

**RESOLUTION 23-114**

**A RESOLUTION TO AUTHORIZE CHANGE ORDER #1 FOR THE RAFTELIS STORMWATER COST OF SERVICE STUDY**

**WHEREAS**, the City of Spring Hill Board of Mayor and Aldermen passed Resolution 22-100, which authorized Raftelis to perform a sanitation and stormwater cost of service study; and

**WHEREAS**, the initial resolution did not authorize Stormwater Task 2.4.1 or incidental expenses; and

**WHEREAS**, staff needed to utilize those services in order to complete the study; and

**WHEREAS**, both projects are now complete and in order to close them out, an additional \$17,686 must be authorized for Task 2.4.1 for additional work related to rate structure development and analysis of impervious areas for different user classes and scenarios, as well as incidental expenses; and

**NOW, THEREFORE BE IT RESOLVED** that the Board of Mayor and Alderman of the City of Spring Hill:

1. Authorizes a change order to add Task 2.4.1 Stormwater and incidental expenses shown in the Raftelis cost of study agreement executed per Resolution 22-100 in the amount \$17,686.00, as shown on the last page of the agreement (attached).

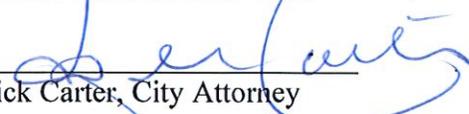
**Passed and adopted by the Board of Mayor and Aldermen of the City of Spring Hill, Tennessee on the 20<sup>th</sup> day of June, 2023.**

  
\_\_\_\_\_  
Jim Hagaman, Mayor

ATTEST:

  
\_\_\_\_\_  
April Goad, City Recorder

LEGAL FORM APPROVED:

  
\_\_\_\_\_  
Patrick Carter, City Attorney

**RESOLUTION 22-100**

**A RESOLUTION TO AUTHORIZE THE MAYOR TO EXECUTE A PROPOSAL WITH  
RAFTELIS FOR UTILITY COST OF SERVICE AND RATE STUDY**

**WHEREAS**, the City of Spring Hill has experienced significant expansion of its utility services, including sanitation and stormwater, and corresponding growth demands upon city services resulting from the continued expansion throughout the City; and

**WHEREAS**, a detailed utility cost of service study will provide justifiable and equitable methodologies for appropriate rates for services that are sufficient to fully fund the expense associated with the utility systems, equipment repair and replacement, and necessary future capital investments in the utility to meet future growth and development needs; and

**WHEREAS**, the City of Spring Hill utilizing a qualifications-based selection approach has selected Raftelis as a qualified consultant based upon qualifications, experience, approach, and work plan and schedule to perform a utility cost of service and rate study for the City of Spring Hill; and

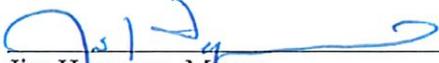
**WHEREAS**, Raftelis submitted for consideration a proposal for professional services to perform the utility cost of service and rate study to be completed within approximately 6 months task 1 being development of a 5-year solid waste utility financial plan being completed within 30 days of the approval of the scope with work to begin immediately; and

**WHEREAS**, City staff has reviewed a proposal to be utilized between the City and Raftelis to perform the Stormwater and Sanitation utility cost of service and rate study that includes Exhibit A referencing the cost proposal and schedule to be made a part therein of the Agreement.

**NOW, THEREFORE, BE IT RESOLVED**, that the City of Spring Hill Board of Mayor and Alderman authorizes the following:

1. The Mayor of the City of Spring Hill, TN to execute the Professional Services Agreement with Raftelis to perform a Stormwater and Sanitation Utility Cost of Service and Rate Study for the City of Spring Hill to be completed within approximately 6 months. Additionally, Task 1 being development of a 5-year solid waste utility financial plan shall be completed within 30 days of the approval of the scope.
2. Task 1 for Solid Waste is authorized for \$17,830.00, to be funded from fund balance and coded to Sanitation Line 210-43200-200.
3. Task 2 for Stormwater is authorized for all subtasks, except for 2.4.1, in the amount of \$57,670.00, to be funded from Stormwater fund balance and coded to Stormwater Line 416-42425-200.

Passed and adopted by the Spring Hill Board of Mayor and Aldermen this 16<sup>th</sup> day of May, 2022.

