REVISED SCOPE OF WORK & FEE: WATER & WASTEWATER SYSTEM CAPITAL COST RECOVERY STUDY

RFP NO. 885

City of Ann Arbor

14 MAY 2014

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A. Proposed Work Plan

1.0 Study Orientation

This task will serve as an opportunity for our team to establish contact with City staff and conduct project kick-off activities. During this task, we will meet with City staff to establish lines of communication, review and discuss project goals and policies related to the project and review, and revise the project schedule, if necessary. This meeting will also outline the expected data and documentation to be prepared and presented by staff related to the project. The specifics of this initial discussion are outlined below:

- Review and refine work plan and schedule, if appropriate.
- Assess data and information needs and required staff support.
- Discuss the City's utility infrastructure needs.
- Discuss overall capital facility financing issues.
- Identify and discuss trade-offs with different connection and improvement charge approaches including residential fees by house size and geographic services areas.
- Identify and collect data and documents relevant to the analysis.

Capital Cost Recovery Affordability

Capital cost recovery affordability is an important concern for the City as well as stakeholders in the community of Ann Arbor. A capital cost recovery structure that is deemed to be a hindrance to economic development will lessen the chances that a structure will be accepted by community leaders and stakeholders. During the course of the study, our project team will address affordability concerns as we craft a connection charge structure. We will work with City staff, officials and stakeholders to demonstrate critical elements that must balance with affordability, such as adequate capital cost recovery for needed utility infrastructure, equity in charge implementation, defensibility, and customer understanding of the ultimate structure and resulting charges.

2.0 Prepare a Public Engagement Strategy

To effectively engage interested stakeholders and communicate progress throughout the project, the key components of the public engagement strategy should include:

- Situation Analysis – input from the City for data collection and the key issues to be addressed.
- Engagement Timeline – determine timing to conduct meetings and provide interim and final reports.
- Media Strategy – establish a balanced strategy to disseminate information using appropriate electronic and print methods to reach target audiences.

- Public Engagement Milestones – depict the interaction of all elements of the above mentioned strategy.

The City's objective is to facilitate interaction and input with all interested and relevant stakeholders throughout the duration of the project. We anticipate conducting an exploratory meeting with key stakeholders in the first month of the project based on City recommendations. At this meeting, we will discuss with attendees the nature of the project and seek their input on important elements to be addressed during the course of the study, including but not limited to issues such as affordability, equity and connection charge structure understanding. Depending on the number of interested stakeholders, we will refine the public engagement strategy to fit the concerns and needs of these stakeholder groups.

Assuming interest by the stakeholders, the following sub-tasks could occur:

- Public Engagement Advisory Committee (PEAC) - form a committee consisting of City staff, consultants, and representative stakeholders to provide direction for the public engagement process. It is anticipated that this committee would meet up to three times. Steps necessary for developing this committee would include:
  - Interview members to set expectations for the committee member's role and discern issues that may be pre-existing.
  - Develop norms, roles, and responsibilities for the committee and members.
  - Utilize facilitation methods to gather information, garner decision making, and encourage communication.
- Conduct individual interviews with key stakeholders in the first month of the project based on the City's recommendations.

3.0 Develop Land Use Assumptions

Our team will review and calculate annual projections of population, employment and housing and commercial, industrial and other nonresidential square footage data for the City. The projections will be based on discussions with staff and review of published information from the City's advanced planning documentation and U.S. Census Bureau, among other sources. This task will also establish forecasts reflecting population, housing, employment, nonresidential building area and other relevant data. Our team will prepare a plan, which includes projections of changes in land uses, densities, intensities and population for a specific service area over a period of at least 10 years and pursuant to the City's advanced planning documentation. A map of the area to which the land use assumptions apply will also be included in this task.

4.0 Ascertain Demand Factors and Levels of Service

The subtasks listed below will allow us to establish a rational nexus for the connection and improvement charges.

- **Proportionate Share** – Determine the proportionate share of the cost of utility infrastructure, based on service units, needed to provide such services to new development.
- **Determine Existing Levels of Service** – The costs for the utility infrastructure required to serve new development are based on the same level of service being provided to existing development in the service area. We will determine the existing level of service by conducting on-site interviews, evaluating the appropriate studies and analyzing relevant local data.
- **Determine Service Areas** – This subtask specifies the area(s) within the City's boundaries where development will be served by the utility systems and whether any separate "Service Areas" should be established.

