

CONTRACT AGREEMENT

BETWEEN

**FINANCIAL CONSULTING
SOLUTIONS GROUP, INC.**

Redmond Town Center
7525 – 166th Ave. NE, Suite D-215
Redmond, Washington 98052

AND

CITY OF MCCLEARY

100 South 3rd Street
McCleary, WA 98557

PROJECT: ALLOCATION PLAN AND RATE STUDY UPDATE

THIS AGREEMENT combines all understandings between the Parties regarding professional services for the Project named above and supersedes all prior proposals, quotations, solicitations, negotiations, representations, agreements or understandings, whether written or oral.

The performance of the professional services herein described and authorized by **City of McCleary** as well as payment for such services, shall be in accordance with the terms and conditions presented in this Agreement and the following Sections and Exhibits which are attached and incorporated by reference which, taken together, shall constitute the whole Agreement.

- Section I - Relationship of the Parties**
- Section II - Contract Provisions**
- Exhibit A - Scope of Work and Task Plan**
- Exhibit B - Fee Schedule**

IN WITNESS WHEREOF, the parties hereto have hereunto set their hands and seals this _____ day of _____, 20_____.

APPROVED:

**FINANCIAL CONSULTING
SOLUTIONS GROUP, INC.**

APPROVED:

CITY OF MCCLEARY

Angie Sanchez Virnoche
Vice President

Date: _____

NAME:
Title:

Date: _____

ATTEST:

SECTION I: RELATIONSHIP OF THE PARTIES

City of McCleary ("Client"), desires to complete a **Allocation Plan and Rate Study Update** ("Project"). In furtherance of the Project, the Client hereby contracts with **Financial Consulting Solutions Group, Inc.** ("FCS GROUP") to perform the professional services described in Exhibit A of this Agreement. All services shall be performed under the joint supervision of the Client's Representative, **Todd Baun, Public Works Director** or a designee or designees identified in writing to FCS GROUP by the Client's Representative.

This Agreement shall inure to the benefit of and be binding upon successors, assigns, and legal representatives of each of the Parties hereto. Any assignment or transfer of an interest in this Agreement by either Party without the written consent of the other shall be void.

SECTION II: CONTRACT PROVISIONS

1. Scope of Work: FCS GROUP shall perform the service for the Client which as defined in Exhibit A of this Agreement.

2. Time for Completion: The Scope of Work for the study is anticipated to be completed by FCS GROUP within a time frame approximating that shown by the following schedule:

Notice to Proceed: Upon signature of Contract Agreement by both parties

Contract Term: December 31, 2022 - Contract shall expire on said date unless mutually extended in writing by the parties.

FCS GROUP agrees to perform the work described in the Scope of Work according to the contract schedule. Any delays shall be agreed upon by FCS GROUP and Client prior to the due date. Changes in the schedule caused by Client delays may require additional compensation and a change order.

If FCS GROUP is delayed in the performance of services by conditions which are beyond their control, or by a change in the scope of work, the schedule showing time of performance may be revised. Any revision thereto shall be submitted in writing to the Client for review and approval by the Client Representative.

3. Payment: FCS GROUP will be paid by the Client on a time and materials basis as in Exhibit B. Direct expenses will be charged as identified in Exhibit B. FCS GROUP agrees to perform the services as set forth in Exhibit A at a cost not to exceed **\$113,505 (one hundred thirteen thousand five hundred and five dollars)**. It is understood that FCS GROUP will not exceed this amount without the Client's prior written authorization.

Payment to FCS GROUP for services set forth in Exhibit A shall be: an amount equal to FCS GROUP's standard billing multiplied by the actual hours worked. Should any unforeseen project delays, not caused by FCS GROUP, and/or any requested amendments to the original scope of work, cause this contract to extend more than 90 days past the original contracted schedule date, any work and/or amendments to the work shall be billed at the standard billing rates in effect for the period of time the work is being performed. If said change in billing rates will cause the project to exceed the amount stated in the preceding paragraph, a change order will be prepared and signed by both parties.

FCS GROUP will invoice Client monthly and payment shall be made within 30 days of receipt of invoice.

4. Supplemental Agreements: Supplemental Agreements may be entered into upon mutual written agreement that would increase or decrease the scope and associated costs and payment.

