



Oceano Community Services District

1655 Front Street | P.O. Box 599 | Oceano, CA 93475

PHONE (805) 481-6730 | FAX (805) 481-6836

Date: February 12, 2025

To: Board of Directors

From: Peter Brown, General Manager

Subject: Agenda Item #8(C): Approve the Consultant Services Contract with HDR Engineering to conduct a 2025 Sewer Rate Study and assist staff with in-house update of the 2025 Water Rate Study.

Recommendation

It is recommended that the Oceano Community Services District Board approve a professional services agreement with HDR Engineering for an amount not to exceed the Board approved budget amount of \$30,000 for the five year 2025 Sewer Rate Study, and authorize a budget adjustment of \$15,000 for HDR to assist staff in the update of the five year 2025 Water Rate Study, and authorize the General Manager to execute the contracts.

Discussion

Sewer Rates –

A sewer rate study is an essential tool for public agencies and elected officials responsible for managing a sewer conveyance utility. By providing a thorough analysis of the utility's financial needs, capital/labor costs projects, service demands, and rate structures, a sewer rate study ensures that the utility can continue to provide reliable, sustainable, and equitable services to the community. It helps to align revenue generation with operational expenses, compliance requirements, and future infrastructure improvements. In the case of OCSD, the last sewer rate study was conducted in 2009, with the last set of rate adjustments taking place between 2010 and 2015. While rate payers have not experienced sewer cost increases since 2015 and the District has been operating the system effectively for the last decade, the District has foregone regular assessments and any substantial capital investments in sewer infrastructure for the last ten years, resulting in a backlog of CIP projects which are currently unfunded. This staff report outlines the key reasons a sewer rate study is crucial and the value it brings to both the utility and the community it serves. Professional consultant services are recommended for rate studies to ensure compliance with Proposition 218 regulations, and well as other state law requirements for developing and justifying cost-based rate increases for water and sewer services within the District.

OCSD's public sewer system is a vital part of critical infrastructure, ensuring that wastewater is safely transported from homes, businesses, and other facilities to the South San Luis Obispo County Sewer Sanitary District (SSLOCSD) treatment plant, thus preventing public health risks and environmental damage. Effective sewer system management relies on sound financial planning to ensure that sufficient funds are available to operate, maintain, and upgrade the system. A sewer rate study serves as a comprehensive financial and operational assessment that supports the development of fair and sustainable sewer rates. The study is not only



valuable for meeting day-to-day financial requirements but also for addressing long-term needs, regulatory requirements, and equity considerations within the community.

Key Reasons for Conducting a Sewer Rate Study:

1. **Financial Sustainability:** Sewer utilities are capital-intensive, requiring significant investment in infrastructure, maintenance, and compliance with environmental regulations. A sewer rate study evaluates the utility's revenue needs and helps determine the appropriate rate structure to meet these needs. It considers both operating expenses, such as labor, energy costs, and maintenance, as well as capital expenses for infrastructure repair and expansion. Proper rate-setting ensures that the utility remains financially solvent without overburdening customers.
2. **Regulatory Compliance:** Public sewer systems are subject to local, state, and federal regulations. These regulations include water quality standards, reporting requirements, and limits/reporting on sewer system overflows (SSOs). A sewer rate study helps ensure that the utility has adequate resources to meet these regulatory demands, which may involve substantial capital expenditures or operational changes. By identifying current and future regulatory obligations, a sewer rate study helps align financial strategies with compliance requirements.
3. **Equitable and Transparent Rate Setting:** One of the most critical aspects of a sewer rate study is its ability to establish fair and equitable rates for all customers, especially in a community like Oceano. Different user categories (residential, commercial, industrial) may have different levels of demand on the system, which should be reflected in the rates they pay. The study ensures that rates are aligned with the actual cost of service delivery, preventing cross-subsidization where some customer groups pay more than their fair share. Additionally, the study provides transparency, allowing staff, consultants and elected officials to explain and justify rate increases to constituents based on data-driven insights.
4. **Long-Term Planning and Infrastructure Investment:** Sewer systems require ongoing maintenance, upgrades, and expansions to address population growth, aging infrastructure, and environmental concerns. A sewer rate study helps identify the funding needed for capital projects, such as replacing old pipes, expanding capacity, or upgrading lift stations. The study supports long-term planning by projecting future capital and operational needs, allowing the utility to plan for infrastructure improvements without disrupting services or accumulating unsustainable debt.
5. **Enhanced Decision-Making for Elected Officials:** Elected officials have a responsibility to make informed decisions that balance the needs of the sewer utility with the interests of the community. A sewer rate study provides the data and analysis required for effective decision-making. By understanding the financial status of the utility, the cost of providing service, and the potential impact of rate changes, officials can make more informed policy decisions, ensuring that rate adjustments are necessary, fair, and



in the best interest of the public. As required by State Law and the Proposition 218 process, OCSD can only charge rates equal to the present and future cost of service, but not above that.

