



January 21, 2022

Ms. Lydia Collins
Finance Director
City of Manor
Via email: lcollins@cityofmanor.org

Subject: FY 2023 Water/Wastewater Rate Study Update

Dear Ms. Collins:

Raftelis is pleased to provide the City of Manor (City) with this engagement letter for an FY 2023 Water/Wastewater Rate Study Update. We understand that the City would like to update its financial planning model previously developed by Raftelis. The update will require updates to the historical costs and the forecasted costs, including the City's most recent budget and Capital Improvement Plan (CIP).

Project Team

For this engagement, the Raftelis team will include myself as Project Director, Justin Rasor as Project Manager, and a staff consultant from the Austin office.

Scope of Work

In Attachment A, we provide a scope of work outlining the tasks for the study. The study will provide the City with proposed water, sewer, and effluent rates based on the forecasted 5-year period, with the 10-year model being updated. The initial study completed by Raftelis forecasted rates for the period of FY 2020 through FY 2028. The initial budget in the forecast was FY 2018. In this update, Raftelis will evaluate the forecast of the previous model to the actual results in fiscal years 2019 through 2021. As part of the model update, Raftelis will evaluate the existing model and make recommendations for refinements considering new modeling techniques that might enhance the model. As part of the study, we will provide a benchmarking study that will consider other similarly situated cities and compare the City's existing and proposed rates to the benchmarking cities. Included in the budget are three meetings to be held in person with staff and City Council. Four virtual meetings are also included for status updates throughout the study.

Budget and Timeline

For this engagement, we propose a not-to-exceed cost of \$24,945. In Attachment B, you will find a detailed budget and timeline. It is our practice to bill monthly based on actual time and expenses. Total fees and expenses will be limited to the not-to-exceed amount unless specific approval for an adjustment in scope is received. If additional modifications are required beyond those identified or related to those listed in the Scope of Work, we can develop additional budget and scope or provide the services based on hourly rates provided in Attachment C.

In Attachment D, we have provided our standard disclosures that we must provide as a registered Municipal Advisor. Please acknowledge receipt of the disclosures by signing and returning the disclosure letter to use.

We look forward to working on this study with the City of Manor. Should you have any questions or need additional information, please contact me at 512-790-2108. If the scope and budget for this engagement are acceptable, please provide a signature below.

Sincerely,



Angie Flores
Senior Manager

City of Manor, Texas accepts the terms of this engagement letter:

Approved: _____ Date: _____

Name of Signatory: _____ Title: _____

ATTACHMENT A SCOPE OF WORK

The tasks of our proposed project scope are summarized below and based on our understanding of the project expectations for the Water/Wastewater Rate Study Update. Although we have listed these tasks consecutively, many tasks will overlap and be conducted concurrently.

Task 1: Project Development and Management

This task provides a solid foundation for the project. During the kick-off meeting, all aspects of the project will be discussed, including the primary objectives of the City, final deliverables, and ongoing project management.

As part of this task, the Project Team will have discussions with City management and staff to obtain a thorough understanding of the financial, operational, regulatory, and political environment. Key issues and areas of concern, such as operating procedures, rate and financial philosophies, the current financial vision, and the pricing objectives used to develop the current rate structures will be reviewed and discussed. Historical information will be reviewed related to costs, customers, usage, demand patterns, capital spending, and revenues generated to gain a better understanding of recent changes in operating characteristics and to develop information and materials required to facilitate the completion of later tasks.

The proposed project approach entails several different, yet interrelated, work efforts that will require effective coordination between the Project Team and the utility staff. Our project management approach stresses communication, teamwork, objectivity, and accountability for meeting project objectives. This includes general administrative duties, including client correspondence, billing, project documentation, and administration of the study control plan. This provides for consistent and competent project management to ensure that all deadlines and objectives are met in a timely and efficient manner. We believe in a no-surprises approach so that the client is always aware of the status of the project.

Task 2: Comprehensive Financial Planning and Revenue Requirement Determination

This task includes the update of the City's most recent water and wastewater financial planning model (Rate Model) tailored to the City's current situation and needs. Raftelis will collect, analyze, and forecast all the historical consumption, operating expenditures, capital expenditures, debt service, and miscellaneous items to be included in the comprehensive ten-year water and wastewater financial plans for the ten-year study period 2022 – 2031. The projections contained in each financial plan (water and wastewater) will be developed in consultation with the utility and will focus on determining the level of rate revenue required to fund utility operations, meet target reserve balances, comply with debt service coverage targets and ensure long-term financial viability.

Task 3: Cost of Service Analysis

Although we take care to tailor a utility's cost-of-service analysis to meet the needs of the individual utility, we always make sure to follow the basic premise of cost-of-service allocations set forth by state and local laws, the American Water Works Association's (AWWA) *Manual M1, Principles of Water Rates, Fees, and Charges*, the Water Environment Federation's (WEF)

Manual of Practice No. 27, Financing and Charges for Wastewater Systems, and other authoritative bodies.

