



HISTORIC
FRANKLIN
TENNESSEE

ITEM #12
FINANCE
01-16-14

MEMORANDUM

January 10, 2014

TO: Budget and Finance Committee

FROM: Eric Stuckey, City Administrator
Mark Hilty, Water Management Director

SUBJECT: Professional Services Agreement with Jackson Thornton Utilities for Cost of Service Analyses

Purpose

The purpose of this memorandum is to provide the Budget and Finance Committee with information to consider a Professional Service Agreement (PSA) with Jackson Thornton Utilities to perform a cost of service/rate study and rate design for the water and sanitary sewer systems.

Background

The proposed study is necessary to continue evaluation of the rate structure for services through the Water Management Department. These services will include three phases – Revenue Requirements Analysis, Cost of Service Study, and Preliminary Rate Design for each rate class.

In October 2010, the Board of Mayor and Aldermen took measures that established a five year plan in which to achieve appropriate revenue streams through analyses of water and sanitary sewer revenues. One of the goals of the proposed Professional Services Agreement with Jackson Thornton Utilities is to develop objective information based on independent analyses of revenue requirements and cost of service for inclusion of a new five year financial plan for presentation to the Board of Mayor and Aldermen (BOMA). The results of the study will enable the BOMA to make informed decisions on rates and rate design and to ensure that the new five year plan is in line with current revenues and expenditures.

Financial Impact

The financial impact (over a three year period) to the City in regard to this Professional Services Agreement will be \$94,000 (year 1 - \$30,400; year 2 – 31,400; year 3 – 32,200).

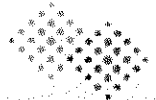
Options

Independent analyses of revenue requirements and rates are desirable to ensure that process and methodologies are strictly adhered to ensure defensible rates and rate design.

1. Approve the Professional Services Agreement as proposed with Jackson Thornton Utilities, or
2. Seek proposals from other firms for the proposed work.

Recommendation

Staff recommends that the Budget and Finance Committee recommend approval of the Professional Services Agreement with Jackson Thornton Utilities to the BOMA.



December 2, 2013

Mr. Mark Hilly
Water Management Director
City of Franklin, Water Department
PO Box 305
Franklin, TN 37065

Re: Proposal to Provide Professional Services Related to a Revenue Requirements Analysis and a Cost of Service/Rate Study for Water & Sewer Distribution Systems

Dear Mark,

We very much appreciate the opportunity to submit to you and the City of Franklin Water Department ("the City") our proposal to assist you with the Revenue Requirements Analysis and Cost of Service/Rate study detailed herein. We believe that you will find Jackson Thornton Utilities Consultants ("JTUC") to be uniquely qualified to assist the City with this project because of the extensive knowledge and experience that we have in the water industry.

JTUC has performed similar cost of service and rate design projects for many other water distribution systems, and will be glad to provide a list of references upon request. We currently provide more than 30 municipal and county public authorities with Cost of Service/Rate Study work.

PROJECT STAFFING

JTUC is uniquely qualified to perform this engagement for several reasons, primarily because of the expertise we have in the utility industry and the professionals that we have on our staff in the Utility Consulting Group. This team brings together all the necessary experience to complete this project to your satisfaction.

We anticipate that the Utility Group staff involved in the COS/Rate Study project will be primarily, Jim Marshall, Sarah Chandler and me. I will be the principal-in-charge, Jim will be the lead consultant and project manager for JTUC and Sarah will serve as the senior associate on this project. In addition, JTUC has a staff of professionals dedicated to utility accounting and consulting that we can call upon if needed.

W. Terry Mitchell, CPA, the Principal responsible for electric, natural gas, water and sewer utility consulting, has worked with utilities for over 39 years. Mr. Mitchell has participated in the Management Training Program taught by the National Rural Electric Cooperative Association. He has led seminars for utility associations at the national and state level. He currently serves on the NRECA Accounting and Tax Committee and on an Ad Hoc

Committee on RUS Accounting Requirements. Terry is also involved in all levels of management consulting to the utility industry. In the last three years, he has participated in over 150 hours of utility-related continuing education. Terry was recently invited and presented a paper for consideration in the Executive MBA program taught for Co-op managers at St. Mary's University in Halifax, Nova Scotia.

James B. Marshall, III has 8 years experience in the utilities consulting industry in the areas of financial forecasting, cost of service, and rate design. He has worked with rural electric, gas, water and sewer utilities through out the southeast. Jim has also worked with manufacturing and commercial companies across the country on tax issues and utility negotiations. He is certified by the Association of Energy Engineers as an Energy Procurement Professional.

Sarah V. Chandler has experience in the utilities industry in the areas of cost of service, rate design and regulation. Sarah worked for 8 years at the Alabama Public Service Commission as an Advisory Staff Analyst where she reviewed and evaluated rates and other filings for utilities. She also has rate design and cost of service experience with a large interstate natural gas pipeline.