- 6. Public Trust and Community Support:** Transparency and engagement are critical when it comes to changes in public utility rates. A well-conducted sewer rate study helps foster public trust by providing clear, data-supported justifications for rate adjustments. When the public understands the reasoning behind rate changes—such as infrastructure upgrades, regulatory compliance, deferred maintenance, aging lift station, or cost increases, they are more likely to support those decisions, or at least not oppose them. Moreover, involving the community in the rate-setting process can help address concerns and ensure that the rates do not disproportionately affect vulnerable or low-income populations.

A sewer rate study is a critical tool for public agencies and elected officials to ensure the long-term financial health, operational efficiency, and fairness of a sewer conveyance utility. By conducting a comprehensive analysis of financial needs, service costs, and rate structures, a sewer rate study supports sustainable rate-setting, helps meet regulatory obligations, and ensures that the utility is able to serve the community effectively. It fosters transparency, strengthens public trust, and aids in sound decision-making by providing data-driven insights. Ultimately, conducting a sewer rate study is not just a financial necessity but a fundamental responsibility for those managing public sewer utilities.

Water Rates –

The rationale for sewer rate studies outlined in detail above, equally applies to water rates for District residents and business owners. OCSD's last rate study for our municipal water system was conducted and completed in 2019. The Board adopted a set of five-year water rates to meet the District's need at that time. The existing rates are set to expire on June 30, 2025, and with increasing capital costs, construction escalations, a CIP of 31 construction projects that are yet completed, rising labor and materials costs, there is no doubt that a new Water Rate Study is needed for the District.

The prior rate study can serve as the backbone of the analysis but will need significant updates in order to assess the future five years of fiscal need. For example, Lopez Lake costs, State Water and even groundwater may become more expensive to deliver over the coming five-year period as a result of legal requirements, court orders, habitat conservation, and resiliency projects such as Delta Conveyance. In the case of Lopez water, given the ongoing lawsuit against San Luis Obispo County for the operation of the dam, there is potential the future studies, capital upgrades, fish passage assessments, habitat restoration, etc. which will all create escalating costs that will be passed along to Zone 3 partners, and in turn, local rate payers. In the case of State Water, costs may be increasing for normal operations, and at the same time, cost savings may be realized as a result of the County and its Subcontractors making sales of excess/stored water as was done this year. HDR Engineering is in a good position to assist the District in updating our Water Rates with an independent assessment of future needs, while relying heavily on the prior rate study to achieve economy of scale, reduce fiscal impacts, and save in consultant costs.



Oceano Community Services District

Board of Directors Meeting

Other Agency Involvement

N/A

Financial Considerations

The Board adopted \$30,000 in the current year's Sewer Fund to prepare the wastewater rate study. Sewer Fund reserves are estimated to be \$1,124,298 at the end of the fiscal year. Water fund reserves are estimated to be \$2,328,978 and would be drawn down to \$2,313,978 if the Board approves the contract for HDR Engineering to assist staff in updating the Water Rate Study for an amount not to exceed \$15,000.

Results

Considering the necessary revenues and rate structure to operate the wastewater and water system is important to promote a safe, healthy, and well-governed District.

Attachments:

1. Sewer Rate Study Proposal by HDR Engineering, Inc.
2. Water Rate Setting Assistance Proposal by HDR Engineering, Inc.

Scope of Services

Task 1 – Written Data Request

Task Objective: Provide a written data request outlining the data and information required to develop the technical analysis to complete the wastewater rate study.

Task Approach:

- ✓ Develop a written data request and provided to the CSD electronically
- ✓ Identify and resolve outstanding data constraints or data issues

Expected CSD Staff Support:

- ✓ Gather the data requested in the written data request provided by HDR
- ✓ Discuss data constraints or outstanding data needs with HDR

Deliverables:

- ✓ An initial written data request to the CSD provided electronically
- ✓ Documentation of data received and provide the CSD with a listing of outstanding data needs

Key Issues Associated with Task 1:

HDR will provide a written data request to the CSD prior to Task 2 so that it can be discussed at the meeting and questions on the data needs resolved. The data and information requested for this study should be, for the most part, readily available information (e.g., financial, statistical, customer) as was provided for the most recent studies. HDR will review the data and information and will provide the CSD with documentation of the data received along with further questions, clarifications, or outstanding data needs.

