

March 5, 2021

Mr. Dustin Anderson
Town of Munster, Indiana
1005 Ridge Road
Munster, IN 46321

Subject: Letter of Interest – Retail Water, Sewer, and Stormwater Rate and Fee Evaluation

Dear Mr. Anderson:

The Town of Munster's water, sewer, and stormwater utilities operate in a complex and ever-evolving environment providing public services that must be affordable, reliable, and sustainable. NewGen Strategies and Solutions, LLC (NewGen) believes that strategy dictates everything. Through proactive collaboration, we provide strategies that are responsive, transparent, and reliable while giving a basis for buy-in by all your stakeholders.

Based on our conversations, we understand that the Town of Munster (Town) is interested in performing an evaluation of the overall adequacy and performance of the Town's existing water, sewer, and stormwater revenue streams, with an eye towards ensuring overall adequacy and equity in rates and fees paid by and between customer groups. While the enclosure to this letter sets forth our proposed project approach, selected Project Team, anticipated project schedule and proposed fee to perform this evaluation, there are a few key points we would like to stress:

- **Operational Insights** – NewGen compiles and analyzes data producing defensible decisions with defensible results. We use existing and untapped data to optimize financial operations, develop demand management strategies, estimate the impacts of capital investments, and identify the basis and cost allocations underlying service pricing decisions.
- **Stakeholder Communication** – NewGen explains complex concepts by developing visual tools to ensure that clients learn how the issues and underlying data drive and support our recommendations. This directly impacts the evaluation of the scenarios we present, streamlines decision making, and facilitates buy-in.
- **Expert Credentials** – NewGen professionals have served as expert witnesses in over 200 regulatory and civil proceedings and our firm employs three of the fewer than twenty Accredited Senior Appraisers (ASA) certified with a public utilities designation in the United States. Every project at NewGen involves nationally recognized experts and their insights in our work products.

We appreciate the Town's consideration of our Team to conduct this important project. We confirm our availability to accomplish this project and commit to complete the project in a timely manner. If you have questions concerning this proposal or would like additional information, please contact me on my direct line at (972) 232-2234, or by e-mail at cekrut@newgenstrategies.net.

Sincerely,

NewGen Strategies and Solutions, LLC
Chris Ekrut
Chief Financial Officer

1. GENERAL INFORMATION

NewGen Information

General NewGen and Point of Contact Information	
Business Organization:	NewGen Strategies and Solutions, LLC
Principal Address:	275 W Campbell Rd, Ste 440, Richardson, Texas 75013
Authorized Agent:	Chris Ekrut, Chief Financial Officer Direct: 972.232.2234 Mobile: 214.498.8132 cekrut@newgenstrategies.net

Firm Experience

NewGen Background

NewGen Strategies and Solutions, LLC is a management and economic consulting firm specializing in providing financial and management advice to the public sector, especially utilities and other capital-intensive activities. NewGen's professional staff has nationally recognized expertise in utility cost of service and rate design studies, depreciation and appraisals, organizational and performance management studies, litigation support for legal and regulatory proceedings, utility business and financial planning, and stakeholder engagement for sewer, water, stormwater, solid waste, electric and natural gas utilities. *"Thoughtful Decision Making for Uncertain Times"* succinctly describes our approach to client challenges, opportunities, and obstacles.

Our experience has been acquired while members and/or owners were at recognized national consulting groups such as R. W. Beck, Inc. (now SAIC and Leidos), Navigant Consulting, and Touche Ross & Co. (now Deloitte) and KPMG Peat Marwick (now KPMG), and regional practices such as Reed, Stowe & Yanke. Additionally, NewGen professionals come from the nationally recognized engineering firms of CDM Smith, Inc. and HDR Engineering, Inc. Individuals from NewGen provide the expertise gained from hundreds of COS and expert witness cases and filings supporting utility customers, regulatory staff, and utilities.

NewGen, a limited liability company, has experienced significant growth since our inception in 2012, driven by our market leading expertise in helping public utilities and dedication to our clients. Today, NewGen employs a staff of nearly 50 in nine cities across the country.



