

ORIGINAL

RESOLUTION 2011 - 25

**A RESOLUTION OF THE CITY COUNCIL OF THE
CITY OF SUNNYSIDE, WASHINGTON, APPROVING AGREEMENT FOR
PROFESSIONAL ENGINEERING SERVICES WITH CH2M HILL, INC.
(Preparation of Municipal Utility Rate Study)**

WHEREAS, the City of Sunnyside has entered into a Standard Master Agreement with CH2M Hill, Inc. approved by resolution 2008-04; and

WHEREAS, the City Council finds and determines that CH2M Hill, Inc. is the most qualified professional engineering firm to provide such services; and

WHEREAS, the City Council finds and determines that a professional services agreement for such scope of work, as set forth in plans and specifications for such project, should be approved; and

WHEREAS, the City Council finds and determines that such approval is in the best interests of residents of the City of Sunnyside and will promote the general health, safety and welfare.

**NOW, THEREFORE, IT IS HEREBY RESOLVED BY THE CITY COUNCIL OF
THE CITY OF SUNNYSIDE, WASHINGTON, as follows:**

SECTION 1. That the agreement for professional engineering and consulting services for the preparation of the Municipal Utility Rate Study with CH2M Hill, Inc., which agreement is attached hereto as Exhibit "A" and incorporated herein by this reference, is hereby approved; and the City Manager is hereby authorized to execute and administer such agreement for and on behalf of the City of Sunnyside.

SECTION 2. This Resolution shall be effective upon passage, approval and signatures hereon in accordance with law.

PASSED this 25th day of April, 2011.



JAMES A. RESTUCCI, MAYOR

ATTEST:



DEBORAH A. ESTRADA, CITY CLERK

APPROVED AS TO FORM:



MENKE JACKSON BEYER ELLIS & HARPER, LLP
Attorneys for the City of Sunnyside

Municipal Utility Rate Study

This Task Order is issued pursuant to the Standard Master Agreement for Professional Services dated May 1, 2008, which is incorporated herein by this reference, with respect to development of a Utility Rate Model and related services.

Project Description

The City of Sunnyside, Washington (CLIENT) issued a Request for Qualifications for *Municipal Utility Rate Study Services* and selected CH2M HILL to develop a utility rate structure and associated services. This Task Order presents the specific tasks, deliverables, schedule, assumptions, and fee required to accomplish this project.

Project Goals/Objectives

The objective of this project is to establish a sustainable rate model that can be used to accurately fund ongoing operation and maintenance of its utility infrastructure. The resulting model/tool will also provide the City with a rate structure that is equitable to its customers and consistent with both industry guidelines and the City's policy objectives.

A key feature of this project is the early engagement of City policymakers with the intent of firmly establishing the policy framework and levels of service desired by the Mayor and City Council. Through a clear consensus on policy objectives, the resulting rate structure will support these objectives.

Work Scope and Deliverables

The following scope of work includes the activities to execute the Utility Rate Study for CLIENT. Deliverables will be submitted in electronic format for the technical memorandums (MS Word), spreadsheets (MS Excel), and final report (Adobe Acrobat).

Task 1 – Project Initiation and Data Collection

Under this task, the underlying goals and objectives of this project will be aligned with the policy directives of the City Council. Through an interactive and collaborative approach, the project will begin with a consensus agreement as to the critical success factors and the specific work to be completed.

In addition to a typical staff-level kickoff meeting, we will also meet twice with the Sunnyside City Council. These meetings at times and dates to be determined and will focus on the identification of the following critical project inputs:

- Development of an overall level of service policy for the water and wastewater utilities.
- Clarification of expectations of staff relative to the operations, maintenance, and expansion of the water and wastewater utilities.

- Understanding of the timing, magnitude, and structure of future rate modifications (i.e., annual steps over a planning horizon versus single revision, etc.).
- Clarification of the relationship of water and wastewater rates to the City's storm water utility.

The primary deliverable of these meetings will be a work plan that summarizes the goals, objectives, and actions plan for the study. We will also confirm specifics for data collection, data analysis, and cost of service rate model building tasks.