5. Work to be Accomplished: All work accomplished will be performed under the direction of the Client Representative or his/her Designee.

6. Termination: This contract may be terminated by the Client by giving FCS GROUP written notice of such termination no fewer than fifteen (15) days in advance of the effective date of said termination. FCS GROUP shall be entitled to terminate this agreement only in the case of a material breach by the Client, and upon failure of the Client to remedy said breach within fifteen (15) days of said notice. In the event that the contract is terminated before completion, FCS GROUP shall be paid for the services to date on the basis set forth in Paragraph 3. The Client shall notify FCS of termination or abandonment in writing.

7. Indemnity: FCS GROUP shall comply with all Federal Government, State and local laws and ordinances applicable to the work to be done under this Agreement.

FCS GROUP hereby agrees to hold the Client harmless from and shall process and defend at its own expense, specific claims, demands or suits at law or equity, arising from FCS GROUP's negligent performance of the provisions of this Agreement; provided that if the Client and FCS GROUP are concurrently negligent, FCS GROUP shall be required to indemnify and defend only in proportion to negligence of FCS GROUP. These indemnity provisions shall not require FCS GROUP to defend or indemnify the Client against any action based solely on the alleged negligence of the Client.

8. All Work Produced is Joint Property of FCS GROUP and the Client: The materials, computer programs, reports, calculations, analyses, etc., generated by FCS GROUP under this contract including the final report shall be the joint property of the Client and FCS GROUP. FCS GROUP may retain copies thereof for work paper documentation and their own use unless specifically restricted in writing by the Client as to use.

Computer models use generally available software, such as Microsoft Excel (TM), and FCS GROUP does not intend or imply any warranty of those programs.

9. Intended Use and Users of the Work Product: The work products provided under this Agreement are intended for the use of the Clients for the purposes described in the Scope of Services at Exhibit A. No other users or uses are intended or implied. FCS GROUP is not a Municipal Advisor as defined by the US Securities and Exchange Commission ("SEC") and the Municipal Securities Rulemaking Board ("MSRB"). Clients will not represent the work products provided under this Agreement as Municipal Advice within the legal definitions represented by the SEC and the MSRB.

The information used in developing the forecast assumptions will be derived from published information and other sources FCS GROUP considers appropriate. However, FCS GROUP cannot assume responsibility for the accuracy of such material. Moreover, forecasts are subject to many uncertainties as to the future; therefore, FCS GROUP cannot represent that the projected financial statements will be representative of the results that actually occur. FCS GROUP will endeavor to include appropriate comments drawing the readers' attention to these matters.

10. Integrated Agreement: This agreement together with attachments or addenda, represents the entire and integrated agreement between the Client and FCS GROUP supersedes all prior negotiations, representations, or agreements written or oral. This agreement may be amended by written instrument signed by both the Client and FCS GROUP.

11. Independent Contractor: The parties intend that an independent Contractor/Client relationship will be created by this agreement. No agent, employee, or representative of FCS GROUP shall be deemed to be an agent, employee, or representative of the Client for any purpose. FCS GROUP shall be solely responsible for all acts of its agents, employees, representatives, and subcontractors during the performance of this contract.

12. Equal Opportunity: FCS GROUP is committed to the principles of providing equal employment opportunities for all employees. The performance and diversity of our employees will help us meet the challenges of the present and the future in serving our clients. This policy statement is a reaffirmation of

our long-standing commitment to provide equal opportunity on the basis of individual merit and personal qualifications to employees and applicants for employment without regard to race, color, religious creed, sex, sexual orientation or preference, gender identity, genetic characteristics or information of employee or family, age, national origin, ancestry, marital status, citizenship, the presence of sensory, mental, or physical disability, pregnancy/childbirth or related condition, medical condition, membership in the military service, veteran's status, political ideology or any other basis protected by applicable federal, state, or local laws.