NewGen's Core Competencies

NewGen's core business is providing financial and management advice related to water, wastewater, stormwater and solid waste infrastructure and operations. The specialized services we offer to our clients include:

- Cost of Service/Rate Studies
- System Development Charges/Capacity Fee Studies
- Operational Reviews/Management Audits
- Comparative Analyses/Benchmarking
- Financial Feasibility Studies
- Infrastructure Management/GASB 34
- Conservation Studies

In summary, NewGen is well versed and experienced in providing management and financial advice related to every aspect of water, sewer, and stormwater service.

Project Team Experience

NewGen currently has completed nearly 1,300 active water, wastewater, stormwater, and solid waste projects. In the interest of being concise, a sample listing of recent ongoing or completed projects that are relevant to the scope of work contained in our proposal is shown in Exhibit 1. If the Town has an interest in the details of any client engagement listed below, NewGen will gladly provide any requested information.

Exhibit 1. Sample of Recent Rate Study Experience

Last Study	Client	State	Water	Sewer	Stormwater	Capital Charges	In/Out Rates	Rate of Return
Ongoing	Anne Arundel County	MD	✓	✓	✓	✓		✓
Ongoing	Libertyville, Village of	IL	✓	✓	✓			
Ongoing	Hamilton, Township of	NJ		✓			✓	✓
Ongoing	Springfield, City of	MO		✓	✓	✓		
Ongoing	Springfield City Utilities	MO	✓	✓	✓			✓
2020	Concord, City of	CA		✓			✓	
2020	Fort Worth, City of	TX	✓	✓			✓	✓
2020	Ocean City, Town of	MD	✓	✓			✓	
2019	Bloomington-Normal WRD	IL		✓		✓		
2019	Westminster, City of	MD	✓	✓	✓	✓	✓	✓
2019	Fayetteville, City of	NC	✓	✓				
2019	San Diego County Water Authority	CA	✓					
2018	Frederick County	MD	✓	✓	✓	✓		
2017	Naperville, City of	IL	✓	✓		✓	✓	

2. RELEVANT REFERENCES

The professionals at NewGen have worked hard over the years to attract and maintain a diversified staff of professionals with exceptional skills, dedication, and talent. We have built our reputation by providing clients with solutions that are based on sound principles, economic feasibility, and innovative thinking without losing sight of budget and schedule considerations and constraints. We are proud of the long-standing relationships that we have developed with our clients. NewGen encourages the Town of Munster to contact any of the representative professional references listed below. These clients can speak to our ability to provide quality work similar to the services requested by the Town.

TOWN OF MUNSTER, INDIANA
RETAIL WATER, WASTEWATER, AND STORMWATER RATE AND FEE EVALUATION

Name	Title	Address	Phone	Email
Fayetteville, NC – Water, Wastewater, and Electric Rate Design and Modeling (2017 – Ongoing)				
Lisa Buffaloe	Financial Planning & Analysis Manager	955 Old Wilmington Road Fayetteville, NC 28301	910.223.4008	lisa.buffaloe@faypwc.com
Fort Worth, TX - Uniform Wholesale Wastewater Contract Negotiations				
Lawrence A. “Andy” McCartney	Administrative Services Manager	1000 Throckmorton Ft. Worth, TX 76102	817.392.8567	Andy.McCartney@fortworthtexas.gov
Springfield, MO – Comprehensive Cost of Service Review and Other Consulting Services (2019 – Ongoing)				
Krista Shurtz	Director - Rates and Fuels	1711 West Battlefield, Suite A Springfield, MO 65807	417.831.8484	krista.shurtz@cityutilities.net

3. PROJECT APPROACH, SCHEDULE AND BUDGET

Proposed Workplan

In conversations with the Town, NewGen understands that the Town is interested in the performance of a comprehensive evaluation of the overall adequacy and equity of the Town’s current water, sewer, and stormwater pricing structures. This would include development of individual financial plans for the Town’s water, sewer, and stormwater funds, taking into account items including, but not limited to, operations and maintenance expense, capital investment, and the impact of costs passed through from the Town’s wholesale service provider. After development of the utility specific financial plans, cost of service studies should be performed to determine the equity of allocated revenue requirements, including an examination of both inter and intra class subsidies that may exist.