Task 2 – Initial Project Kick-Off Meeting

Task Objective: Bring the HDR project team and the CSD management and staff together at the start of the project to make sure that the parties have a mutual understanding of the goals, objectives, issues, and concerns related to the wastewater rate study update.

Task Approach:

- ✓ Schedule an initial project meeting at the CSD's offices

Expected CSD Staff Support:

- ✓ Have key management/project team members attend a two-hour kick-off meeting
- ✓ Confirm the CSD's goals and objectives for the study
- ✓ Review and provide background and updates on the CSD's financial policies, financial background, and wastewater capital plan

Deliverables:

- ✓ Kick-off meeting agenda outlining the study objectives, tasks, and schedule
- ✓ Meeting at the CSD's offices to get the study off to a positive start

Key Issues Associated with Task 2:

The initial project meeting is important to the overall success of the study as it provides a key foundation for the rate study process (project team coordination). This meeting allows both parties to discuss in detail the overall goals and objectives for the wastewater rate study, the approach and methodology, schedule, while discussing study issues and concerns that either party may have. It is proposed that the initial project meeting be held at the CSD's offices and will be approximately two hours in length. It is proposed that the initial project meeting takes place in tandem with Task 3 Rates 101 presentation to minimize costs to the CSD.

Task 3 – Rates 101 Presentation

Task Objective: Provide a summary of the rate study methodology, approach, and gain feedback from the CSD management and Board.

Task Approach:

- ✓ Schedule a presentation with the CSD Board

Expected CSD Staff Support:

- ✓ Coordinate and schedule the time and date for the presentation to the CSD Board in tandem with Task 2 kick-off meeting
- ✓ Collaborate with HDR in the development of the "Rates 101" presentation

Deliverables:

- ✓ A "Rates 101" presentation to the CSD Board by the HDR project manager or task lead

Key Issues Associated with Task 3:

To start the wastewater rate study process a "Rates 101" presentation will be made to the CSD Board. This presentation will provide a high-level summary of the generally accepted approaches and methodologies to setting rates, current industry trends, and an overview of the wastewater rate study. This will provide the CSD Board the ability to provide input and feedback as to what they would like to review as part of the wastewater rate study process. It is proposed that this presentation takes place in tandem with Task 2 initial kick-off meeting to minimize costs to the CSD.

Task 4 – Development of Financial/Rate Setting Policies

Task Objective: Development of a set of financial/rate setting policies for consideration by the CSD Board.

Task Approach:

- ✓ Develop financial/rate setting policies as part of the rate setting process

Expected CSD Staff Support:

- ✓ Review and discuss existing financial or rate setting policies and provide feedback on additional recommended policies

Deliverables:

- ✓ Development of a set of written financial/rate setting policies provided electronically (e.g., Word, PDF) to the CSD
- ✓ A virtual project meeting to review the recommended financial/rate setting policies

Key Issues Associated with Task 4:

HDR will start with a review of the CSD’s available and existing written financial policies. The key advantage of established written financial policies is to provide management and staff with clear policy direction on the financial planning criteria to be used in the development of wastewater rates. Existing financial policies can be expanded and refined to include items such as the overall methodology to be used, minimum financial targets (DSC, reserve levels, capital improvement funding from rates, use of long-term borrowing, debt/equity, etc.). As part of the review, HDR will work with the CSD to establish industry standard financial policies to establish the framework for developing cost-based rates and fees. A virtual project meeting will be held to review and discuss the proposed financial/rate setting policies with CSD management.

Task 5 – Revenue Requirement Analysis

Task Objective: Using a generally accepted rate-setting methodology, develop a revenue requirement analysis for a projected 10-year period, with a focus on the first 5 years for rate setting purposes. The revenue requirement analyses will establish the cost-based level of revenue to be collected from rates (O&M and capital). The analysis will also examine key financial performance indicators such as debt service coverage and reserve levels.