The structure of the cost of service for the City has been developed in the existing model and will be updated with the latest test year data. The methodology for the cost of service is essentially as follows:

- The first step of a cost-of-service analysis is to complete a cost functionalization to allocate costs to the various functions within the utility. For example, in the water utility, these categories may include source of supply, treatment plant, transmission, and distribution.
- The next step is the classification of costs based on cost-causative parameters. In water, these parameters would be average day demand, maximum day demand, maximum hour demand, meters, and customer service.
- Finally, the cost of serving each customer class will be determined based on each class's usage characteristics. Raftelis will discuss with the City whether this task and allocation analysis is necessary for each utility.

Raftelis will evaluate the effluent system of the City to determine the best approach for developing an effluent rate.

Task 4: Benchmarking Study

The Study will include a benchmarking analysis to compare and benchmark the proposed rates with relevant neighboring communities and utilities of comparable size and service characteristics. Raftelis will work with City staff to develop an appropriate group of survey communities, and we anticipate that the final comparison group will be six to ten peer communities.

Task 5: Study Deliverables and Presentation of Results

Summary Memo

The summary memo will document the results of the study and provide the recommendations for future rates. Upon finalization of the summary memo, the City will be provided an electronic copy of the report. In addition to the final summary memo, the City will also be provided with electronic copies of the final rate model in Microsoft Excel.

Presentation

Communicating results and recommendations of the rate studies to elected officials requires a strategic approach that accomplishes two objectives – first, it must clearly communicate key messages that resonate with decision makers who are not likely to be experts in utility management or finance. Second, the presentation must balance the need to provide sufficient detail to give council confidence of the study's legitimacy, while not diving too deeply into the weeds and causing undo confusion.

Our most successful presentations to Council have been developed hand in glove with City staff, who typically know their councils well and understand possible hot button issues or figurative land mines to avoid.

We will prepare a PowerPoint presentation summarizing the rate study process, findings, and recommendations in a clear and concise manner, avoiding the use of endlessly long bullet points in favor of icons, graphics, and imagery that reinforce the speaker's talking points. A draft of the slide deck will be provided, and another round of review/comment gives us the chance to hone our messaging, accompanying graphics, and animation to ensure the presentation fits the time allowed while achieving the objectives described above. As the subject matter experts and at your direction, we will deliver this presentation to City Council at a public meeting.

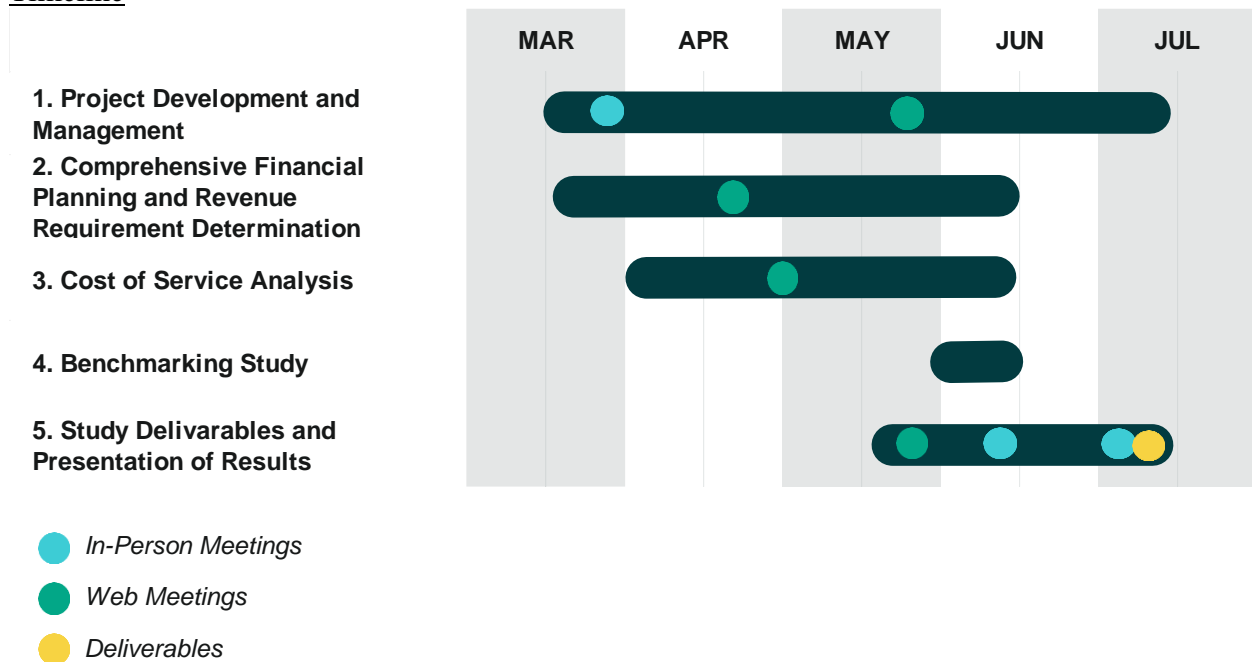
ATTACHMENT B

Budget

Tasks	Web Meetings	In-person Meetings	Hours				Total Fees & Expenses
			AF	JR	LH	Total	
1. Project Development and Management	1	1	2	16	8	26	\$6,192
2. Comprehensive Financial Planning and Revenue Requirement Determination	1	0	2	4	24	30	\$5,710
3. Cost of Service Analysis	1	0		12	32	44	\$8,560
4. Benchmarking Study	0	0		2	4	6	\$1,200
5. Study Deliverables and Presentation of Results	1	2		16	8	24	\$5,683
Total Estimated Meetings / Hours	4	3	4	50	76	130	
Hourly Billing Rate			\$285	\$250	\$160		
Total Professional Fees			\$1,140	\$12,500	\$12,160	\$25,800	
Total Fees							\$25,800
Total Expenses							\$1,545
Total Fees & Expenses							\$27,345

