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Scott Truedson, Wastewater Supt.
City of Marshall
600 Erie Road
Marshall, MN 55057-2565

RE: Wastewater Rate Study Proposal
City of Marshall, Minnesota

Dear Scott,

As we discussed, I am pleased to present this proposal for reviewing and updating the City of Marshall wastewater rate system. This proposal will describe our understanding of the study, define our scope of work, and provide you with an estimate of the cost of our services. Our understanding is the rate study is scheduled for 2023, with a start date to be determined depending on when final financial data for 2022 is available.

The proposed study will include a review of financial data to develop projected annual revenue requirements, develop a rate model allocating costs to operational components, and prepare a report with recommended modifications to the rate system. Tasks to accomplish this scope of work are as follows:

Task 1 – Review and Gather Background Information

Information required for the rate analysis will be assembled, reviewed, and analyzed. This information will include the following items: number of users by classification; present and future annual wastewater flows and loads; flows and loads from major contributors; operation and maintenance costs; existing and projected debt service costs for wastewater improvements; annual capital costs (not paid for by debt); and actual and projected wastewater/water sales.

Task 2 – Analysis of Existing Wastewater User Charge System

Once the information has been compiled and reviewed with city staff, an analysis of the current user charge system will be completed. This review will include the following:

1. Review and summarize past and current capital, operation, and maintenance budgets.
2. Develop capital, operation, and maintenance budget projections over the next five years.
3. Determine the allocation of revenue by customer class.
4. Review current rate information and evaluate the need for rate increases to meet budget requirements.

Analysis of the existing charge system will identify whether the existing system is providing adequate revenue over the next five years and will provide a basis for comparison for any of the proposed rate adjustments and their impact on user classes.

Task 3 – Determination of the Costs of Service

To evaluate the distribution of costs to each user class, a cost-of-service allocation will be developed. The purpose of the cost allocation is to express the cost of service in terms of the cost of providing wastewater services based on customers' average and peak flows, use, costs related to meters, service connections, billing, and strength of the wastewater; and then to distribute the costs fairly to the various classes of users.

The first step is to allocate the costs to the various cost components. This step results in a matrix that takes the cost for each plant or system component and allocates this cost to the various treatment and operational parameters. The parameters that will be utilized for this allocation include flow, Biochemical Oxygen Demand (BOD), Total Suspended Solids (TSS), administration, phosphorous, and ammonia.

The second step in cost allocation is to distribute the costs by cost component to the various classes of users. This involves determining the units of service (number of meters, volume of wastewater generated and billed, pounds of wastewater components), determining the unit costs associated with each unit of service, and then distributing the costs to the user classes based on their respective shares of each of the units of service. The distribution of costs to each class then represents the allocation of revenue expected from each class of user.

Once the costs are allocated to each user class, they will be compared to the allocation of revenue by user class. This comparison will determine whether the existing charge system equitably distributes costs to the various user classes, or whether adjustments are required to accomplish an equitable charge system.

Task 4 – Development of Rate Structure

Based on the results of the analysis of the existing charge system, and the development of a cost-of-service allocation, a proposed rate charge system will be developed in collaboration with your financial advisor and finance department. The goal of rate structure design is to relate the cost of service to the user classes while maintaining simplicity and ease of implementation. The rate structure developed will use the existing charge system as a base, with recommendations for modifications based on alleviating any cost inequalities identified in the development of the cost of service. In addition, some of the treatment and operational parameters costs may be combined to maintain the ease of implementation of the charge system.

Task 5 – Comparison of Rate Information

Rate information will be collected from various sources such as the Minnesota Pollution Control Agency (MPCA), League of Minnesota Cities, and communities of a similar size to provide a comparison of rates.

Task 6 – Report Preparation

In this task, the information gathered in the previous tasks will be presented in a written report. Recommendations will be made on any changes in the existing wastewater user charge system. A draft preliminary report will be prepared that details the results of the study. Following comments on the preliminary report, we will revise the draft report to incorporate the city staff review comments and the necessary clarifications. We will present the report findings to the City Council once the report is complete.

We propose to do this work on an hourly basis, for a not-to-exceed amount of \$20,000.

As we discussed, once the rate evaluation is completed, we will be available to meet with significant industrial users to review the proposed rate structure and will update the rate evaluation based on the results of these meetings. We propose to do this work on an hourly basis, with a fee to be determined later.

Once you have had a chance to review this plan, we can discuss and make any modifications required.

Sincerely,

Bolton & Menk, Inc.



Jon D. Peterson, P.E.

Principal Environmental Engineer

JDP:bj

cc: Kristopher Swanson, P.E., Bolton & Menk, Inc.