



275 W. Campbell Rd.
Suite 440
Richardson, TX 75080
Phone: (972) 680-2000

July 3, 2025

Mr. Randy Criswell
City Manager
City of Wolfforth, Texas
P.O. Box 36
Wolfforth, TX 79382

Subject: Water and Wastewater Rate Study Update

Dear Mr. Criswell:

Based on our conversations, NewGen Strategies and Solutions, LLC (NewGen) is pleased to provide this proposal to assist the City of Wolfforth (City) in conducting an update to the City's Water and Wastewater Rate Study (Rate Study).

The goal of the rate analysis will be to prepare a five-year forecast of water and wastewater revenue requirements and accompanying rate scenarios which will meet the City's revenue recovery objectives.

The Project Team for this effort will be led by Mr. Chris Ekrut, who has previously assisted the City relative to the pricing of Water and Wastewater service. Mr. Chris Ekrut is a founding partner of NewGen and currently serves as the firm's Chief Financial Officer. Mr. Ekrut has been providing consulting services since 2004, with the majority of his client-related projects focused on the pricing of services and developing rates and impact fees for municipal utility systems.

PROJECT WORK PLAN

To perform the requested study, the Project Team proposes the following work plan. This work plan closely follows the approaches and methodologies utilized by NewGen's Project Team members in all of their water and wastewater cost of service and rate design studies. Therefore, the City can be assured that the work plan proposed by NewGen has been tested and proven in numerous studies across the state and nation. It is understood that, if selected, the Project Team will refine, customize, and finalize the work plan with the City upon award of the project.

NewGen maintains a strong and active presence before the State of Texas' rate regulatory authorities and is routinely requested to provide expert opinions on rate matters by legal counsels representing clients throughout the State of Texas. For NewGen to maintain its reputation and presence within the regulatory environment, our product must be of such quality to withstand intense scrutiny. The product(s) developed by NewGen for this engagement will withstand such scrutiny.

Unless otherwise specified or requested by the City, all meetings discussed throughout the work plan, with the exception of those involving the City Council, will take place virtually. NewGen utilizes a variety of tools to conduct virtual meetings and will work with the City to determine the best technology platform for all parties. It is anticipated that all meetings with the City Council will be conducted in person. To the extent the City desires a more cost-effective study, Council meetings can be conducted virtually, which will assist in reducing the overall project cost.

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Water and Wastewater Rate Study

Task 1 – Supplemental Data Request

At the outset of the project, the Project Team will request the data needed to begin the review and evaluation of the City's water and wastewater rates. This data will include, but is not limited to, operating, financial, management, policy, and ordinance data.

Task 2 – Initial Data and Information Assessment

Once the City has submitted the initially requested data, the data will be reviewed for further discussion and clarification. Throughout the course of the rate analysis, data received by the Project Team will be sampled and tested for accuracy. The sampling and testing of data are imperative in regard to the billing data used to set rates. In all of our rate study engagements, NewGen conducts a thorough review and testing of the billing data queries provided by our clients. It is essential in the development of proper cost allocations and reliable revenue projections that the billing data be as accurate as possible. NewGen will work closely with the City's billing staff and/or software provider to extract the appropriate billing data. In addition, the Project Team will conduct informal interviews with City staff as necessary during our review of the historical data to ensure that the Project Team understands the information provided.

Task 3 – Project Kickoff Meeting

During the kickoff meeting specific to Phase I, the Project Team will also officially kickoff the rate analysis and will discuss the data received in Task 2 to clarify information received and to seek answers to any outstanding questions.

In addition, the project kickoff meeting will allow for the Project Team to gain a better understanding of the City's desired goals and objectives, as well as expectations. As part of the kickoff meeting, the Project Team members will also discuss:

- Political and customer views/opinions of current rates,
- Capital/operational demand changes anticipated over the study's forecasted period,
- Initial rate design pricing objectives, and
- Initial strategies for implementing/communicating possible rate changes.

