

Task 1: Study Orientation and Public Outreach Planning

1.1 Data Request

At the Study's onset, we will submit a data request to the City prior to the Study Orientation Meeting. We request budget and billing data to be delivered in a readily manipulatable format (such as Microsoft Excel) and within no more than two calendar weeks of our data request date.

Consultant shall provide frequent updates of data request list showing items that have been obtained and items still outstanding.

1.2 Study Orientation Meeting

Shortly after receiving a fully executed contract with the City, we will schedule and conduct a half-day onsite Study Orientation Meeting. At this meeting we will jointly:

- Confirm study goals and identify a list of pricing objectives for water, wastewater, and reclaimed water rates and fees and buy-in capacity fees.
- Discuss key issues, roles, responsibilities, and communication procedures.
- Review data, including existing account and usage information, policies, ordinances, codes, and funding mechanisms.
- Review and discuss policy strategy to refine the working list of topics presented in Table 1 of the RFP (please see below) with Staff, Commission, and the City Council.
- Finalize the project schedule, including critical path items, milestones, and deliverables.
- Develop a communications plan with the City's Public Affairs team.
- Establish collaborative ground rules, group objectives, and decision-making process for stakeholders.

We will have follow-up calls as needed for understanding of all data received and to identify any supplemental data requests. Every rate study requires a detailed understanding of financial, operational, capital, cost, and revenue realities, and together, this understanding builds the foundation for all subsequent tasks. As requested in the RFP, we will submit a meeting summary within five days of the Study Orientation Meeting.

1.3 Expert Policy and Rate Advisor Duties

Stantec will function as the City's rate and policy expert on rates issues at related meetings. We will facilitate, provide presentation materials, and make presentations on behalf of staff during:

- Two (2) strategizing meetings with the Water Commission.
- Two (2) strategizing meetings with the City Council
- Two (2) community outreach events

We will brief City staff prior to meetings and provide technical support to staff members on rates issues as they may arise during the study. (Budget assumes Stantec staff participates in 6 of the meetings virtually, and that our Project Manager or Director attend 3 meetings onsite.)

1.4 Rate Survey

We will conduct a rate study of up to 10 neighboring or otherwise comparable Arizona communities, focusing on the residential rates for water and wastewater, including reclaimed water rates as applicable. We often suggest that rate surveys be conducted towards the middle to end of a rate study as rate surveys can have a short shelf life, but we can conduct the survey earlier in the study process at the City's request.

1.5 Project Progress and Schedule

At the Study Orientation Meeting we will work with City staff to determine a project schedule including project milestone due dates and a preliminary schedule of community outreach meetings, Water Commission presentations, and City Council appearances. Our project manager will make at least biweekly contact with the City's designated client contact to track progress against the agreed upon project schedule. We will quickly identify and immediately alert City staff if there are any unanticipated issues that could result in project milestone delays.

1.6 Public Outreach

We will bring a representative of our internal Stantec public outreach team, who is well accustomed to working with us on utility rates studies, to the Study Orientation Meeting. Our public outreach team will meet virtually with the City's Public Affairs representative to develop a

Table 1(A)

Working list of strategies to address the objectives identified from the previous rate study process forward to include current issues or ideas

Strategy 1. Implement water and wastewater rates and charges that are legal, fair and equitable through a cost-of-service study.

Objectives	<ul style="list-style-type: none"> • Ensure that changes to the City’s rate structures drive water conservation equitably in both residential and non-residential customer classes, such as through implementing indoor vs. outdoor or seasonal water use pricing structures, as per strategies adopted by City Council in the City’s Water Conservation Strategic Plan https://www.flagstaff.az.gov/4012/Water-Conservation-Strategic-Plan (copy and use in Chrome). • <i>A citizen proposal presented to the Water Commission and City Council sought tiered water rates for commercial; Staff wishes to revisit rate structures that promote water efficiency. Currently, larger families that use water efficiently are automatically paying a portion of water use from a higher water tier. Tiered rates for commercial customers might put a portion of water used by a water efficient restaurant into a higher tier, while a smaller office not using water efficiently doesn’t feel a price signal to incentivize water conservation.</i> • Ensure customers are charged equitably for wastewater strength concentrations, solids loading, and wastewater operations, maintenance and treatment. • Review lawn meter rates are priced to encourage water use efficiency. • Ensure capacity fees are collecting appropriate revenues to fund growth-related capacity and infrastructure needs; explore capacity vs. impact fees, and consider a capacity fee for the reclaimed water system. • Evaluate the cost to treat wastewater is adequately captured in the cost of providing recycled water to the community. • The industry standard is to begin the cost to provide reclaimed water service at the point where wastewater is fully treated as per its environmental permit requirements. City Council and citizens have requested that reclaimed customers incur some of the costs associated with treating wastewater and even some of the costs to produce potable water. • Ensure the lower rate for off-peak reclaimed water use is legal, fair and equitable.
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Strategy 2. Develop a Long-Range Financing Plan that sets forth the long-term funding needs of Water Services.

