

EXHIBIT A

SCOPE OF WORK

The following Scope of Work (SOW) identifies the activities that FCS GROUP will perform for the City's Sewer, Storm Drain and Effluent Systems' Rate Study Analysis.

A. Study Foundation

Establish the underlying data needs and assumptions, and financial, cost-of-service, and rate and fee policy objectives to serve as the foundation for the technical analyses. We will strive to uncover any data limitations, issues or concerns that will need to be addressed early on in the process to ensure successful study completion.

Task A.1 | Data Collection/Validation

Submit a preliminary data request so that readily available financial and operational materials can be received prior to the kickoff meeting. Review, analyze and validate data. In advance of the meeting, we will have conducted our initial review of the data and will be prepared with requests for any additional items or explanations as necessary.

Task A.2 | Meetings and Presentations

Prepare for and attend the following meetings and presentations:

- ◆ **Kick-Off Meeting** | Participate in a study kickoff meeting with City representatives to review study scope and schedule, confirm key milestones, discuss any data challenges, define anticipated deliverables, and establish communication protocols. We will also use this session to brainstorm with City staff to create the list of key policy goals for the study, and identify potential rate and fee structures.
- ◆ **Interim Staff Review Meetings** | Meet with City staff in up to two (2) meetings to review the team's analysis and recommendations at key points during the study. The topic areas for discussion include financial planning alternatives, cost of service results, rate and fee structure alternatives, and future policy direction.
- ◆ **Stakeholder Meetings** | Prepare materials and facilitate up to five (5) meetings with stakeholder groups to present findings and recommendations and gain input for finalizing the study. It is anticipated that up to five one-time informational meetings will be held with various stakeholder groups (builders, citizens, contractors, etc). Attendees will be at the discretion of the City.
- ◆ **City Council Presentations** | Prepare materials for and participate in two (2) meetings with City management and/or the City Council to present draft results, receive policy direction, and present final study outcomes.

In addition to the defined onsite meetings listed above, we can accommodate periodic project reviews via the teleconference process using GoToMeeting™ and/or Skype™ video conferencing. This technology enables City staff and consultants to simultaneously view work products via an Internet connection and see edits and changes made to a shared document in real time.

Task A.3 | Policy Review

Review the City's financial performance standards, reserve policies, system reinvestment funding and debt management practices for consistency with City goals, revenue needs, and potential rate impacts. A comparison of these policies to industry standards will help provide context in determining whether there are possible enhancements that would benefit the utility's stakeholders and customers. We will build upon the policy recommendations developed for the 2008 Utility Financial Rate Study, and gauge the City's achievement of policy parameters in light of current

conditions and utility goals. In particular, we suggest revisiting the City’s practice of using capital connection charge revenues to pay committed annual debt service payments.

Task A.4| Project Administration / Management

Perform administrative / management procedures for efficient study performance and work paper documentation. With our monthly invoicing, our managing principal will deliver written progress reports describing recent efforts; forthcoming efforts, including potential challenges and/or needs from City staff, as well as status of study progress, schedule and budget. We will stay in regular contact with the City’s project manager via telephone and email to address issues as they arise.

B. Financial Planning

Prepare a revenue requirement forecast for each utility and perform a comparative benchmark analysis to assess utility performance relative to industry practices.

Task B.1 | Revenue Requirements

Develop a long-range financial forecast for each utility which projects operating expenditures; repair, replacement and other capital needs; and offsetting revenues. This analysis will focus on revenue sufficiency over the next five years (2013 – 2017) based on the City’s projected operating, capital, policy, and regulatory needs. This forecast will be used for our assessment of existing rate structures, potential alternative rate structures, and revenue sufficiency. Our evaluation will consider the overall funding strategy including near- and long-term capital and operational needs, as well as potential customer usage changes due to modifications of the rate structures. The results of the revenue requirement will determine what levels of rate increases are necessary in order to promote the financial stability of each utility and to meet the City’s policy goals. The budget provides for up to three (3) scenarios.

As the foundation for the revenue requirement update, we will use the financial planning models FCS GROUP developed for each utility during the 2008 Utility Financial Rate Study. It is our understanding that City staff has been utilizing these models, with in-house modifications made to the models as necessary to incorporate changes in accounting / budgeting categories and other specific information needs. We will confer with City staff to refine the models to meet current needs. At a minimum, we will integrate an introductory flow screen and dashboard module to enhance model navigation and “what if” scenarios. The dynamic dashboard module allows for various cost and policy alternatives to be simultaneously evaluated without corrupting the core data within the model.

Task B.2 | Comparative “Benchmark” Analysis

Any implementation of updated rates and charges require context in order to effectively evaluate their reasonableness. We will perform a comparative benchmark analysis for the City of up to 10 communities evaluating metrics such as rates, connection charges, cost for operations, capital investments and reinvestments, and other relevant information. We will work with the City to identify specific agencies and metrics to include in the comparison. In particular O&M metrics will be compared, such as O&M per miles of pipe, footage of lines cleaned per year, etc.).

