A RESOLUTION
BY COUNCILMEMBER CLAIR MULLER

03-R-0915

A RESOLUTION AMENDING THE FINANCIAL ADVISOR SERVICES CONTRACT WITH THE JOINT VENTURE OF DOBBS, RAM & COMPANY AND PUBLIC RESOURCES ADVISORY GROUP; AUTHORIZING THE EXPENDITURE OF AN AMOUNT NOT TO EXCEED $405,000.00 UNDER SAID CONTRACT TO UNDERTAKE A WATER AND SEWERAGE RATE STUDY TO BE CHARGED TO AND PAID FROM FAC# 2J01 724001T31001; AND FOR OTHER PURPOSES.

WHEREAS, the City of Atlanta owns and operates an drinking water and sewerage system; and

WHEREAS, the City is currently under a federal consent decree related to its wastewater system which requires certain capital projects be undertaken and completed within stated deadlines; and

WHEREAS, significant capital improvements to the drinking water and sewerage systems will require the issuance of water and sewer revenue bonds; and

WHEREAS, a rate study must be completed before the City can move forward with the issuance of water and sewer revenue bonds; and

WHEREAS, the City issued a request for proposals for financial advisory services in March 2002, to which the joint venture of Dobbs Ram & Company and Public Resources Advisory Group was selected as the most responsive proponent; and

WHEREAS, Resolution 02-R-0813 authorizes an agreement with Dobbs Ram/PRAG for financial advisory services for a term of one year with two one-year renewals, commencing July 8, 2002; and

WHEREAS, the Financial Advisor Services Contract with Dobbs Ram/PRAG includes performance of rate studies and analyses.

THE COUNCIL OF THE CITY OF ATLANTA, GEORGIA hereby resolves that the contract between the City of Atlanta and Dobbs Ram/PRAG for Financial Advisory Services be amended to perform a water and sewerage rate study.

BE IT FURTHER RESOLVED that all fees and expenses for a water and sewerage rate study to be performed pursuant to this agreement be charged to and paid from FAC 2J01 724001 T31001 in an amount not to exceed $405,000.00.

BE IT FURTHER RESOLVED that the City Attorney is directed to draft an Amendment encompassing the scope of services attached hereto as Exhibit "A."

BE IT FINALLY RESOLVED that this amendment shall not become effective until approved as to form by the City Attorney, executed by the Mayor, attested to by the Municipal Clerk and delivered to the contracting party.

D R A F T

Scope of Services
Water/Wastewater Rate, Impact Fee, and Ancillary Charge Study

The City of Atlanta is responsible for managing the water and wastewater systems within and in certain areas outside the City Limits. The City desires to update its water and wastewater rates, impact fees, and ancillary charges. This scope of services will allow the Consultant to assist the City in:

Task 1 – Updating water and wastewater rates to reflect current costs and operating conditions;

Task 2 – providing a 5-year pro-forma of operating results;

Task 3 – developing impact fee recommendations to reflect recent and anticipated spending on capital facilities; and

Task 4 – updating ancillary charges to reflect current costs and customer service objectives.

TASK 1 – WATER/WASTEWATER RATE RESTRUCTURING

I. PROJECT INITIATION

This task will involve identifying deliverable products, scheduling potential meetings and presentations, and ensuring that the project objectives are clearly defined and understood. Specific activities will include the following:

1. Review scope of services with appropriate City personnel to finalize project responsibilities, due dates, progress reporting, schedule of project deliverables, and other administrative issues.

2. Review available background documents related to water and wastewater operations

3. Submit information and data request for City to use as a guide in assembling additional data which will be required to complete the assignment.

4. Query City regarding the major questions and concerns with current rate calculation methodology and to determine any other areas of major concern.

