



# OLYMPIC VALLEY PUBLIC SERVICE DISTRICT



EXHIBIT F-5  
10 Pages

## COST OF SERVICE AND RATE STUDY PROFESSIONAL SERVICES AGREEMENT

**DATE:** April 30, 2024

**TO:** District Board Members

**FROM:** Danielle Mueller, Finance & Administration Manager

**SUBJECT:** Cost of Service and Rate Study - Professional Services Agreement with HDR Engineering, Inc.

**BACKGROUND:** Proposition 218 requires a utility to establish cost-based rates for the services provided. In 2017, the District retained HDR Engineering, Inc. (HDR) to review the water and sewer rate designs and provide alternative options to meet the District's operating and capital funding objectives. At the time, the District implemented the recommendations from this rate design and adopted a five-year rate structure. After the five-year term expired, the District continued to utilize this version of the rate methodology to establish current rates. However, it is best practice to review the study and ensure that rates are still cost-based, equitable, and proportional.

Another key component of the study is the review and development of connection fees, which are based on the value of the available capacity so that new customers can connect to the system and receive service. Connection fees have not been updated since 2018. Therefore, an updated analysis of connection fees and operating capacity should be performed to reflect the present cost of connecting to the District's utility infrastructure.

**DISCUSSION:** The District received the attached proposal from HDR Engineering, Inc. (HDR) for \$59,710 to review the cost of services and related revenue requirements for water and sewer, in addition to reviewing the structure of the District's water and sewer connection fees.

HDR will determine the revenue requirements for water and sewer based on a 10-year analysis of costs to operate the District's water and sewer systems, in addition to the anticipated reserves based on the District's capital replacement needs.

Further scrutiny by HDR of the District's tiered water structure is essential to validate the District is operating within its legal authority and industry best practices. HDR will further analyze the District's water and sewer connection fees by assessing existing plant capacity, in addition to the impact of future proposed development.

The resulting analysis will provide the District with a current rate and fee structure that is equitable among all customer classes and considers capital replacement projects. Staff plans to utilize this analysis and structure to publish a 5-year rate plan that will be distributed with the next Proposition 218 notice during spring 2025.

The District has selected HDR due to the efficiencies that come with the HDR team's experience working with the District in the past, in addition to other peer agencies within the region. The members of the HDR project team were a part of the team that originally established the foundation of our present rate structures in 2004 and again in 2017. As such, the District is anticipating savings resulting from less time for the consulting team to orient themselves with the District's structure, in addition to orienting themselves to any specific issues prevalent in the Lake Tahoe region. The level of quality of deliverables presented by HDR has also been praised by regional peer districts.

Staff is recommending awarding the contract to HDR in the amount of \$59,710, and also approving an additional contingency amount of 10%, or approximately \$6,000, to cover costs that may be incurred due to unforeseen circumstances during the project (e.g., additional research for water and sewer contributions to the Fire Department).

**ALTERNATIVES:**

1. Approve the proposal as presented and authorize the General Manager to execute all contractual documents.
2. Do not approve the proposal from HDR Engineering, Inc.

**FISCAL/RESOURCE IMPACTS:** The 2024-25 Operating Budget allocated \$65,710 split equally between water and sewer to fund this project.

**RECOMMENDATION:** Approve the proposal from HDR and authorize the Interim General Manager to execute a contract with HDR in an amount not to exceed \$59,710 and approve an additional contingency amount not to exceed \$6,000 to cover costs that may be incurred due to unforeseen circumstances during the project.

**ATTACHMENTS:** HDR Engineering Proposal and Scope of Work (8 pages)

**DATE PREPARED:** April 3, 2024



March 4, 2024

Danielle Mueller  
Finance and Administration Manager  
Olympic Valley PSD  
305 Olympic Valley Road  
Olympic Valley, CA 96146

**Subject: 2024 Water and Sewer Rate and Fee Study**

Dear Danielle:

The Olympic Valley Public Service District (District) has requested technical and professional assistance from HDR Engineering, Inc., (HDR) to update the prior rate studies to develop proposed cost-based and proportional rates and connection fees for the next five-year period. The development of the water and sewer rates will be based on the funding needs of the District's projected operating and capital needs over a multi-year time period (i.e., 10 years). The development of water and sewer rates that meet the California Constitution (e.g., Proposition 218) is paramount. At its very core, Proposition 218 requires a utility to establish cost-based and proportional rates for the services provided. Another key component of the study will be the review and development of the connection fees, which are based on the value of the capacity in each system, so that new customers are able to connect to the system and receive service. The connection fee will also be updated to reflect the current proportional (e.g., sq. ft.) approach to billing accessory dwelling units (ADUs).