Task Approach:

- ✓ Utilize the current wastewater budget and a “cash basis” methodology to accumulate costs
- ✓ Develop a financial/rate model to project revenues and expenditures (operating and capital costs) for a 10-year period with the focus on the next 5-year period
- ✓ Develop a capital funding plan for the CSD’s wastewater CIP and a consistent annual funding source for renewal and replacement capital projects
- ✓ Utilize CSD’s financial policies and financial planning criteria (e.g., reserves, DSC)
- ✓ If needed, develop a rate transition plan to smoothly adjust the overall levels of rate revenues

Expected CSD Staff Support:

- ✓ Provide as-needed assistance to clarify the CSD’s data and information
- ✓ Provide as-needed data refinements or additional data
- ✓ Attend a two-hour virtual meeting to review the revenue requirement analysis

Deliverables:

- ✓ A wastewater revenue requirement analysis for a projected 10-year period, with the focus on the first 5 years, that considers the necessary operating and capital needs of each utility
- ✓ A capital funding plan within the revenue requirement analysis, utilizing CSD’s capital improvement plan which attempts to maximize capital expenditures while minimizing the rate impacts to customers over time
- ✓ As needed, a rate transition plan to “phase in” needed rate adjustments
- ✓ Recommendations regarding key financial indicators (e.g., debt service coverage, capital funding/replacement through rates, reserve levels)
- ✓ A two-hour virtual project meeting to review draft results of the revenue requirement

Key Issues Associated with Task 5:

The revenue requirement analysis is the first major analytical portion of the comprehensive rate study process. This task considers the prudent and proper funding for O&M and capital expenditures and evaluates the need for rate adjustments over the time period selected. The various analytical steps are described below. The financial model and revenue requirement analysis for each utility will be developed for a 10-year projected time period, with a focus on the first 5 years.

A cash basis methodology will be used as it is the most common methodology used by municipal utilities. The cash basis methodology sums the wastewater operating and maintenance expenses, taxes and transfers, rate funded capital, and annual debt service to determine the total revenue requirement. The total revenue requirement, minus miscellaneous revenues, produces the balance of funds required from rates.

The revenue requirement is composed of two major types of expenses or costs: operating costs and capital costs. Operating costs are generally projected from historical or budgeted costs, using escalation factors for future costs, and adjusted for known changes in operations (e.g., changes in levels of service/personnel, operating costs, growth/expansion). HDR will begin with CSD’s adopted wastewater budget and project costs into the future using escalation factors for the different types of costs that CSD incurs (e.g., labor, benefits, electricity, chemicals). Operating costs will also be analyzed and adjusted for changes in service levels or customer growth as identified by CSD staff.

The starting point for projecting capital expenditures will be CSD’s most recent capital improvement plan for the wastewater utility. In the financial planning process, consideration

should be given to maximizing the capital improvement expenditures, while attempting to minimize rate impacts to the utility's customers. The capital (improvement) funding plan is developed on a year-by-year basis for the projected 10-year period. The capital projects are listed by year with the estimated (planned) outside funding sources for each project. The balance of projects not funded by the available sources of funds must be financed from a combination of long-term debt and rates (or deferred). It is the balancing of the use of long-term debt to the impact upon rates that is critical to the analysis. The above framework provides the proper approach to evaluate the financial/rate implications of the planned capital improvements. HDR will work closely with the CSD to evaluate the current levels of funding for replacement capital and develop a long-term plan to increase funding to appropriate and adequate levels.

The revenue requirement analyses to be consistent with CSD's financial policies, current rate (bond) covenants, and industry customary practices. HDR will use financial targets based on either CSD's current written policies, or absent clear policy direction, industry customary practices as identified in Task 4.

The revenue requirement analysis is designed to provide an understanding of the total costs to operate the utility from year to year. While the analysis is very detailed, an important step is to summarize those results and findings into an easy-to-understand format. HDR will develop summary tables for the revenue requirement analysis that should provide easy to understand findings and results.

Another important element of the study is the potential need for a rate transition plan. The most recent study developed a rate transition plan. This study will develop an updated rate transition plan to adjust wastewater rates over time, given the funding requirements and constraints of the analysis.

As the study progresses, HDR will meet with the CSD project team to review the draft results of the revenue requirement analyses. The objective of the internal review meeting is to provide CSD with an understanding of the overall methodology, while reviewing the various key inputs and assumptions of the analysis. In this way, CSD staff will clearly understand the approach and methodology used by HDR to develop the analysis and gain CSD staff confirmation of the key inputs and assumptions. Based on input from CSD project team, the revenue requirements will be finalized. As noted, the review meeting will be held virtually.

