

# ATTACHMENT “A” – SCOPE OF WORK

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## City of Sparks 2017 Utility Enterprise Funds Rate Study

### PROJECT BACKGROUND

In 2008, The FCS Group completed a Sewer, Storm Drain and Effluent Utility Rate Study for the City of Sparks. Their work was subsequently updated in 2012 in a combined effort between City staff and The FCS Group. The final rate adjustment recommended in the 2012 update will be implemented on July 1<sup>st</sup> of 2017. Therefore, the City would like to review rates and consider implementing recommended changes over a 5-year period beginning on July 1, 2018.

### PROJECT OBJECTIVES

This project will be guided by the following principles:

- Industry Standards. As with any rate analysis, this study will follow sound principles that are widely accepted throughout the industry.
- Adequate and Stable Revenues. The rate structure will provide adequate revenues to fully fund operations and maintenance, debt service and capital improvements.
- Customer Equity. Equity among and between customer classes is paramount. Unplanned subsidies that exist within the rate structure should be identified and addressed.
- Simplicity. Complex rates structures can be difficult to explain and administer. Simplicity will be preserved to the greatest extent possible.

### SCOPE OF WORK

The task breakdown for the project is designated as follows:

- Task 1 – Project Management
- Task 2 – Review Background Information & Kickoff Meeting
- Task 3 – Data Collection & Analysis
- Task 4 – Update Revenue Requirements
- Task 5 – Allocation of Costs & Rate Design
- Task 6 – Update Connection Fees
- Task 7 – Reporting and Presentations
- Task 8 – Owner Directed Services

## **Task 1 – Project Management**

### ***Objective***

To plan, organize, direct, control, and communicate all relevant activities set forth in this Scope of Work within the approved budget and schedule. To provide quality assurance and quality control.

### ***Approach***

Farr West will routinely review project progress and communicate project status on a regular basis. Communication will be through email and telephone, and with regular internal project coordination meetings. This task will include the following activities:

- Project administration includes scheduling maintenance, cost control, filing, resource allocation, and routine communications.
- Team coordination, including conference calls and internal meetings.
- 4 progress meetings with the client, in addition to the kickoff meeting.
- 1 meeting with TMWRF staff to review CIP.
- Monitoring changes to the scope, budget, or schedule and developing change management strategies with the City.
- Provide quality assurance and quality control.

### ***Deliverables***

The following deliverables will be submitted under this task:

- Monthly invoices
- Client progress meeting minutes

## **Task 2 – Review Background Information & Kickoff Meeting**

### ***Objective***

To review relevant background information, policies, and assumptions; and to discuss project objectives and goals with the City prior to starting the rate analysis.

### ***Approach***

The following documents will be reviewed prior to the kickoff meeting:

- City Code Title 13, Current utility rate structures and policies
- City of Reno, Washoe County & TMWA rate structure, policies and code
- 2008 FCS Group Report
- City of Sparks Storm Drain Master Plan & Sewer Master Plan (Atkins)
- TMWRF Capital Improvement Plan
- Existing rate model spreadsheets

Farr West will meet with the City to hold a kickoff meeting to discuss the background research and to specifically discuss policies and preferences related to the rate study.

### ***Deliverables***

The following will be delivered under this task:

- Technical Memorandum #1 summarizing key information from the background research and the direction given at the Kickoff Meeting regarding policies and methods.

## **Task 3 – Data Collection & Analysis**

### ***Objective***

Obtain all the information needed to complete the rate study.

### ***Approach***

Utility data from the prior 5 years will be collected, validated and analyzed. Examples include customer counts, usage data, audited financials, etc. Trends will identify the accuracy of past assumptions and may be a good indicator of future performance. Trends also identify potential areas of concern. They are helpful when presented graphically to the City Council and the public. Example trends to be analyzed and shown graphically include revenues, expenditures, debt levels, reserves, workforce, customer counts, new connections, wastewater strength, etc.

### ***Deliverables***

The following deliverables will be submitted under this task:

- Technical Memorandum #2 summarizing the data collected, data gaps and trends.

## **Task 4 – Update Revenue Requirements**

### ***Objective***

To determine the revenue required to ensure proper operation and maintenance, development and perpetuation of the system, and preservation of the City's financial integrity.

### ***Approach***

Revenues required to fully fund the operations of each utility include: operations, maintenance, debt service, capital improvements and the fulfillment of all goals and policies. The approach for this task will be to follow the approach of previous City rate studies and to apply the guidelines of AWWA Manual M1, "Principles of Water Rates, Fees and Charges." The data compiled in Task 4 will be utilized in this process.

### ***Deliverables***

The following deliverables will be submitted under this task:

- Technical Memorandum #3 summarizing the updated revenue requirements.

## Task 5 – Allocation of Costs & Rate Design

### Objectives

- To allocate costs of utility service to customers in accordance with their service requirements.
- To create utility rates that achieve equity among customers, while maintaining simplicity and limiting administrative burden.

