

January 7, 2023
via email: clindholm@comvtx.com

Craig Lindholm
City Administrator
City of Mount Vernon
109 North Kaufman Street
Mount Vernon, TX 75457

Exhibit A

Subject: Proposal to Conduct a Water and Wastewater Cost Service and Rate Design Study

Mr. Lindholm:

NewGen Strategies & Solutions, LLC (NewGen) is pleased to offer its services to the City of Mount Vernon (City) to conduct a comprehensive water and wastewater cost of service and rate design study.

Proposed Scope of Services

NewGen proposes to conduct this analysis in a timely and efficient manner, with the work laid out in the following phases:

- **Phase 1 – Determine the Revenue Requirement**
- **Phase 2 – Design Rates**
- **Phase 3 – Issue a Draft and Final Report**

A brief overview of the work to be accomplished during each of the phases is provided below.

Phase 1 – Determine the Revenue Requirement

In this phase, NewGen will gather the necessary data required to determine the cost of providing water and wastewater services. Data to be collected will include budgets, audited financial statements, capital improvement plan, loan documents, water pumpage and usage records, etc. NewGen will plan an on-site visit to meet with the appropriate City staff in order to ensure our understanding of the goals for the study, review data provided, review relevant system history, and answer questions from City staff.

Once the necessary data has been collected, NewGen will review the historical and projected trends with regard to operations and maintenance costs, debt service, capital improvements, water usage, etc. NewGen will adjust expenditures as necessary (normalize, annualize, etc.) in order to develop an annual revenue requirement that is representative of the utility's financial needs. This would include funding for the capital improvements planned for the utilities as well as recurring renewals and replacements to ensure the utilities remain in good working condition. Further, NewGen will incorporate the impact fees, currently under development, and their expected impact on the funding necessary from rates.

If appropriate, during this phase, we will utilize the base-extra capacity methodology to separate water related costs into three primary cost components: 1) base costs; 2) extra-capacity costs; and 3) customer costs. The base-extra capacity allocation will determine the level of peaking associated with customer classes, which impacts the City's required storage, water treatment capacity, etc. The greater a

customer class's peaking factor, the greater the potential "extra capacity" charge for that particular customer class.

Upon completion of this phase we will have developed a five-year revenue requirement forecast, by customer class, for the water and wastewater utilities.

Task 1 Deliverables

- Kick-off meeting
- Preliminary revenue requirement
- Final revenue requirement

Phase 2 – Design Rates

In Phase 2, we will develop a rate structure that will recover the revenue requirement, as defined in Phase 1. In many cases it is the rate structure that will determine whether or not a new set of rates will be accepted by the utility's customers. NewGen's work in the Public Utility Commission of Texas venue, and familiarity with the regulatory environment in Texas, will ensure that all rate design issues are fully vetted. A clear and distinct understanding of the City's overall goals will serve as a basis for the development of the proposed rates.

Task 2 Deliverables

- Preliminary rates
- Conference call to review the preliminary cost of service and rates
- Final rates

Phase 3 – Issue a Draft and Final Report

Upon completion of Phase 2, NewGen will issue a draft report that summarizes our financial analysis, methodology, and rate recommendations. A conference call will be held with City staff to discuss any staff recommended changes to the draft report, with a final report issued within one week of receiving the final comments from the City. A presentation of the final report will then be made to the City Council, including a PowerPoint summarizing our findings and recommendations.

Task 3 Deliverables

- Issue a draft report
- Issue a final report
- Presentation to the City Council

Project Fees

The proposed study will be billed using our standard billing rates based on hours actually worked for a not-to-exceed price of **\$32,500**.

Standard billing rates associated with the team on this project are listed in the following table. Out-of-pocket expenses will be billed on a cost basis (i.e., with no mark-up).

**NewGen Strategies and Solutions
2023 Billing Rates**

Position	Hourly Billing Rate
Partner	\$250 – \$385
Principal	\$235 – \$385
Senior Manager	\$210 – \$265
Manager	\$185 – \$210
Senior Consultant	\$160 – \$185
Consultant	\$150 – \$160
Administrative Services	\$120

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

Project Schedule

Assuming timely responses to data requests and reviews, NewGen expects to be able to provide draft rates within 90 days of notice to proceed.

We appreciate the opportunity to propose this work. If there are any questions regarding this proposal, please feel free to contact me.

Sincerely,

NewGen Strategies and Solutions, LLC



Grant Rabon
Partner

cc: Kathy Lovier (klovier@comvtx.com)