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August 31, 2022

Ashley M. Newcomer  
Utilities Financial Manager  
City of Hagerstown  
425 E. Baltimore Street  
Hagerstown, MD 21740

**Subject: Water and Wastewater Rate Study Update**

Dear Ms. Newcomer:

Thank you for the opportunity to continue working with the City of Hagerstown. Based on our recent communication, I have prepared a brief scope of work and fee estimate to update the Water and Wastewater Rate Study for the City. The scope of work outlines the tasks necessary to complete an update to the comprehensive water and wastewater rate analysis.

We look forward to working with the City on the update. If you would like to discuss any aspect of this work, please contact me at (443) 951-0355 or by email at [mmaker@newgenstrategies.net](mailto:mmaker@newgenstrategies.net). If our scope is acceptable as submitted, please sign, scan, and email to me (or mail to the address on the letterhead).

Very truly yours,

DocuSigned by:  
  
F8F7E88EF22E4041  
Michael Maker  
Partner  
NewGen Strategies & Solutions, LLC

**City of Hagerstown**

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date: \_\_\_\_\_

The following document presents our proposed scope of work and fee estimate for a water and wastewater rate study update for the City of Hagerstown.

## **1. Scope of Work**

Below are eight tasks (and one optional task) proposed to complete the study update in a timely and comprehensive manner.

### **Task 1 – Data Review**

We will submit a data request to the City and, once the data request has been submitted, have a call with the City to discuss the data needs as well as what has changed since the previous study was completed.

### **Task 2 – Revenue Requirements**

The data provided by the City will be used to update the comprehensive water and wastewater financial model. The model will continue to be used to determine the full cost (revenue requirements) of separately operating and maintaining the City's water and wastewater systems. The water and wastewater system revenue requirements that will be updated in the model include:

- Assumptions
- Operating and maintenance expenses
- Miscellaneous revenues
- Debt payments
- Capital improvement projects and funding sources (e.g., cash, debt, etc.)
- Repair, replacement, and rehabilitation reserve
- Cash balances

The model will facilitate sensitivity analysis based on various input assumptions such as customer growth rates, interest rates, and inflation rates.

### **Task 3 – Customer and Usage Data**

The City will be asked to provide the most current customer and usage data for the water and wastewater systems dating back to the most recent actual data within the current model. We will organize the updated data and base all future projections on the most recent full fiscal year of data. We will determine, based on the City's plans, the projected rate of customer and consumption growth for the new projection period.

### **Task 4 – Financial Plan**

The update will include projecting the City's costs for water and wastewater for the next ten years, including updates to the current rate design for the next ten years using the updated revenue requirements and consumption data. A financial plan and rates will be recommended for the next five years. We will update any recommendations regarding fund balances. Sample bill impacts will be

developed for small, median, and large customers. The comparison to surrounding utilities will also be updated.

### **Task 5 – Benefit Charges**

The City currently collects benefit charges from new customers joining the water and wastewater system. Benefit charges are growth-related fees intended to recover the capital costs of backbone capacity in the water and wastewater system (i.e., major mains, interceptors, pumping stations and facilities) needed to provide service to new customers. We will update the benefit charges for the City's new water and wastewater customers and provide recommendations to fully recover the City's system capacity-related costs.

### **Task 6 – Fireline Fees**

Fire protection service is a standby service that the City makes available on demand. While firelines are rarely used by the customer, the City must be ready to provide water (often very significant quantities) and pressure at all times throughout the distribution system for firefighting purposes. As a result, the City incurs an ongoing cost associated with providing these services. We will update the fireline fees and provide recommendations to fully recover the City's fire protection service costs.

### **Task 7 – Other Miscellaneous Fees**

The primary revenue source for the City's Water and Wastewater Divisions is the user rates received from customers. The water and wastewater rates are designed to recover the capital and operating costs of providing water and wastewater service. A smaller but very important source of revenue is the money collected from the miscellaneous and various fees and charges that are used to cover the costs of specific services other than the direct provision of potable water and the collection, treatment, and disposal of wastewater. To the extent that the City recovers the cost of such services (each of which can be related to a specific customer or end-user), the related revenues serve to hold down water and wastewater rates. In addition to the benefit charges and fireline fees discussed in the previous tasks, we will review other water and wastewater miscellaneous fees and provide recommendations to fully recover the costs associated with the services provided.

### **Task 8 – Report Results**

We will be available for periodic interactive online meetings (e.g., walkthroughs of the financial model). Based on these discussions, we will document all work performed in the analysis of the rate study in a short narrative report presenting our findings and recommendations, supported by the financial spreadsheet model that sets forth all calculations.

### **Task 9 – Presentation (Optional)**

We will prepare and present in person (as many times as desired by the City) a PowerPoint presentation and discuss the findings and recommendations of the study to stakeholders at a date and time of the City's choosing.

## 2. Project Schedule

We will deliver a draft report to the City within eight weeks of receipt of data and will revise the report (appended with the spreadsheet model that supports the study) within two weeks of receipt of comments from the City on the draft report.

## 3. Cost Estimate

We develop our cost proposals by estimating the number of hours of effort that will be required by key individual/classification of employee and multiplying this number by the standard hourly rate that has been established for each administrative classification of employee. For the optional on-site presentations, we add estimated out-of-pocket expenses (e.g., travel, parking, meals, etc.) at actual cost, with no profit or overhead added to out-of-pocket expenses.

We utilize conference call and online meeting services that allow for additional interactive meetings (e.g., walkthroughs of the financial model) with no cost for travel.

Our estimated not-to-exceed cost for the scope of work and deliverables outlined in this document is \$21,000 (plus \$2,310 or actual cost [whichever is less] for each on-site presentation desired) as set forth below:

Task	Maker	Analyst	Labor		Prof. Fees	Expenses	Total
	\$235	\$145	Hours				
Task 1 Data Review	4	4	8	\$	1,520		\$ 1,520
Task 2 Revenue Requirements	6	16	22	\$	3,730		\$ 3,730
Task 3 Customer and Usage Data	4	10	14	\$	2,390		\$ 2,390
Task 4 Financial Plan	2	4	6	\$	1,050		\$ 1,050
Task 5 Benefit Charges	4	8	12	\$	2,100		\$ 2,100
Task 6 Fireline Fees	4	8	12	\$	2,100		\$ 2,100
Task 7 Other Miscellaneous Fees	8	18	26	\$	4,490		\$ 4,490
Task 8 Report Results	8	12	20	\$	3,620		\$ 3,620
<b>Total</b>	<b>40</b>	<b>80</b>	<b>120</b>	<b>\$</b>	<b>21,000</b>		<b>\$ 21,000</b>
Task 9 Presentation (Optional)	4	6	10	\$	1,810	\$ 500	\$ 2,310