  
\_\_\_\_\_  
Jim Hagan, Mayor

ATTEST:

  
\_\_\_\_\_  
April Goad, City Recorder

LEGAL FORM APPROVED:

  
\_\_\_\_\_  
Patrick Carter, City Attorney



**REQUEST:** Approval of Resolution 22-100

**SUBMITTED BY:** Tyler Scroggins, Public Works Director

**DATE:** May 16, 2022

**RE:** Authorize the Mayor to Execute a Professional Services Agreement with Raftelis for Stormwater and Sanitation Utility Cost of Service and Rate Study

**ATTACHMENTS:** Resolution 22-100

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**PURPOSE:**

To authorize the mayor to execute a professional services agreement with Raftelis for the stormwater and sanitation utility cost of services and rate study.

**BACKGROUND:**

The City of Spring Hill has experienced significant expansion of its stormwater and sanitation services with the growth demands upon the city services. This continued expansion of the city has brought upon the need to complete a detailed utility cost of service study which will provide justifiable and equitable methodologies for appropriate rates for utility services that are sufficient to fully fund the expense associated with the sanitation and stormwater needs for equipment repair and replacement along with necessary future capital investments in the utility.

**FINANCIAL IMPACT:**

The cost of the Raftelis professional services agreement is \$17,830.00 to be funded from fund balance in the sanitation fund and \$57,670.00 to be funded from fund balance in the stormwater fund.

**STAFF RECOMMENDATION:**

Staff recommend approval of Resolution 22-100.



May 11, 2022

Mr. Dan Allen  
City of Spring Hill  
Assistant City Administrator - Utilities  
199 Town Center Parkway,  
P.O. Box 789  
Spring Hill, TN 37174

**Subject: Proposal for Sanitation and Stormwater Utility Rate Studies**

Dear Mr. Allen:

Raftelis is pleased to submit this scope of work to the City of Spring Hill (City) specifically addressing our approach to completing the stormwater and sanitation rate studies. In preparing this submittal we identified several tasks to be completed to meet the objectives of this project:

- Develop a five-year financial plan that supports the City's funding requirements and sustains the financial health of the City's solid waste/sanitation utility
- Review the existing stormwater program and produce an updated stormwater program plan
- Develop a five-year financial plan that supports the City's updated program plan and sustains the financial health of the City's stormwater utility
- Develop a series of alternative rate structures to meet the specific revenue requirements of the City
- Conduct a cost-of-service analysis to determine the amount of revenue to be generated from each class of customer including residential, commercial, industrial, and institutional
- Build an open-source Excel-based financial model to model rates under the different rate structure alternatives
- Create policy and procedures to support the City's stormwater utility update including data maintenance and customer service
- Provide support to update the current billing mechanism based upon rate structure changes; and
- Provide presentation support to staff for elected officials.

Our detailed approach is contained in the sections immediately below. Melissa Levin is the project manager for our engagement with Spring Hill. Henrietta Locklear will lead the tasks described in this letter. We will provide our services a time & materials basis. Task 1 is anticipated to be completed within 30 days of approval of this scope. Task 2 is anticipated to be completed within 6 months of approval of this scope.

Thank you for the opportunity to work on this project; please direct any questions to either of us.

Sincerely,  
*RAFTELIS FINANCIAL CONSULTANTS, INC.*

Henrietta Locklear  
Vice President

Melissa Levin  
Vice President

## **Task 1: Development of a 5-year Solid Waste Utility Financial Plan**

Raftelis will work with the City to develop a 5-year history of the solid waste utility's customer billing / tonnage statistics by customer class and waste type, based on data availability. Raftelis will perform a revenue test to confirm the accuracy of the billing and statistical data by applying the historical rates to the respective billing data to determine if the calculated revenues within a 1% margin of variance to audited and reported service charge revenues. The historical data will serve as the basis in the development of statistical projections, which will also include considerations for changes in customer base / waste generation and new solid waste services. Raftelis will work with City staff to estimate assumed utilization or participation associated with new services or changes to operations under evaluation.

Raftelis will compile a 5-year history of solid waste utility revenues to examine trends in operating and non-operating revenues and a 5-year history of expenses to examine trends in such expenses. In general, revenues and expenses will be forecasted from the adopted or planned budget. Raftelis will use this historical data to develop a projection of the current and future capital needs. The funding sources and plan of finance will be developed based on the City's input, the projected availability of cash reserves, projected future net revenues and assumed or identified additional debt issues. The outcome will be a capital funding plan that fully funds the City's current Capital Improvement Plan (CIP) and meets the goals and objectives of the City. If applicable, the projections will include an analysis of debt service coverage and rate covenant compliance for any existing debt service and/or planned debt service.

