



economists.com

Economic and Financial Consulting

February 11 2015

Mr. Douglas Faseler
City Manager
City of Seguin
205 N. River St.
Seguin TX 78156

Dear Mr. Faseler:

Thank you for allowing ***Economists.com*** the opportunity to present this proposal to provide a water and wastewater rate study and impact fee study for the City of Seguin ("The City"). We are an economic and financial consulting firm, with offices in Dallas, Texas and Portland, Oregon. Our principal clients are national, state and local governments. Our firm contains professionals with decades of experience in water and wastewater utility operations and economic/financial management. Our specific services include:

- **Water and Wastewater Rate Studies**
- Sanitation Rate Studies
- Economic evaluation of water resources
- Water Planning and Management
- Connection and Impact Fee Studies
- Privatization Analysis
- Expert Witness Testimony on Reasonableness of Rate Structure
- Resource Allocation Studies
- Economic Impact and Development Studies

More information is available on our firm and professionals at our web site, www.economists.com. We have served as rate consultants to the Schertz Seguin Local Government Corporation ("SSLGC") since 2008 and appreciate the opportunity to continue to provide service to the citizens of Seguin.

As Managing Director and Chief Executive of Economists.com, I will manage and have primary responsibility for preparing this study for the City. I will be assisted by Ms. Rebecca Schafer, Senior Manager and Ms. JoLynn Rains, Principal Consultant.

Water and Wastewater Rate Study

It is our understanding that the City is interested in developing a comprehensive water and wastewater rate plan for FY 2015 and beyond. Like most cities, the City's costs of providing water and wastewater service are increasing on an annual basis, and the City wants to ensure that the rates charged for service cover all costs of providing this service. Further, the City must evaluate its options regarding the financing of long-term capital improvements to its water and wastewater system. The amount and timing of capital improvements will have a major impact on the ultimate rates charged to its customers.

Our objective is to develop a long-term rate plan that will enable the City to recover sufficient funds to meet all operating and capital expenses, meet all debt service and coverage requirements, while at the same time minimizing the impact on the ratepayers. We will work closely with City staff and council to ensure that the rate plan alternatives reflect the preferences of the ratepayers of the City.

Our workplan includes the following specific assistance:

- 1) A detailed analysis and comparison of the City's current and proposed rates to the state average as well as other surrounding communities.
- 2) Using current budget, volume and CIP data, the project team will prepare a comprehensive ten-year water and wastewater cost of service forecast model. The model will identify current and forecast operating expenses, capital outlays and debt service for the period 2015 – 2024. The model will functionalize costs between treatment, distribution/collection, administration and customer, and will classify costs between base and extra capacity. The model will adhere to AWWA ratemaking standards to ensure that the cost of service is just, reasonable and accurate. An electronic, executable copy of the model will be provided to City staff at the conclusion of this engagement for staff's use in future updates.
- 3) The model will contain modules that will allow for the calculation of overall cost of service for the water and wastewater utilities and the cost of service by designated customer class (residential, commercial, multi-family, etc.).
- 4) The project team will prepare a water and wastewater long-term rate plan for the City Council to consider. This rate plan will include several alternative water and wastewater proposed rate structures for staff and the Council to evaluate. The project team will work closely with City staff in developing both the original and the revised alternatives. Each alternative will enable the City to recover sufficient revenues to fund operating and capital costs. The project team will prepare additional scenarios should the staff or council so choose in determining which is the most just and reasonable.
- 5) The project team will summarize its analysis into a comprehensive rate study report that will provide background analysis and all relevant documentation supporting the calculations and rate alternatives.

- 6) We will conduct an initial data-gathering meeting with City staff to review information and needs and to tour City facilities, a meeting with City staff to review preliminary results, a workshop with the City Council and Water Committee to discuss our findings and recommendations, a public hearing to discuss the impact of the rate plan on ratepayers, and a final meeting with the City Council at which the rate plan is adopted. The purpose of the meeting and public involvement process will be to ensure that to the best extent possible, staff, council and ratepayers adequately evaluate alternative rate plans and choose the most appropriate rate plan to be implemented.

Attached is a request for the information we will require to complete the initial analysis.

Impact Fee Study

It is our understanding that the City is interested in implementing a schedule of water and wastewater impact fees. These fees must be implemented under the strict and extensive guidelines of Chapter 395 of the state of Texas Local Government Code. The Code requires that the City adopt a Land Use Plan and Capital Improvement Plan prior to the calculation of impact fees.

The land use plan, capital improvement plan and the associated public hearings per the guidelines of Chapter 395 must be completed by the City staff or qualified engineers. After completion of these steps, our project team will prepare a calculation of recommended maximum impact fees per water and wastewater connection. Our calculations will be based on the impact fee cost model we have used for numerous municipalities throughout the southwest.

We will meet with City staff and Council to present our recommended fees, and we will participate in a public hearing as required by Chapter 395 to present the impact fee recommendations to the general public. We will also prepare a written report summarizing our impact fee calculations to be distributed to staff and Council.

Fees and Expenses

We propose to complete the scope of services for the water and wastewater rate study and long-term financial plan for a not-to-exceed total of professional fees and expenses of **\$29,000**.

We propose to complete the scope of services for the water and wastewater impact fee study for a not-to-exceed total of professional fees and expenses of **\$17,000**.

The combined total professional fees and expenses for both studies would be **\$46,000**. The City may choose to proceed with either study or both studies at this time.

Exhibit 1 represents a proposed timeline for this engagement. As shown, the project team is estimating that this project will require 17 weeks in total, with a final report issued the week of June 12 2015. This is consistent with a schedule that would allow for implementation of a proposed rate plan in October 2015. Please note, however, that this timeline is heavily dependent on both the timely receipt of data from the City and the availability of City Staff and Council to meet, review and adopt any proposed long-term rate plan.

A timeline cannot be produced for the proposed impact fee study without input from the City's engineers with regards to the status of the City's land use and capital improvement plan.

Exhibit 1



Economists.com reserves the right to invoice for services on a monthly basis. Payment is requested 30 days after receipt of each invoice.

If this proposal is acceptable to you, please execute one copy of this letter and return it to our Dallas office. Thank you for this opportunity; we look forward to working with you on this important engagement.

Very Truly Yours,



Dan V. Jackson
Managing Director

ACCEPTED BY:

Date

CITY OF SEGUIN
2015 WATER AND WASTEWATER RATE STUDY AND LONG-TERM FINANCIAL PLAN
INITIAL REQUEST FOR INFORMATION

1. Please provide a copy of the City's FY 2015 water and wastewater utility budget.
2. Please provide a copy of the City's most recent audited financial statement.
3. Please provide water billed revenues by identified customer class by month from October 2011 to the present.
4. Please provide water consumption by identified customer class by month from October 2011 to the present.
5. Please provide water active accounts by identified customer class by month from October 2011 to the present.
6. Please provide the number of water meters by size by identified customer class for the most recent month available.
7. Please provide wastewater billed revenues by identified customer class by month from October 2011 to the present.
8. Please provide wastewater billing units by identified customer class by month from October 2011 to the present.
9. Please provide wastewater active accounts by identified customer class by month from October 2011 to the present.
10. Please provide debt schedules for all outstanding water and wastewater-related debt.
11. Please provide copies of any water and wastewater Capital Improvement Plans completed by the City.
12. Please provide a copy of the City's current water and wastewater rate schedule.
13. Please provide an electronic version of the City's logo.