HDR has developed the following scope of services to provide the District with a projection of cost-based and proportional rates and fees for its water and sewer utilities. The results of this study will provide the District with water and sewer rate transition plans, as necessary, to meet the District's operating and capital needs. The results of the water and sewer rate studies will be communicated to the District staff and management through a written report and presentations to the District's Board.

Provided below is a summary of the proposed scope of services, anticipated project staffing, and a fee estimate for the requested services.

## Scope of Services

HDR's proposed scope of work is divided into several interrelated tasks based on generally accepted rate and fee setting methodologies (i.e., AWWA, WEF) and HDR's understanding of the District's past rate setting practices and current industry best practices. A discussion of the proposed scope of services and the interrelated tasks is provided below.

## Task 1 — Project Management

To conduct the study in a timely manner and within the stated budget, HDR will provide a monthly progress report and invoice that summarize the progress of the study, identify issues or concerns, and provide a status of the budget compared to the overall project progress.

### ***Expected District Staff Support for the Task:***

- Review and process monthly invoices

### ***Deliverables as a Result of the Task:***

- Monthly progress reports and invoices

## Task 2 - Initial Project (Kick-Off) Meeting and Data Collection

The initial project (kick-off) meeting is important to the overall success of the rate study process. This meeting allows both parties to discuss the overall goals and objectives for the study, as well as issues and concerns that either party may have. A written data request will be provided to the District prior to the kick-off meeting to allow for the gathering of data and discussion during the meeting. Given the familiarity between the District and HDR, it is proposed that this meeting be held virtually for approximately two-hours in length and attended by up to two HDR project team members.

### ***Expected District Staff Support for the Task:***

- Have key management/project team members participate in up to a two-hour virtual kick-off meeting
- Review and confirm the District's goals and objectives for the study
- Provide the data and information from the provided data request

### ***Deliverables as a Result of the Task:***

- Written data request detailing the data and information to complete the study
- Two-hour virtual kick-off meeting to get the study off to a positive start
- Identification of objectives, issues, and concerns by both parties
- Review and confirmation of the scope of work and general approach

## Task 3 – Revenue Requirement Analysis

The development of the revenue requirement analyses is the first major analytical portion of the water and sewer rate study process. This portion of the study entails reviewing the various sources of funds (revenues) and comparing them to the applications of funds (expenses) for each utility. This task considers the prudent and proper funding for operations and maintenance (O&M) and capital expenditures and determines the need for rate adjustments over the selected time period. In summary, the final financing plan can be developed that meets the District's goals and objectives, while attempting to minimize rates and costs over time. At the same time, if a rate adjustment transition plan is needed, it will be developed.

### ***Expected District Staff Support for the Task:***

- Provide as-needed assistance to explain the District's data and information as it relates to developing the revenue requirements
- Provide as-needed data refinements or additional data needs as determined during the process of developing the revenue requirements

- Attend a one half-day project meeting at the District's offices to review the draft revenue requirement analysis, review the overall methodology, and confirm the model assumptions and key inputs (combined with Task 4)

***Deliverables as a Result of the Task:***

- A water and sewer revenue requirement analysis for a projected 10-year period that considers the prudent funding of operating and capital needs of each utility
- A capital financing plan within the revenue requirement analysis based on the current capital budgets and fixed asset replacement needs of each utility
- As necessary, a five-year transition plan to "phase in" needed rate adjustments
- Recommendations regarding other key financial indicators (e.g., capital replacement, reserve levels)
- A half-day project meeting at the District's location to discuss the development of the draft revenue requirement analyses and recommendations (combined with Task 4)

## **Task 4 – Cost of Service Analysis**

Utilizing the results of the revenue requirement analysis, the costs will be distributed to the identified customer classes of service using an average embedded cost of service methodology. A cost of service analysis will be conducted for both utilities. In simplified terms, a cost of service study proportionally distributes the revenue requirement of each utility to the identified customer classes of service (e.g., residential, non-residential) of each utility. The basis for establishing water and sewer rates that are cost-based, proportional, and defensible has traditionally been cost of service principles and methodologies. At the same time, the courts have historically recognized that municipal entities can take into account policy items other than strictly cost of service when establishing rates (e.g., efficient use, ability to pay, revenue stability).