II. DATA COLLECTION

This task will involve obtaining all of the accurate data and information available from the City necessary to develop a projection of the City's revenue requirements, as well as the data needed to perform the cost-of-service and rate design analyses. This task will require completion of the following:

1. CONSULTANT will need all available background documents related to water/wastewater operations including:

   A. Operating and capital budgets, as well as audited financial statements;

   B. Official Statements or other related documents for current outstanding debt obligations;

   C. Projected capital outlay for ongoing or future projects;

   D. Renewal & Replacement, Rate Stabilization, and other Reserve Funds;

   E. Operating statistics (gallons of water treated and pumped, wastewater treatment plant influent levels, domestic sewage strengths, etc.).

2. Obtain and review all of the City's existing water and wastewater rate schedules and existing policies.

3. CONSULTANT will prepare an information and data request for the City to use as a guide in assembling any additional data which is required to complete the assignment.

III. REVENUE REQUIREMENT ANALYSES AND TEST YEAR BILLING DETERMINANTS

The purpose of this task is to develop the City's water and wastewater system total revenue requirements by identifying all costs to be recovered from rates for the projection period or test year. The process will allow CONSULTANT to gain an understanding of the customer base and usage characteristics associated with the systems. The customers and flows determine the revenue stream and are fundamental to developing the proposed user rates and charges. This task will require the following:

1. Determine Revenue Requirements

   A. Review and identify applicable operating costs contained in audited financial statements, as well as in the current budget;

B. Identify all current and anticipated non-operating and capital costs to be recovered through the rates (including debt service and related reserves and coverage requirements, capital outlay, General Fund transfers, renewal and replacement costs, etc.);

C. Make pro-forma budget adjustments as necessary to estimate the revenue requirements for the fiscal year in which rates will be developed (the "Test Year");

D. Identify other available sources of revenue used to offset revenue;

E. Meet with City Staff to discuss any necessary or desired modifications to the revenue requirements and make appropriate adjustments.

2. Identify Rate Determinants

A. Review historical customer and billing data provided by the City;

B. Identify customer classifications based on the current and anticipated customer mix;

C. Identify customer usage characteristics within each customer class; and

D. Utilize historical growth statistics and recent trends, as well as discussions with staff to develop a projection of system customers and flows into the future.

IV. Cost of Service Analysis & Rate Design

In this task we will establish an equitable rate structure, determine the appropriate rate components, and develop a methodology for allocating the revenue requirements to the applicable rate components. The allocation of revenue requirements will define the total costs to be recovered through each component of the rate structure. We will also calculate a schedule of water and wastewater user rates and charges that equitably recover the projected revenue requirements.

1. Conduct Cost-of-Service Analysis and Allocation of Revenue Requirements

A. Review existing rate structure for equity of application to customers, and consistency with the objectives of the City;

B. Develop a cost of service analysis which fairly and equitably allocates costs to the various retail customer classes;

C. Develop a wholesale rate model which identifies those costs directly

attributable to the City's wholesale customer classes and develops rates specifically for those customers;

D. Propose rate structure modifications as necessary to satisfy the primary objectives;

E. Establish rate components based on proposed rate structure; and

F. Utilize information provided by the City, judgment, and prior experience with comparable utilities in order to make the cost allocations to the rate components.

2. Design Water and Wastewater Rates

A. Determine monthly charges based on allocated revenue requirements and billing determinants, including:

- Customer costs;
- Availability charges; and
- Volumetric rates.

The Customer and Availability charges developed above reflect the City's cost to service an individual customer, whether or not that customer was currently taking water service or not.

Various alternatives for the Volumetric Charge component would be analyzed and proposed, including variations of an inverted block rate, which would serve to promote water conservation.

B. Prepare a revenue analysis to ensure that the proposed rates, as applied to the estimated customers and flows, will generate sufficient revenue to meet the projected revenue requirements;

C. Once the proposed rates are developed, they will be evaluated to ensure that: (i) they comply with the goals and objectives set forth by the City and (ii) they are compatible with the needs of the surrounding community; and

D. Additionally, the price elasticity of any proposed or recommended rates will be addressed to identify any potential impact on system revenues due to an increase in rate levels or changes in rate structure.

