

May 24, 2024

Proposal to Provide a Water & Sewer Rate Study to the:

City of Watertown, WI



Prepared by:

Ehlers
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Advisors:

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BUILDING COMMUNITIES. IT'S WHAT WE DO.



Transmittal Letter

May 24, 2024

Pete Hartz & Mark Stevens
106 Jones Street P.O. Box 477
Watertown, WI 53094

Re: Proposal to Provide a Water Rate Study & Sewer Rate Study to the City of Watertown

Dear Pete & Mark,

We are pleased to present this proposal to the City of Watertown. We believe our expertise and reputation, our dedication to proactive client service, and our unique project approach provide a compelling relationship option for the City to consider.

For more than 60 years, Ehlers has helped its municipal clients build strong and vibrant communities through its municipal advisory services. The following qualitative factors separates us from competing firms:

Expertise. Ehlers has staff dedicated to the specialized work of completing utility rate studies. We serve clients across Wisconsin and throughout the upper Midwest. **In the last five years (8/1/2018-7/31/23), our firm has completed over 90 utility rate studies and 37 conventional rate case applications to the Wisconsin Public Service Commission (PSC).**

Process. Our process is designed to facilitate effective decision-making. Our rate studies are completed in phases with the first phase being a Long-Range Cash Flow Analysis. To our knowledge, our competitors cannot complete an analysis to the level of detail we strive for due to their lack of Municipal Advisor designation or do not complete this vital step. The analysis will provide decision makers with the framework for options on how to fund ongoing and future financial obligations. In addition, we evaluate and educate the ways of how utilities can navigate Conventional Rate Cases to their individual utility needs and not simply following the PSC math. The City currently has unique eligibility for the PSC's windows of opportunity to adjust rates and therefore we feel this analysis will help keep options open for the City's ratepayers. Ehlers has provided you with a sample of this unmatched analysis.

Accessible Team Players. We are responsive to our clients by meeting short deadlines and assigning more than one Municipal Advisor to each client to ensure we meet their needs. Our process is flexible and designed to avoid delays and facilitate decision-making.

Client-First Values. Ehlers prides itself on transparent communication, proactive service, and an unwavering dedication to deploying client resources most efficiently and effectively. At the core, we will provide the City with ongoing dialogue and idea-sharing, independent analysis, customized water rate options, and a competitive, value-oriented fee structure. Our team will be led by Brian Roemer and supported by Ariana Schmidt and Kayla Thorpe.



Thank you for including us in this process. We appreciate your consideration and look forward to discussing how Ehlers can best serve the City of Watertown.

Respectfully submitted,

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Qualifications & Experience

Professional biographies for the team follow below. Biographies and credentials for remaining team members can be found under the [Our Team](#) tab on [Ehlers' public website](#).



Brian Roemer

Senior Municipal Advisor

Brian helps clients with fiscal studies, debt planning and issuance, and financial management planning. Since he joined the firm as an intern in 2016, Brian has quickly risen through the ranks due to his commitment to accuracy, dedication to customer service, and ability to break down complex financial concepts in a way that all client constituents can understand. Brian holds a Master of Business Administration degree from the University of Wisconsin Milwaukee.



Ariana Schmidt

Financial Specialist

Ariana is a Financial Specialist with our Wisconsin Municipal Finance Team, supporting our Municipal Advisors with debt planning and issuance, as well as tax incremental financing and utility rate studies. Prior to joining Ehlers in 2023, she gained nearly eight years of progressive experience in healthcare administration, earning advanced responsibilities and promotions along the way. Ariana holds a Master of Business Administration degree from Concordia University.



Kayla Thorpe

Senior Financial Specialist

Kayla is a Senior Financial Specialist with our Wisconsin Municipal Finance Team, helping clients with project management, long-term financial management planning, and economic development and redevelopment. She also assists our Wisconsin Municipal Advisors with public debt planning and issuance. Kayla brings nearly 15 years of local and federal government experience to her role with the firm, most recently serving as the Administrator | Clerk for the Village of Butler, Wisconsin. She holds a bachelor's degree in Political Science and a Master of Business Administration degree.