The State of California has certain well-established legal constraints regarding utility ratemaking, of which Proposition 218 is paramount. Proposition 218 requires a utility to establish cost-based rates for the services provided. While Proposition 218 provides certain direction, it lacks clarity and definition in certain areas. Recent court decisions have had a direct impact on the need to provide clear documentation of the cost basis and proportionality of the District's proposed rates. This task is designed to specifically address this legal requirement. In this study, the costs will still be allocated to the classes of service, but the costs will also be allocated to pricing tiers (Tier 1, Tier 2, etc.) of the District's water rate structures for each class of service.

The cost of service will provide cost-based and proportional water and sewer rates for each customer class service based on the average unit costs. Average unit costs are important in that they are used as the starting point for the development of final rate designs. Average unit costs provide the District with an understanding of the cost/rate relationship between fixed and variable costs, but in this case, they will also provide the cost basis for the water rate tiered pricing and customer charge. This cost-based information can be combined with the District's rate design goals and objectives to produce the final proposed rates for the District.

***Expected District Staff Support for the Task:***

- Attend a half-day project meeting to review the findings and results of the water and sewer cost of service analysis (combined with Task 3)
- Provide as-needed data refinements or additional data needs as determined during the process of developing the cost of service analysis
- Assist in the review of the tiered pricing methodology and analysis

***Deliverables as a Result of the Task:***

- Review of the current customer classes of service and determination of revisions for cost allocation purposes
- An allocation and distribution of the revenue requirements to the identified customer classes of service for the District's water and sewer systems
- A water and sewer cost of service allocation and distribution method that recognizes the various service levels of the District's customers
- A summary of the average unit costs (cost-based rates) for the identified customer classes of service
- Project meeting at the District's offices to discuss the water and sewer cost of service analysis (combined with Task 3)

## **Task 5 - Rate Design**

This task is designed to review the District's current water and sewer rates—both the level and structure. Level refers to the amount of revenue to be collected from the rate design that is addressed as a part of the revenue requirement analysis. Structure refers to the way in which the desired level of revenue is collected. The level of fixed and variable charges will also be reviewed and discussed with the District as a result of the cost of service analysis developed in Task 4.

An important starting point for the rate design process is understanding the District's rate design goals and objectives. These objectives may include efficient use, revenue sufficiency, revenue stability, ease of administration, and simplicity. In designing the rate alternatives, each of the District's customer classes of service (i.e., single-family, multi-family, irrigation, and commercial) will be reviewed, and feasible water and sewer rate structure alternatives will be developed that reflect the District's overall rate design goals and objectives and current industry best practices, while reflecting the District's costs (i.e., cost of service results).

This task will provide up to two alternative water and sewer rate structures for each of the District's customer classes of service to provide a cost basis for the District's rates. In addition, the District's current rates will be reviewed to determine how well they conform to contemporary rate-setting goals and objectives. For each rate alternative developed, a bill comparison and graph will be provided that shows a comparison between the present bill and the proposed bill at various levels of usage. Bill comparisons are useful in assessing the potential impacts to a wide variety of customers.

At the conclusion of this task, HDR will have developed rate design alternatives and provided a set of bill comparisons. From these alternatives, HDR will work with District staff and Board to establish a final proposed water and sewer rate structure for each customer class of service.