AF - Angie Flores
 JR - Justin Rasor
 LH - Lundy Harrelson

Timeline



ATTACHMENT C
2022 Standard Hourly Billing Rates

<u>Position</u>	<u>Hourly Billing Rate **</u>
Chair/Chair Emeritus	\$475
Chief Executive Officer/President	\$400
Executive Vice President	\$350
Vice President/Principal Consultant	\$325
Senior Manager	\$285
Manager	\$250
Senior Consultant	\$220
Consultant	\$190
Creative Director	\$190
Associate	\$160
Graphic Designer	\$135
Analyst	\$115
Administration	\$85
Technology/Communications Charge*	\$10

* Technology/Communications Charge – this is an hourly fee charged monthly for each hour worked on the project to recover telephone, facsimile, computer, postage/overnight delivery, conference calls, electronic/computer webinars, photocopies, etc.

** For services related to the preparation for and participation in deposition and trial/hearing, the standard billing rates listed above will be increased by an amount up to 50%.

ATTACHMENT D
MUNICIPAL ADVISOR – DISCLOSURE OF POTENTIAL CONFLICTS OF
INTEREST UNDER THE DODD-FRANK ACT AND LIMITATIONS OF LIABILITY
FOR MUNICIPAL ADVISORY SERVICE

The proposed scope of work includes a financial plan which assumes that the City may incur debt to finance future capital projects. As a registered Municipal Advisor under the Dodd-Frank Act, Raftelis Financial Consultants (Raftelis) is required to inform our clients of any existing or potential conflicts of interest that may be relevant to any proposed scope of services that may include providing “advice” as that term is defined in the Dodd-Frank Act. As of the date of this letter, no conflicts of interest are known to exist.

Under the Dodd-Frank Act the definition of “advice” includes providing any opinion, information or assumptions related to the size, timing and terms of possible future debt. This type of information may be integrated into the capital and financial planning components of a water and wastewater rate study. This definition is applicable regardless of whether this information is developed and used solely for planning purposes. For this engagement’s scope of work, any information that is developed by Raftelis that falls under this definition of municipal advice is not intended to represent a recommendation that the City should issue debt based on the terms and assumptions used to develop the financial plan or forecast, or that the City will, in fact, be able to issue debt under the exact terms and conditions assumed and used to develop the financial plan or forecast. The information developed as part of this water and wastewater rate study, including any related municipal advice, is intended to provide information useful in evaluating the potential impact on future rate adjustments of one potential course of action. If the City decides at some future date to issue debt, then at that time the City will need to engage an independent, registered Financial Advisor to assist in evaluating the availability of different types of debt, and the specific terms and conditions for issuing debt, which will be affected by market conditions and the City’s credit rating. At that time, as a registered Municipal Advisor, Raftelis can also provide additional assistance related to a specific bond or debt issue, such as preparing a bond feasibility report or financial forecast for inclusion in bond documents, without requiring additional oversight or supervision by the Financial Advisor. A registered Municipal Advisor Representative, Harold Smith, of our firm, is included as Project Director on this assignment.

The Municipal Securities Rulemaking Board (MSRB) provides significant protections for municipal entities and obligated persons that are clients of a municipal advisor. To understand the protections provided and how to file a complaint with an appropriate regulatory authority, visit the MSRB web site at www.msrb.org

Raftelis does not have any legal events or disciplinary history on Raftelis’ Form MA and Form MA-I, which includes information about any criminal actions, regulatory actions, investigations, terminations, judgements, liens, civil judicial actions, customer complaints, arbitrations, and civil litigation. Raftelis’ most recent form MA and each most recent Form MA-I filed with the SEC may be assessed electronically at the following website:

www.sec.gov/edgar/searchedgar/companysearch.html

There have been no material changes to a legal or disciplinary event disclosure on any Form MA or Form MA-I filed with the SEC. If any material legal or regulatory actions is brought against Raftelis, Raftelis will provide complete disclosure to the City in detail.

By signing this disclosure letter, the City acknowledges that Raftelis has provided the necessary disclosures addressing conflicts of interest and any limitations on the scope of Municipal Advisory services to be provided by Raftelis as part of this engagement.

Sincerely,

RAFTELIS FINANCIAL CONSULTANTS, INC.



Angie Flores
Senior Manager

The City of Manor acknowledges receipt of this disclosure and limitations letter:

Signature

Name of authorized agent

Date

Title