When examining the results of the comparative rate analysis, it should be noted that is not always simple to compare one agency to another, especially when focusing on one metric, such as rates. System attributes – such as age and type of infrastructure, demographics, treatment process and regulatory compliance issues – can vary vastly by area and agency. Consequently, while end user rates are commonly used to benchmark an agency’s performance, using rates as an isolated metric does not always provide a strong basis for comparison. Where data is readily available, we will provide content for this comparative rate analysis by including the background on each utility surveyed. This level of review can help explain discrepancies of rate levels between agencies.

- ◆ In the benchmarking portion, the comment was made that we want to make sure O&M metrics are included. Doable?

C. Cost of Service / Rate Design

The cost of service analysis is the evaluation, based on available engineering and customer information, of *who should pay what share* in order to equitably recover adequate revenues. While the revenue requirement determines the size of the pie, the cost of service analysis determines how you slice it amongst customers. This detailed quantitative analysis determines the level that customer class rate structures must be set to reflect each unique utility system and customer base. Note: a detailed cost of service analysis is necessary for the sanitary sewer system to appropriately allocate costs to different types of customers (e.g., strength differentials). Detailed cost allocations are not required in the development of quantity-based storm drain rates unless the City wishes to establish cost-based storm water credit policies for commercial customers providing onsite mitigation facilities. In this case a relatively simple allocation of costs to “base” and “use” categories would be sufficient. Cost allocations are not required for effluent re-use rates.

Task C.1 | Customer Statistics Evaluation

A detailed customer data analysis must be performed to determine whether the historical billing system information serves as a valid basis for calculating rates that will generate the correct amount of revenue. We will conduct a statistical analysis of customer data using 12-months of historical information (e.g., accounts, dwelling units, water usage, etc.), and calibrate billing records against actual rate revenues to prevent over or under estimation of the City’s customer base. For sanitary sewer, we will develop consumption profiles that show water usage patterns by customer class in order to assign costs and develop rates. Because sewer flows are not readily measured or sampled, we will rely on customer water usage data from the City’s water purveyor. Strength loadings assumptions and return to sewer factors will be based on City data, industry standards and/or consultant judgment.

Task C.2 | Functional Allocation

Determine appropriate cost allocation factors to allocate plant and expense items to functional cost components of the sanitary sewer system based on system design criteria and cost causation. These allocations will be unique to the City’s sanitary sewer system and consider the utility’s assets and other system and accounting records. The functional cost pools include those to collect and convey user flows; to treat the volume of user flows; to treat the strength of user flows (expressed as biochemical oxygen demand and suspended solids); and to provide wastewater disposal and customer services. This process of assignment is not required for the storm drain and effluent re-use systems.

Task C.3 | Customer Class Review

A review of customer class statistics, as well as input from City staff, will be relied on to determine any alternative grouping of customers that might better address unique service requirements. In particular, we will review sanitary sewer commercial/industrial surcharge user types and make recommendations for revised and/or or new user types for potential incorporation into this study and/or for future rate updates.

Task C.4 | Customer Class Cost Distribution

Utilizing results of the functional cost allocation and summary customer statistics, assign cost recovery to established customer classes in proportion to the estimated demands each class places on the system. Identify shifts in cost recovery by customer class from that experienced under the existing rate structure. This step determines the amount of revenue to be recovered from each class of customer, linked to a proportionate share of costs required to serve their sewer discharge. Derive unit costs of service for each class by functional component to serve as the building blocks for alternative rate structure designs.

Task C.5 | Rate Structure Design

Review existing utility rates to determine if current structures sufficiently meet the City's revenue needs and pricing goals. Our task will be to first evaluate the effectiveness of existing rate structures and, if warranted, recommend alternative structures that might better align with the City's current objectives for each utility - keeping simplicity and customer understanding in mind. The goal is the development of a schedule of rates for each utility that can preserve financial stability; achieve a reasonable and practical degree of customer equity; remain consistent with local practices and conditions; and serve the best interest of the City and community. Preliminary rate structure options will be identified and initially vetted during the study kickoff meeting.

For the sanitary sewer utility, alternatives for strength based differentials will be considered. The current septage receiving policies and fee structure will be reviewed with recommendations offered as warranted to meet current cost recovery objectives. We will also review the current residential sewer rebate program and make recommendations for continued use and/or updated program parameters. Storm drain rate structures will address appropriate cost recovery between residential and commercial/industrial customers, and consider potential options for credit policies. Effluent re-use rate will be evaluated in terms of consistency with market conditions and potential for cost recovery. The potential for subsidization by sewer user fees via cost-of-treatment (disposal) reduction will be evaluated. Potential customer bill impacts under existing and proposed alternative rate structures will be prepared for inclusion in the customer rate survey discussed under Task B-2.