Scope of Service - Water Utility Rate Study

The project team proposes to undertake the following steps for the Water utility. Our approach is flexible and has proven to deliver the information, recommendations, and facilitated discussions essential to setting utility rates with confidence and accuracy. Ehlers proposes and agrees to provide the following scope of services for the water utility rate study ("Study"):

Phase I – Information Request, Review, and Long-Range Cash Flow Analysis ("LRCFA")

- Under this phase we will assess the need for a Conventional Rate Case with the PSC using a long-range cash flow analysis. This analysis will make projections on future operation expenses, future capital funding, and identify future rate increases.
- Prepare a cash flow analysis for the next 10 years including the test year and beyond. The analysis will include:
 - Calculation of the return on net investment rate base (ROI) adequate to finance the appropriate share of debt service, equipment replacement and capital outlay expenses.
 - Benchmarking of key financial metrics that the PSC, rating agencies, and prospective lenders analyze.
 - Capital planning and debt schedules with corresponding coverage requirements.
- This phase includes a meeting at the Council or other designated meeting to present the outcome of the Long-Range Cash Flow Analysis before starting the Application.
- In order to complete this phase Ehlers will need to request and review the following:
 - Capital planning documents identifying estimated costs for future water projects
 - Annual audits for the past three years
 - 2024 Water Fund actual expenses and revenues.
 - 2025 Water Fund line-item budget.

Phase II – Information Request, Review, and Test Year 2025 PSC Conventional Rate Case Application (as necessary)

- If the governing body approves Phase 2 after review of the Phase 1 analysis, under this phase we will complete the Test Year 2025 PSC Conventional Rate Case Application including all attachments of the application and supplementary information.



- In order to complete this phase Ehlers will need to request and review the following:
 - PSC annual reports for the last three years (available on the PSC website).
 - Current annual debt service schedules for existing utility debt (we currently have this information).
 - For calendar years 2022, 2023, and 2024 detailed water billing records showing billed water consumption by customer class and rate block and number of customers by class and meter size.
 - Based on the time of filing the Application, we may request a similar report for the previous twelve months to the time of filing.
 - Water billing records which list the 4 largest users in each customer class (i.e. residential, commercial, industrial, public authority) including the name of the customer, meter size, and total billed consumption for the largest quarter over the last 12-month period.
 - A water tower repainting schedule showing when the last time the tower(s) were repainted, the cost for repainting and whether the utility is on a 15 or 20-year repainting schedule.
 - Current number of un-metered customers within the utility, if any.
 - Most current depreciation schedule for all water utility assets, showing current year depreciation expense, depreciation rates, and accumulated depreciation for all water utility financed assets.
 - List of 4 largest users in each customer class (i.e. residential, commercial, industrial, public authority) including the name of the customer, meter size, and total billed consumption for the largest quarter over the last 12-month period.
 - The current number of private fire protections by the size of connection, if any.
 - For municipal financed utility plant in service and contributed plant in service, the estimated 2024 and 2025 asset additions, retirements and adjustments.
 - The current percentage allocated to the sewer utility's portion of meter costs and assets. (Usually the depreciation of the meters is split 50/50 between water and sewer).
 - Estimated materials and supplies inventory for 2024 and 2025, if any.
 - For 2024 and 2025 (estimated) the number of feet of main and hydrants added and retired. Please classify additions and retirements as routine or major.
 - If employees perform work for more than one function, please explain how costs are assigned to the water utility. For example, when an employee performs work for municipal parks, sewer, water, and private lead service lines, describe how the salary and wages dollars are assigned to the regulated water utility.



- Water utility credit card billing offering information (details to follow)
- This phase includes a meeting with the Council or other designated meeting to present the outcome of the Application before filing the Application.
- Ehlers will file the Application upon receiving desired recommendation to do so from the Client's desired governing body or staff.