In addition, the following will be completed as part of Task 1:

- Define how the potentially competing objectives of providing service to growth areas will be balanced against the need to minimize rate impacts to existing customers. Furthermore, we will define protocols for communications so that project participants clearly understand how to interact with City staff.
- Validate financial, planning, and system use data gathered in advance of the meeting.
- Review existing data, to be provided in response to a data request, and discuss data, maps, and other information sources to define and allocate revenue requirements - first to system functions, and then to service characteristics.
- Review established financial policies, discuss potential financial policy revisions, and pinpoint policy objectives that may affect the range of options that may be addressed during the study. These might include defining target debt-to-equity ratios and debt service coverage ratios to underwrite prospective system expansions, or establishing a cash-finance protocol, while maintaining working capital requirements.
- Review the policy issues/parameters. These policy issues and parameters will help facilitate the technical tasks related to developing the revenue requirements, cost of service studies, and rate structures.
- Substantiate specific financing options and develop a preliminary list of the rate structure options to evaluate during the study. The final set of rate structure and fee options for study will be determined during the Revenue Requirements Workshop, as described in Task 2.
- Determine criteria and parameters for up to three cost of service rate scenarios for water and sewer services. The following are example approaches that could be considered to develop appropriate scenarios based on the project initiation meetings.
 - **Realistic Worst Case Assumption:** Assume the high end of cost estimating accuracy limits, most accelerated regulatory schedule requirements thought to be realistically possible, and continued decline of per capita consumption.
 - **Realistic Best Case Assumption:** Assume the low end of cost-estimating accuracy limits, most-delayed schedule requirements thought to be realistically possible, cessation of declining consumption patterns, and so forth.

- **Expected Value:** Use the expected value of estimated costs and regulatory scheduling, tailored demand forecasts, based on a probabilistic modeling for identified situations.
- **Affordability Based Scenario:** Define a maximum level of rate increases that the customers and governing bodies are willing to accept. Determine the debt service or equity expenditures that could be supported raising additional revenues. Work backward from these figures to determine the level of capital programming and renewal/replacement that can be funded.

CH2M HILL will work with the City to identify the appropriate range of primary scenarios to evaluate based on the City's preferences. We anticipate developing cost of service rate models that enable users to view the impacts on projected revenues, costs, and financial performance metrics based on selected options.

We will analyze the benchmarks and comparative parameters discussed during the Kickoff Meeting. The benchmarking and comparative analyses will include case studies of up to five utilities that have similar individual and/or combined water and sewer services. In addition, policy issues will be evaluated and the advantages and disadvantages of each will be identified.

CH2M HILL will also review the existing and prior rate models proposed and implemented for the City's stormwater utility. This review will be limited to the assumptions and calculations of the existing and prior models with the intent of determining consistency and applicability with the expectations and directions of the City Council and City staff. The potential impact of the recent (March 10, 2011) ruling of the 9th Circuit Court of Appeals relating to municipal permittees will also be considered. CH2M HILL will prepare a brief memorandum with recommendations as to the suitability/consistency of the stormwater rate model and the implications of the court ruling.

Deliverables

- Preliminary data request list (submitted to the City in advance of the Kickoff Meeting)
- Meeting minutes for the Kickoff Meeting and meetings with City Council.
- Technical Memorandum on the City's benchmarking and comparative analyses, policy issues, and utilities that have similar individual and/or combined water and sewer services
- Technical Memorandum reporting on the outcome of the stormwater review.

Task 2 – Determine Revenue Requirements

Based on data gathered in Task 1, CH2M HILL will review the City's financial policies for the water and sewer utilities. In reviewing data our team will consider both current and future policies as identified in the Task 1 meetings. We will recommend financial policies that will help the City develop and implement rate structure options that support its goals and objectives.

CH2M HILL will analyze financial data and summarize revenue requirements for the City's water and sewer utilities. This analysis will be the foundation for developing a portion of the rate models for a 10-year forecast period developed as part of Task 4. Models will

include projections for up to three scenarios to be developed based on consultation with the City and Task 1 deliverables. Projections will consider potential impacts on operations and maintenance (O&M) costs and capital financing requirements of the City's prospective improvements to its water and sewer systems and facilities. The projected revenue requirements for each identified scenario will include provisions for:

- O&M costs
- Administrative costs
- Renewal and replacement costs
- Cash-funded capital outlays
- Debt-funded capital outlays, including existing outstanding debt service and projected debt for bonds and loans anticipated to fund future Capital Improvement Plan (CIP) projects
- Interdepartmental transfer costs, based on our review of the City's indirect cost allocation method and the reimbursement to the General Fund
- Other cost categories identified during the project initiation workshops
- New and/or one-time expenditures

The City's financial data will be reviewed to evaluate the rate base (valuation of fixed assets) for the water and sewer systems.

CH2M HILL will determine funding sources that are most appropriate for operating and capital costs. This will include testing the revenue generating adequacy of the existing rate structure. Based on the review of the City's financial data and policies, we will evaluate the adequacy of funding capital projects and making funding plan recommendation.

In determining the revenue requirements, we will apply the City's policy to determine revenue requirements related to the areas outside the City. We will work closely with the City to determine the specific geographic boundaries, the types of customer classes, and the current/projected capital investment for providing service inside and outside the City's area.

Projected revenue requirements will be developed based on best available information and reasonable assumptions. We will conduct sensitivity analyses to identify if certain components of the revenue requirements are more sensitive to changes in assumptions such as inflation, interest rates, capital financing (rates versus debt issuance), and changes in operating processes.