Raftelis will develop a beginning balance and projection of the City's various funds and accounts associated with the Solid Waste Utility. The starting balance will be based on the trial balance in support of the City's audited financial statements. The projection of cash balances will present a starting balance, deposits or sources of funds, expenditures, uses or transfers out of the fund and ending cash balance for each fund/ account. The projection will identify cash restrictions and minimum financial policy requirements.

Finally, this task involves calculating the net revenue requirements to be funded from existing charges for service and determining any revenue adjustments (%) to ensure full cost recovery. The net revenue requirements are calculated by subtracting the other / miscellaneous revenues from the gross revenue requirements (comprised of the projected expenses, debt services and required transfers to fund the CIP and maintain compliance with the City's financial policy reserve requirements).

### Task 1 Deliverables

5-year Solid Waste Utility financial plan forecast.

## **Task 2: Stormwater Rate Study**

### **Task 2.1 Updated Program Plan**

To develop our understanding of the City's current position and future goals, our team will perform a thorough review of the City's current stormwater program and plans. The existing NPDES MS4 Stormwater Permit will build upon our knowledge on the specific regulatory environment the City operates under while the Stormwater Management Plan, the Asset Management Plan, and the Stormwater CIP will aid us in identifying the City's goals

and objectives related to stormwater. From this review, our team will outline the City's objectives in a clear and comprehensive summary that will drive forward the program recommendations.

Our team will work closely with City staff involved in elements of the stormwater management program, including Public Works Department and others, to determine the program's needs and gaps as viewed by City staff. The information gathered from these meetings will be used in conjunction with a review of the existing services provided by the Stormwater Utility. Our team will then develop recommended future services for the Stormwater Utility. These will include personnel, operations and maintenance, capital, and vehicles and equipment.

Using this gap analysis, in addition to the strategic communication detailed in Task 2.8, our team will help outline multiple level and extent of service scenarios for the City's consideration. These scenarios and their accompanying costs will be incorporated into the financial model developed in Task 2.5 so that City staff can see the impacts of these alternative approaches.

To meet the City's stormwater needs and appropriate level and extent of service, our team will recommend the ordinance revisions that are required to achieve the goals defined in the gap analysis. These changes may also require internal policy revisions as well as changes to the strategies the stormwater program uses to realize these goals. Should policy revisions be required they will be incorporated into the policy document described in Task 2.6.

#### Task 2.1 Deliverables

The updated program plan will be incorporated into the Rate Study Report. Policy revisions if needed, will be included in the policy document described in Task 2.6.

### **Task 2.2 Development of a 5-year Stormwater Financial Plan**

Raftelis will work with City staff to develop projections of the stormwater utility's revenue requirements for the five-year fiscal period of FY 2023 to FY 2028. To establish these revenue requirements, Raftelis will complete an assessment of the current program and work with the City to estimate future service levels as described in Task 2.1 above. We will work closely with the City to catalog and understand the current financial state of the stormwater management program including information on operations and maintenance expenditures and the City's capital improvements budget based on the utility's infrastructure needs and projects identified in the current CIP.

Once understood, we will work with the City to understand the drivers for the future program such as regulatory changes or enhanced capital needs due to aging infrastructure. Possible future program components may include: program management; regulatory compliance needs (NPDES, TMDL); sediment and erosion control; stormwater infrastructure retrofits; flood management; capital improvements; equipment and maintenance needs (including repair, rehabilitation, and replacement); and enhanced administrative or operations staff.

Raftelis will incorporate existing or anticipated projects from the CIP into the revenue requirements analysis. If multiple CIP scenarios exist, our team will build these into the rate and financial model developed in Task 2.5 to allow the City to analyze the impact on revenue requirements and stormwater rates of these different scenarios. In conjunction with the CIP, Raftelis will identify the capital expenditures required for asset rehabilitation and replacement to ensure that the rates will fund the City's total stormwater infrastructure needs. Additionally, other financial policies and targets, such as those governing reserve funds and debt service covenants, if applicable, will also be considered in establishing stormwater revenue requirements. Raftelis will use the financial plan to evaluate the City's current and projected financial position with respect to key operating and financial metrics identified in conjunction with staff.