Objectives	<ul style="list-style-type: none"> • Develop and maintain financial planning models to include long term forecasts of operating and capital expenditures, revenue requirements and rates and charges. (Policy A3.2 on rate design elements) https://www.flagstaff.az.gov/2264/Water-Policy. • <i>The previous rate study did not include financial planning models.</i> • Ensure the long-term financial plan is based on reasonable, conservative assumptions and accounts for uncertainties that influence water use. (Policy A3.1). • <i>From the vantage of a water utility manager, a high fixed-revenue component of the customer bill is highly desirable, since it reduces the volatility of revenue from one month to the next. Yet from the vantage of a customer, the proportion of the monthly bill attributable to the fixed charge may not be desirable, as this structure limits the potential savings the customer can achieve by reducing water use. Given the substantial achievements in water conservation since the increasing residential tier structure was adopted circa 1990, Staff wish to review monthly water use and revenue patterns to ensure the monthly meter charges are adequate for revenue and operational stability while encouraging conservation.</i> • Ensure the long-term plan maintains Water Services’ good standing in the credit markets to provide ready access to cost-
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	<p>effective capital financing.</p> <ul style="list-style-type: none"> • Evaluate Water Services' capital financing and debt service coverage policies to optimize cash funding of capital investments. (Policy A1.1). • <i>The City's annual payment for debt service across the Water Services' Enterprise Funds is about 20% of total annual Operating Revenues, which is policy. Staff wish to explore exceeding this limit to capitalize on new funding opportunities administrated through the Water Infrastructure Finance Authority, to achieve critical infrastructure projects.</i> • Evaluate Water Services cash reserve policies to consider optimal uses and levels of reserve. (Policy A1.2).
<p>Strategy 3. Establish fees that pay that cover the cost of service, ensuring the utility meets regulatory requirements.</p>	
Objectives	<ul style="list-style-type: none"> • Ensure customer service fees are adequate to cover the cost of service, such as connection fees, service charges, permits, late fees, liquid waste, etc. • Review fees and charges for industrial waste customers • Review liquid waste fees, such as water haulers, restaurant grease, mud sump waste, river cans, to ensure fees and charges cover the cost of service
<p>Strategy 4. Discuss forward-thinking or new opportunities for how rates and pricing strategies can help achieve goals of the utility or City.</p>	
	<ul style="list-style-type: none"> • Explore the option of a recycled water credit to the customer's water or sewer bills based on return flow for recycling. • <i>This was a citizen proposal to the Water Commission and City Council and Staff is interested in this proposal because of the value it puts on recycled water. Discussion points include how to incentivize return flows without decentering water conservation and how the credit is funded, perhaps by reclaimed water revenues.</i> • Explore the option of auctioning reclaimed water to highest bidder. • <i>This was an idea provided by a Water Commissioner at the January meeting. WestWater Research recently completed an evaluation on this and other ways the community can value reclaimed water for the Reclaimed Water Master Plan (Reclaimed Water Master Plan).</i>

strategic communications plan to best solicit feedback from the community and other key stakeholders. The outreach strategy should target communication of the true value of the services using elements of the Water Services Strategic Plan 2025. We anticipate that topics of consideration will include those listed in Table 1 of the RFP as well as water conservation and future water sources, preferred capital improvement investments, revised rate structures/design, economic pricing of reclaimed water. Our public outreach team is experienced in translating technical details into understandable information and will provide materials and facilitation services during the public workshops.

1.7 Project Management and Coordination

Our project manager will oversee contract review, schedule and budget management, and client communication. Our project manager will also participate in monthly client billing and will prepare scope amendments when and if requested. Please see our standard Stantec Project Management Framework to the right.