Assumptions/Limitations

Due to the dependency of revenue requirements on capital improvement costs, the City's water and sewer capital improvement plans represent significant inputs into this task. CH2M HILL shall be entitled to rely on the work of others without independent review, specifically the Water Master Plan being prepared currently. The City's most recent Sewer Master Plan dates to 2001 and does not consider work to be performed during the rate planning horizon. CH2M HILL, under a separate Task Order, will be preparing a study for proposed capital improvements at the Wastewater Treatment Plant. The resulting estimate of probable construction costs shall be included in the capital cost component used in Task 2. For potential and proposed collection system improvements, CH2M HILL and the City shall develop a forecast of potential needs. This forecast will be highly conceptual in nature

and the resulting revenue requirement covering this component may require adjustments during the rate projection period.

Deliverables

- Spreadsheet printouts for the revenue requirement modules for the water and sewer utilities
- Technical Memorandum that discusses the City's financial policies, projected revenue requirements and modules for water and sewer rate models

Task 3 – Perform Cost of Service Analyses

In this Task, CH2M HILL will perform the cost of service analyses. In selecting appropriate methods to allocate costs to the water and sewer systems, and then to any identified customer/service groupings within those systems, CH2M HILL will proactively use the following as key inputs to the process:

- Policy input from the City gained through policy documents and the meetings in Task 1.
- CH2M HILL and staff knowledge of the water and sewer systems to develop appropriate allocation factors.
- CH2M HILL experience in developing cost allocations for other utility system clients.

CH2M HILL will develop and refine assumptions on growth and system capacity. Data sources will include system capacity of the water and sewer systems, complemented by analyzing the City's billing data to identify customer classes, seasonal consumption trends, and peaking factors for each customer class. This information will be used to develop peaking factors and allocation factors needed to perform the cost of service analyses.

CH2M HILL will allocate the rate base and revenue requirements determined in Task 2 according to the City's water and sewer system functions. Allocations will be based on input from City staff and experience in preparing other cost of service studies. The system functions specific to the City's water and sewer systems will be developed based on review of the City's financial data and input from staff.

CH2M HILL will also allocate the rate base and revenue requirements to customer classes based on the allocation factors developed as part of this task. These allocation factors will be developed based on review of billing data, seasonal trends, peaking factors, and review of financial data/policies. This will allow the City to set rates based on customer class characteristics in a manner consistent with the policy intentions expressed by the City Council during the meetings in Task 1.

In this Task, the areas outside the City will also be examined based on review of the City's billing data, financial data, input from City staff, and the policy intentions of the City Council. Allocation factors will be developed so that areas outside the City will have appropriate rates in the rate models developed in Task 4.

Deliverables

- Spreadsheet printouts for allocation factors and the allocation rate base and revenue requirement system functions, cost components, and customer classes for the City's water and sewer systems
- Technical Memorandum that documents the cost of service analyses performed for the water and sewer systems

Task 4 – Develop Rate Models and Rate Structure Options

During this Task, CH2M HILL will evaluate rate and fee options based on results of Tasks 2 and 3 (revenue requirements and cost of service). The City's financial and policy objectives for its utility system will be considered to identify and evaluate rate structure and fee options within the range of generally acceptable utility rate making practices. For example, the following factors may be considered:

- Equity
- Support to utility system policy objectives such as conservation
- Support to City policy objective such as economic development or financial assistance to low-income and elderly residents
- Ease of understanding by customers and other stakeholders
- Ease of implementation (data requirements and complexity of billing system needs)

CH2M HILL and the City's project team will formulate a recommended rate and fee strategy based on the findings of the technical studies, the City's financial goals, and the policy intent for the utility systems. Such strategy will be in keeping with generally accepted industry practice in utility rate-making.

Based on the development of the rate models, CH2M HILL will evaluate how the alternative rate structure options can be used to complement the existing (base) rates structure. CH2M HILL will develop and recommend a rate and fee program suited to the City's financial situation and policy objectives. The recommendation will include suggested staging for any changes from the current structure.

CH2M HILL will develop separate rate models for water and sewer operations. The rate models will be developed with a 10-year forecast period and incorporate the revenue requirements from Task 2 and the cost of service allocations from Task 3. The rate models will include features to help the City to develop rate structure options that meet its financial goals and objectives.

Rate models will be developed that reflect the policy intent of the City Council and the resulting rate structures may consider, as appropriate:

- Fixed and variable rates for each customer class
- Rate block options (i.e. inclining, declining, and uniform)
- Seasonal rates
- Winter cost averaging
- Conservation
- Revenue stability and sufficiency
- Capital improvements

- Economic development
- Affordability

CH2M HILL will also incorporate a rate setting methodology for outside-City rates. The rate models will be developed so that the City can evaluate rates for this potential customer group. The methodology will be based on the revenue requirements developed in Task 2, the cost of service analyses performed in Task 3, and City policy.