Phase III –Test Year 2025 PSC Conventional Rate Case Proceedings (as necessary)

- Assist utility with Data Request Portion of proceedings
- Review Revenue Requirement to check for PSC errors or omissions based on Application and Data Request(s) period. Provide disagreement correspondence as necessary
- Review PSC Cost of Service Study & Rate Design
- Represent the Utility at required PSC public hearing
 - Be present at the required telephonic public hearing and provide testimony in support of the proposed water rates for the test year on behalf of the Village.
- File Rate Implementation Letter

Phase IV – Final Report and Presentation (as necessary)

- (Optional) Prepare and provide (via PDF or paper copy) a report containing a written summary of results of the PSC Rate Case and cash flow analysis along with all supporting worksheets.
- (Optional) If requested, this phase includes a meeting with the Council or other designated meeting to present the PSC final water rate structure for the test year and answer questions This should be requested on or before filing the PSC Rate Implementation Letter.

Compensation

In return for the services set forth in the "Scope of Service," Client agrees to compensate Ehlers as follows based on the following Scope of Service Events:

Phase	Scope of Service Event	Fee
I	LRCFA Delivered to Client	\$ 5,000
II	CRC Application Filed with PSC*	\$ 4,500
III	Completion of PSC Rate Implementation Letter*	\$ 3,500
IV	Final Report Delivered to Client^*	\$ 500
IV	Final Report Presentation^*	\$ 500
	Total	\$ 14,000

*As necessary. Phase I may indicate the remainder of the Study is not needed.



In the event the Client determines not to proceed with additional Phases Ehlers will send the invoice for Phases completed. In the event Client determines not to proceed with the Study once a Phase has been authorized, but prior to that Phase's completion, the compensation due for that Phase will be prorated to reflect the percentage of the work completed.

^Optional. The Client may choose to not have a final report and/or final presentation of the final report.

For any service directed by Client and not covered by this, or another applicable Appendix, Ehlers & Associates will bill Client at an hourly rate that is dependent upon the task/staff required to meet Client request at no less than \$125.00/hour and not to exceed \$350.00/hour. This may include for example, additional scenarios for the Long-Range Cash Flow Analysis.

Payment for Services

Ehlers will invoice Client after the completion of each Scope of Service Event noted above. Our fees include our normal travel, printing, computer services, and mail/delivery charges. The invoice is due and payable upon receipt by the Client.



Scope of Service - Sewer Utility Rate Study

The project team proposes to undertake the following steps for the sewer utility. Our approach is flexible and has proven to deliver the information, recommendations, and facilitated discussions essential to setting utility rates with confidence and accuracy. Ehlers proposes and agrees to provide the following scope of services for the sewer utility rate study (“Study”):

Phase I – Information Request, Review, and Long-Range Cash Flow Analysis (“LRCFA”)

- Under this phase we will assess the need for a Sewer Rate study using a long-range cash flow analysis. This analysis will make projections on future operation expenses, future capital funding, and identify future rate increases.
- Prepare a cash flow analysis for the previous 5 years 2020-2024 and next 10 years including the test year. The analysis will include:
 - Actual (for the past five years) and budgeted revenues and expenses based upon the work completed in Phase I above.
 - Development of annual operating expenses for the utility using an assumed rate of inflation based on historical expenses and discussions with staff.
 - Actual annual debt service expenses for existing utility debt.
 - The development of preliminary financing plans for planned capital improvement expenses including the use of cash vs. debt financing.
 - The planned debt service for the sewer utility upgrades taking into consideration available and minimum recommended reserves, existing debt, and existing revenue bond covenants if applicable.
 - Project out revenues and identify projected user rate increases to meet all financial obligations of each utility in future years.
 - Use benchmarking analysis to put forth a plan for fiscal sustainability. Using key metrics established by rating agencies, creditors, underwriters, and the PSC, create a plan that focuses on self-sustaining rates.
 - Determine an initial rate adjustment based on existing cash flow analysis through Budget Year 2025.
 - User Rate Comparison
 - Develop a comparison of existing and proposed user rates for example properties by customer class.
 - Develop a comparison of existing and proposed user rates to other communities.
- To complete this phase Ehlers will need to request and review the following:



- Current schedule of sewer rates.
- Annual audits for the past five years.
- Year to date actual expenses and revenues.
- Latest line-item budget.
- Current annual debt service schedules for existing utility debt.
- Any available capital improvement plan documents.