Task 6 – Cost of Service Analysis

Task Objective: Using generally accepted methodologies, and CSD's specific and unique wastewater system and customer characteristics, proportionally distribute the wastewater revenue requirement to the identified customer classes of service (e.g., residential, commercial, industrial). The cost-of-service analysis provides cost-based average unit costs for the purpose of designing proposed wastewater rates.

Task Approach:

- ✓ Utilize generally accepted wastewater cost of service methodologies (i.e., WEF MOP #27) to proportionally distribute CSD’s revenue requirement to the identified customer classes of service
- ✓ Summarize the results of the analysis and develop average unit costs

Expected CSD Staff Support:

- ✓ Discuss CSD’s wastewater system and facilities
- ✓ Attend a two-hour virtual meeting to review the draft cost of service analysis
- ✓ Review the key assumptions and results of the wastewater cost of service analysis

Deliverables:

- ✓ A proportional distribution of CSD’s wastewater revenue requirement to the identified customer classes of service
- ✓ Average unit costs (e.g., \$/customer/month, \$/1,000 gallons, \$/lb. TSS and BOD)
- ✓ A two-hour virtual project meeting to review the cost of service results and recommendations

Key Issues Associated with Task 6:

A cost-of-service analysis proportionally distributes the revenue requirement between the customer classes of service of the wastewater utility. The basis for establishing rates that are cost-based and proportional has traditionally been cost of service principles and methodologies. Generally accepted cost-of-service methodologies are discussed in detail within the Water Environment Federation’s Manual of Practice No. 27, *Financing and Charges for Wastewater Systems*.

Within a cost-of-service analysis the revenue requirement is functionalized, allocated, and distributed to the identified customer classes of service (e.g., residential, commercial, industrial).

A cost of service analysis typically reviews a one-year period to establish cost-based rates. For cost-of-service purposes, allocating the revenue requirement developed in Task 5 for the rate setting year (e.g., FY 25/26) would appear to be appropriate.

Functionalization refers to the arrangement of the wastewater cost data into its basic cost categories. Given functionalized wastewater costs, the costs are then allocated to the appropriate cost components based upon the reason why the cost was incurred. For example, allocation determines whether a specific wastewater cost was incurred to meet a volume (flow), strength (BOD, TSS), or a customer-related need. The allocation of CSD’s wastewater costs will be based on generally accepted cost of service techniques and the specific system and customer characteristics of CSD’s wastewater systems. As a part of this task, HDR has assumed the current customer classes of service will be reviewed and HDR will collaborate with the CSD if changes are recommended. An important objective of the cost of service is to proportionally distribute the

costs to each class of service. In other words, consumption and flow-related costs should be proportionally distributed between the classes of service based upon the total annual flow contributions of each class of service. HDR will work with CSD to review historical billing data and develop proportional distribution factors. The next step is to distribute each of the allocated costs to the customer classes of service using distribution factors. HDR will develop wastewater distribution factors that are proportional to the customer classes of service and rely on CSD-specific data.

From the above process, a summary page of the wastewater cost of service study is developed. The summary page compares the difference between the current level of rate revenues received from each class of service, and the proportionally distributed cost of service for each class. This provides an understanding of the relationship between the costs each customer class of service places on the system and the revenues received from the customers. From this summary, a determination can be made as to the revenue/rate adjustments, by class of service, which are reflective of cost responsibility. Finally, the cost of service provides average unit costs, or cost-based rates (e.g., \$/customer month, \$/1,000 gallons, \$/pound of BOD or TSS). These cost-based rates are used as the starting point for the development of the final proposed wastewater rates. Average unit costs also provide CSD with an understanding of the cost/rate relationship between fixed and variable costs.

As the study progresses, HDR will meet virtually with the CSD project team to review the results of the cost-of-service analyses. The objective of the internal review meeting is to provide CSD with an understanding of the updated cost of service analysis and provide input on the recommendations for implementing the results. From the cost-of-service analysis completed, CSD will have an understanding of the cost-basis for the proposed wastewater rates to be developed in Task 7.

Task 7 - Development of the Wastewater Rate Designs

Task Objective: Utilize the cost information developed as a part of the previous task(s) to develop proposed wastewater rates for a five-year period for adoption by the CSD. This task includes the development of up to two alternative rate structure to address CSD's rate design goals and objectives, while providing rates which recover the cost of providing service. Bill comparisons will be developed for each rate design to demonstrate the potential bill impacts from a change in the rate structure or the level of the proposed rates.