### Approach

The allocation of costs analysis forms the basis for the rate structure. The objective is to achieve the highest level of equity among customers while maintaining a reasonable administrative burden. For example, the FCS Group Report accurately points out that the most equitable method of allocating storm water utility costs is by the amount of impervious surface area on each parcel of land within the service area. While this may be true, the administrative burden to implement such a practice may be unrealistic.

In the 2008 rate analysis, the City chose to maintain the existing rate structures for each of the utilities. Various options were considered for the sanitary sewer utility; however, *“the overriding perspective was that the potential equity enhancements achieved through these options do not materially outweigh the benefits of simplicity, administrative burden and mitigation of rate impacts to individual customers apparent in the current rate structure. (FCS Report)”* This philosophy may still prevail; however, we recommend investigating various rate structure modifications that achieve greater equity while maintaining simplicity and limiting administrative burden.

Rates will be developed and calculated using the Rate Model Spreadsheets provided by the City, utilizing updated information as needed. Some comparative analysis will be provided to show the impacts of rate modifications. A recommendation will be made to base future rate increases to the inflation rate.

The following issues and methods, identified by the City and during prior rate studies, will be evaluated during the rate design:

#### A. Sewer rate based on winter water use

Some utilities base the sewer charge on the customer’s winter water use. Farr West will perform a cost benefit analysis of this method by conducting a trial run using a test group of customers. This will be coordinated with the City’s Customer Service Manager. Winter water usage rates for the test group of customers will be obtained from TMWA and then joined in the City’s billing system to produce mock bills.

#### B. Commercial/Industrial Surcharges

One of the key issues to be addressed in the sewer rate analysis is the commercial/industrial surcharge schedule. According to City staff, the rates are based on a study that is over 20 years old. There are new commercial/industrial customers that do not fit into the existing categories, which create the need to develop unique individual agreements with customers. At first glance, we find merit in the recommendation by the FCS Group to simplify the commercial/industrial surcharges into three classes: domestic, medium and high strength.

#### C. Septage Disposal

The City would like to investigate the feasibility of charging septage haulers based on strength and volume rather than by volume alone.

#### D. Rebate Program

The rebate program needs to be updated. Some of the qualifying programs listed in the City Code no longer exist.

#### E. Intra-fund Subsidy Review

The storm water and effluent utilities have, at times, been subsidized by the sewer fund. The unique circumstances of the City's three utilities, coupled with varying policy viewpoints, may make self-supporting enterprise funds a challenge. This study will include a review of the three utilities financial dependence on each other and what would need to be done to make each utility financially independent.

#### F. Environmental Control Inspection - Sewer Fund Subsidy

As with the storm water and effluent utilities, the environmental control program is subsidized by the sewer utility. However, this has been justified by the reasoning that all customers benefit from a successful environmental control program.

#### G. Comparison to City of Reno, Washoe County & TMWA Rates for Uniformity

Utility rates, methodologies and policies will be compared to other local agencies, with the intent of establishing consistency wherever practical.

### *Deliverables*

The following deliverables will be submitted under this task:

- Technical Memorandum #4 summarizing the approach to cost allocation and rate design.
- Updated Rate Model Spreadsheets

### **Task 6 – Update Connection Fees**

#### *Objective*

To assign to future customers the capital cost responsibility of system capacity that is, or will be, available for future customers.

#### *Approach*

Connection fees will be based primarily on the cost of existing and future capacity. Methods for determining these costs are outlined in AWWA Manual M1. Calculations will include capital expenditure costs related to existing capacity and future capacity, as outlined in current capital improvement programs. The current approach for determining non-residential connection fees is based on the City's weighted fixture unit schedule. This schedule will be reviewed on the basis of equity and simplicity.

#### *Deliverables*

The following deliverables will be submitted under this task:

- Technical Memorandum #5 summarizing the method of calculating connection fees, along with recommendations.

## **Task 7 – Reporting and Presentations**

### ***Objective***

To report and present the methods and results of the rate study process.

### ***Approach***

#### **A. Presentations to City Council**

Three meetings are anticipated, with one meeting being an in-depth workshop. Farr West will be in a supportive role, providing presentation materials and attending meetings to help answer questions. City staff will make the presentations.

#### **B. Community Group Meetings**

Farr West will plan to attend a total of 8 community group meetings (AGC, BANN, Chamber, Citizen Advisory Committees, etc.)

#### **C. Rate Study Report**

A draft and final report will be prepared, consisting of an Executive Summary and each of the Technical Memorandums.

#### **D. Modify City Ordinances**

Farr West will provide recommended edits to City Code that reflect the approved elements of the rate study.

