



MEMORANDUM

REGULAR CITY COUNCIL MEETING

TO: City Council

FROM: Rich LaBombard, City Manager

DATE: March 6, 2023

SUBJECT: Baker Tilly Engagement Letter for Water Rate Study

In January 2023, it was announced that the City of Douglas is the recipient of the Department of Environment, Great Lakes, and Energy (EGLE) grant award called the Drinking Water Asset Management (DWAM) grant which is an American Recovery Plan (ARP) funding opportunity. The purpose of this grant is to provide funding to the City of Douglas to field verify the distribution system material type on a minimum of 191 service lines out of 1,125 total based on the City's knowledge of unknown service lines. The grant is specific to the states mandate to eliminate lead containing service lines in municipal drinking water systems.

Another objective of the scope of work of the grant is to conduct a water rate study upon completion of the distribution system material inventory. The completed inventory will give a better understanding of the City's future expenses to replace all lead containing service lines. The rate study will be conducted by a financial consultant and include the creation of a capital improvement plan for the City's water system assets. Forecasting the cost to replace and /or improve existing water infrastructure is necessary to financially plan out the required five percent replacement requirement per year for the next 20 years. Th water rate study will be used to identify any funding gaps in the City's projected revenue from water rates. Currently the City only receives revenue from connection and inspection fees related to installation of new or repaired water service lines. The results of the study will allow the City to establish a water rate charged to each user of the system to build up a fund to pay for system upgrades and improvements. New water main installation will still be completed through special assessment districts.

Baker Tilly US, LLP of East Lansing, Michigan has provided the attached engagement letter to provide the City of Douglas advisory services related to a review of historical financial budgeting and current operating costs, review of the City's water user customer base, and will use the information to forecast future operating costs. The final product of the advisory services will be a comprehensive report outlining operating and maintenance

expenses, a capital improvement plan, debt service schedule for any improvements, and proposed rates for water service.

Funds are available in the Water & Sewer Fund Contractual Engineering account 450-000-806. Funds for this activity are reimbursed from the DWAM grant.

I recommend City Council approve the engagement letter provided by Baker Tilly US, LLP of East Lansing, Michigan for \$10,500 plus all reasonable out-of-pocket expenses incurred in connection with the water rate study defined in the Drinking Water Asset Management grant.