Task Approach:

- ✓ Utilize the results of the wastewater revenue requirement analysis and cost of service analysis to establish the proposed wastewater rates
- ✓ Review CSD's rate design goals and objectives (e.g., revenue stability, ease of administration, ease of customer understanding)
- ✓ Review CSD's existing wastewater rate structure and discuss with CSD potential alternatives

- ✓ Develop up to two wastewater rate design alternatives that meet CSD’s objectives and are cost-based and proportional
- ✓ Proposed rates will be developed for a five-year period
- ✓ Provide customer bill comparisons for each alternative developed to demonstrate the potential bill impacts

Expected CSD Staff Support:

- ✓ Discuss CSD’s rate design goals and objectives and potential rate structure alternatives
- ✓ Review rate designs for appropriateness, provide direction for the preferred alternative
- ✓ Confirm that rate design alternatives are compatible with the CSD’s current billing system

Deliverables:

- ✓ Review of CSD’s current wastewater rates and development of up to two alternative structures for consideration
- ✓ Development of proposed wastewater rates for a five-year period
- ✓ Collaborate with CSD staff on the compatibility of rate design alternatives with the CSD current billing system
- ✓ Bill comparisons and graphs for the developed rate design alternatives

Key Issues Associated with Task 7:

The development of proposed wastewater rates is the final analytical task of the rate study process. This task will result in up to two rate structure alternatives for consideration by CSD. For each rate structure alternative, HDR will provide bill comparisons to demonstrate the bill impacts to customers at various levels of consumptive use. Each rate design will be discussed with CSD staff to review the compatibility with the current billing system.

At the conclusion of this task, HDR will provide a recommendation on the proposed wastewater rate structures and recommended rates for adoption. The proposed wastewater rates will be developed for a five-year period.

Task 8 - Written Report

Task Objective: Provide a written report to summarize the findings, conclusions, and recommendations of the wastewater rate study.

Task Approach:

- ✓ Develop an electronic (Word, PDF) draft wastewater report for review and comment by the CSD
- ✓ Incorporate changes or comments from the draft report into the final report
- ✓ Provide a Microsoft Word and Adobe PDF copy of the final report

Expected CSD Staff Support:

- ✓ Review and comment on the draft written wastewater report

Deliverables:

- ✓ A draft and final written wastewater report in electronic format (e.g., Word, PDF)

Key Issues Associated with Task 8:

At the completion of the technical analyses, HDR will develop a draft written report. HDR's written reports are intended to document the activities undertaken as a part of the project, along with our findings, conclusions, and recommendations. Attached to the report will be the exhibits developed as a part of the study (revenue requirements, cost of service, and rate design). The CSD will review the draft report and provide comments/corrections to HDR. Based on the CSD feedback, HDR will develop the final wastewater report.

Task 9 - Public Presentations

Task Objective: Provide effective public presentations (assumes up to two meetings) of the findings, conclusions and recommendations of the rate study to CSD Board and the public.

Task Approach:

- ✓ Develop the presentation materials based on the wastewater rate study results and recommendations
- ✓ Shawn Koorn or Josiah Close will attend the public meetings/presentations

Expected CSD Staff Support:

- ✓ Review and comment on the proposed handouts for the public meetings

Deliverables:

- ✓ Up to two public presentations to present the finding, conclusions, and recommendations of the rate study

Key Issues Associated with Task 9:

To effectively communicate the results of the study, HDR recommends at least two public meetings. This includes a presentation on the results of the study, and the public hearing to establish the final rates. HDR will prepare the presentation materials (i.e., PowerPoint) and Shawn Koorn or Josiah Close will be present to provide the presentations. Should additional public meetings or presentations be required, they will be provided on a time and material basis.

Task 10 - Rate Models

Task Objective: Develop spreadsheet financial/rate models to conduct the study. The wastewater rate model will be developed in Microsoft Excel and be non-proprietary. At the conclusion of the study, the models developed as a part of this study will be provided to the CSD.

Task Approach:

- ✓ Develop a 10-year financial/rate model for the study using Microsoft Excel

- ✓ Develop the model specifically for CSD, utilizing their chart of accounts and specific facility information

Expected CSD Staff Support:

- ✓ Review with HDR the requested features of the model

Deliverables:

- ✓ A copy of the computer spreadsheet model used to develop the CSD's wastewater rate study

Key Issues Associated with Task 10:

HDR will develop financial/rate models for the CSD's wastewater rate study based on Microsoft Excel. The model will be specifically developed for the CSD. Our financial/rate models are designed and intended to be technically sophisticated, yet easy to use and update. At the conclusion of the study, HDR will provide the models to the CSD.

