

November 26, 2018

Mr. Steve Felten
Finance Director
Town of Erie, CO
645 Holbrook
Erie, Colorado 80516

RE: Proposal to Provide Utility Capital Financing Analysis and Cost of Service Study

Mr. Felten:

This letter presents Willdan Financial Services (“Willdan”) proposed approach, methodology, schedule and fee to conduct a Utility Capital Financing and Cost of Service Study (“Study”) for the Town of Erie, Colorado (“Town”).

Founded in 1988, Willdan Financial Services is a wholly-owned subsidiary of Willdan Group, Inc. (“WGI”) and is one of the largest, and fastest growing public sector utility financial consulting firms in the United States. With a staff of over 70 people, WFS has assisted over 800 public agencies with a myriad of financial challenges such as: rate setting, capital and financial planning, debt issuance (revenue bonds), strategic business planning, and innovative modeling to help balance the fiscal and political requirements of the client. Willdan’s parent company, WGI, has been in business for over 50 plus years, generates annual revenues of \$150+ million, and is a publically-owned company, traded on NASDAQ (ticker: WLDN).

PROJECT TEAM

For this engagement, Willdan has assembled a project team of senior level consultants that are highly qualified to perform the requested consulting services. Collectively, the Project Team brings more than 97 years of experience and have prosecuted over 600 governmental rate and financial projects throughout the country.

Kevin Burnett – Project Manager: Mr. Burnett is a Senior Project Manager with 17 years of utility analysis experience. Mr. Burnett possesses extensive experience with utility rate and cost of service studies for retail and wholesale use. His project experience includes solid waste, water, sewer, reuse, and stormwater rate studies using state-of-the-art utility financial planning tools. He has developed both short and long-term financial plans for utilities of all sizes – including regional water authorities and regional sewer providers with individual wholesale service contracts.

Todd Burton – Analyst: Mr. Burton is an analyst within Willdan’s Financial Consulting Services group, his primary function is to support project managers and senior analysts with utility rate studies, cost allocation plans and user fee studies, and in the formation

of special tax districts. He specializes in analysis for a variety of clients, including cities, water districts, public utilities, and school districts.

Jeff McGarvey – Technical Advisor: Mr. McGarvey is a Vice President and Managing Principal in Willdan's Financial Consulting Services group. For more than 25 years, he has provided professional consulting services to municipal water, wastewater, stormwater, solid waste, electric, and natural gas utilities throughout the country. He possesses a broad range of municipal utility systems' experience, including special expertise in complex alternatives analyses; utility rate analyses; utility valuations and acquisitions; regionalization and consolidation studies; debt issuance support; capital financing analyses; strategic planning; rate and regulatory assistance; and instituting financial mechanisms to provide the sufficient recovery of operating and capital costs.

WORK PLAN

It is our understanding that the Town is looking to update the financial projections for water, wastewater and storm drainage funds, update certain utility rates and fees to reflect current costs of providing service to customers, and update the water and wastewater tap fees and water resource fees to reflect the capacity costs related to providing utility services to anticipated growth.

Within this subsection are the general tasks necessary to facilitate the Study. The following activities are based on Willdan's current understanding of the services requested and are subject to revision based on further discussions with the Town.

Based on Willdan's current understanding, the project has been broken in to the following four (4) phases:

- Phase 1 – Capital Financing Analysis
- Phase 2 – Cost of Service and Rate Design
- Phase 3 – Summary Report of Findings
- Phase 4 – Participation in Meetings/Presentation of Findings Meetings

PHASE 1 – CAPITAL FINANCING ANALYSIS

The primary objectives of the capital financing analysis are to: (1) review the recent financial conditions of the utility system; (2) assess the projected capital expenditures associated with the Capital Improvements Program (CIP); (3) develop a projection of system revenues and expenditures, including future debt issuances, to estimate the relative financial impact of the CIP; and (4) generate a strategic capital financing analysis demonstrating the financial outlook for the water, wastewater, and storm drainage utility systems over a ten-year planning horizon. In accordance with the

project objectives, the scope of services proposed to meet the project requirements is included in the following section of this document.