***Expected District Staff Support for the Task:***

- Discuss with HDR the District's rate design goals and objectives
- Assist, as necessary, in the development of the water and sewer rate structure alternatives and bill comparisons
- Attend a virtual project meeting to review and discuss the water and sewer rate structure alternatives

***Deliverables as a Result of the Task:***

- Up to two water and sewer rate structure alternatives for each customer class of service (i.e., single-family, multi-family, irrigation, and commercial)
- Development of bill comparisons for each of the rate structure alternatives

- A two-hour virtual project meeting to review and discuss the water and sewer rate structure alternatives

## Task 6 - Written Report

- At the conclusion of the rate analysis, HDR will develop a draft written report. The report is intended to summarize the activities undertaken as a part of this project, along with our findings, conclusions, and recommendations. HDR will include a technical appendix of the analyses undertaken by HDR. HDR will provide an electronic copy (i.e., Microsoft Word, PDF) of the draft report to the District for its review and comment. Comments, suggestions, or corrections from the District concerning the draft report will be incorporated into the final report. HDR will provide an electronic version (i.e., PDF) of the final report.

### ***Expected District Staff Support for the Task:***

- Review and comment on the draft written report

### ***Deliverables as a Result of the Task:***

- An electronic version of the draft written report
- An electronic version of the final written report

## Task 7 – Development of the Water and Sewer Connection Fees

Connection fees are capital recovery fees generally established as one-time charges assessed against developers or new customers connecting to the system as a way to recover all or a part of the cost of additional system capacity constructed for their use. A connection fee is established based on the value of each utility's capacity and the amount of capacity needed to serve new customer. The objective of these fees is to bring equity between existing and new customers. The development of cost-based connection fees is also important from the perspective of the overall financial stability of the utilities. Connection fee revenue is used to finance growth-related infrastructure. As a general philosophy, utilities prefer to have "growth pay for growth." This statement implies the development and implementation of cost-based connection fees.

Industry approaches outline a number of different methodologies that may be used to establish cost-based an equitable connection fees. We will utilize our foundational understanding of these different methodologies and apply the appropriate methodology based on the specific circumstances of each utility (e.g., available excess capacity, no excess capacity/expansion needed). This task will review the methodology and approach used to establish the District's current connection fees. HDR will then update the connection fees to reflect current costs and the appropriate methodology that best reflects each utility's current condition and situation. More specifically, HDR will update the District's connection fees using each utility's assets, capital improvement needs, and financing approach to determine cost-based connection fee for each utility. The connection fees must be developed to comply with applicable California legal requirements and incorporate updates to the current fees based on recent legislation on ADUs. Draft connection fee results for each utility will be reviewed with District staff and finalized based on District input. Once the study is completed, the connection fee models will be electronically provided to the District. At the completion of the connection fee analysis, a separate report will be provided summarizing the approach, methodology, and recommendations of the connection fee analysis.

### ***Expected District Staff Support for the Task:***

- Review and discuss the development of the current connection fee analysis for the water and sewer utilities



- Discuss the development of the appropriate connection fee methodology with HDR given each system's current capacity and expansion needs
- Provide the future capital improvements related to providing new or additional capacity on the system
- Review the draft water and sewer connection fee analyses and provide comments
- Attend a virtual project meeting to review and discuss the water and sewer connection fee analyses

***Deliverables as a Result of the Task:***

- Development of a cost-based water and sewer connection fee analysis
- An electronic draft and final report detailing the development of the water and sewer connection fees
- A two-hour virtual project meeting to review and discuss the connection fee analyses

## Task 8 – Public Presentations

The overall quality and value of a rate study is often measured by the quality of the public presentation process. In addition, the ability of the consultant to present this technical material in a manner that is easily understandable to the District Board and public is paramount. For planning purposes, HDR will assume attendance at two public presentations to assist the District staff in presenting the findings, conclusions, and recommendations of this study.

HDR will develop presentation materials related to the study for the public meetings and the HDR Project Manager will attend the public meetings. Meetings beyond the two proposed meetings will be provided on a time and material basis.

***Expected District Staff Support for the Task:***

- Schedule and coordinate meeting dates and materials for the public presentations
- Review and comment on proposed handouts for public meetings

***Deliverables as a Result of the Task:***

- Provide the rate study presentation materials (e.g., PowerPoint slides) for the Board presentations
- Up to two public presentations of the study's findings and recommendations

## Task 9 – Computer Models

The financial/rate model(s) developed for the District will be provided at the end of the study. The model will be developed using Microsoft Excel. This task does not include user manuals or training in the use of the models.

