



November 3 2021

Ms. Nohely Flores  
Legal Coordinator  
Webb County Civil Legal Division  
1000 Houston St. 2<sup>nd</sup> Floor  
Laredo Texas 78040

**Re: Letter Agreement to Provide Water/Wastewater Rate Study**

Dear Ms. Flores:

Willdan Financial Services ("Willdan") is pleased to present the following scope of services and budget to assist Webb County in providing a water and wastewater rate study and long-term financial plan. We are an economic and financial consulting firm, with offices in Plano, Texas and throughout the United States. 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.

As Vice President of Willdan, I will manage and have primary responsibility for preparing this study for the City. I will be assisted by Mr. Dan Lanning and Mr. Dennis Goral.

Please note that this letter is in tandem with the Statement of Qualifications we presented to the County in August 2021. All qualifications and terms as listed in that SOQ remain fully applicable to this engagement.

## Scope of Services

We want to ensure that our scope of services is responsive to the City's needs. We will work with the City to tailor our proposed scope based on input prior to approval of this letter agreement, and as needed during the course of the project.

Our proposed Scope of Services is contained as Attachment A to this letter.

## Budget

Willdan will perform the tasks described in the Scope of Services section for the **lump sum fee of \$31,880**. Total hours and fees by task are presented in the Table below.

**Note:**

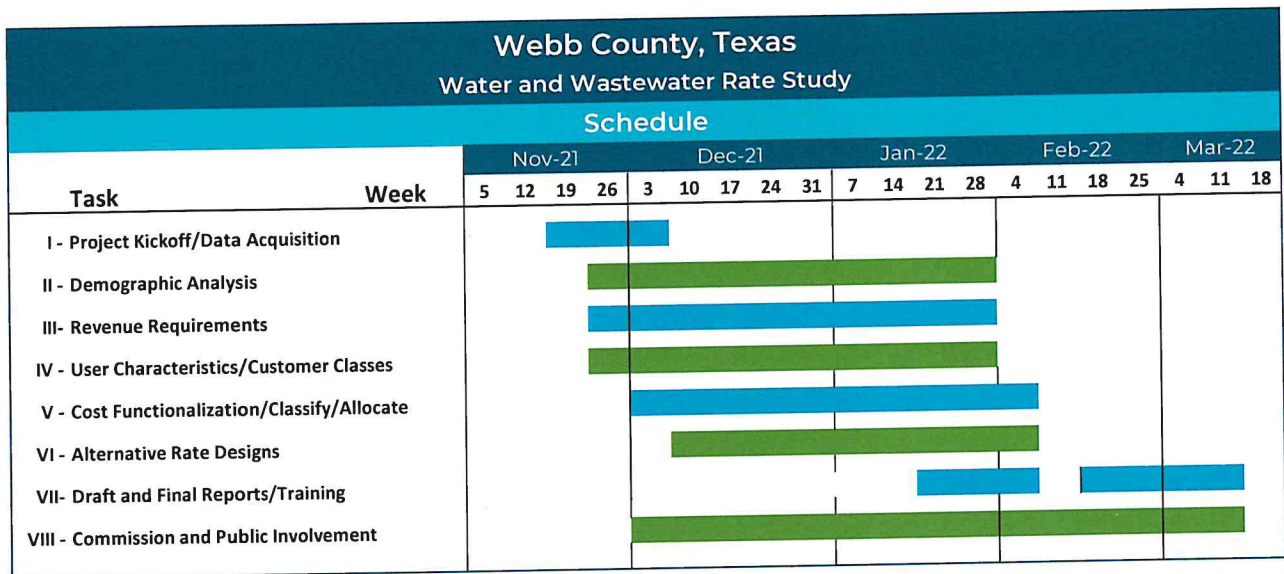
- Telephone conference calls are not considered meetings and are not limited by our proposal.
- Additional services, including attending additional meetings, may be authorized by the City and will require an additional fee.
- We will bill the City monthly based on percent of the task completion.