A technical workshop will present results of this task. During this workshop, the City's comments and feedback will be used to finalize findings and make recommendations based on the rate structure studies. In this workshop the rate models can be used to test the sensitivity of different assumptions based on the City's comments and feedback. This interactive workshop together with rate models is intended to facilitate the development of a rate structure that meets the City's goals and objectives.

Deliverables

- Spreadsheet printouts of each rate model, including projected revenue requirements for a 10-year forecast and rate structure options, and graphics that illustrate financial summaries and trends
- Technical Memorandum that documents the development of the rate structure options

Task 5 – Prepare Final Report and Present Results

During this task, CH2M HILL will develop the final report that includes an Executive Summary, compilation of the Technical Memoranda developed as part of Tasks 1 to 4 and incorporates responses to comments received during the technical workshops.

CH2M HILL will develop a recommended public involvement strategy that the City can use to communicate the information regarding the various outputs resulting from this project. The plan will be coordinated to support the water and sewer cost of service rate studies. This plan will be developed in conjunction with City staff to ensure that it is aligned with the political and public policy context for the City. The Public Involvement Strategy will be included as an appendix. The output from each rate model will also be included as an appendix.

We will also develop an MS PowerPoint presentation that summarizes the final results of the cost of service rates study. CH2M HILL and staff will present the final findings to the City Council for adoption. For purposes of this presentation it is assumed that the presentation will be made to both the Public Works Committee and the City Council.

Deliverables

- Final report, including elements described above
- PowerPoint presentation of final results
- Public involvement strategy

Task 6 – Prepare User Guide and Provide Training

CH2M HILL will prepare a user's guide for the rate models developed in Task 4. Each element of the rate models will be documented with step by step guidance on how to

update the revenue requirements, allocation factors, and calculate rates. The user’s guide will serve as the basis for providing training to City staff.

Deliverables

- User’s guide for water and sewer cost of service rate models
- Rate model spreadsheet/workbook
- MS PowerPoint presentation for training session

Optional Tasks

The following optional tasks can be performed in conjunction with the Rate Study at the City’s option. No man-hour or fee budget has been included herein.

- Rate survey and comparison with other communities
- Evaluation of System Equity Fee and/or other Ancillary fees
- Stormwater utility rate models or structure beyond the evaluation in Task 1

Schedule

The following simplified preliminary project schedule is based on receiving authorization to proceed on or before April 14, 2011. A detailed project schedule will be prepared at project initiation and presented to the City for concurrence.

Task	April	May	June	July	August	September
1: Project Initiation and Data Collection	■					
2: Determine Revenue Requirements		■	■	■		
3: Perform Cost of Service Analyses				■	■	
4: Develop Rate Models and Rate Structure Options					■	■
5: Prepare Final Report and Present Results						■
6: Prepare User’s Guide and Provide Training for Rate Model						■

Compensation

The fee associated with this Task Order is \$81,506 (Eighty One Thousand Five Hundred Six Dollars), which includes administrative time necessary for set up, coordination, invoicing, and QA/QC. An estimated task level breakdown is shown below. Fees for each task are

estimates and actual fees at the task level may vary without approval provided, however, that the total fee estimate may not be exceeded without amendment to this Task Order.

CITY OF SUNNYSIDE UTILITY RATE STUDY
Estimated Task Level Fee Breakdown

Task	Fee
Task 1 – Project Initiation and Data Collection	\$ 9,994
Task 2 – Determine Revenue Requirements	14,067
Task 3 – Perform Cost of Service Analyses	15,126
Task 4 – Develop Rate Models and Rate Structure Options	11,431
Task 5 – Prepare Final Report and Present Results	18,510
Task 6 – Prepare User Guide and Provide Training	7,843
Subtotal Labor	\$ 76,971
Travel and Misc Expenses	4,535
Total Fee	<u>\$ 81,506</u>

The Authorized Representatives designated below are authorized to act with respect to the Task Order. Communications between the parties shall be between parties and their consultants shall be through the Authorized Representatives:

For the City of Sunnyside:

Name: James L. Bridges, P.E.
 Address: 818 E. Edison Avenue
 Sunnyside, WA 98944
 Telephone: 509.837.5206

For CH2M HILL:

Name: Thomas J. Helgeson, P.E.
 Address: 295 Bradley Blvd, Suite 300
 Richland, WA 99352
 Telephone: 509.967.7531

This Task Order No. 3 is effective this _____ day of April, 2011.

Accepted for the City of Sunnyside by:

Accepted for CH2M HILL by:

Name: _____ Name: _____

Title: _____ Title: _____