***Expected District Staff Support for the Task:***

- None

***Deliverables as a Result of the Task:***

- An electronic copy of the computer spreadsheet models used to develop the District's proposed rates for each utility



This concludes HDR's discussion of the proposed scope of services for the District's requested services. Additional out-of-scope work will be provided on a time and material basis. Out-of-scope work will only be provided with the written authorization of the District.

## Project Team

A key factor to the success of a rate study is the experience and knowledge of the project team. To be successful, the project team must effectively combine a number of people with different backgrounds, experience, and abilities into a well-rounded, comprehensive team. We believe that is the strength of the proposed HDR project team.

### **Josiah Close** | Project Manager

Josiah will be the project manager for the District study. He will lead in the development of the water and sewer rate analysis. Josiah developed the prior rate analyses and is very familiar with the District.

### **Shawn Koorn** | Technical Advisor

Shawn will provide analytical support and guidance for the development of the water and sewer rate and connection fee study. Shawn provided a similar role on the prior studies completed for the District.

### **Sara Anderson** | Financial Analyst

Sara will develop the technical analysis for the District's rate and fee study. Sara has assisted utilities across the U.S. in the development of water and sewer rate and fees.

### **Kevin Lorentzen** | QA/QC

Kevin will review the technical analyses and written documentation of the study to meet HDR's internal QA/QC process. Kevin has over 17 years of experience developing rate and fee studies.

## Schedule

A rate study of this complexity generally requires approximately six to eight months to complete. Similar to prior studies completed for the District, the analysis will begin in early 2024 and the technical analysis will be completed the fall of 2024. The public presentation will occur in late 2024. HDR will make effort to meet the District's desired time schedule for completion of the study. We will keep the District informed of the schedule and variation from it through direct communication with the District's Project Manager and also within our monthly invoicing letter to the District's Project Manager.

## Fee Schedule and Cost Proposal

Our proposed hourly rate schedule by job classification is provided below. These rates will be in effect through December 31, 2024.

### **HDR Engineering, Inc.** **Rate Schedule**

Project Manager	\$195.00/hour
Task Lead	\$325.00/hour
Financial Analyst	\$135.00/hour
QA/QC	\$250.00/hour
Admin. / Clerical	\$140.00/hour

The billing rates shown cover payroll cost, employee benefits, and HDR overhead and profit.

## Cost Proposal

The following table shows our anticipated cost for the project.

Summary of Estimated Fees Water and Sewer Rate and Fee Study	
Task	Total
<b>Labor</b>	
Task 1 – Project Management	\$3,540
Task 2 –Project Kick-Off Meeting and Data Collection	1,970
Task 3 –Revenue Requirement Analysis	8,810
Task 4 – Cost of Service Analysis	9,960
Task 5 – Rate Design Analysis	6,710
Task 6 – Written Report	6,130
Task 7 – Connection Fee Analysis	12,770
Task 8 – Public Presentations	5,720
Task 9 – Computer Models	0
Grand Total Labor	\$55,610
<b>Expenses</b>	
Total Expenses (Travel, Printing, etc.)	\$4,100
<b>Grand Total Fee Estimate</b>	<b>\$59,710</b>

HDR is willing to negotiate a final fee based on a final scope of services. Should the District request additional services under this contract, the services will be provided at the hourly billing rates stated above through December 31, 2024. Portions of this price proposal can be expanded or reduced in conformance with scope adjustments and as mutually agreed upon in writing by the District and HDR.

## Proposed Method of Payment

HDR proposes that fees will be billed monthly on a time and material basis in accordance with the unit prices described in the above cost proposal. HDR is willing to enter into a time and materials contract for this project.

Should you have any questions or require additional information or detail regarding this scope of services, please do not hesitate to contact Josiah Close at 425-614-9124. Should this scope and fee be acceptable to the District, please provide a notice to proceed along with the appropriate contract documentation.

Sincerely,  
HDR Engineering, Inc.



Holly L.L. Kennedy, PE (CA #74682)  
Senior Vice President



Josiah Close  
Project Manager