fees needed to pay the costs of your situation. I call that a "scenario." Service Package 1 will cover up to four scenarios of issues and events you want me to examine. You are not likely to ask for more than two or three scenarios.
- Service Package 2 is for on-site visits. Each visit will be one instance of this service package. I generally recommend one on-site visit to present completed analyses and recommendations and to answer questions at a public commission meeting.
- Service Package 3 is an hourly rate for doing an on-line "meeting" rather than an on-site visit, modeling of scenarios over four, or any other service not covered by Service Package 1 or 2. If, for example, the goal of an on-site meeting can be accomplished to your satisfaction by having me attend remotely, such as by Zoom, we can do that.

You may add or drop service packages at any time.

I have verified the City is a member system of the Kansas Rural Water Association (KRWA), so the City qualifies for the 25 percent RATES Program <https://krwa.net/TECHNICAL-ASSISTANCE/Rate-Reviews> discount.

### Approach and Timeline

I have scoped your situation. I have a clear idea of how the analysis needs to be done to arrive at fair and adequate rates. However, as the project proceeds, I or you may discover that conditions are different than they first appeared. Or you may decide you desire a different rate structure than I will initially propose. Such things happen. Regardless of how the project unfolds, I will carry you all the way through to rate structures and levels that work for you.

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 analysis, make some interim decisions as the project proceeds and review analysis models and draft reports. That takes time. If we start on your project quickly and if your contact can get all the required data to us promptly, we can trim a month or two off that.

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 analysis, 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. When your staff has difficulty understanding what data I need or how to get it, I will talk them through it. 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 model(s).
  - a. Coordinating with your contact, I will target a set of goals ten years in the future. At a minimum these will include covering all costs, including capital improvements over that time period, and building appropriate reserves.

A "scenario" is a set of data and assumptions for which I build a separate model, and I write a narrative report to explain the results of that modeling. I generally run five to perhaps 20 data and assumption sets while modeling to arrive at the optimum set of rates and fees that are adequate, fairly structured, and "doable" in the eyes of the governing body. I generally report the best of those options as my recommended rates – that is one scenario. Only a model that I separately name and include in a report to you is a "scenario."

I may run an additional scenario to depict capital improvements or repair and replacement costs running a certain percentage more than assumed in the first model. A third model may depict the effects of changing the rate structure markedly. Scenarios will enable you to adjust rates further on your own once you have better estimates for those improvements and costs.

If I prepare a model or report and you ask for changes or corrections to that model or report, the new version is not a new scenario. It is a revised or corrected version of the original scenario.

- b. I will model rates on a “cost-to-serve” basis to satisfy those goals, and I will model rates in other structures you may desire as well as cost and other variations you or we think may come about. Quite likely, you will want to see a declining unit charge structure, and perhaps various financing options and their rate effects.
  - c. If we receive data at the more common slower pace, key model building will probably be completed about three months into the project. 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 utility and customer base.
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 you want to see. Each such “scenario” that gets reported to you will be one of the four covered by Service Package 1.
  5. You will likely choose to consider adopting rates and funding levels from the one or two most promising scenarios.
  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 have me make an on-site visit, I will present my final analysis results and recommendations to your commission in person. While there I would also like to meet with staff to discuss how to make needed changes to billing, equipment replacement scheduling, capital improvements planning, wholesale supply agreement stipulations, and any other administration or operational issues that are discovered.
  8. As you draft proposed amendments to your ordinances or rules 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 commission will pass ordinance or rule amendments to set new rates and fees and make budget revisions and other changes. From this point forward, your utility 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 my KRWA contacts informed of my activities through the RATES Program. Therefore, I copy them on proposals, invoices, rate analysis reports and other communications of similar importance. But I have an understanding with them that they will not divulge information I share with them to others. Other than, perhaps, using your project as a teaching example after the project is complete, they have little call for discussing your situation anyway. **Sharing with them is focused on enabling them to oversight my work in real time.**

2. It is sometimes beneficial for me to contact funding or permitting agencies, engineers and similar entities about funding options, capital improvements and such. But I would discuss that with your contact first. I generally like to have my contact do all such contact work, so they can be “in the loop” on everything.
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 analyses and the like, and then I refer them to my contact. I do not divulge important specific information about the client’s analyses. I leave that up to the client. I apply this to commission members, staff and other people who are not designated contacts but who are concerned about the rate analyses, or they want to “guide” the analyses even though they are not one of my contacts. To put it bluntly, I guard against a commission member “going rogue.” It has happened.

Early on you will probably designate your City manager and finance director/treasurer 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 person, such as the mayor, as I prepare rate, fee, and proposed policy action recommendations. That will help me arrive at “doable” rates easier.

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, usually receiving and sharing data and information by e-mail attachment, or OneDrive for the rare large file. I prefer to receive numerical data (financial statements, customer usage data and the like) in a spreadsheet format and textual material (proposed ordinances or rules) 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 report and the analysis model output, and any follow-up reports electronically as PDF documents.

### **Investment**

Following are your complete investments for my services, materials, and travel costs, if you select a listed service, with the net fee after the KRWA membership discount:

- **Service Package 1**, water rate analysis – full fee of \$14,785, less the Kansas RATES Program discount of \$3,696 yields a **net fee of \$11,089**
- **Service Package 2**, on-site visits – \$1,842, less the Kansas RATES Program discount of \$460 yields a **net fee of \$1,381 per visit**
- **Service Package 3**, hourly rate for anything not included in Service Packages 1 or 2 – \$176.02, less the Kansas RATES Program discount of \$44.00 yields a **net fee of \$132.01 per hour**

**If you choose Service Package 1 and one visit from Package 2, the group of services you most likely need, the total investment will be \$12,470, which includes total discounts of \$4,157.**

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

### **Proposal Acceptance**

This proposal is effective through July 1, 2024, if you choose at least one service package by July 1, 2023. If the project runs past July 1, 2024, I likely will be glad to extend the end date, but I would seek your approval of increasing the rate of my fees for any fees still owed by the annual increase amount (normally five percent per year) I will have made to my fees by that time.

**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.**

Once you tell me what service packages you desire, and you provide data to work with, I will immediately start to produce the analysis.

### **Payment**

- I will first invoice you for one-half of Service Package 1 after three calendar months from proposal acceptance made by phone call, e-mail or however you choose to notify me.
- I will invoice you for the balance of Service Package 1, Service Package 2, if selected, and Service Package 3 (hourly work), if requested and performed, at 12 calendar months after proposal acceptance. If the project is complete before 12 calendar months, I will invoice you for the balance of all services at project completion.
- If additional services like an on-site visit or hourly work are requested and delivered after the twelfth month, I will invoice for those soon after those services are completed.

It is likely the project will be complete in six months or a bit less. In that case you would make the first partial payment at three months and a payment for the balance of services when the project is completed.

### **In Closing**

I am looking forward to the opportunity to conduct your rate analysis to set your utility's rates and finances on an excellent trajectory.

Best regards,  
GettingGreatRates.com



Carl E. Brown  
President