### ***Deliverables***

The following deliverables will be submitted under this task:

- Presentation materials
- Draft and final Rate Study Report
- Suggested modifications to City Code

## **Task 8 – Owner Directed Services**

### ***Objective***

To address any additional requests or modifications to the scope of work.

### ***Approach***

Farr West will respond to any modifications to the scope of work, only as directed and approved by the City of Sparks, with expenses not to exceed \$10,000.

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## SCHEDULE

Task 1 – Project Management	-
Task 2 – Review Background Information & Kickoff Meeting	June 2017
Task 3 – Data Collection & Analysis	June – July 2017
Task 4 – Update Revenue Requirements	August 2017
Task 5 – Allocation of Costs & Rate Design	Sept. – Dec. 2017
Task 6 – Update Connection Fees	Sept. – Dec. 2017
Task 7 – Reporting and Presentations	Jan. – March 2018
Task 8 – Owner Directed Services	-

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## BUDGET

Task 1	Project Management	\$12,400
Task 2	Review Background Information & Kickoff Meeting	\$4,620
Task 3	Data Collection & Analysis	\$15,040
Task 4	Update Revenue Requirements	\$13,240
Task 5	Allocation of Costs & Rate Design	\$36,800
Task 6	Update Connection Fees	\$16,160
Task 7	Reporting and Presentations	\$17,040
Task 8	Owner Directed Services	\$10,000
	<b>TOTAL:</b>	<b>\$125,300</b>

**City of Sparks  
2017 Utility Enterprise Funds Rate Study  
Engineering Fee Estimate**

TASKS	Rate (\$/hr)	Principal Civil Engineer Brent Farr, P.E.	Principal Civil Engineer Lucas Tipton, P.E.	Engineer in Training II Steffi Gavin	Administrator III -	Administrator II-	Total Labor		Expenses (a)	TOTAL
							Hours	(\$)		
<b>1.0 Project Management</b>										
Project Coordination and Management		38	40	10	4	4	96	\$12,400		\$12,400
	<b>Subtotal</b>	<b>38</b>	<b>40</b>	<b>10</b>	<b>4</b>	<b>4</b>	<b>96</b>	<b>\$12,400</b>		<b>\$12,400</b>
<b>2.0 Review Background Information &amp; Kickoff Meeting</b>										
Review Background Information, Prepare Tech Memo #1		8	20				28	\$3,920		\$3,920
Kickoff Meeting and Meeting Minutes		2	3				5	\$700		\$700
	<b>Subtotal</b>	<b>10</b>	<b>23</b>				<b>33</b>	<b>\$4,620</b>		<b>\$4,620</b>
<b>3.0 Data Collection &amp; Analysis</b>										
Data collection, analysis and Tech Memo #2		16	40	80			136	\$15,040		\$15,040
	<b>Subtotal</b>	<b>16</b>	<b>40</b>	<b>80</b>			<b>136</b>	<b>\$15,040</b>		<b>\$15,040</b>
<b>4.0 Update Revenue Requirements</b>										
Update revenue requirements and Tech Memo #3		16	40	60			116	\$13,240		\$13,240
	<b>Subtotal</b>	<b>16</b>	<b>40</b>	<b>60</b>			<b>116</b>	<b>\$13,240</b>		<b>\$13,240</b>
<b>5.0 Allocation of Costs &amp; Rate Design</b>										
Allocation of Costs, Rate Design & Tech Memo #4		40	120	160			320	\$36,800		\$36,800
	<b>Subtotal</b>	<b>40</b>	<b>120</b>	<b>160</b>			<b>320</b>	<b>\$36,800</b>		<b>\$36,800</b>
<b>6.0 Update Connection Fees</b>										
Update Connection Fees and Tech Memo #5		16	48	80			144	\$16,160		\$16,160
	<b>Subtotal</b>	<b>16</b>	<b>48</b>	<b>80</b>			<b>144</b>	<b>\$16,160</b>		<b>\$16,160</b>
<b>7.0 Reporting and Presentations</b>										
Presentations to City Council		12	20	16			48	\$5,920		\$5,920
Community Group Meetings		16					16	\$2,240		\$2,240
Rate Study Report		4	20	24			48	\$5,520		\$5,520
Modify City Ordinances		8	16				24	\$3,360		\$3,360
	<b>Subtotal</b>	<b>40</b>	<b>56</b>	<b>40</b>			<b>136</b>	<b>\$17,040</b>		<b>\$17,040</b>
<b>8.0 Owner Directed Services</b>										
Owner Directed Services								\$10,000		\$10,000
	<b>Subtotal</b>							<b>\$10,000</b>		<b>\$10,000</b>
	<b>TOTAL</b>	<b>176</b>	<b>367</b>	<b>430</b>	<b>4</b>	<b>4</b>	<b>981</b>	<b>\$125,300</b>		<b>\$125,300</b>

(a) Expenses include travel, mileage, per-diem, lodging, reproduction costs, etc.