Task 2: Development of 10-year Financial Plans

Data Review

We will work with City Staff to perform an initial evaluation of the ability of Flagstaff's current water, wastewater, and reclaimed water rates and charges to cover the cost of operating each system over a 10-year planning period and evaluate the past five-year performance of the rate structure. Revenue projections for miscellaneous charges will include, for example, buy-in capacity fees, tap fees, hydrant rental, investment income and other sources as well as plan review fees (such as the Water-Sewer Impact Analysis fees), rough and final grading inspection fees and other ancillary charges. We will review and include the Capital Improvement Program (CIP) consistent with the most recent water and sewer master plans and from the most recent 5- and 10-year CIP schedules.

Revenue Requirements Analysis

We will conduct an analysis of the revenue requirements for each of the three utilities, building and using our financial forecasting model to evaluate the sustainability of the status quo as part of evaluating alternative revenue requirement scenarios. We will prepare an analysis to

Stantec's PM Framework

- 00 Prepare proposal, including a preliminary Project Plan with scope, budget, resources, deliverables, and schedule. Conduct document an independent review of the final proposal.
- 01 Obtain written instructions to proceed and execute an approved written contract. Obtain written subconsultant agreements.
- 02 Prepare Project Plan with appropriate level of detail. Conduct/document independent review.
- 03 Establish hard copy and/or electronic project record directories. File project records.
- 04 Complete a Health, Safety & Environment (HSE) risk management assessment, document all projects involving field work.
- 05 Monitor the project management dashboard regularly. Follow best practices for managing project financials, including time, work in progress, accounts receivable, and estimates to complete.
- 06 Obtain client's written approval on scope of service changes in a timely manner.
- 07 Conduct and document a quality review of all final deliverables prior to issue.
- 08 Conduct and document an independent review of all final deliverables prior to issue.
- 09 Close off the project financials and close out the project files.

determine the revenue required to support operations for each utility, including projected increases in operational and capital spending. As part of the analysis, we will examine historical operating expenses, growth and water use trends, alternative capital spending levels, existing and proposed bond obligation and debt service coverage ratios, levels of operating and capital reserves, and other financial policies that drive the revenue requirements of the utility systems. We will build and use our financial model to develop alternative long-term financial management plans for each enterprise fund and will identify corresponding projected annual revenue requirements and projected rate revenue adjustments for water and sewer customers.

Projected Demand

One item of particular importance in a utility's financial plan is the projection of growth in accounts and metered water sales, especially as it relates to the possibility of rate structure changes. We will evaluate alternative customer and demand projections based on the City's planned development projections, historical growth trends, water usage pattern changes, observed trends in expenditures, and other variables that could affect financial performance. We will incorporate estimates of price elasticity and analyze estimates of the probable range of responses to different degrees of rate increases and other changes. As requested in the RFP, we will conduct a water bill frequency analysis to determine usage characteristics for each customer class.

Reclaimed Water

We will examine current reclaimed water costs and revenues and identify funding gaps. We will work with our engineering advisors to consider the potential basis for allocating some portion of the wastewater treatment costs to reclaimed water and of allocating a portion of reclaimed water costs to water supply. We will also draw upon our senior economist's expertise and prior work with reclaimed water to examine potential alternative pricing structures for reclaimed water sales, including the development of a capacity fee for reclaimed water.

We will facilitate one virtual workshop with City staff to review initial results and identify needed adjustments prior to summarizing our financial plan analysis in a technical memorandum for staff review.

Task 3: Cost-of-Service Analysis

3.1 Test Year

After consultation with City staff, we will select a test year (or years) for the cost-of-service analyses.