Task 1:	Obtain and Assess Necessary Data
Description:	Willdan will develop a written data request identifying the operational and financial data needed for the preparation of this report. The types of data to be requested will include, but are not limited to: ○ Schedule of existing rates and charges; ○ Most recently approved operating budget; ○ Most recently approved capital improvement plan; ○ Audited historical financial information; ○ Selected historical operating reports; ○ Relevant documentation from previous bond issues; and ○ Other related information that would be useful to the study. The initial written data request will be submitted approximately one week after receiving notice to proceed on the project. Upon receiving Town's response(s) to the initial data request, Willdan will review, compile any questions or secondary data requirements, and be prepared to discuss the collected information during the project kick-off meeting. Willdan recognizes that the requested information may not be readily available to Town, or that the information may not be in the format requested. Willdan will work with Town personnel to minimize the burden of data collection and develop acceptable proxies for certain data when necessary. However, there may be certain data points that are critical, which require specific additional data collection efforts by Town. It will be necessary for Town staff to cooperate, as mutually agreed upon, in collecting such information.
Task 2:	Initial Staff Planning Workshop
Description:	After the Willdan Team has developed a sound understanding of the information provided, we will schedule an initial staff workshop, which will have five purposes: 1. Clarify roles and confirm study objectives and schedule; 2. Review and resolve (or develop a plan for resolving) remaining data issues and questions; 3. Identification of representative service providers to be included in a survey of utility rates; 4. Conduct a detailed review of the data used in the baseline financial

	forecast; and 5. Conduct a financial policies and planning workshop to develop and confirm assumptions for refining the financial forecast and identifying rate design options. Topics of discussion may include; ○ Rate design alternatives; ○ Rate policy objectives; ○ Town financial policies; ○ Reserve options and target levels (operating, rate stabilization, repair and replacement); ○ Pricing and conservation objectives; ○ Capital Improvement Plan financing options; ○ Customer characteristics and classifications; and ○ Cost of service factors.
Task 3:	Development of an Optimized Capital Financing Plan
Description:	Willdan will develop a business model that will allow the Town to anticipate the future financial performance of the water, wastewater and storm drainage systems based on various assumptions. This model will produce each system's projected operating results and cash flow for the next ten (10) years. This financial model will determine projected system revenues, operating and maintenance expenses, capital expenditures and their respective funding sources, existing and anticipated debt service and debt service coverage, fund transfers and the resulting fund balances for each year of the projection period. This model will also show the summarized activity within the utility's operating accounts and the projected year-end cash balances for each system. The resulting model will give the Town the ability to test the financial impact of various rates of customer growth, user rates and levels of capital expenditure scenarios and will make it possible to match funding requirements with available revenue sources. As part of this task, Willdan will develop the following: ○ A "base case" scenario which establishes the reference case for other scenarios to be compared to; this scenario will be based on: • Anticipated revenues generated from existing rates, charges and moderate increases in the number of customers and sales of service • Anticipated system expenses projected using reasonable

	escalators • Current, unadjusted Capital Improvement Program • Existing debt structure • Other costs including payments to the Town, if any ○ An alternative scenario that reflects the magnitude of rate changes that would be necessary, if any, to support projected revenue requirements including the current, unadjusted Capital Improvement Program ○ An alternative scenario that adjusts the timing and costs associated with current Capital Improvement Program as well as allows for alternative funding strategies and integrates the findings of Task 5 - Rate Design The proposed model will be designed to be flexible enough to accommodate additional scenarios should the Town so desire.
--	---

PHASE 2 – COST OF SERVICE AND RATE DESIGN

The primary objective of cost of service and rate design phase of the project is to properly allocate each system's revenue requirements to customer classes and the various rate components (i.e. fixed vs. variable). During this phase, Willdan will also develop a rate structure and rate design that reflects the cost-of-service, historical rate relationships, and socio-economic considerations while satisfactorily and equitably recovering each system's revenue requirements.