#### Task 2.2 Deliverables

The 5-year Stormwater Utility Financial Plan will be incorporated into the Rate Study Report

### **Task 2.3 Cost-of-Service Analysis**

The cost-of-service allocation determines the amount of revenue to be generated from each class of customer including residential, commercial, industrial, and institutional. Raftelis will begin with a review of the cost allocation methodology used to develop the City's current rate structure and compare that methodology to industry best practices. We will review each cost as it relates to program components such as water quality and flood control services and identify the main drivers behind each item to ensure a fair basis for cost recovery. Once costs are categorized, they can then be appropriately allocated to the unique customer classes the City has already identified based on their individual costs of service.

#### Task 2.3 Deliverables

The cost-of-service analysis will be incorporated into the Rate Study Report

### **Task 2.4 Rate Structure Alternatives Analysis**

During this task, the Raftelis team will evaluate the City's current stormwater fee rate structure using the cost-of-service allocation developed in Task 2.3. The assessment will help to inform the rate structure alternatives considered and will allow for a robust discussion of advantages and disadvantages of various alternatives. We will review the existing program cost data to determine what cost drivers exist that need to be taken into consideration in rate structure alternatives.

Raftelis will focus on industry standard, fair, and equitable rate structure alternatives that fit the City's specific cost drivers, development patterns, and needs for revenue sufficiency and predictability. During discussion of rate structure alternatives, we will also present administrative considerations for each rate structure, which may include ease of implementation, data maintenance, customer impact, customer service, and customer perception.

The rate structure alternatives may include an impervious area-based fee, a gross area-based fee, a per-account fee to cover administrative costs, simplified residential rates (flat or tiered rates), and mechanisms for blunting the impact of the change for some customers. The project team will develop an excel-based financial modeling tool to calculate rates under the various rate structure alternatives (Task 2.5).

#### **Task 2.4.1 Data Development**

For the selected rate structure, Raftelis will update current data and develop new data as needed to support the rate structure. These data may include digitized impervious area for a sample of 400 single-family residential (SFR) parcels to update the Equivalent Residential Unit (ERU) if that rate structure is maintained, as well as any newly developed non-single family residential (NSFR) where impervious area has not yet been captured. For purposes of this scope, Raftelis assumes that there will not be more than 200 NSFR parcels to digitize.

#### Task 2.4 Deliverables

The rate structure alternatives analysis will be incorporated into the Rate Study Report.

Any new data created under task 2.4.1 will be delivered in its native format to the City. Note that the new calculated billing data for properties will be delivered under task 2.7.

### **Task 2.5 Development of Financial Model and Stormwater Rates**

Raftelis will develop an open-source Microsoft Excel<sup>®</sup>-based rate and financial tool to model rates that support the projected revenue requirements identified in Task 2.1. The model will include a dashboard to develop rate calculations under one or more alternative funding mechanisms, examine customer impacts, highlight key financial metrics, and provide pro forma cash flow statements.

The Raftelis team will work with City staff to select a preferred rate from among the alternatives. The City will be able to use the model to update revenue requirements and cash flow projections as the program evolves. Users of this tool will be able to edit inputs and assumptions to estimate projected revenue requirements and analyze future rates. The model will be delivered to City staff for their use moving forward.

Task 2.5 Deliverables

Raftelis will provide the financial model in Microsoft Excel format, and incorporated into the Rate Study Report

**Task 2.6 Data Maintenance and Customer Service Policy and Procedures**

Raftelis will support the City in updating processes for updating impervious area data in response to development permits or Certificates of Occupancy (COs) issued, building inspections, or other triggers, as well as following new releases of aerial imagery or updated tax parcel data. Raftelis will discuss these processes with the City and document the outcomes of the discussion.

Task 2.6 Deliverables

Raftelis will provide a succinct memo documenting changes to procedures discussed

**Task 2.7 Updated Billing Mechanism Implementation Support**

Based upon the outcome of the rate structure analysis, an update may be required to the current stormwater billing mechanism. Raftelis will review the relationship between parcels and utility accounts on which the parcel-based fees are conveyed and provide data to the City on accounts that require updated relationships for billing. Raftelis will coordinate with utility administration to establish data related billing policies and will deliver an updated billfile that lists each account and the associated stormwater fee for consumption by the utility billing system, based on the updates provided by the City. The file will be developed to the specifications required by the billing system and will rely on the most current impervious surface and tax parcel data.