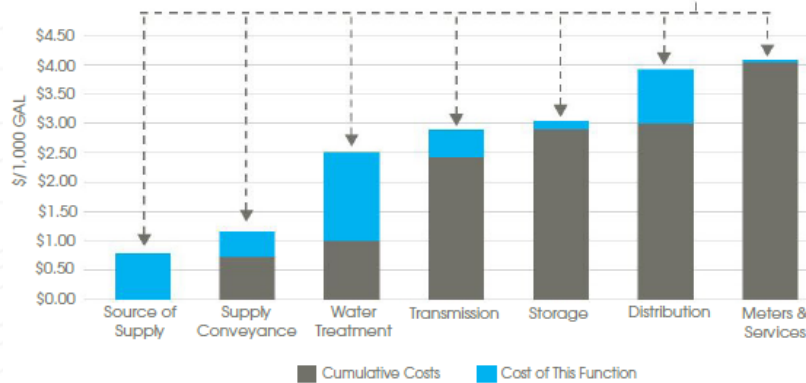
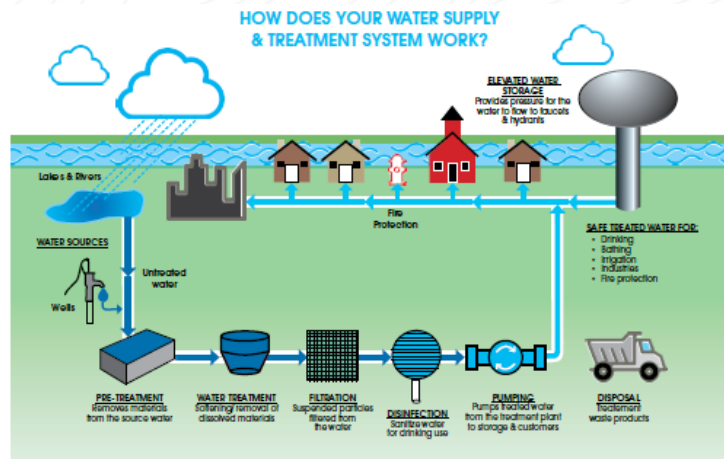
3.2 Customer Class Characteristics

We will use billing data to determine customer characteristics based on the existing customer classes and meter size. (We can and will also use AMI data if it is available.) We will analyze and suggest alternative customer classes to the Staff and City Council if we determine that different customer classes would help to better meet City Council objectives.

3.3 and 3.4 Water Cost-of-Service Analysis and Wastewater Cost-of-Service Analysis

We will perform in-depth cost-of-service analyses to determine the cost-of-service by customer class and meter size served by the City water and wastewater utilities. We will identify the most appropriate industry-accepted cost-of-service allocation methodologies, based upon available data, legal requirements, system configuration, service agreements, resources, customer base, demand and usage characteristics, and public policy objectives. Each utility's cost-of-service and revenue requirements will be functionalized to defined categories, which are then allocated to each class of customer based upon their characteristics or units of service. The graphics on the next page are examples of material illustrating the key water system functions and their costs.

We will facilitate one virtual workshop with City staff during this task to review initial results and make appropriate adjustments to the analysis. At the conclusion of the cost-of-service analyses, we will compare the resulting allocation of revenue requirements to the revenue generated by the current rates for each customer class segment of the utilities. To the extent current revenue recovery levels are not in line with the results of the cost-of-service allocation analyses, we evaluate alternative levels of revenue recovery by class and segment of customers within the rate structures to improve alignment with the results.



We will also prepare a cost-of-service analysis for reclaimed water in that we will assure that any costs of wastewater treatment or other identified costs that can be associated with the provision of reclaimed water to customers are appropriately allocated to the reclaimed water utility.

3.5 Summary

We will compare the test year's customer class costs-of-service with the class-level revenue under existing rates.

3.6 Calculation of Buy-in Capacity Fees and other Fees for Service

Capacity fees are one-time fees levied upon new development. The City of Flagstaff currently levies buy-in capacity fees for water and wastewater facilities that are calculated in accordance with Arizona Revised Statute (ARS) 9-511.01. As such they are not considered as impact fees under ARS 9-463.05.

The calculation of capacity fees will mirror the cost-of-service analyses in that the units of measure and cost allocation by function and by customer class should be consistent between rates and capacity fees. We will consider including conservation and water reuse costs (as appropriate) into capacity fees, as well as the implications of additional fees for services such as for scavenger wastes and for river can waste collection and cleaning services.

We will document updated capacity fees and other fees in a technical memorandum. We will be prepared to present the findings of the technical memorandum as part of one of our presentations to the Water Committee and the City Council and will include the findings as part of the Final Rate and Fee Study Report.

Task 4: Rate Design

Task 4.1 Rate Design

Based upon the annual revenue requirements identified in Task 2 and the cost-of-service analyses completed in Task 3, we will examine alternative rate structures. Our project team will discuss the alternative rate structures to determine if they would help the City meet its pricing goals and objectives. We will review the pros and cons of each rate structure including items such as revenue volatility, customer understanding, conservation goals, administrative requirements and the ability of the City to implement the structure. Our analysis will include an allowance for price elasticity to account for changes in consumption patterns by your customers due to rate structure, metering, or other modifications.