Task 4:	Cost of Service Analysis
Description:	The Consultant Team will perform a cost of service analysis to ensure that the costs associated with water and wastewater utility operations are allocated equitably to each service and customer class, in accordance with AWWA and WEF guidelines, respectively, to support the development of cost-based rates, and to aid in the development of financial plans for the future. Storm drainage costs will be allocated in accordance industry standards and the Town's code of ordinances. The cost of service activities will be coupled with the revenue sufficiency and financial modeling tasks, so that the impact of changes in capital expenditures, O&M expenditures, growth projections, and other parameters on the cost of service can be determined. The allocation of costs to customer classes will be conducted to estimate the cost of serving each customer class and to enable rate restructuring, as necessary, based on the service requirements.

	<u>Review of Classification of Costs</u> Operating and non-operating costs will be classified into functional components. Classification of costs into functional components will allow costs (including general and administrative costs) to be allocated between: ○ Each utility service; ○ Functional components within each utility service; ○ Current and future customers (user fees and tap fees, respectively); ○ Charges for special services (“miscellaneous fees and charges”) and user fees; and ○ Each customer class.
Task 5:	<u>Rate Design Analysis</u>
Description:	This task will involve modeling several alternative rate structures (current structure updated for cost of service plus two alternatives) using the Town’s financial data and billing statistics to demonstrate the resulting customer impacts and to identify key issues associated with the new rates and charges. This task will be initialized with a workshop with Town staff to discuss rate design alternatives and options. The objective of this workshop will be to clearly outline Town and local preferences/concerns related to utility rates and ensure that recommended rate structures account for these and industry standard rate design criteria. Basic standards for rate design accepted by the industry are: ○ <u>Revenue sufficiency</u> – rate revenue should provide sufficient income so that, when combined with other sources of funds, total system costs are covered. ○ <u>Fairness and equity</u> – based on cost responsibility as reflected in cost of service allocations, in accordance with industry standards. ○ <u>Resource conservation</u> – under conditions of scarcity, the pricing of water as a commodity should promote voluntary conservation and discourage unnecessary water use. ○ <u>Administrative simplicity</u> – so that rates are understandable to customers and efficiently administered by staff. ○ <u>Customer acceptance</u> – customers understand the rates, view them as fair, and consider them to be reasonable compared to other costs and other utilities.

	○ <u>Lifeline rates</u> – rates that consider lower income/low volume water customers. ○ <u>Public health and welfare</u> – rates are structured so that essential domestic water usage is encouraged through affordability. Objectives such as equity and cost recovery are a given in this type of analysis, but additional items such as customer acceptance and simplicity are often key concerns for stakeholders. While there are many common objectives, some objectives vary by utility, due to different operating conditions, such as previous responses to rate increases, customer class demographics, resource availability, growth pressures and socioeconomic conditions. Our analysis will help the Town align rates in support of overall goals.
Task 6:	Water and Wastewater Tap Fees
	Willdan will develop water and wastewater tap fees that: ○ Achieve a “growth pays for growth” philosophy; ○ Recover new connector’s proportionate share of capacity; ○ Are understandable; ○ Are easy to administer; and ○ Comply with Colorado law and Town policies and objectives. This task will involve evaluating different methodologies to update the Town’s water and wastewater tap fees. Methodologies that we will consider include equity buy-in, plan based cost and hybrid. Once we have identified the methodology that best fits with the Town’s current situation we will design tap fees using the most appropriate and defensible methodology. We will test ability of the updated tap fees to recover growth related costs by incorporating the updated fees in the financial models.
Task 7:	Water Resource Fees
	Willdan will develop water resource fees that: ○ Achieve a “growth pays for growth” philosophy; ○ Recover new connector’s proportionate share of capacity; ○ Are understandable; ○ Are easy to administer; and ○ Comply with Colorado law and Town policies and objectives. Through past discussions with Town staff, it appears that a plan based (forward looking) approach may be best at capturing the Town’s costs

of acquiring additional water resources to serve new development. We will, however, review the buy-in and hybrid methodologies as well to confirm the best methodology for calculating the Town's updated water resource fees. The calculated fees will be incorporated into the financial models to test the ability of the new fees to adequately cover the cost associated with new development.

