



275 W. Campbell
Suite 440
Richardson, TX 75080
Phone: (972) 680-2000

January 24, 2024

Ms. Maria Joyner
Director of Finance
City of Hutchins, Texas
321 N. Main Street
Hutchins, TX 75141

Subject: Proposal to Conduct a Water and Wastewater Rate Study

Dear Ms. Joyner:

Based on our conversations, NewGen Strategies and Solutions, LLC (NewGen) appreciates this opportunity to propose our assistance to the City of Hutchins, Texas (City). It is our understanding that, at this time, the City is seeking a qualified consultant to conduct a Water and Wastewater Rate Study (Study).

As part of this study, NewGen will prepare a five-year forecast of water and wastewater revenue requirements and accompanying rate scenarios, which will meet the City's revenue recovery objectives. Additionally, the consultant should examine the City's current charges between In-City and Out-of-City customers. This will include the financing of proposed capital improvements as well as the maintenance of equity between the customer groups reflective of ad valorem taxes paid by In-City Customers.

The remainder of this letter presents our Firm, proposed Project Team, proposed scope of services, and anticipated pricing and schedule for the proposed engagement. We appreciate the City's consideration of our proposal and stand ready to answer any questions City staff or City Council may have.

Firm Background

NewGen is a management and financial consulting firm specializing in providing assistance and advice to the public sector and its utilities. NewGen provides nationally recognized expertise in utility cost of service and rate design studies, depreciation studies, appraisals, organizational and performance management studies, litigation support for legal and regulatory proceedings, utility business and financial planning, and stakeholder engagement for water, wastewater, reuse, stormwater, solid waste, electric, and natural gas utilities.

NewGen was created by consultants who are dedicated to our client's mission and recognized as experts in our respective fields of service. Our assistance to the public sector is provided with a keen insight to navigate the uncertain market and the growing role of stakeholders, resource availability, cost of providing utility services, and economic conditions. This ensures an integrated approach to delivering our products and services. "Thoughtful Decision Making for Uncertain Times" succinctly describes our capability to provide our clients the solutions and recommendations tempered by our keen insight into the growing role of stakeholders, resource availability (including renewables), environmental concerns, cost of providing utility services, and economic conditions.

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Our experience has been acquired, in part, while members worked at recognized national consulting groups such as Touche Ross & Co. (now *Deloitte Touche*), R.W. Beck, Inc. (now *SAIC and Leidos*), Economists.com (now *Willdan*), Navigant Consulting, Inc., and CH2M Hill. The firm’s experience also includes the regional practices founded by Mr. Jack Stowe, Jr. which were Reed-Stowe & Co., Inc. and Reed Stowe & Yanke, LLC founded by Mr. Jack Stowe, Jr. and Mr. Dave Yanke. Experience was also gained July 1, 2019 when Municipal & Financial Services Group (MFSG) merged with NewGen. Additionally, NewGen professionals come from the nationally recognized engineering firms of CDM Smith, Inc., Black & Veatch, and HDR, Inc. Individuals from NewGen provide the expertise gained from more than 125 expert witness cases and filings supporting utility customers, regulatory staff, and utilities.

It is NewGen’s mission to become a trusted advisor to our clients. Many of NewGen’s current employees worked together for many years at R. W. Beck prior to joining NewGen—some for as long as 25 years. As such, we have a long, successful work history and a demonstrated ability to complete projects on time and with deliverables that withstand public, stakeholder, and regulatory scrutiny.



Nationally Recognized Rate Expertise and Market Leading Models

NewGen’s Project Team includes nationally recognized experts in cost of service (COS) and rate making in the public utility market, along with leading edge developers and data analytics professionals. Combining our nationally recognized rate expertise with this additional expertise in data analytics allows us to create comprehensive, innovative, and easy-to-use interactive financial models and tools which are essential in producing a comprehensive analysis and ensuring our recommendations are accurate and defensible.

Recognizing the importance of the user-experience, our financial models and methodologies have been refined and enhanced to allow for easy user entry, allocation factor selections, and scenario (“what-if”) evaluation. All our models and tools are also tailored specifically to each client we serve and are routinely used to facilitate presentations and demonstrations with Boards, Councils, and Commissions.