Task 11 - Project Administration/Quality Assurance/Quality Control (QA/QC)

Task Objective: Provide project management and administration of the study. Provide QA/QC review and evaluation of the study and technical analyses.

Task Approach:

- ✓ HDR QA/QC procedures and documentation will be used. HDR project manager is responsible for meeting and fulfilling QC requirements

Expected CSD Staff Support:

- ✓ CSD's project manager work closely with HDR's project manager to coordinate the study schedule and budget

Deliverables:

- ✓ HDR project manager will provide routing (e.g., monthly) updates to CSD's project manager on the status of the study through progress reports
- ✓ QA/QC review process provided for the study and technical analyses

Key Issues Associated with Task 11:

HDR's project manager is responsible for the overall quality of the study and meeting the study expectations. Our successful projects are accomplished through our project manager's close coordination and communication with the CSD's project manager. Finally, HDR has a specific and detailed QA/QC process for our projects. This study will be reviewed using HDR's company-wide QA/QC Program. The QA/QC processes and reviews are internally documented.



Project Time Schedule

A comprehensive wastewater rate study generally requires 3 to 6 months to complete. HDR is willing to collaborate with the CSD and develop a final schedule for the development of the proposed wastewater rate study.



Cost Proposal

The estimated project fees were developed based on the previously discussed scope of services, the hourly billing rates for each individual, and level of effort by individual for each task.

Rate Schedule

For the proposed study, the following hourly billing rates were used to establish the proposed fees for the study. These rates will be in effect through the course of the study, through June 2025.

INDIVIDUAL	PROJECT ROLE	HOURLY RATE
Shawn Koorn	Project Manager	\$335.00/hour
Josiah Close	Asst. PM/Task Lead	\$225.00/hour
Sara Anderson	Financial Analyst	\$140.00/hour
Kevin Lorentzen	QA/QC	\$265.00/hour
Support Staff	Admin/Acct	\$140.00/hour

The billing rates shown above cover payroll cost, employee benefits, and HDR overhead and profit.

Expenses

In-House Expenses

Vehicle Mileage Current Federal Travel Regulation (FTR)

Black/white Photocopies (per copy) \$0.05 to \$0.09

Color Copies (per copy) \$0.15 to \$0.30

No markup on expenses. Other direct expenses (e.g., parking, mileage, airfare) will be billed at cost.

Estimated Project Fee

The estimated fees have been broken down by tasks identified in the Scope of Services, and include the hourly rates by team member, as well as other direct costs (expenses) anticipated for the wastewater rate study. Provided on the following page is a summary of the estimated project fees for the scope of services developed for CSD.



TASK #	TASK DESCRIPTION	TOTAL
1	Written Data Request	\$925
2	Initial Project Kick-Off Meeting	\$1,800
3	Rates 101 Presentation	\$1,690
4	Development of Financial/Rate Policies	\$1,1630
5	Revenue Requirement Analysis	\$3,540
6	Cost of Service Analysis	\$2,700
7	Development of Wastewater Rate Designs	\$2,420
8	Written Report	\$2,250
9	Public Meetings/Presentations	\$3,920
10	Rate Models	\$0
11	Project Administration / Quality Control	\$4,960
TOTAL LABOR		\$25,865
Plus: EXPENSES		\$4,090
TOTAL LABOR AND EXPENSE COST ESTIMATE		\$29,955

The above fees are based upon the scope of services detailed and discussed above. HDR is willing to negotiate a final fee for the study based on a final scope of services. HDR is willing to enter into an agreement for \$29,955.00 for the scope of services described in Exhibit A. Should the CSD request additional services under this contract, the services will be provided at the hourly billing rates noted above. Portions of this fee proposal can be expanded or reduced in conformance with scope adjustments and as mutually agreed upon in writing by CSD and HDR.

Payment for Services

HDR proposes that fees will be billed monthly on a time-and-material basis in accordance with the unit prices described in the above price proposal. While our services will be billed on a time and material basis, HDR has offered to enter into a “not to exceed” agreement for these services.

Scope of Services

Task 1 – Model Review Meeting

A two-hour virtual project meeting will be held at the start of the study to review the most recent water rate model. This will provide HDR with a summary of the approach and methodology used by the District to establish water rates. The overall water rate setting goals and objectives for the upcoming rate setting period will also be discussed. At the conclusion of the meeting HDR will provide feedback and input on the District on the approach and methodology, and provide recommendations for the water rate setting process.