PHASE 3 – SUMMARY REPORT OF FINDINGS

The primary objective of cost of service and rate design phase of the project is to provide the Town with a concise summary of Willdan's findings and recommendations.

Description:	Willdan will prepare a summary document presenting the findings of the analyses performed in Tasks 1 through 5 of Phases 1 and 2. The report will include: ○ A brief description of the methodologies used to develop recommended rates and charges; ○ The methods utilized to project system expenses and revenues through the ten-year forecast period; ○ The results of the ten-year financial forecast; and ○ Recommendations to the Town regarding rates, charges and, as relevant, other financial issues. In addition, Willdan will make note of observations made during the course of this engagement that may be of interest to the Town. Willdan will deliver a preliminary draft of the report to the Town. The Town will then be responsible for distributing the document to key members. Additionally, the Town will collect comments from the appropriate personnel, consolidate these comments in to a single, marked-up copy and return it for consideration and incorporation. Willdan will collaborate with the key project members regarding possible revisions to the preliminary draft and then prepare and submit a final report.
--------------	---

PHASE 4 – PARTICIPATION IN MEETINGS/PRESENTATION OF FINDINGS

Description:	This task has been subdivided into three sets of meetings In the first set of meetings, Willdan will participate in three (3) interactive meetings with the Town project team at certain points during the project to discuss preliminary findings and agree on direction for the final report. The second set of meetings will be to meet with Town staff and individual Board members. The intent of the one-on-one meetings are to educate board members on the financial planning and rate design process and
--------------	--

allow them to ask questions and provide feedback regarding the study and the results.

The third set of meetings are for formal Board presentations. Willdan will be available to the Town to present and discuss the findings and recommendations of this report. Specifically, Willdan will participate in two (2) public presentations at the discretion of the Town. Willdan will be available to participate in additional presentation if requested by the Town. The schedule, scope and cost of any additional presentations will be determined separate from this proposal.

As a note, for purposes of developing a cost estimate it has been assumed the interactive meetings and public presentations will be used to discuss/present multiple utilities as appropriate. This will result in efficiencies and cost savings to the Town.

PROFESSIONAL FEES

On the basis of the scope described herein, Willdan's total billings will not exceed \$68,900.00, as set forth in the following table. Based on actual incurred effort, each task's budgeted amount may increase. Willdan will not, however, exceed the total billing amount without first obtaining the Town's prior written authorization. The estimated professional fees are based on Town's data being provided in a form/format that facilitates the analyses preparation described in our Scope. Should development of the data supplied by the Town require effort over and above the intended scope, Willdan will immediately notify the Town.

Task	Description	Hours	Amount
1	Obtain and Assess Necessary Data	16	\$2,700
2	Initial Staff Planning Workshop	20	3,700
3	Development of an Optimized Capital Financing Plan	52	9,000
4	Cost of Service Analysis	52	9,000
5	Rate Design Analysis	76	12,800
6	Water and Wastewater Tap Fees	26	4,800
7	Water Resource Fees	26	4,800
Summary Report of Findings		24	4,700
Participation in Meetings/Presentation of Findings		50	10,200
Subtotal Estimated Professional Hours and Fees		342	61,700
Estimated Project Expenses			7,200
Total Estimated Professional Fees and Expenses			\$68,900

In closing, Willdan would like to thank you for your consideration and for giving us this opportunity to submit our proposal. If you are in agreement with the tasks, schedule and fees described herein, please provide your signature below in the space indicated. Should you have any questions or require revisions or clarification, please feel free to contact me at 407-872-2467 or jmcgarvey@willdan.com or Mr. Kevin Burnett at 303-990-4616 or kburnett@willdan.com.

Town of Erie, Colorado

By: _____
(Signature)

By: Steve Felten

(Name Printed)

Title: Finance Director

Date: _____

Willdan Financial Services

By: _____
(Signature)

By: Jeff McGarvey

(Name Printed)

Vice President, Managing
Title: Principal

Date: _____