NewGen’s Core Competencies

NewGen’s core business is providing financial and management advice related to water, wastewater, stormwater, street maintenance utility, and solid waste infrastructure and operations. The specialized services we offer to our clients include:

- Cost of Service/Rate Studies
- System Development Charges/Capacity Fee Studies
- Operational Reviews/Management Audits
- Comparative Analyses/Benchmarking
- Financial Feasibility Studies
- Infrastructure Management/GASB 34
- Conservation Studies

In summary, NewGen is well versed and experienced in providing management and financial advice related to every aspect of municipal utility services.

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HGACBuy Program

NewGen has been selected through a competitive procurement process by HGACBuy. This contract award allows government entities nationwide to contract our services directly, without the issuance of a request for proposal (RFP). H-GAC's Cooperative Purchasing Program, known as HGACBuy, is a nationwide procurement service that was established pursuant to Texas' "Interlocal Cooperation Act." The "Act" allows local governments and certain non-profits to use contracts appropriately established by another government entity. Use of the Program for a particular purchase by any government entity is strictly at the discretion of that entity.



Proposed Project Team

Our proposed Project Team for this engagement specializes in the development of water and wastewater rates, with the majority of this experience specific to water and wastewater utilities in Texas. We ensure the staffing resources assigned to the project are truly committed to your project, by considering overall workload of staff when determining project team members. Team members have been chosen due to their experience in performing the tasks identified in the scope, as well as their availability and capacity to complete the tasks in a timely manner.

Chris Ekrut | Project Manager



Mr. Chris Ekrut, MPA, Chief Financial Officer for NewGen, will serve as Project Manager for this engagement. As Project Manager, he will ensure the project is performed to our high standards and comports with all regulatory and industry standards as well. He will also ensure that the City's overall goals and objectives are met during the course of the Study and will be responsible for the overall quality of the analysis and deliverables received by the City.

Title: Chief Financial Officer
Location: Dallas, Texas
Phone: (972) 232-2234
Email: cekrut@newgenstrategies.net

Mr. Ekrut has provided consulting services since 2004, with the majority of projects centered in the water and wastewater industry around user/impact fees. He has filed expert witness testimony with regard to cost of service and rate design, as well as provided litigation support before rate regulatory agencies. He has conducted a number of wholesale and retail water and wastewater rate studies, developed water and wastewater rate models, storm water fee models, and assisted in the negotiation and/or litigation involving a number of wholesale water contracts. Mr. Ekrut also specializes in the development of Utility Business Plans and has been called on by the Texas Section of the American Water Works Association (AWWA) to speak on the importance of business planning for municipal and governmentally owned utilities. Mr. Ekrut also serves as an instructor for the national "Fundamentals of Water Cost of Service and Rate Design" class sponsored by EUCI and as a Faculty Member for the National Association of Regulatory Commissioner's (NARUC) National Rate School.

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Megan Kirkland | Senior Analyst



Megan Kirkland is a Senior Consultant with NewGen, providing financial and strategic advisory for utility clients. Ms. Kirkland leads analytical efforts for the cost of service and rate design, indirect, and impact fee studies, including developing new and enhancing existing models. In addition, Ms. Kirkland assists in litigation support relative to cost of service and rate design proceedings before regulatory agencies. Ms. Kirkland holds a bachelor's degree in Petroleum Engineering (minor in Business Administration) from Texas A&M.

Title: Senior Consultant
Location: Dallas, Texas
Phone: (972) 432-6218
Email: mkirkland@newgenstrategies.net

Madison Moore | Analyst



Ms. Madison Moore joined NewGen in September 2023 as a Consultant, providing financial analysis supporting water, wastewater, and solid waste cost of service and rate design projects. Ms. Moore graduated in 2020 with a B.S. in Civil Engineering from Purdue University and is currently pursuing a M.S. in Data Science from Eastern University.