Task 2.7 Deliverables

- Raftelis will provide documentation of data related billing policies electronically in the City's preferred format.
- Raftelis will provide the updated bill file for merging by City staff

**Task 2.8 Presentation Support**

Raftelis will assist with communicating the chosen rates to the public, City staff, and Board of Mayor and Alderman, including the preparation of supporting materials for public meetings and presentations. These materials are an opportunity to educate the public on why new rates are necessary, how they serve the community's interests, and why the City has chosen the proposed rate.

Task 2.8 Deliverables

- Raftelis will create and submit a PowerPoint slide deck and provide them to the City in electronic format.

We accept the terms of this Engagement Letter: (please sign and return one original).

Approved: 	Date: <u>5-16-2022</u>
Title: <u>Mayor</u>	Name of Signatory: <u>Jim Hagamay</u>

*Raftelis is registered with the U.S. Securities Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) as a Municipal Advisor. Registration as a Municipal Advisor is a requirement under the Dodd-Frank Wall Street Reform and Consumer Protection Act. All firms that provide financial forecasts that include assumptions about the size, timing, and terms for possible future debt issues, as well as debt issuance support services for specific proposed bond issues, including bond feasibility studies and coverage forecasts, must be registered with the SEC and MSRB to legally provide financial opinions and advice. Raftelis' registration as a Municipal Advisor means our clients can be confident that Raftelis is fully qualified and capable of providing financial advice related to all aspects of utility financial planning in compliance with the applicable regulations of the SEC and the MSRB.*

**Estimated Work Plan**

The following table provides a breakdown of our proposed fee for this project. This table includes the estimated level of effort required for completing each task and the hourly billing rates for our project team members. Expenses include costs associated with travel and a \$10 per hour technology charge covering computers, networks, telephones, postage, etc. Note that task 2.4.1 has been limited to 120 hours of effort, as described in the task. If more data development is needed, Raftelis can add effort in this area at the direction of the City.

Tasks	Web Meetings	In-person Meetings	Hours									Total	Total Fees
			ML	TB	HL	KC	CC	SW/MC	SV	Corp			
1. Solid Waste Utility Financial Plan	1	1	1	4	16	0	0	0	0	0	2	83	\$17,830
2.1 Stormwater Updated Program Plan	2	1	4	0	8	4	32	2	0	0	0	50	\$11,950
2.2 Stormwater Utility Financial Plan	2	0	1	0	4	4	4	16	0	0	0	29	\$8,350
2.3 Cost-of-Service Analysis	1	0	0	0	4	4	0	16	0	0	0	24	\$5,180
2.4 Rate Structure Alternatives Analysis	1	0	2	0	2	4	24	16	0	0	0	48	\$10,340
2.4.1 Data Development	0	0	0	0	0	0	8	0	0	120	128	\$14,920	
2.5 Development of Financial Model and Rate	1	0	2	0	4	6	8	24	0	2	2	46	\$9,710
2.6 Data Maintenance and Customer Service Policy and Procedures	1	0	0	0	4	2	16	0	0	0	0	22	\$5,170
2.7 Updated Billing Mechanism Implementation Support	1	0	0	0	2	2	16	4	0	0	0	24	\$5,230
2.8 Strategic Communication	1	1	4	0	4	4	0	0	0	2	14	\$3,680	
<b>Total Meetings / Hours</b>	<b>11</b>	<b>3</b>	<b>14</b>	<b>4</b>	<b>48</b>	<b>30</b>	<b>108</b>	<b>138</b>	<b>0</b>	<b>126</b>	<b>468</b>	<b>\$90,420</b>	
<b>Hourly Billing Rate</b>			<b>\$310</b>	<b>\$310</b>	<b>\$310</b>	<b>\$245</b>	<b>\$215</b>	<b>\$185</b>	<b>\$245</b>	<b>\$110</b>			
<b>Total Professional Fees</b>			<b>\$4,340</b>	<b>\$1,240</b>	<b>\$14,880</b>	<b>\$7,350</b>	<b>\$23,220</b>	<b>\$25,530</b>	<b>\$0</b>	<b>\$13,860</b>	<b>\$90,420</b>		
												<b>Total Fees</b>	<b>\$90,420</b>
												<b>Total Expenses</b>	<b>\$2,766</b>
												<b>Total Fees &amp; Expenses</b>	<b>\$93,186</b>