5.0 Evaluate Different Allocation Methodologies

The connection and improvement charges can reflect the past capacity investments in utility infrastructure, which will be repaid by new development with charge revenues. Likewise, the City can plan on providing the same level of service currently provided to existing development to the new development. Based on our experience and a thorough review of industry standard publications (such as the AWWA M1 Manual *Principles of Water Rates, Fees and Charges*), our team will evaluate different allocation methodologies to determine which methodology is the most appropriate to measure the demand created by new development. As part of this evaluation, we will solicit input from City staff and stakeholders. These methodologies include:

- **Buy-in Methodology** – This methodology is best suited for infrastructure that has already been built and has excess capacity available to be utilized for new development.
- **Incremental Expansion Methodology** – Under this approach, new development will receive the current level of service being provided to existing development by the existing inventory of infrastructure.
- **Plan-Based Methodology** – This methodology primarily evaluates the Capital Improvement Plan for new development's proportionate share of planned capital projects. It is important to note, however, that capital improvement plans are often fiscally constrained and may not reflect the true requirements of new development. We will also evaluate master plans for different categories of infrastructure.

This comprehensive approach and consideration of alternative methodologies will allow for the maximization of the connection and improvement charges.

6.0 Identify Capital Needs and Costs

This task will determine the relevant capital needs and costs due to growth.

- **Long-Range Capital Need** – In this subtask, we will focus primarily on the CIP and will review various studies and other relevant data to determine long-

range capital needs. Discussions will aim to not only to understand the specific costs, but also to assess the size and scope of projects and whether capital facility needs are due to normal replacement, catch-up or new demand.

- **Service Units** – Our team will define the standardized measures of consumption, use, generation or discharge attributable to an individual unit of development for each category of necessary public services or facility expansions.
- **Review Cost Estimates** – In this subtask, we will review the costs of infrastructure improvements, real property, financing, engineering and architectural services associated with the necessary public services to be included in the capital cost recovery fees.
- **Financing Costs** – Our team will identify projected interest charges and other financial costs that are to be used for repayment of principal and interest of debt used to finance construction of necessary public services.
- **Identify Ineligible Costs** –In this subtask, our team will identify costs that are not eligible for inclusion in the connection and improvement charges. Ineligible costs include projects related to the repair, maintenance or operation of existing facilities; projects that serve existing development in order to meet stricter regulatory requirements; projects that provide a higher level of service to existing development; and administrative, maintenance and operating costs.

As part of calculating the fee, costs for infrastructure improvements, real property, financing, engineering and architectural services will be considered. We will consider all of these components in developing an equitable allocation of costs.

7.0 Engaging the Public

- Engage media outlets, like AnnArborNews.com, AnnArborChronicle.com and the Ann Arbor Observer via news releases, media advisories and editorial meetings. The purpose of these communications is to inform and educate the public on the project's objectives, opportunities to provide additional input and project progress.
- Update the Ann Arbor City Council, Commissions, and Boards one time.

8.0 Create and Distribute Public Engagement Materials

Coordinating with the City's Communication Department, the team is prepared to create, distribute, and archive the materials suggested by the City in the RFP, including but not limited to press releases, emails, social media, Tree Town Log, City meetings, A2 City News Resident Newsletter, WaterMatters Newsletter, Public Meeting Display Cases, Educational Materials, Project Web Page, Project Newsletter/Fliers, Direct Mail/Flier Distribution, Presentations at Committee Meetings/Commission Meetings/Groups/Council/Administrator, Working

Sessions, Public Meetings, Feedback Forms, Citywide Meetings, and Community Workshops. Suggested public engagement materials include:

- Project Descriptions
- Infographics to display complex concepts visually
- Email Updates
- Website Updates
- Video Messaging

9.0 Complete Capacity Charge Methodology and Calculations

The completion of the previous technical and public engagement tasks will enable the charge methodology and calculations to be finalized. Balancing the competing interests of affordability, cost recovery, equity, defensibility, and customer understanding, our team will calculate the maximum justifiable fees for commercial, residential and industrial development that can be charged and conform to state and local requirements.

10.0 Conduct Funding and Cash Flow Analysis

In order to prepare a capital improvement plan, it is important to evaluate the anticipated funding sources. In this task, we will prepare a ten-year cash flow analysis. This calculation will allow the City to better understand the revenue potential of the connection and improvement charges and the amount that would be needed if the fees were discounted. It will also provide a good understanding of the cash flow needed to cover the infrastructure costs for new development. The cash flow analysis will indicate whether additional funds might be needed or whether the CIP might need to be altered.

11.0 Benchmarking of Fees

Our project team will develop a list of ten (10) water and wastewater utilities of comparable size to the City of Ann Arbor as well as similar operations and facility needs within comparable climates. We will compare the fee structures and approaches used to develop comparable agency fees.