We will use the existing rate structure to compare and contrast with up to two alternative rate structures for water and wastewater. We will analyze the existing reclaimed water rate structure and provide at least one alternative pricing plan or rate structure for the City's consideration. For

each rate structure considered for the study, we will provide an analysis of the impacts to each customer class and segment, bill impacts at various levels of consumption, and revenue impacts as appropriate. Analysis of alternative rate structures in addition to the number identified above for each utility will be subject to additional cost. (See Additional Services A.2.)

4.2 Rate Design Workshop(s)

We will facilitate a Rate Design Workshop(s) with City Representatives, the Water Commission, and possibly other stakeholder groups to present and discuss the proposed and alternative rate structures. We will facilitate the number of Rate Design workshops necessary to garner consensus on the rate structure preferences. The outcome will inform those rate structure preferences that we will present to the City Management Staff, the Water Commission, and the City Council. Please note that each Rate Design Workshop in addition to the first one will be treated as one of the Additional Services identified separately in our proposal and will be subject to the Cost Per Additional Onsite Meeting, depending on the number of Stantec team members required to attend the meeting. (See Additional Services A.4 for costs for one or three staff members.)

4.2 Rate Design Technical Memorandum

We will prepare and submit a summary of the Rate Design Workshop(s) in a technical memorandum. (Additional Workshops other than the first Workshop are subject to additional cost. See Additional Services A.4.)

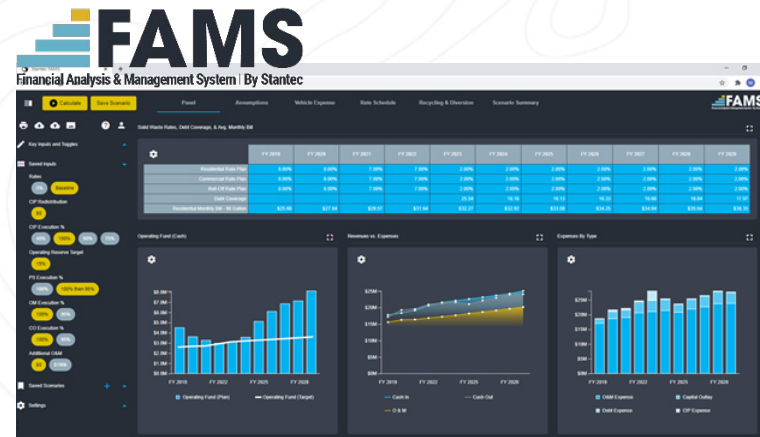
Task 5: Rate Model

5.1 Rate Model

During the study, we will customize our Financial Analysis and Management Systems (FAMS) model to match your current data requirements and evaluate the “what-ifs” as part of developing a sustainable financial plan with optimal capital funding strategies for each utility. We are able to provide a user-friendly desktop version of FAMS in

Microsoft Excel, and we are also uniquely able to provide an enhanced online version of our FAMS application. The online version of FAMS has allowed many communities to make a fundamental shift from a passive to an active form of financial management. We require a separate usage and

non-disclosure agreement for either version of the financial model given the unique features and capabilities of FAMS. (See sample screenshot of a panel from our online FAMS model, below.)



Task 5.2 Training Session

We will conduct a one-day onsite training session to train City staff on either the desktop or online version of the model, including adjustment of key variables and creation of various scenarios (which can be very easily saved on the online FAMS version). We will also demonstrate and instruct staff on how to upload and update the model with new budget, CIP and revenue information.

Task 5.3 User Manual

We will prepare a customized user manual and provide the City with access to the desktop or online version of the FAMS model as customized for each utility. We will provide five (5) hard copies of the user manual and electronic files in Microsoft Word and PDF format.

Task 6: Deliverables – Water, Reclaimed Water and Wastewater Cost-of-Service Rates and Fees Study

6.1 Draft Study Report

Flagstaff will gain value from a Study Report that clearly documents the processes and results of the rate and fee study. We will first prepare a

draft for the City's review and will allow up to three iterations of the review and edits by City staff, as per the RFP. Also as requested, we will provide up twenty (20) hard copies for distribution to City staff.

The Study Report will be consistent with ARS 9-499.15 & 9-511.01 and include a summary of the community outreach process, source data and assumptions, as well as the revenue requirement and cost-of-service analyses; schedules of specific recommended rates and charges appropriate to each utility and customer class; schedules of current and proposed rates and charges (side by side), and all study findings and recommendations.