Title: Consultant
Location: Dallas, Texas
Phone: (945) 800-9846
Email: mmoore@newgenstrategies.net

Full resumes for all Project Team members are available on request.

Proposed Work Plan

To perform the requested study, the Project Team proposes the following work plan. Our proposed work plan closely follows the approaches and methodologies utilized by NewGen's Project Team members in all of their rate studies. Therefore, the City can be assured that the work plan proposed by NewGen has been tested and proven in numerous studies across the state and nation. It is understood that, if selected, the Project Team will refine, customize, and finalize the work plan with the City upon award of the project.

NewGen maintains a strong and active presence before the State of Texas' rate regulatory authorities and is routinely requested to provide expert opinions on rate matters by legal counsels representing clients throughout the State of Texas. For NewGen to maintain its reputation and presence within the regulatory environment, our product must be of such quality to withstand intense scrutiny. The product(s) developed by NewGen for this engagement will withstand such scrutiny.

Task 1 – Initiation of Initial Data Request

The Project Team will develop an initial data request that will be needed to adequately begin the review and evaluation of the City's retail water and wastewater rates. This data will include, but is not limited to, operating, financial, management, policy, and ordinance data. The purpose of the initial data request is to become more familiar with the City's operations and policies in order to maximize the effectiveness of our time with City representatives in the project kickoff meeting. The Project Team will issue the initial data request within five (5) days after receiving notice to proceed on the project.

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NewGen will request and develop the study using a raw data file from the billing system to fully understand the City's customers. To obtain this data, NewGen's Project Team will provide the City with a template for required monthly billing data. This will include the account numbers, class codes, rate codes, volumes, and billed amounts by customer by month. This data will be tested for accuracy in Task 2, and any data anomalies will be discussed with the City for review and further investigation.

Task 2 – Initial Data and Information Assessment

Once the City has submitted the initially requested data, the data will be reviewed for discussion during the project kickoff meeting. Throughout the course of the project, data received by the Project Team will be sampled and tested for accuracy. The sampling and testing of data is imperative in regard to the billing data used to set rates. In all of our rate study engagements, NewGen conducts a thorough review and testing of the billing data queries provided by our clients. It is essential in the development of proper cost allocations and reliable revenue projections that the billing data be as accurate as possible. NewGen will work closely with the City's billing staff to obtain the appropriate billing data. In addition, as necessary, the Project Team will conduct informal interviews with City staff during our review of the historical data to ensure that the Project Team understands the information provided.

Task 3 – Project Kickoff Meeting

After receiving the initially requested data, the Project Team will work with the City to schedule a kickoff meeting. The primary reason for the kickoff meeting is to allow the key Project Team consultants and participants from the City to be introduced and lay the general framework for how the study will be conducted. This meeting will also allow for the finalization of the proposed work approach, as well as discuss and clarify the information analyzed in Task 2.

In addition, the project kickoff meeting will allow for the Project Team to gain a better understanding of the goals and objectives, as well as expectations, the City desires to achieve from the study. As part of the kickoff meeting, the Project Team members will also discuss:

- Political and customer views/opinions of current rates,
- Capital/operational demand changes anticipated over the study's forecasted period,
- Initial rate design pricing objectives, and
- Initial strategies for implementing/communicating possible rate changes.

Task 4 – Determination of Test-Year Revenue Requirements

Revenue requirements will be developed for the Study using the AWWA accepted cash needs approach. The cash needs approach closely follows governmental/not-for-profit budgeting practices and incorporates a utility's operation and maintenance costs, debt service and bond coverage requirements, cash funded capital outlays, reserve requirements, and transfers. Specifically, for the City, the revenue requirement will include the City's operational costs adjusted to reflect normal service conditions, current and future anticipated principal and interest payments, current and future cash capital outlays, and future capital funding needs including the impact of inflation on construction cost.

In developing the revenue requirements, the Project Team will assess and project the utility's cost of service by analyzing historical costs, the current budget year, any forecasts made for future fiscal years, and any debt service ratio or bond covenant requirements. The Project Team will develop a test-year cost

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of service for the utility. A test-year is a common term in rate studies that refers to an adjusted fiscal year cost that will be used as a basis for setting rates. The test-year cost of service will be adjusted by non-rate revenue sources to develop the test-year revenue required from utility rates.