13. Notices: Notices to the Client shall be sent to the following address:

City of McCleary
Attention: Todd Baun, Public Works Director
100 South 3rd Street
McCleary, WA 98557
360.495.3667
toddb@cityofmcclary.com

Notices to FCS GROUP shall be sent to the following address:

Financial Consulting Solutions Group, Inc.
Attention: Angie Sanchez Virnoche, Vice President
Redmond Town Center
7525 – 166th Ave. NE, Suite D-215
Redmond, Washington 98052
425.336.4157
angies@fcsgroup.com

EXHIBIT A: SCOPE OF WORK AND TASK PLAN

The following work task plan has been developed to complete an Allocation Plan and Rate Study for the City of McCleary's (City) Water, Sewer, Stormwater and Electric utilities. The City's needs were identified in the Request for Proposal published in February of 2022 and further clarified through correspondence with Todd Baun, Director of Public Works. With the unique nature of each engagement, we have separated our approach into two tasks: *Task 1* will address the Cost Allocation Plan (CAP), and *Task 2* will focus on the Utility Rate Study. While both tasks will occur concurrently, we expect the results of the CAP to be completed prior to the rate study, thus allowing for utility rates to incorporate the allocated costs from the CAP. The tasks to be provided as part of this scope are described below.

TASK 1: COST ALLOCATION PLAN

TASK 1.1: KICK-OFF MEETING AND BACKGROUND REVIEW

This study begins with a remote kick-off meeting with the City's project team. The meeting will include discussion of roles and responsibilities, project goals, objectives, and project schedule and key milestones. FCS GROUP will provide a request for initial data ahead of the kick-off meeting including expenditures, organizational charts, allocation factor data, and any other reports that might be appropriate. Review initial data provided by the City and respond with any clarifying questions or requests.

TASK 1.2: PERFORM COST ANALYSIS OF CENTRAL SERVICES

This task includes a detailed analysis of central service organizational costs, identification of federally disallowed costs, and determination of cost allocation factors.

In-depth understanding about any issues related to centralized costs, cost allocation concerns, City's organizational structure, potential cost pools, and appropriate cost allocation criteria. Work with City staff to define

- Indirect and direct services.
- Central service cost pools.
- Disallowed federal costs consistent with 2CFR200 requirements.
- Allocation factors.
- The necessary financial and statistical data for the cost pools and allocation factors, and the overall cost allocation framework.

TASK 1.3: COST ALLOCATION FRAMEWORK REVIEW

This task is where we build the framework for the cost allocation model. FCS GROUP will prepare a framework summary table to review with City staff that will guide the allocation structure by identifying indirect cost pools, identifying federal 2CFR200 disallowed costs, and related allocation factors.

This task serves to validate FCS GROUP's understanding of the City's operational and fund structure and serves as the foundation for the City's cost allocation model.

TASK 1.4: PREPARE THE FULL COST & 2CFR200 ALLOCATION PLAN

In Task 1.4 FCS GROUP will develop the full cost and 2CFR200 cost allocation models. FCS GROUP will integrate the final framework from Task 1.3 into the model tool, request any additional clarifying data, and prepare the full cost and 2CFR200 cost allocation models.

This task will result in an Excel based model to calculate the full cost and 2CFR200 cost allocations and overhead rates by department. The model and detailed inputs will be developed so that it can be independently updated by the City in future years.

TASK 1.5: REVIEW DRAFT FINDINGS

Task 1.5 will include reviewing the preliminary results of the model with City staff and to receive feedback from the City. This review will be conducted via the online screen sharing application Ring Central.

City staff understanding the foundational assumptions and resulting full cost and 2CFR200 compliant cost allocations.

TASK 1.6: DOCUMENTATION

Task 1.6 includes a written study report summarizing the cost allocation plan methodology and results. FCS GROUP will prepare a draft report for the City's review. The report will include documentation of the City's overhead cost pools, cost allocation factors, allocation amounts, resulting overhead rates, and any other recommendations or issues specific to the City's cost plan process and findings. Upon completion of City staff review, a final cost allocation plan will be prepared for the City's records.

Written cost allocation plan that can be used both internally and externally to explain the City's cost allocation process, including to oversight agencies such as auditors and federal agencies

TASK 1.7: PRESENTATION OF PLAN FINDINGS

During Task 1.7 FCS GROUP will present its findings to the City leadership team. Facilitate one remote presentation to City management and staff, including executive level review of the study approach, methodology and findings

TASK 1.8: MODEL TRAINING

FCS GROUP will conduct a training session for City staff on model inputs, framework review, model mechanics, and instructions for updating the model. The training will be provided remotely. If the City would like an onsite training session, we will negotiate with the City concerning the additional costs.