Expected CSD Staff Support:

- ✓ Coordinate a two-hour virtual project meeting with the HDR project team
- ✓ Provide an overview of the rate model and study goals and objectives

Deliverables:

- ✓ HDR project manager and task lead participate in a two-hour virtual project meeting
- ✓ Summary meeting minutes and recommendations

Task 2 – Review of the Rate Model

The District will provide HDR with the updated rate model once it has been updated for the rate setting period. HDR will provide a review of the model and provide feedback and input on the analysis to support the District in the development of the proposed water rates. This will include a review of the revenue requirement, cost of service, and rate design analyses as developed by the District. The purpose of the review will be to evaluate the approach and methodology used by the District, provide feedback and recommendations to support the District's approach, and provide overall comments on the analysis as compared to generally accepted rate setting approaches. At the conclusion of the review a summary technical memorandum summarizing HDR's review, comments, suggestions, and recommendations.

Expected CSD Staff Support:

- ✓ Provide the rate model to HDR when updated for the rate setting process
- ✓ Provide as needed assistance in explaining the District's model and assumptions

Deliverables:

- ✓ A technical memorandum summarizing HDR's review, comments, suggestions, and recommendations

Task 3 – Project Meetings

During the course of Task 2, HDR and District staff will hold up to four two-hour virtual project meetings to review and discuss the rate model, gain clarification and information on the rate model assumptions and calculation, and review the Task 2 technical memorandum.

Expected CSD Staff Support:

- ✓ Coordination with HDR for up to four two-hour virtual project meetings

Deliverables:

- ✓ Participation by the project manager and task lead in up to four two-hour virtual project meetings
- ✓ Meeting minutes and summary of the meeting task list

Task 4 – Project Administration/Quality Assurance/Quality Control (QA/QC)

HDR’s project manager is responsible for the overall quality of the study and meeting the study expectations. Our successful projects are accomplished through our project manager’s close coordination and communication with the CSD’s project manager. Finally, HDR has a specific and detailed QA/QC process for our projects. This study will be reviewed using HDR’s company-wide QA/QC Program. The QA/QC processes and reviews are internally documented.

Expected CSD Staff Support:

- ✓ CSD’s project manager work closely with HDR’s project manager to coordinate the study schedule and budget

Deliverables:

- ✓ HDR project manager will provide routing (e.g., monthly) updates to CSD’s project manager on the status of the study through progress reports
- ✓ QA/QC review process provided for the study and technical analyses

Project Time Schedule

It is anticipated that the water rate setting assistance will take place over a four to six month period as the District updates the rate model and develops the proposed water rates.



Cost Proposal

The estimated project fees were developed based on the previously discussed scope of services, the hourly billing rates for each individual, and level of effort by individual for each task.

Rate Schedule

For the proposed study, the following hourly billing rates were used to establish the proposed fees for the study. These rates will be in effect through the course of the study, through December 2025.

INDIVIDUAL	PROJECT ROLE	HOURLY RATE
Shawn Koorn	Project Manager	\$335.00/hour
Josiah Close	Asst. PM/Task Lead	\$225.00/hour
Sara Anderson	Financial Analyst	\$140.00/hour
Kevin Lorentzen	QA/QC	\$265.00/hour
Support Staff	Admin/Acct	\$140.00/hour

The billing rates shown above cover payroll cost, employee benefits, and HDR overhead and profit.

Expenses

In-House Expenses

Vehicle Mileage

Current Federal Travel Regulation (FTR)

Black/white Photocopies (per copy)

\$0.05 to \$0.09

Color Copies (per copy)

\$0.15 to \$0.30

No markup on expenses. Other direct expenses (e.g., parking, mileage, airfare) will be billed at cost.

Estimated Project Fee

The estimated fees have been broken down by tasks identified in the Scope of Services, and include the hourly rates by team member, as well as other direct costs (expenses) anticipated for the water rate setting assistance. Provided on the following page is a summary of the estimated project fees for the scope of services developed for CSD.



TOTAL LABOR	\$14,975
Plus: EXPENSES	\$25
TOTAL LABOR AND EXPENSE COST ESTIMATE	\$15,000

The above fees are based on the scope of services detailed and discussed above. HDR is willing to enter into a not to exceed agreement for \$15,000.00 for the scope of services described in Exhibit A. Should the CSD request additional services under this contract, the services will be provided at the hourly billing rates noted above.

Payment for Services

HDR proposes that fees will be billed monthly on a time-and-material basis in accordance with the unit prices described in the above price proposal.

PRELIMINARY DRAFT