Task 5 – Forecast of Revenue Requirements

Using the test-year developed in Task 4, the Project Team will begin the development of a five-year revenue requirement forecast. As necessary, interviews with City staff may be conducted to gather additional data to complete this task. During this task, it is crucial to thoroughly analyze the assumptions used in projecting the revenue requirements. These assumptions may include, but may not be limited to, growth rate, inflation rates, regulatory changes, conservation, increase in contractual obligations, and capital improvements. These assumptions will be supported by standard industry forecasting practices and available indices. In addition, support will come from the City’s applicable master plan studies and current infrastructure ratings.

The Project Team will work closely with City staff to examine the City’s planned method of financing (e.g. cash, debt, grants) future capital improvements and the financing methods’ impact on retail rates, operating and capital reserve targets, and debt coverage requirements, as well as examine anticipated operational and/or staffing changes over the five-year forecast. The five-year revenue requirement will serve as the basis for the development of the financing plan to meet projected capital improvement expenditures.

Task 6 – Determination of Realizable Revenue at Current Rates

The results of this task will provide the data to properly evaluate the cost of service and the magnitude of overall increases, as well as provide the Project Team the ability to compare the actual cost to provide utility service with the anticipated billed revenues of the utility. In the revenue determination, adjustments will be made to the historical billing data to reflect normalized weather conditions and usage. This task will also provide a “check” of the data provided by City staff.

Task 7 – Development of Rate Design

After determining the realizable revenue at current rates and comparing such revenues with the forecasted revenue requirement and cost of service results, the Project Team will work with City staff to formulate a rate and fee design plan to recover the revenue requirements. In the formulation of a rate and fee design plan, a clear and distinct understanding of the City’s overall goals and objectives should serve as the foundation for the development of options since rate and fee design enables the utility to meet its service pricing objectives. Pricing objectives could include, but would not be limited to, the following:

- Cost of Service Recovery
- Revenue Stability
- Affordability
- Equity
- Ease of Administration
- Regional Competitive Position
- Conservation
- Economic Development

Following the completion of Task 6, members of the Project Team will discuss with City staff the potential rate design alternatives that meet the City’s pricing goals and objectives. From these discussions, the Project Team will develop defensible rate structures for its customers that are reflective of industry accepted practices and procedures and rate regulations within the State of Texas and which balance the recovery of revenue between base rates and volumetric rates on an equitable basis.

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Task 8 – Determination of Realizable Revenue with Rate Adjustments

The Project Team will analyze and compare the revenues forecasted to be generated under designed rate structures, by customer class, to the forecasted revenue requirements to determine the adequacy of the designed rate structures to meet the City's financial goals, including bond coverage requirements and operating and capital reserves. To the extent the designed rates are projected to be inadequate, appropriate rate adjustments for each class will be calculated. In the revenue determination, adjustments will be made to the historical billing data to reflect normalized weather conditions and usage. In addition, the monthly impact of rate adjustments on customer bills under the designed rate structures will be examined.

Task 9 – Rate Comparison Review

The Project Team will compare the City's current and adjusted utility rates to utility rates of utilities of similar size, demographics, and operational characteristics so as to provide an estimation of the City's comparable and competitive position.

After completing Task 9, members of the Project Team will conduct a briefing presentation with City staff to discuss the results of the rate design analysis. Included in these discussions will be the development of the strategy(ies) to communicate and institute any significant rate changes.

Task 10 – Draft Letter Report Preparation

The Project Team will develop a draft letter report summarizing findings, conclusions, and recommendations of the Study. The letter report will include all methodologies, assumptions, and calculations, and a background section that includes all data used in the determinations made in the study. The Project Team is committed to ensuring that the City thoroughly understands the recommendations in the draft letter report and will be available to discuss findings, answer questions, and receive input. The Project Team will ensure that City staff has sufficient time to address their concerns and/or questions prior to finalizing the report.