FCS GROUP believes in creating a clear and transparent cost allocation process. This task will allow the City to understand how our cost allocation model works, as well as provide the training for City staff to update it independently in the future.

TASK 2: RATE STUDY

Based on our understanding of the City's needs after our discussion of question to the RFP, the City's primary objective for the Water, Sewer, Stormwater and Electric study is to ensure adequate revenue collection and funding of utility ongoing obligations for each utility. Therefore, the focus of the study will

be on *Task 2.3 Revenue Requirement* discussed below. *Task 2.4 Cost of Service* will only be performed for the Electric utility in order to develop a cost-based rate for the City's Simpson Door Mill industrial customer. Any rate adjustments, besides the Electric Utility Simpson Door Mill rate design, will be applied on an across-the-board basis.

The tasks to be performed as part of this portion of the study are discussed below.

TASK 2.1: INITIAL PROJECT MEETING

An initial project meeting will be scheduled at the commencement of the project with the consultant and the City project team. Meeting participants would include a representative from departments that can address issues related to finance, engineering, operations, customer service and administration.

The intent of the meeting is to confirm the goals and objectives of the overall rate study and focus the efforts of the project team. The items covered at the meeting include reviewing the scope of work; identifying project objectives, expectations and deliverables; outlining the project schedule and key milestone review points; and discussing appropriate lines of communication.

TASK 2.2: DATA COLLECTION & VALIDATION

FCS GROUP will provide a data needs list encompassing historical and projected revenue, expenses, fiscal policies, capital plans, fund balances and comprehensive planning documents. The data will be reviewed, analyzed and validated for inclusion in the study process.

In order to develop a cost-based rate design for the Electric Utility's Simpson Door Mill industrial customer, a detailed customer data validation will be required. Validation of detailed customer statistics data with customer demands and revenue generation is critical to the rate study as it establishes the foundation for all of the major analytical phases (revenue requirement, cost of service and rate design). The process includes reconciling individual customer data including number of accounts, rate code and billing usage patterns (e.g., kWh, kW) against actual revenues collected. This revenue reconciliation will identify anomalies to be corrected prior to developing future projections for customer counts and use / demand under "normal" conditions and before calculating forecast revenue and cost allocation.

This scope of services includes validation of electric utility data only.

TASK 2.3: REVENUE REQUIREMENT

This task establishes the multi-year (e.g., 5/10-year) financial plan that meets the projected total financial needs of each utility. Annual cash flow needs are developed by identifying expenses incurred to operate and manage each system including:

- Capital investment funding (improvements, expansion, and replacement)
- Expenses incurred to operate, maintain, and manage the system
- Existing and future debt requirements
- Cash flow needs
- Fiscal policy achievement

We will design the analysis to mirror the City's own funds and to be flexible and stable enough to analyze multiple scenarios. Sub-tasks are as follows:

- *Operating Forecast.* The operating forecast is intended to identify future annual non-capital costs. Annual escalation factors will be applied for general inflation, labor and benefits. Adjustments will

be made for new costs anticipated from additional staffing needs and other operating costs associated with maintaining the system along with initiating new or enhanced program activities such as renewable energy requirements and/or conservation.

- *Power Costs (Electric)*. Power costs will be forecasted based on the Bonneville Power Administration's (BPA) billing determinants and the City's load forecast. Tier 1, existing resources and above rate high water mark (ARHWM) purchases will be forecasted independently taking into account the City's existing contracts.
- *Capital Funding*. The City's capital improvement plan will be used to determine total annual capital needs. The analysis will develop a capital funding plan that will determine an optimal mix of available resources from rate revenues, customer contributions, existing cash reserves and debt financing to maintain the ongoing financial health of the electric system and to smooth future rate impacts driven by capital funding needs identified in the City's capital plan.
- *Debt Service Requirements*. Incorporate existing and any anticipated new issues in the revenue requirement.
- *Test of Sufficiency*. Evaluate the adequacy of each system's current revenues in meeting both cash flow needs and debt service coverage requirements on a stand-alone basis.
- *Annual Rate Strategy*. Develop an annual rate strategy to fully fund all obligations and smooth rate impacts.
- *Sensitivity Analyses*. Offer up to three (3) sensitivity analyses, per utility, to evaluate the financial and rate impacts of changes to growth, power costs, project timing and priority, project funding, conservation initiatives or other changes specified by the City.