Task 4 – Determination of Test-Year Revenue Requirements

Revenue requirements will be developed for the water, wastewater, and solid waste studies using the accepted cash needs approach. The cash needs approach closely follows municipal budgeting practices and incorporates a utility's operation and maintenance costs, debt service and bond coverage requirements, cash funded capital outlays, reserve requirements, and transfers. Specifically for the City, the revenue requirement will include the City's operational costs adjusted to reflect normal service conditions, current and future anticipated principal and interest payments, current and future cash capital outlays, future capital funding needs (including the impact of inflation on construction cost), and pass-through charges for wholesale service.

In developing the revenue requirements, the Project Team will assess and project each utility's cost of service by analyzing each utility's historical costs, the current budget year, any forecasts made for future fiscal years, and any debt service ratio or bond covenant requirements. The Project Team will develop a

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test-year cost of service for each utility. A test-year is a common term in rate studies that refers to an adjusted fiscal year cost that will be used as a basis for setting rates. The test-year cost of service will be adjusted by non-rate revenue sources to develop the test-year revenue required from utility rates.

Task 5 – Forecast of Revenue Requirements

Using the test-year developed in Task 4, the Project Team will begin the development of a five-year revenue requirement forecast. As necessary, interviews with City staff may be conducted to gather additional data to complete this task. During this task, it is crucial to thoroughly analyze the assumptions used in projecting the revenue requirements. These assumptions may include, but may not be limited to, growth rate, inflation rates, regulatory changes, conservation, increase in contractual obligations, and capital improvements. These assumptions will be supported by standard industry forecasting practices and available indices. In addition, support will come from the City's applicable master plan studies and current infrastructure ratings.

The Project Team will work closely with City staff to examine the City's planned method of financing future capital improvements (e.g. cash, debt, grants) and the financing methods' impact on retail rates, operating and capital reserve targets, and debt coverage requirements, as well as examine anticipated operational and/or staffing changes over the five-year forecast. The five-year revenue requirement will serve as the basis for the development of the financing plan to meet projected capital improvement expenditures.

Task 6 – Determination of Realizable Revenue at Current Rates

The results of this task will provide the data to properly evaluate the magnitude of overall increases as well as provide the Project Team with the ability to compare the actual cost to provide utility service with the anticipated billed revenues of the utility. In the revenue determination, adjustments will be made to the historical billing data to reflect normalized weather conditions and usage. This task will also provide a "check" of the data provided by City staff.

Task 7 – Development of Rate Design

In the formulation of a rate and fee design plan, a clear and distinct understanding of the City's overall goals and objectives should serve as the foundation for the development of options since rate and fee design enables the utility to meet its service pricing objectives. Pricing objectives could include, but would not be limited to, the following:

- | | |
|----------------------------|---------------------------------|
| ■ Cost of Service Recovery | ■ Ease of Administration |
| ■ Revenue Stability | ■ Regional Competitive Position |
| ■ Affordability | ■ Conservation |
| ■ Equity | ■ Economic Development |

Members of the Project Team will meet with City staff to discuss the potential rate design alternatives that meet the City's pricing goals and objectives. From these discussions, the Project Team will develop defensible rate structures that are reflective of industry accepted practices and procedures and rate regulations within the State of Texas, and which balance the recovery of revenue between base rates and volumetric rates on an equitable basis.

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Task 8 – Determination of Realizable Revenue with Rate Adjustments

The Project Team will analyze and compare the revenues forecasted to be generated under designed rate structures, by customer class, to determine the adequacy of the designed rate structures to meet the City's financial goals, including bond coverage requirements and operating and capital reserves. To the extent the designed rates are projected to be inadequate, appropriate rate adjustments for each class will be calculated. In the revenue determination, adjustments will be made to the historical billing data to reflect normalized weather conditions and usage. In addition, the monthly impact of rate adjustments on customer bills under the designed rate structures will be examined.