Task 11 – Final Letter Report Preparation and Presentation

Upon receipt of City staff comments, the Project Team will make appropriate changes and provide the City with the final letter report. After completion of the final letter report, the Project Team will assist the City in the presentation of the results of the Study to various stakeholders, including presenting the study's findings, conclusions, and recommendations to City Council.

Project Timeline and Deliverables

The Project Team will provide the City with the following:

- Draft Report
 - Within 60 to 90 days of notification of award, given the timely receipt of the required financial and operational data, an electronic draft report will be provided for the City's review and comment that summarizes the Project Team's findings, conclusions, and recommendations.
- Final Report

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- The final report will be provided to the City within two (2) weeks after delivery of the draft report, given the timely receipt of the City's comments.
- Meetings/Presentations
 - The Project Team will conduct up to four (4) meetings with City staff during the course of the engagement, including: Project Kickoff Meeting, one Project Update meeting (conducted telephonically), and two presentations to City Council. In order to conduct the study at the lowest possible cost to the City, the Project Kickoff Meeting and Project Update meeting will be conducted via an online, virtual meeting arrangement. Additional meetings and/or presentations beyond those listed here will be provided on a time and expense basis.

Services requested by the City not specifically outlined within the proposed work plan and which the Project Team is unable to provide within the proposed project pricing above will be provided on a time and expense basis.

Project Timing/Schedule

Based on an assumed start date of February 1, 2024, the Project Team anticipates that the draft results of the study would be available around April 15, 2024, dependent upon the availability of information requested from the City. The Project Team understands that this schedule may be amended via discussions with the City prior to commencement of the Study.

Proposed Project Cost

NewGen proposes a not-to-exceed fee of \$29,000, inclusive of out-of-pocket expenses, to perform the services detailed in this proposal.

NewGen's not-to-exceed fees for services will be based on actual hours of services furnished multiplied by NewGen's billing rates as of the date of its monthly invoice.

Additional fees for services not included in the above scope will be billed at our hourly rates for services rendered. NewGen's current hourly billing rates, which will remain in effect through December 31, 2024, are as follows.

NewGen Strategies and Solutions 2024 Billing Rates

Position	Hourly Billing Rate
Partner	\$265 – \$405
Principal	\$250 – \$405
Senior Manager	\$225 – \$280
Manager	\$195 – \$235
Senior Consultant	\$170 – \$195
Consultant	\$160 – \$170
Administrative Services	\$130

Note: Billing rates are subject to change based on annual reviews and salary increases.

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Terms of Engagement

This agreement is subject to cancellation by the City with thirty (30) days prior written notice provided to NewGen. In the event of cancellation, all labor and expense charges incurred by NewGen through the date of cancellation will be considered due at the time notice of cancellation is delivered, regardless of work product and/or engagement status.

By executing this letter, you agree that the services rendered by NewGen will be performed in accordance with instructions or specifications received by the City and will be provided with the degree of skill and judgment exercised by recognized professionals performing services of similar nature and consistent with the applicable industry best practices.

All payments made under this engagement should be remitted to:

NewGen Strategies and Solutions, LLC
275 W Campbell Road, Suite 440
Richardson, Texas 75080

If this letter and its terms and conditions are acceptable, please execute and return one copy to our Richardson, Texas office. If you should have any questions regarding this letter and/or require additional information, please contact me at (972) 232-2234 or via email at cekrut@newgenstrategies.net.

If the pricing exceeds the City's available resources, or the scope does not meet the City's stated goals and objectives, please feel free to give me a call to discuss how best to amend the proposal to properly reflect the City's desired scope of work.

Again, we greatly appreciate the City's consideration of NewGen for this important engagement, and we look forward to working with you.

Very truly yours,

NewGen Strategies and Solutions, LLC

DocuSigned by:

FB62F346CFA8440...
Chris D. Ekrut
Chief Financial Officer

Project Authorization Water and Wastewater Rate Study (\$29,000)

Accepted By: _____ Title: _____
(Signature)

Printed Name: _____ Date: _____