Webb County, Texas – Water and Wastewater Rate Study				
Proposed Project Team Hours and Professional Fees				
	D. Jackson Project Manager	D. Lanning Financial Analyst	D. Goral Financial Modeler	Total Hours
	\$210	\$175	\$125	
<b>Scope of Services</b>				
Task I – Project Kick-off, Data Acquisition & Assessment	4.0	8.0	8.0	20.0
Task II – Demographic Analysis	4.0	8.0	-	12.0
Task III – Determine Revenue Requirements	4.0	8.0	8.0	20.0
Task IV – Determine User Characteristics & Customer Classes	4.0	8.0	8.0	20.0
Task V – Cost Functionalization, Classification, & Allocation	4.0	8.0	16.0	28.0
Task VI – Alternative Rate Designs	4.0	8.0	16.0	28.0
Task VII – Prepare & Present Draft & Final Reports	8.0	8.0	16.0	32.0
Task VIII – Public Meetings	16.0	-	-	16.0
<b>Subtotal Hours</b>	<b>48.0</b>	<b>56.0</b>	<b>72.0</b>	<b>176.0</b>
Task I – Project Kick-off, Data Acquisition & Assessment	840	1,400	1,000	3,240
Task II – Demographic Analysis	840	1,400	-	2,240
Task III – Determine Revenue Requirements	840	1,400	1,000	3,240
Task IV – Determine User Characteristics & Customer Classes	840	1,400	1,000	3,240
Task V – Cost Functionalization, Classification, & Allocation	840	1,400	2,000	4,240
Task VI – Alternative Rate Designs	840	1,400	2,000	4,240
Task VII – Prepare & Present Draft & Final Reports	1,680	1,400	2,000	5,080
Task VIII – Public Meetings	3,360	-	-	3,360
<b>Subtotal Professional Fees</b>	<b>10,080</b>	<b>9,800</b>	<b>9,000</b>	<b>28,880</b>
Travel and Production Expenses				\$ 3,000
<b>Total Cost</b>				<b>31,880</b>
<b>Official Cost</b>				<b>\$ 31,880</b>



## Timeline

The chart below presents our proposed timeline for completion of this engagement. It reveals that we project a completion date of approximately 90 days from receipt of a notice to proceed. However, it must be noted that this schedule is heavily dependent on the timely receipt of requested data from Webb County. If this data is not provided to us in a timely fashion, it may result in delays in the completion date of the engagement.



## Additional Services

Additional services may be authorized by the City and will be billed at our then-current hourly overhead consulting rates. Our current hourly rates are:

Willdan Financial Services	
Hourly Rate Schedule	
Group Manager	\$250
Managing Principal	\$240
Principal Consultant	\$210
Senior Project Manager	\$185
Project Manager	\$165
Senior Project Analyst	\$135
Senior Analyst	\$125
Analyst	\$110
Analyst Assistant	\$100

## Authorization

If the terms of this engagement are acceptable, please sign where indicated and email this letter back to me and to our contracts supervisor:

Ms. Joanie Reynolds  
Willdan Financial Services  
27368 Via Industria, Suite 200  
Temecula, California 92590  
Ph. (800) 755-6864; fax (951) 587-3510  
E-mail: [jreynolds@willdan.com](mailto:jreynolds@willdan.com)

We appreciate this opportunity to serve Webb County. If you have any questions regarding the proposed services, please contact me directly at (972) 378-6588 or via email at [djackson@willdan.com](mailto:djackson@willdan.com).

Sincerely,

## Willdan Financial Services



\_\_\_\_\_  
Dan V. Jackson, Vice President

\_\_\_\_\_  
November 3 2021

Date

## Webb County

\_\_\_\_\_  
Signature

\_\_\_\_\_  
Date

\_\_\_\_\_  
Print Name

## ATTACHMENT 1 TO LETTER AGREEMENT

### TERMS AND CONDITIONS

The Letter Agreement between Webb County ("Client") and Willdan Financial Services ("WFS") is subject to these Terms and Conditions (collectively, this "Agreement").