This effort will also review and compare timing of connection and improvement fee collection and will question other communities as to how they fund system replacement (customer rates, fees and/or debt financing). Finally, we will ask these communities if their fees have ever been challenged, the extent of the challenge, and the outcomes.

Should the City decide that it wants to conduct the benchmarking task earlier in the scope process, we can accommodate this request and make the results available to City staff and stakeholders during the decision-making process.

12.0 Review of Miscellaneous Fees and Charges and Optional Fee Analysis

As part of this scope, we propose a review of the City's current utility miscellaneous fees and charges such as Meter Set Fees, Tap Fees, and Disconnection Fees. This task will be a high-level review to help ensure there are no overlap of fees as well as no gaps in the fee schedule, i.e. services are provided by utility staff but no fee exists to recover associated costs.

As an optional task, should the City desire our project team to conduct a comprehensive analysis of the current utility fee schedule, we will work with City staff to develop a related scope of services and fee. This analysis will include but not be limited to staff interviews to determine time spent on each fee-generating services, budget and personnel cost evaluation and development of a proposed maximum justifiable fee program to be considered by the City.

13.0 Preparation of Capital Cost Recovery Report, Presentation

Our team will prepare a written report for the City that summarizes the need for utility capital cost recovery and the relevant methodologies employed, as well as documentation for all assumptions and cost factors. We will present findings and recommendations to City staff and City Council in conjunction with the public engagement strategy.

The report will include the following information at a minimum:

- A detailed description of the methodologies used during the study.
- A detailed description of all level of service standards and cost factors used and accompanying rationale.
- A CIP spanning a maximum 10-year planning horizon listing projects, costs, timing and financing.
- A detailed schedule of all proposed fees listed by land use type and activity.
- Other information to adequately explain and justify the resulting recommended fee schedule.
- Ten-year cash flow analysis of connection and improvement charges.

14.0 Public Engagement Documentation and Deliverables

This section outlines a menu of meetings, public engagement resources and deliverables that our project team can prepare and facilitate during this project. During the course of the project, our team will meet with City staff to determine meeting types and timing, number of meetings, resources needed and deliverables required. Please note our preliminary flowchart of our revised scope of services following this section.

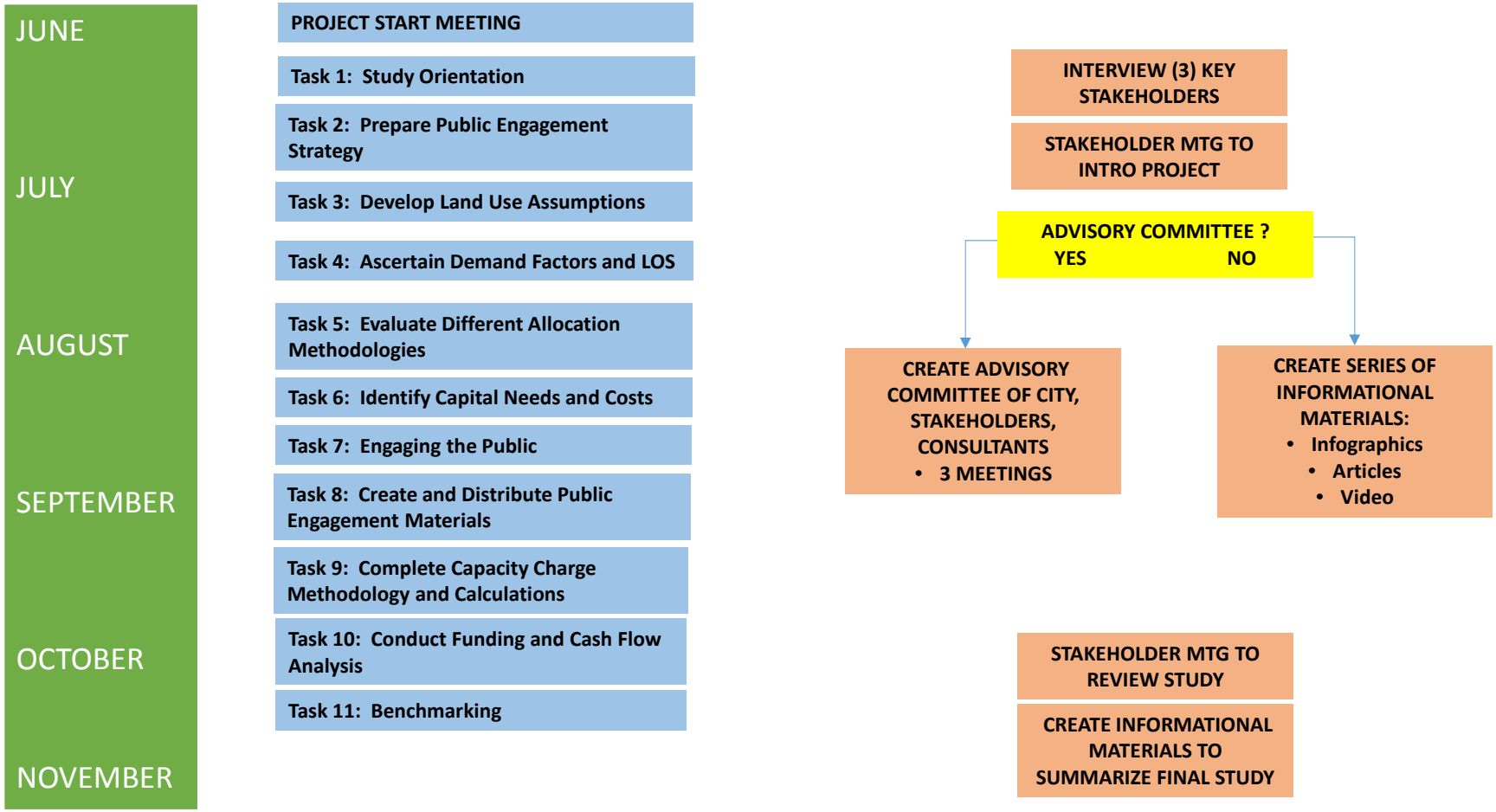
The following documents could be created, distributed and archived as part of the public engagement process: Advisory Committee Meeting Summaries,