PROJECT OBJECTIVE

The objective of this project is to provide an independent analysis and objective information to allow the City to determine if its current water and sewer rates need to be changed and, if so, where the changes in rates are needed. For the City, we see this as a multi-phased project. The phases of the project would be as follows:

Phase I – Revenue Requirements Analysis "RRA" – This phase of the project includes working with the management team to review historical accounting and cost records for plant investment and expenditures. We will also review budgets (financial, capital requirements, cash flow, etc.) and bond indenture requirements in order to determine the projected revenue requirements of each water utility service and for the system. After performing this RRA, we will know if the current water rates will generate the needed revenue requirements for each class of service provided and for the system.

Phase II – PART 1 - Prepare Embedded Water and Sewer Cost of Service Study "COSS" – This phase of the project includes working with your management team to perform a detailed allocation of the distribution plant, operating expenses, debt service and capital improvement projects to each rate class. From this phase we can determine if rate equity exists between rate classes. The results of this COSS will provide the support for any changes in your water/sewer rates, if any are needed.

PART 2 - Prepare Preliminary Rate Designs for Each Rate Class – The second part of this phase includes using the COSS results to determine what changes in current rates are needed to generate the revenues desired from each rate class. After preliminary rates have been determined for each rate class, analysis can be prepared reflecting existing rates versus proposed rates and total revenues generated by each different rate class.

PROJECT PROCEDURES STANDARDS

The procedures employed by JTUC follow generally accepted cost of service principles. Our model is flexible to compensate for individual accounting practices. As a guideline, our water and sewer model follows the allocation processes detailed in the M-1 Manual ("Principles of Water Rates, Fees and Charges prescribed by the American Water Works Association"). Revenue requirements will be calculated using the Cash Method, unless otherwise desired. JTUC has developed a comprehensive Cost of Service model that allows Management and of the City to explore all study variations desired.

The two overarching principles of the independence standards of the "Government Auditing Standards" issued by the Comptroller General of the United States provide that management is responsible for the substantive outcomes of the work and, therefore, has a responsibility and is able to make any informed judgment on the results of the services described above. Accordingly, the City agrees to the following:

Mark Hilty, Director, will be accountable and responsible for overseeing the revenue Requirements model.

1. The City will establish and monitor the performance of the Revenue Requirements model to ensure that it meets management's objectives.
2. The City will make any decisions that involve management functions related to the Revenue Requirements model and accepts full responsibility for such decisions.
3. The City will evaluate the adequacy of services performed and any findings that result.

The assistance to be supplied by the personnel of the City has been discussed and coordinated with Mark Hilty, Director. The timely and accurate completion of this work is essential to our completion of the services described above.

PROJECT FEES

Phase I – Revenue Requirements Analysis

First year	\$7,200
Second year	\$7,400
Third year	<u>\$7,600</u>
Total	\$22,200

Phase II A – Cost of Service Study

First year	\$15,200
Second year	\$15,700
Third year	<u>\$16,100</u>
Total	\$47,000

Phase II B – Preliminary Rate Design

First year	\$8,000
Second year	\$8,300
Third year	<u>\$8,500</u>
Total	\$24,800

Our price includes the development of cost curves by rate class and the comparison of current to proposed rates. This price does not include time required to meet with potential customers or opposition parties for rate approval. We will assist management with meetings based on their desires at our hourly rates for expert testimony and support, should it be required.

Total Proposed Fees

First year	\$30,400
Second year	\$31,400
Third year	<u>\$32,200</u>
Total	\$94,000

All fees are based on the understanding that the City will provide JTUC the data needed on a timely basis. JTUC will furnish the staff of the City with an "information request" form prior to the first on-site meeting. All reasonable travel and out-of-pocket expenses will be billed at cost. The above fees do not include travel time, which will be billed at one-half our standard billing rates and capped to 4 hours per person, per round trip.

Any changes to the project (change of test year, financial projections, rate classes, billing data, etc.) after initial criteria are set will require a change order. JTUC will provide an estimate as to the cost of any of these changes, and will receive approval by your management before proceeding.

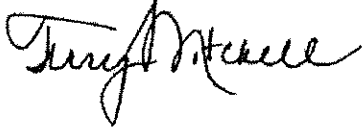
BILLING FOR SERVICES

We will bill you monthly as our work on the project progresses. Our billings are due on receipt of such invoice and will start to accrue late fees after 30 days outstanding.

We are so confident in our ability to meet the needs of the City and the requirements that you have for this project, that we will provide a guarantee of our services. If at any time you feel that JTUC is not providing the agreed-upon services to your satisfaction, City can terminate the arrangement and you will not be obligated to us financially. We believe that we will be the only provider to offer such a guarantee.

JTUC believes that we provide not only the best product available, but we guarantee the total satisfaction of our clients. We will do whatever is necessary to provide the City with the most accurate work possible. No other consulting firm provides this level of personal attention and emphasis on client satisfaction.

Sincerely,



W. Terry Mitchell, CPA
Principal
Jackson Thornton Utilities Consultants



Jim Marshall
Senior Manager
Jackson Thornton Utilities Consultants

Signature

Date