V. PREPARE CUSTOMER IMPACT ANALYSIS/RATE COMPARISONS

This analysis will be used to assess the impact of the proposed rates upon various

classes of customers with different usage levels and to assess the comparability of the proposed rates to other neighboring utility systems. To complete this task, we will need to:

1. Develop an impact assessment model for the rates and classes of users identified in the rate study;

2. Prepare impact assessment of proposed rates compared to existing rates; and

3. Prepare rate comparisons of proposed rates versus those of other neighboring utilities.

VI. Reports and Presentations

1. Draft Report - To present the preliminary findings and recommendations in a draft format for review by City staff. This will require the following:

   A. Prepare and deliver a draft report in a near-final format to be reviewed, changed and/or corrected as necessary;

   B. Discuss preliminary findings with City staff; and

   C. Incorporate any changes provided by staff into the rate model and the report.

4. Prepare and Present Final Report - To document the overall findings in a complete and concise report for presentation to the City Council. This will require the following:

   A. Prepare and deliver copies of the final report;

   B. Attend one workshop session with the City staff to present the final study recommendations; and

   C. Attend one rate hearing before the City Council to present study recommendations for the purpose of enacting the proposed rates, if required.

DELIVERABLES

CONSULTANT shall provide the following deliverables:

1. Draft report to the City as described in Task 6.

2. Final report to the City as described in Task 6.

INFORMATION TO BE PROVIDED BY THE CITY

The initial responsibility of the City is to respond to the request for data. All requested items should be provided in a timely manner to support the overall project schedule. The unavailability of certain of the data items could prevent CONSULTANT from completing the assigned tasks within the allotted time. City staff will work with CONSULTANT to provide the required data in the format and content as desired by CONSULTANT personnel. The City will also be responsible for coordinating responses to questions and comments on draft reports from different City departments and groups, and for providing these responses and comments in a timely manner.

COMPENSATION

Compensation will be on a lump sum basis. The fee for the Task Plan presented herein is $150,000. Consultant will invoice services monthly to reflect Consultant's estimate of the percentage of work completed since the prior invoice and will prepare a final invoice upon completion of the work.

TASK 2 – FIVE YEAR PROJECTED OPERATING RESULTS

I. Projection of Net Revenue Requirements

The purpose of this step is to provide an estimate of the expenditures anticipated in future years and establish a basis for projecting future revenue needs. To complete this we will:

1. Utilize the current budget, estimated Test Year revenue requirements, outstanding debt service schedules and the adopted capital improvements program (CIP) as a basis for performing projections; and

2. Apply inflationary and customer growth factors as applicable to project the revenue requirements through the projection period on a line-item by line-item basis.

II. Projections of User Rate and Charge Revenues

The purpose of this step is to provide an estimate of the user rate and charge revenues that will be derived from the application of the proposed rates. The projected customers, usage and demands will be utilized in conjunction with any anticipated rate adjustments necessary to meet the projected revenue requirements. In order to complete this step we will:

1. Apply the proposed water and wastewater rates to the projected customers, usage and demands in order the estimate the revenues that will generated as a result of normal customer growth; and

2. Compare the projected revenues to the estimated revenue requirements to determine the approximate revenue surpluses/deficits for each year of the projection period.

III. Projected Operating Results

This step will provide a summary estimate of the cash-flow transactions related to operating the water and wastewater systems. In order to process this step, we will:

1. Develop a schedule of the projected operating results that provides a summary of the projected revenues and accompanying revenue requirements for each year of the projection period;

2. Utilize the summary results to identify the potential water and wastewater rate adjustments required in future years; and

5. Calculate the projected debt service coverage ratios in each fiscal year in order to ensure compliance with bond covenant requirements, and provide management with a tool to evaluate the financial strength of the utility as an independent enterprise.

DELIVERABLES

CONSULTANT shall provide the following deliverables:

1. Initial report will be included in draft report to the City as described in Task 6 of the water rate restructuring sections.