Meeting Agendas, Meeting Presentations, Supporting Documents, Interview Summary of Findings, Council and Commission Presentations with Q&A.

Potential Public Engagement Deliverables

- Public Engagement Plan – July 2014
  - Situation Analysis
  - Engagement Timeline
  - Media Strategy
  - Public Engagement Milestones
- Plan, Facilitate, and Document Meetings
  - Stakeholder Meetings (2) – July and October 2014
  - Advisory Committee (3) – July, September, November 2014
  - Presentations to City Council, Commissions, Boards (1) – November 2014
  - Interviews (3) – July 2014
- Prepare, Distribute, and Archive Public Engagement Materials
  - Information Kits – November 2014
  - Project Description Materials – July 2014
  - Updates to City Web Pages – July – October 2014
- Prepare a Public Engagement Summary Report – November 2014

PROPOSED PROJECT FLOW CHART



B. Proposed Fee

PROJECT TEAM MEMBER:	KOCH	JEWETT	BORCHERS	ZIEBURTZ	BROZ	HARBRON	NEWMAN	BYRON	ANDERSON	TOTAL	
	Engagement Lead	Project Manager	Subject Matter Expert	Lead Subject Expert/QA&QC	Technical Specialist	Technical Specialist	Lead PR Facilitator	Comm. Strategist	PR Admin Support		
Hourly Rate	**$200**	**$200**	**$200**	**$200**	**$150**	**$150**	**$150**	**$125**	**$45**	**Hours**	**Cost**
Task 1: Study Orientation	2	8	-	8	-	-	-	-	-	18	$3,600
Task 2: Prepare a Public Engagement Strategy	-	8	-	-	-	-	8	4	4	24	3,480
Task 3: Develop Land Use Assumptions	-	2	8	-	-	-	-	-	-	10	2,000
Task 4: Demand Factors and Levels of Service	2	4	-	4	4	4	-	-	-	18	3,200
Task 5: Evaluate Allocation Methodologies	-	10	-	4	-	-	-	-	-	14	2,800
Task 6: Identify Capital Needs and Costs	4	4	-	2	4	4	-	-	-	18	3,200
Task 7: Engaging the Public	-	4	-	-	-	-	16	4	8	32	4,060
Task 8: Create and Distribute Public Engagement Materials							18	8	16	42	4,420
Task 9: Complete Methodology and Calculations	-	16	4	10	-	-	-	-	-	30	6,000
Task 10: Conduct Funding and Cash Flow Analysis	-	2	6	2	-	-	-	-	-	10	2,000
Task 11: Benchmarking of Fees	-	4	4	4	-	-	-	-	-	12	2,400
Task 12: Review of Miscellaneous Fees	-	4	-	-	-	-	-	-	-	4	800
Task 13: Capital Cost Recovery Report and Presentations	4	24	-	16	-	-	-	-	-	44	8,800
Task 14: Public Engagement Documentation and Deliverables	-	4	-	-	-	-	48	4	12	68	9,040
Study Hours	12	94	22	50	8	8	90	20	40	344	55,800
Project Expenses											7,000
Total Project Fee											**$62,800**