Task 9 – Rate Comparison Review

The Project Team will compare the City's current and adjusted utility rates to utility rates of municipal utilities of similar size, demographics, and operational characteristics so as to provide an estimation of the City's comparable and competitive position.

After completing Task 9, members of the Project Team will conduct a briefing presentation with City staff to discuss the results of the rate design analysis. These discussions will include the development of the strategy(ies) to communicate and institute any significant rate changes.

Task 10 – Draft Letter Report Preparation

The Project Team will develop a draft letter report summarizing findings, conclusions, and recommendations of the water and wastewater rate study. The report will include all methodologies, assumptions, and calculations, and a background section that includes all data used in the determinations made in the study. The Project Team is committed to ensuring that the City thoroughly understands the recommendations in the draft report and will be available to discuss findings, answer questions, and receive input. The Project Team will ensure that City staff have sufficient time to address their concerns and/or questions prior to finalizing the report.

Task 11 – Final Letter Report Preparation and Presentation

Upon receipt of comments from City staff, the Project Team will make appropriate changes and provide the City with the final report. After completion of the final report, the Project Team will assist the City in the presentation of the results of the water and wastewater rate study to various stakeholders, including presenting the study's findings, conclusions, and recommendations to the City Council.

COST OF SERVICES

Based on the work plan outlined herein, the Project Team agrees to perform the Water and Wastewater Rate Study update for a not-to-exceed price of \$27,500, inclusive of out-of-pocket expenses incurred at cost. As services are requested and performed, NewGen will invoice the City on a monthly basis for actual hours worked at our then applicable hourly billing rates, plus out-of-pocket expenses incurred at cost.

Additional Services

Services requested outside the above scope of services will be provided based on time and expenses incurred. NewGen's hourly billing rates, effective through December 31, 2025, are as follows:

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NewGen Strategies and Solutions
2025 Billing Rates

Position	Hourly Billing Rate
Partner	\$280 – \$440
Principal	\$275 – \$440
Senior Manager	\$240 – \$295
Manager	\$200 – \$240
Senior Consultant	\$185 – \$200
Consultant	\$175 – \$185
Administrative Services	\$135

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

OTHER TERMS AND CONDITIONS

This agreement is subject to cancellation by the City with thirty (30) days prior written notice provided to NewGen. In the event of cancellation, all labor and expense charges incurred by NewGen through the date of cancellation will be considered due at the time notice of cancellation is delivered, regardless of work product and/or engagement status.

All payments made under this engagement should be remitted to:

NewGen Strategies and Solutions, LLC
275 W. Campbell Rd, Suite 440
Richardson, Texas 75080

By executing this letter, you agree that the services rendered by NewGen will be performed in accordance with instructions or specifications received by the City and will be provided with the degree of skill and judgment exercised by recognized professionals performing services of similar nature and consistent with the applicable industry best practices. You further agree that compensation for services rendered will be provided to NewGen regardless of the final outcome of the engagement.

Additionally, all parties mutually agree that during the term of this Agreement and for a period of one (1) year after any termination, the parties agree not to solicit the other entities’ employees related to this Agreement. This clause does not apply where an employee seeks employment in response to an advertisement placed into the public domain for a specific position or other general recruitment activities.

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Again, NewGen appreciates the opportunity to propose our assistance to the City of Wolfforth, and we look forward to continuing our relationship with the City. We stand ready to answer any questions or provide any additional information the City may need as you evaluate moving forward with this important project. If you should have any questions regarding this letter and/or require additional information, please contact me at cekrut@newgenstrategies.net or (972) 232-2234.

Very truly yours,

NewGen Strategies and Solutions, LLC

Signed by:

FB62F346CFA8440...
Chris D. Ekrut
Partner, CFO

Project Authorization

Signed _____ Printed _____

Title _____ Date _____