TASK 2.4: COST OF SERVICE (ELECTRIC ONLY)

The cost-of-service analytical task will establish a defensible basis for assigning "cost shares" and establishing "equity" for the City's customers. This is accomplished with the development of a series of allocations, based on customer data and engineering / planning criteria to assign utility cost recovery to customers in proportion to their estimated demands. Specific consideration will be given to total utility costs in relationship to the functions identified in **Exhibit 1**. We have included traditional and unbundled cost-of-service functions. The unbundling analysis has proven beneficial in aligning rates by service function in preparation of meeting alternative service requests for example - distributed generation.

Exhibit 1. Utility Cost of Service Functions

Traditional	Unbundled
Energy (Winter/Summer, HLH/LLH)	Purchased Power / Generation
Demand (Coincident, Transmission and Non-coincident Peaks)	Transmission
Customer	Distribution
	Customer

Key cost of service tasks include:

- *Classify Assets and Expenses*. A thorough review of the classification categories will be conducted with the City to determine if any changes are warranted.
- *Distribute Cost to Rate Classes*. Update class specific allocation factors with customer account and load data for each of the cost elements. The results of this task will determine the cost of service for

each rate class. We will compare the summary of allocated costs to the existing revenue generated by each rate class to identify if any cost-of-service adjustments are warranted.

- *Unit Costs.* The final piece of the cost-of-service analysis is the calculation of average unit costs by functional cost category such as power, energy, demand, and customer account. Average unit costs will be cost based and expressed in terms of cents / kWh for energy costs, dollars / kW for demand and dollars / month or dollars / day for customer costs. Unit costs will be calculated for both bundled and unbundled cost functions.

TASK 2.5: RATE DESIGN

With the exception of the Electric Utility's Simpson Door Mill industrial cost-based rate structure development, identified overall rate adjustment, for each utility, will be applied on an across the board basis. No other structure changes are included as part of this scope of services.

TASK 2.6: POLE ATTACHMENT FEE UPDATE (ELECTRIC)

Pole attachment charges are established by a utility for an outside party request for attachment of communication wires, cables and other facilities, including wireless antennae to a utility's poles and within its conduit system.

Charges for electric system pole attachments will be analyzed or established to ensure fairness, and in consideration of applicable public policy goals and regulatory requirements, if any. The legal framework for assessing pole attachment fees in Washington is established in RCW 54.04.045. Over the last several years, the interpretation of this framework has been in review by the Washington courts. This analysis will utilize the Washington State Court of Appeals revised FCC / APPA method based on the 2019 ruling to establish cost-based fees.

TASK 2.7: CONNECTION CHARGES (WATER, SEWER & STORMWATER)

A plant investment fee is a one-time charge imposed as a condition of service on new development or on expanded connections to the system. The charge represents a prorated share of the capital investment made to provide system capacity. The plant investment fee is calculated based on the intent and structure of the Revised Code of Washington (RCW) statute for Water-Wastewater Cities and Towns (RCW 35.92.025). In general, each connection shall bear a proportional share of the cost of the system capacity required.

This task will focus on updating the City's existing plant investment fee for the water and sewer utilities. Plant investment fees developed for each system shall reflect an updated inventory of existing system assets, the most recent approved capital improvement program costs identified in the Comprehensive Planning documents related to growth, and current expectations for future capacity.

TASK 2.8: IMPLEMENTATION & EDUCATION

Five (5) internal review meetings are included to go over assumptions and results of the revenue requirement update, cost of service results and rate design alternatives as well as any other task selected. Meetings will be performed remotely over an interactive conference call. The total meetings required to complete the study will vary based on the tasks selected. The list below assumes the completion of all the task described above. The final number of meetings selected can be modified at any time.

- One (1) meeting to review revenue requirement findings and alternatives.

- One (1) meeting to review electric COSA findings.
- One (1) meeting to review Simpson Door Mill cost based rate design.
- One (1) meeting to review connection charges and pole attachment fees.
- One (1) meeting to review final recommendations and presentation.

In addition to the project review meetings, it will be critical to allow input from the City Council. Based on our follow up discussion with the City, attendance at three (3) meeting with the City Council and / or Public has been included in this scope of services.