1. **Additional Services.** Additional services shall be performed by WFS only upon Client's request evidenced by a written addendum executed by both parties.
2. **Compensation.** WFS shall submit monthly statements for services. Payments shall be due and payable within 30 days of invoice and if not timely paid shall bear interest at the rate of 1.5% per month.
3. **Termination.** Either party may terminate this Agreement at any time upon 30 days' written notice. In the event of early termination, WFS shall be paid for services performed prior to the effective date of termination.
4. **Data Provided by Client.** WFS shall rely upon data provided by Client without independent verification of accuracy. WFS shall not be responsible for any errors resulting from its use of inaccurate data provided by Client.
5. **Indemnification.** Each Party shall indemnify the other from claims resulting from their respective negligence or other wrongful conduct or the negligence or other wrongful conduct of their respective officers, agents or employees.
6. **Insurance.** WFS shall maintain the following insurance:
  - a. Workers' Compensation and Employer's Liability Insurance as prescribed by applicable law.
  - b. Commercial General Liability Insurance, with limits not be less than \$1,000,000 per occurrence and general aggregate.
  - c. Commercial Automobile Liability with limits not less than \$1,000,000 per occurrence.
  - d. Professional Liability with limits not be less than \$1,000,000 per claim and annual aggregate.
  - e. All policies except Professional Liability and Workers Compensation shall include Client as an additional insured and be primary with respect to any insurance carried by WFS. All policies shall include a waiver of subrogation in favor of Client.
  - f. WFS shall provide Client with certificates of insurance evidencing compliance with the above insurance requirements prior to commencing its services.
7. **Miscellaneous.**
  - a. Titles used in this Agreement are for general reference and are not a part of the Agreement.
  - b. This Agreement shall be interpreted as though prepared by both parties.
  - c. Any provision of this Agreement held to violate any law shall be deemed void, and all remaining provisions shall continue in full force and effect.
  - d. This Agreement shall be interpreted under the laws of the State of Texas.
  - e. This Agreement comprises a final and complete repository of the understandings between the parties and supersedes all prior or contemporary communications, representations or agreements, whether oral or written, relating to the subject matter of this Agreement.
  - f. Any notices given pursuant to this agreement shall be effective on the third business day after posting by first class mail, postage prepaid, to the address appearing immediately after the signatures below.
  - g. WFS shall not be liable for damages resulting from the actions or inactions of governmental agencies including, but not limited to, permit processing or environmental impact reports.
  - h. WFS's waiver of any term, condition, or covenant, or breach of any term, condition, or covenant, shall not constitute the waiver of any subsequent breach of any other term, condition or covenant.
  - i. WFS shall not be responsible for the performance of services by third parties not retained by WFS.

# Project Approach

## Project Understanding

The purpose of this study is to prepare a water and wastewater rate study that evaluates the County’s existing rate structure and evaluate its ability to meet the utility’s *ten-year forecast of revenue requirements* and make any recommendations needed to enhance the utility’s financial strength (baseline scenario). *The study will also develop an understanding and determine the economic and financial impact of a proposed development of approximately 1,500 new lots in the Rio Bravo area.* To accomplish the overall goals and objectives of the project, our team’s approach will utilize the cash basis rate setting methodology as delineated in AWWA’s Manual M1 for water utilities. This manual outlines the utility industry’s generally accepted rate preparation practices used by utilities throughout the United States.

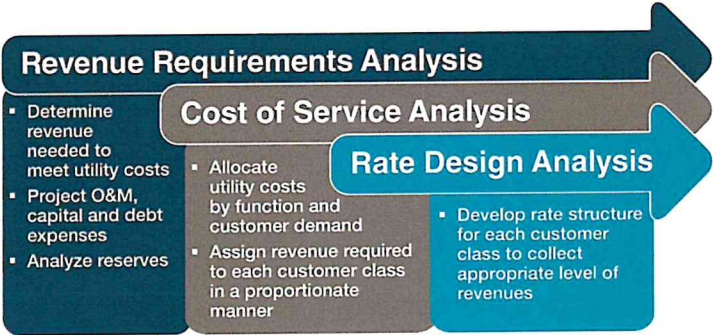
The information developed during the course of this rate study will allow the County to choose a financial and capital plan that best fits its requirements. This plan will minimize the impact on all classes of ratepayers, while still allowing it to meet the increasing *expense requirements of water supply, water and wastewater treatment, water distribution, wastewater collection, customer billing and metering and other ancillary services.* The project team will develop a *comprehensive 10-year forecast* that will present alternative long-term water and wastewater rate plans sufficient to fund operating expenditures, debt service and the forecast CIP. This model will also include *current and known future costs of compliance with environmental standards and regulations* as well as *consideration of creating a facility replacement reserve for aging water infrastructure.*

Using cost and demand data provided by the County, our study will result in a number of alternative scenarios. Water rate structure alternatives will include the base plus consumption format that is fair and objective and promotes conservation. Customer and the utility’s financial impacts (including revenue stability) of all alternatives will be prepared and presented as part of our rate study recommendations. Any recommended alternative rate structures will be easy to administer, understand and compatible with the County’s current billing software. In addition, *the costs of providing new service connections (planning, engineering, and construction) will be assessed and recommended charges will be offered.*

Our analysis will result in a spreadsheet-based utility financial planning model that will allow the County to test a variety of “what-if” alternatives. Deliverables will include a written report that is understandable to those who are not ratemaking or financial professionals. This report will have an executive summary that succinctly documents the rate study’s findings and recommendations. We will also prepare and deliver *presentations to County Staff, the County Commission, and a public workshop with other public entities.* We will work tirelessly with staff to ensure that our recommended alternatives are successfully implemented.