Based on discussions with City staff, it is anticipated that only minor revisions will be made to the rate structures for this study period. The budget provides for up to two (2) quantitative alternative rate structures for each utility. A qualitative evaluation will be provided for further potential long-term rate structure enhancements, likely to include strength differential for low, medium, and high strength customer categories.

D. Other Fees and Charges

Review and update utility connection charges and environmental control inspection / enforcement fees to enhance cost recovery and promote customer equity.

Task D.1 | Connection Charges

Review current connection fees and update the schedule of charges for each utility to reflect current system infrastructure investment, eligible planned capital projects, anticipated system capacity, and growth in customer base. We anticipate using the City's existing connection fee methodology FCS GROUP developed for the 2008 Financial Rate Study. However, alternative approaches can be designed in collaboration with City staff, if desired. In particular, the sanitary sewer weighted fixture unit methodology for commercial/industrial customers might warrant revising. Potential alternative approaches will be identified and initially vetted during the study kickoff meeting. The budget provides for up to two (2) alternative approaches and schedules of charges.

Task D.2 | Environmental Control Inspection / Enforcement Fees

Review and update (as necessary) environmental control fees imposed by the City including annual inspection of all business that hold permits; collection of samples from high risk category businesses to ensure compliance with wastewater and storm water regulations; enforcement; and response to unusual influents, locate source and prevent reoccurrence. We will use the model developed during the 2008 Financial Rate Study to evaluate varying levels of cost recovery from such fees, including direct charges only or full recovery of direct and indirect costs and develop resulting charges for this study.

E. Documentation

Document study findings and recommendations in a written report and provide draft ordinances to reflect selected rate and charge modifications.

Task E.1 | Study Report

Prepare and submit a rate study report to document the study process, assumptions, results, alternatives, and recommendations for each utility, including supporting spreadsheet documentation as technical appendices. We anticipate using the same general format as the 2008 Financial Rate Study Report, and update as necessary to reflect all elements of the current study. In advance of preparing the report, we will confer with City staff to determine if there are any desired changes in report format and/or content from that used in the previous study.

Task E.2 | Ordinance and Code Review and Modification

Review relevant City Ordinances and provide draft changes to appropriate sections to incorporate all approved changes to rates and charges related to the Scope of Service provided for this study. Review and evaluate federal pretreatment codes and related City code for consistency and/or compliance. Recommend modifications as warranted.

SCHEDULE

We anticipate an approximate 9-month schedule to complete the Scope of Work presented herein. Assuming notice to proceed on or about September 1, 2012, this would result in the submittal of draft study findings by the end of February 2013, with final study deliverables submitted by the end of May 2013. Proposed rates are expected to become effective July 1, 2013.

EXHIBIT A BUDGET

The SOW will be performed for a not-to-exceed amount of \$137,651, as detailed in the exhibit below.

Task	Consultant Hours					Total Estiamted Hours	Labor Budget	Expense Budget	Total Budget
	Managing Principal Johnson	Engineering Advisors	Project Consultants	Analysts	Admin. Support				
<i>Hourly Billing Rates:</i>	\$225	\$233	\$140	\$100	\$70				
A. Study Foundation									
A.1 - Data Collection / Validation		4		16		20	\$2,500		\$2,500
A.2 - Meetings and Presentations [10 onsite mtgs]	100	12		64	8	184	\$32,257	\$6,500	\$38,757
A.3 - Fiscal Policy Evaluation		4		16		20	\$2,500		\$2,500
A.4 - Project Administration / Management		18		8	4	30	\$5,130		\$5,130
B. Financial Planning									
B.1 - Revenue Requirements		24	30	204		258	\$30,000		\$30,000
B.2 - Comparative Benchmark Analysis		2	8	30		40	\$6,515		\$6,515
C. Cost of Service / Rate Design									
C.1 - Customer Statistics Evaluation		4		24		28	\$3,300		\$3,300
C.2 - Functional Allocation		4	12	10		26	\$4,697		\$4,697
C.3 - Customer Class Review		2		4		6	\$850		\$850
C.4 - Customer Class Cost Distribution		4	12	16		32	\$5,297		\$5,297
C.5 - Rate Structure Design		6	8	60		74	\$8,470		\$8,470
D. Other Fees and Charges									
D.1 - Connection Charges		6	12	12	72	102	\$13,027		\$13,027
D.2 - Environmental Control Inspectioin / Enforcement Fees		2	30			32	\$4,650		\$4,650
E. Documentation									
E.1 - Study Report		4		60	8	72	\$7,460		\$7,460
E.2 - Ordinance and Code Review and Modification		4	12	8		24	\$4,497		\$4,497
Total	188	68	110	562	20	948	\$131,151	\$6,500	\$137,651