6.2 Draft Study Workshop

We will facilitate a virtual Draft Study Workshop with City Representatives to discuss any further comments on the Draft Study Report.

6.3 Final Study Report

After the Draft Study Report and all final comments from City staff are received, we will incorporate comments into a Final Study Report. The report will provide a simplified and straightforward synopsis of the analysis, and include appendices that contain a series of graphs, charts, and tables that provide the supporting details of the study. The Final Study Report will include a stand-alone Executive Summary for distribution, which often serves as an effective communication tool with the Council and the community. In addition to the Final Study Report, all electronic data provided by the City during the study will be provided or made available to the City at the conclusion of the study.

Task 7: Study Presentations

Task 7.1 Presentation of Draft Study Findings

Our team will be prepared to make three presentations of the draft findings of the study during the study to: three (3) Water Commission meetings; three (3) City Council meetings; and three (3) public workshops.

Our public outreach team members will assist with the preparation of PowerPoint presentations and handouts for the Draft Study presentations. Members of our public outreach team will also be available to assist with presentation materials and meeting facilitation during the public workshops. 3 of these meetings are assumed to be on-site meetings facilitated by our Project Manager or Project Director, and 6 are assumed to be virtual meetings supported by multiple Stantec staff.

Task 7.2 Final Study Presentation

Our Project Manager or Project Director will prepare and present the Final Study Report to the City Council along with final rate recommendations for rates, fees, and water, wastewater, and reclaimed water cost-of-service via an onsite meeting. The Final Study and the underlying files shall be delivered electronically in downloadable files. (Relative to any models that are used as part of the study, those can be provided to the city subject to a usage and non-disclosure agreement.) The Final Study Report will be provided in PDF format, as per the requested specifications.

Additional Services

Our cost proposal includes cost estimates for the following additional services:

- Development of up to three (3) additional alternative financial plans.
- Development of up to three (3) additional alternative rate structures.
- Development of a rates comparison of ten (10) cities selected in Task 1.3 with current and proposed City rates with comparisons of monthly bills for the median residential users. This additional task was not separately priced as this can be included in the rate survey task (Task 1.4) for no additional cost.
- Development of an alternative scope for annual rate model maintenance.
- Additional meetings. Cost estimate assumes onsite meeting attended by the project manager with virtual attendance by the project director, or if needed, the cost of a facilitated meeting, such as for an additional public workshop.

Price/Fee

The following table summarizes our costs per task and total fee. This cost estimate includes public outreach services. Additional services are also priced. On the following page is a table of current hourly rates by labor category for 2023 for any as needed services beyond those identified herein.

Task	Study Task Description	Hours	Cost
Task 1	Study Orientation	119	\$28,464
Task 2	Develop 10-Year Financial Plans	101	\$19,895
Task 3	Cost-of-Service Analysis	121	\$24,815
Task 4	Rate Design	168	\$35,845
Task 5	Provide Rate Model	42	\$7,675
Task 6	Deliverables - Water, Reclaimed Water, and Wastewater Cost-of-Service Rates and Fees Study	64	\$12,600
Task 7	Study Presentations	158	\$35,572
Totals		773	\$164,866
Estimated Expenses			\$47,000
Total Not-To-Exceed Project Cost			\$211,866

Additional Services		Hours	Cost
A.1	Development of up to 3 Alternative Financial Plans	10	\$2,515
A.2	Development of up to 3 Alternative Rate Structures/1/	20	\$3,910
A.3	Alternative for Annual Rate Model Maintenance/2/	TBD	TBD
A.4	Cost per Additional Onsite Meeting (PM only in person)/3/	10	\$3,200
or	Cost per Additional Onsite Meeting (1 PM + 2 Facilitation)/3/	30	\$9,410

/1/ Excludes calculation of water budget-based rates (available at additional cost).

/2/ Annual model maintenance available with FAMS subscription of \$5,000 - \$10,000 annually, depending on desired level of services.

/3/ Includes travel expenses.

2023 Hourly Rates By Labor Category (\$ USD)		Rate / Hour
	Director / Vice President	\$375
	Senior Principal	\$325
	Principal	\$275
	Senior Manager	\$250
	Manager	\$225
	Associate	\$200
	Senior Consultant	\$185
	Consultant	\$170
	Financial Analyst	\$160
	Data Analyst	\$135
	Admin / Accounting	\$100