## Methodology

The graphic to the right summarizes the standard approach commonly employed by the project team to develop utility rates. Each step of the three-step approach is typically performed in tandem. Although presented sequentially, the overall analysis is circular – as variables in one analysis may influence another. Willdan project methodology includes the following tasks:



**Task I - Project Kick-off, Data Acquisition and Assessment:** The project team will meet with County staff at the outset of this project. The purpose of this meeting will be to discuss study goals and objectives, review requirements for completing each task, establish responsibilities and lines of communication, and refine the work plan and schedule. Prior to this meeting we will provide a preliminary data request list to initiate data collection and organization. The initial data that will be required by the project team will include, but not be limited to, the following: current approved utility budget; current and historical rates; water billing data/reports identified by customer class by month for the past three years; all water purchased and/or produced by month and day for the past three years; water debt schedules; Capital Improvement Plans, etc.

**Task II - Demographic Analysis:** The project team will prepare a comprehensive demographic analysis of ratepayers of the County as a pretext to the development of the alternative water and wastewater rate plans. The project team will develop current data on number of households; median household income; average monthly bills, both in total and as a percentage of household income; and *monthly charges charged by other utilities in neighboring communities for a comparison survey.*

**Task III - Determine Revenue Requirements:** In this task, the project team will determine the revenue requirements for the current year and for a ten-year forecast period. The revenue requirements consist of the total cost to provide this service, including operation and maintenance (O&M) costs (*supply, treatment, water distribution, wastewater collection, customer billing and metering and other ancillary services*), transfers to the General Fund and other funds, debt service requirements (including coverage requirements) on existing and any proposed new debt, direct capital outlays financed by rates, and other financial needs. We will also consider the levels of cash reserve funding requirements and operating fund balance targets for the water system's operation in our determination of the revenue requirements.

The development of a reasonable set of assumptions concerning future operating and non-operating costs and capital spending for repairs and replacements and system expansion is one of the most critical elements of the revenue requirement. The project team will discuss all components of these categories with County staff, including, inflation estimates, anticipated changes to operating costs, the expected amount of CIP, funding alternatives, expected reserve requirements, and coverage requirements.

**Task IV - Determine User Characteristics and Customer Classes:** This task involves determining the appropriate groupings of customers so those with similar user characteristics populate the same customer class. For cost allocation purposes, customers are grouped into different classes based on differences in their user characteristics. It will include a careful review of the County's sales volume histories and forecasts and *provide guidelines for rate definitions of customer classes, including master metered multi-family properties and mobile home parks.*

Another important component of this task will be to forecast future customers and billed volumes for the ten year period. The forecast of billed volumes will be used to make a basic assessment of the adequacy of the County's existing water rights to service future demand. While this will not be an engineering or operational calculation, it will form the basis of any assumptions regarding the necessity of the County purchasing additional water rights in the future, or alternatively, the appropriateness of existing water rights.

**Task V - Cost Functionalization, Classification and Allocation:** In this task, the project team will calculate the cost of water distribution, water supply, treatment and customer services, and wastewater treatment, collection, and customer services, based on the information gathered in previous tasks.

The costs include such categories as O&M, reserves, debt service, and capital outlays funded by rates. These costs will then be assigned to individual customer classes through a three-step apportionment process. These steps are referred to as “functionalization,” “classification” and “allocation.”

### **Task VI - Alternative Rate Designs for Current Year and Ten-year Forecast:**

After allocating costs to customer classes, a plan will be developed for evaluating rate design options that will equitably recover allocated costs and promote conservation, including O&M, debt service, general fund transfers and capital and operating reserve requirements. *During this task we will work with County staff to evaluate both its short-term needs and its longer-term needs related to revenue stability, affordability impacts on customers, promoting conservation and equity for all types of customers.* We will use this input to develop alternatives as required and present our recommendations as either *a single year rate plan or multi-year rate plan.*

Finally, we will develop a separate connection fee for new connections expected in the County. Please note that this is not an impact fee; it would be intended to cover the physical cost of new connections to the system. An impact fee study would be beyond the scope of this initial engagement.

**Task VII - Prepare and Present Draft and Final Reports:** The project team will prepare copies of a concise draft report *with recommended rate structures.* Then the project team will *prepare a final rate study report that incorporates any staff or Commission edits.* The report will include an executive summary that succinctly documents the rate study’s findings and recommendations.

**Task VIII - Public Meetings:** We are prepared to conduct the following formal meetings with the County:

- 1) an initial meeting with staff to review project goals and data requirements – in person or Zoom
- 2) a formal staff meeting to review preliminary findings and to make adjustments as necessary based on staff input – in person or Zoom
- 3) an initial briefing with the County Commission to review findings and rate alternatives – in person
- 4) *a public workshop to review initial findings and recommendations and to answer questions from ratepayers on the proposed rate structure – in person;*
- 5) A final meeting with County Commission to approve the chosen rate plan.