The meetings may cover the following topics:

- One (1) workshop to review initial findings of ongoing utility rates with the Council and / or Public. Incorporate feedback after meeting.
- One (1) workshop to review initial findings related to connection charges and pole attachment fees with the Council and / or Public. Incorporate feedback after meeting.
- One (1) Public meeting / Council meeting to present final recommendations.

Additional meetings and presentations can be added to the scope of services at the request of the City, on a per meeting basis. Time for additional services will be billed based on time and materials.

TASK 2.9: DOCUMENTATION

A written draft and final report documenting the rate study process, methodology, key assumptions, results, and recommendations will be provided. The electronic models provided for each utility will include the technical exhibits for future reference, as needed.

EXHIBIT B: BUDGET

Task	Allocation Plan	Rate Study						Budget	Total Project
		Electric	Water	Sewer	Stormwater	Combined	Budget		
ALLOCATION PLAN									
Task 1.1 Kick off meeting & background review	\$ 855						\$ -	\$ 855	
- Prepare and transmit data request prior to kickoff meeting	430						-	430	
Task 1.2 Perform cost analysis of central services	4,040						-	4,040	
- Review organization; identify indirect support services	720						-	720	
Task 1.3 Cost allocation framework review	1,440						-	1,440	
Task 1.4 Prepare the full cost & 2CFR200 Allocation Plan							-	-	
- Prepare financial model (full cost and 2CFR200 plans)	4,040						-	4,040	
Task 1.5 Review draft findings							-	-	
- Review results with City staff (1 meeting)	2,000						-	2,000	
- Council / Public workshop (1 meeting)	2,000						-	2,000	
Task 1.6 Documentation	3,010						-	3,010	
Task 1.7 Presentation of plan findings	855						-	855	
Task 1.8 Model training	720						-	720	
TOTAL ALLOCATION PLAN	\$ 20,110	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 20,110	
RATE STUDY									
Task 2.1 Initial project meeting						\$ 1,040	\$ 1,040	\$ 1,040	
Task 2.2 Data collection & validation		1,280	1,280	1,135	825		4,520	4,520	
- Customer data validation		3,840					3,840	3,840	
Task 2.3 Revenue requirement (3 scenarios)		7,170	6,440	6,440	5,380		25,430	25,430	
- Electric power forecast and load analysis		4,950					4,950	4,950	
Task 2.4 Cost of service analysis		6,680					6,680	6,680	
Task 2.5 Rate design (up to 3 alternatives)		2,970	990	990	990		5,940	5,940	
Task 2.6 Pole attachment fee update		5,800					5,800	5,800	
Task 2.7 Connection charges			5,380	5,380	5,380		16,140	16,140	
Task 2.8 Implementation & education							-	-	
- Five (5) review meetings (remote)						4,905	4,905	4,905	
- Council / Public workshops (3 meetings)							-	-	
- Development						6,480	6,480	6,480	
- Presentation to Council / Public (remote)						1,290	1,290	1,290	
Task 2.9 Documentation						6,380	6,380	6,380	
TOTAL RATE STUDY	\$ -	\$ 32,690	\$ 14,090	\$ 13,945	\$ 12,575	\$ 20,095	\$ 93,395	\$ 93,395	
TOTAL BUDGET w. CONTINGENCY		\$ 20,110	\$ 32,690	\$ 14,090	\$ 13,945	\$ 12,575	\$ 20,095	\$ 93,395	\$113,505

FCS GROUP
2022 STANDARD FEE SCHEDULE

Effective November 8, 2021

LABORⁱ

POSITION/TITLE

BILLING RATE

Principals	Standard Rate	\$280
Project Managers	Standard Rates	\$185 - \$215
Consultants	Standard Rates	\$145 - \$175

Administrative and Technical Support

Public Relations		\$155
Technical Writer/Graphic Artist		\$130
Administrative Support		\$ 90

DIRECT EXPENSES

Major direct expenses, such as travel, mileage, and lodging, will be charged at cost. Other expenses will not be directly charged unless by mutual agreement of the client and FCS GROUP and specific terms will be established in advance prior to expenditure and billing.

ⁱ *Litigation rates are 150% of standard hourly rates for services in support of direct litigation, settlement negotiations, arbitration and/or mediation processes.*