Phase II – Report, Presentation(s), & Implementation

- **Draft Report**
 - Meet with municipal staff virtually (phone or web-based service) to discuss initial findings
- **Final Report and Presentation**
 - Prepare a report including all project tables and a brief presentation describing the findings and recommendations of the LRCFA.
 - Review the report with staff and make any appropriate changes.
 - Prepare a final report and submit via PDF or paper copy
 - Prepare and be available for one (1) presentation of the report and findings to the City Council or other designated governing body.
- **Implementation**
 - Assist utility in determining implementation date
 - Provide updated rate schedules for implementation
 - Discuss proper implementation process as it relates to the municipality's ordinance

Phase III – Utility Rate Study

- Under this phase we will complete the Sewer Rate Study. This analysis will include:
 - Development of Revenue Requirements
 - Based on the available budget, debt and asset detail, develop the revenue requirements for the utility under the cash based or utility-based method.
 - Cost of Service Study
 - Allocate the revenue requirements for the test year to the appropriate utility functions.
 - Rate Design
 - Calculate the user rates for all customer classes based on the revenue requirements allocated to each utility function divided by the appropriate billable units.



- Create a cash flow analysis for the test year to ensure that the calculated user rates will meet the cash flow needs of the utility.
- User Rate Comparison
 - Develop a comparison of existing and proposed user rates for example properties by customer class.
 - Develop a comparison of existing and proposed user rates to other communities.
- To complete this phase Ehlers will need to request and review the following:
 - As applicable, detailed sewer billing records for the past 3 years showing:
 - billed consumption by customer class and rate block
 - number of customers by class and meter size (if billed by meter size).
 - Billing records for all high strength industrial waste customers of the utility showing the amount of excess loadings by type by month or quarter for the past 3 years.
 - Total Inflow at the wastewater treatment plant (or master meter to regional plant) for the previous 3 calendar years 2022-2024
 - Any available information on upcoming developments and population growth over the study planning period that would increase the customer base and usage, or conversely any information on customers reducing usage or moving out of the municipality.
 - Current number of un-metered customers within the utility, if any.
 - Current depreciation rates depreciation schedule including accumulated depreciation.
 - Copy of current sewer service agreement(s) with governmental and/or private entities.

Phase IV – Report, Presentation(s), & Implementation (as necessary)

- Draft Report
 - Meet with municipal staff virtually (phone or web-based service) to discuss initial findings
- Final Report and Presentation
 - Prepare a report including all project tables and a brief executive summary describing the findings and recommendations of the study.
 - Review the report with staff and make any appropriate changes.
 - Prepare a final report and submit via PDF or paper copy



- Prepare and be available for one (1) presentation of the report and findings to the City Council or other designated Council.
- **Implementation**
 - Assist utility in determining implementation date
 - Provide updated rate schedules for implementation
 - Discuss proper implementation process as it relates to the municipality's ordinance

Compensation

In return for the services set forth in the "Scope of Service," Client agrees to compensate Ehlers as follows:

Service	Fee
Phase I: Information Review & Cash Flow Analysis	\$ 4,500
Phase II: Report & Implementation	\$ 500
Initial Phases Total	\$ 5,000
Phase III: Sewer Rate Study (as necessary)*	\$ 8,000
Phase IV: Report & Implementation (as necessary)*	\$ 1,000
All Phases Total	\$ 14,000

*As necessary. Phase I may indicate the remainder of the Study is not needed.

In the event the Client determines not to proceed with additional Phases Ehlers will send the invoice for Phases completed.

In the event Client determines not to proceed with the Study once a Phase has been authorized, but prior to that Phase's completion, the compensation due for that Phase will be prorated to reflect the percentage of the work completed.

For any service directed by Client and not covered by this Scope of Service, or another applicable Appendix, Ehlers will bill Client at an hourly rate that is dependent upon the task/staff required to meet Client request at no less than \$125.00/hour and not to exceed \$300.00/hour.

Payment for Services

Ehlers will invoice Client for the work completed at the end of each phase noted above. Our fees include our normal travel, printing, computer services, and mail/delivery charges. The invoice is due and payable upon receipt by the Client.

Client Engagement

If the City finds this proposal suitable, please take the appropriate action and/or governing body approval. Please inform us of the decision and we will provide our required disclosures for signature.