2. Final report will be included in final report to the City as described above.

INFORMATION TO BE PROVIDED BY THE CITY

The initial responsibility of the City is to respond to the request for data. All requested items should be provided in a timely manner to support the overall project schedule. The unavailability of certain of the data items could prevent CONSULTANT from completing the assigned tasks within the allotted time. City staff will work with CONSULTANT to provide the required data in the format and content as desired by CONSULTANT personnel. The City will also be responsible for coordinating responses to questions and comments on draft reports from different City departments and groups, and for providing these responses and comments in a timely manner.

COMPENSATION

Compensation will be on a lump sum basis. The fee for the Task Plan presented herein is $50,000. Consultant will invoice services monthly to reflect Consultant's estimate of the percentage of work completed since the prior invoice and will prepare a final invoice upon completion of the work.

TASK 3 – WATER/WASTEWATER IMPACT FEE STUDY

I. Project Initiation and Data Collection

1. CONSULTANT will initiate the project and help identify the City's current and Long-Term Objectives;

2. Schedule Meetings/Interviews with City Staff Members (As Necessary)

3. Collect Historical and Background Data related to capital costs

4. Review of Background Data

II. DEVELOPMENT OF WATER AND WASTEWATER IMPACT FEES

1. Summarize the City's existing water and wastewater system assets, allocating those assets between plant-related and distribution related facilities;

2. Review and Summarize the City's most current five-year capital budget and determine the level of future capital expenditures incurred as a result of new water and wastewater customer growth;

3. Assess the City's existing and future treatment and conveyance capacities based upon information provided by the City;

4. Determine debt service credits as offsets to calculated impact fees, as appropriate;

5. Development of cost-based water and wastewater impact fees; and

6. Prepare customer impact analysis/fee comparisons.

III. PREPARATION AND PRESENTATION OF STUDY RESULTS/FINAL REPORT

1. Prepare Preliminary Findings/Provide to Staff for Review and Comment; and

2. Prepare and Present Final Report.

DELIVERABLES

CONSULTANT shall provide the following deliverables:

1. Initial report will be included in draft report to the City as described in Task 6 of the water and wastewater rate restructuring sections.

2. Final report will be included in final report to the City as described above.

INFORMATION TO BE PROVIDED BY THE CITY

The initial responsibility of the City is to respond to the request for data. All requested items should be provided in a timely manner to support the overall project schedule. The unavailability of certain of the data items could prevent CONSULTANT from completing the assigned tasks within the allotted time. City staff will work with CONSULTANT to provide the required data in the format and content as desired by CONSULTANT personnel. The City will also be responsible for coordinating responses to questions and comments on draft reports from different City departments and groups, and for providing these responses and comments in a timely manner.

COMPENSATION

Compensation will be on a lump sum basis. The fee for the Task Plan presented herein is $75,000. Consultant will invoice services monthly to reflect Consultant's estimate of the percentage of work completed since the prior invoice and will prepare a final invoice upon completion of the work.

TASK 4 – MISCELLANEOUS SERVICE CHARGES

The purpose of this task is to identify the special services the City is providing to its customers and to ensure that costs for these services are being properly recovered.

I. Project Initiation and Data Collection

1. Initiate the project with goal to identify all water and wastewater charges and fees administered by the City;

2. Meetings/interviews with City Staff members (as necessary)

3. Collect historical and background data

4. Review of background data

II. Development of Miscellaneous Service Charges and Fees

1. As City staff compiles data, we will assist in summarizing the City's water and wastewater related charges and fees from every department;

2. Assist the City staff in determining the cost of each of the services the City is providing and determine which, if any, costs are not being recovered;

3. Provide the City with guidance in the derivation of each cost and associated cost causation;

III. Preparation and Presentation of Study Results/Final Report

1. Prepare Preliminary Findings/Provide to Staff for Review and Comment;

2. Modify Report as Necessary; and

3. Prepare Final Report.

COMPENSATION

Compensation will be on a lump sum basis. The fee for the Task Plan presented herein is $45,000. Consultant will invoice services monthly to reflect Consultant's estimate of the percentage of work completed since the prior invoice and will prepare a final invoice upon completion of the work.