To complete the proposed analysis, we have developed the following workplan:

Task 1 – Development of Water, Sewer, and Stormwater Financial Plans

Data Collection and Project Kickoff Meeting

Immediately upon receipt of notice to proceed, NewGen will submit to the Town a detailed data request, identifying the data that is needed to perform the scope of work. As the Town furnishes this data, it will be loaded into an online storage site, indexed and stored to enable access by project personnel and others authorized by the Town. This will ensure that all interested parties have access to all data and that all have the most current data available.



A project kickoff meeting will be held, to which all key Project Team and Town personnel will be invited to attend and participate. The purpose of this meeting is to review, update and validate the proposed work plan, introduce key personnel to one another, identify any roadblocks to timely completion, agree to key dates, provide Town personnel with contact information for consultant personnel, and establish the formal and informal reporting relationships that are necessary for a smooth project.

As part of the kickoff meeting, we will want to discuss the financial and rate policies currently in place as they will serve as key guideposts for our review. We will also want to discuss any potential policy issues that may need to be addressed during the review.

Review Current Operating and Maintenance (O&M) Costs

NewGen will review the adequacy of the Town’s most recently budgeted operating and maintenance costs. To the extent that costs are directly identified to specific functions of the water, sewer, and stormwater systems, they will be so documented. Any indirect support from other Town funds will be reviewed for appropriateness and sourced. NewGen’s review of forecasted operating expenditures will be based on:

- Review of historical operating expenditure increases by individual budget account line item,
- Any additional information that would increase the accuracy of the estimates (i.e., staffing increases/decreases, etc.),

Review Capital Improvement Plans and Evaluate Financing Sources

Leveraging the operational expertise of NewGen’s project team, we will review the Town’s most recently adopted capital improvement plans for the water, sewer, and stormwater systems to ensure that they are appropriate and complete. The types and levels of various funding sources to pay for the capital and operating costs of the utility systems will be examined, and the impacts of various approaches will be quantified. While it is presumed that all operating and maintenance costs will be funded via user rates, there are various approaches to funding capital expenses. Based on the Town’s current plans and policies and our industry expertise we will review the approach to funding each capital project within the Town’s capital plans and the impact on future financial projections.

Review Current and Projected Debt Service

The annual principal and interest payments for existing debt service related to each utility system will be documented. NewGen will review the Town’s assumed types of debt and typical debt and assumed structure/interest rate.



Evaluate the Adequacy of Reserves

The wise use and management of financial reserves provides many advantages to a utility: rate stabilization and “smooth” rate increases, as well as enhanced credit ratings and resulting interest savings. We will review the adequacy of the Town’s current projected reserves based on Town policy and our industry expertise.

Based on the above analysis, the Project Team will prepare formal, five-year financial plans specific to the Town’s water, sewer, and stormwater systems and will prepare Technical Memorandums detailing the analysis, assumptions, methodology, and resulting plans.

Task 1 Deliverables

- | | |
|---|---|
| ▪ Data Request | ▪ Updated scope of work and schedule (if necessary) |
| ▪ Kickoff meeting materials | ▪ Technical Memorandum detailing our development of the Town’s water, sewer, and stormwater financial plans |
| ▪ Creation of a shared project database | |

Task 2 –Evaluate Water, Sewer, and Stormwater Cost of Service

To evaluate the appropriateness of rates and fees on a customer class basis, it is necessary to perform a cost of service study for each utility. A cost of service study functionalizes cost based on the service being provided, classifies cost reflective of service demands, and then allocates costs to groups of customers (referred to as “customer classes”) reflective of their use of the system components. The following briefly discusses the proposed cost of service methodologies to be employed.

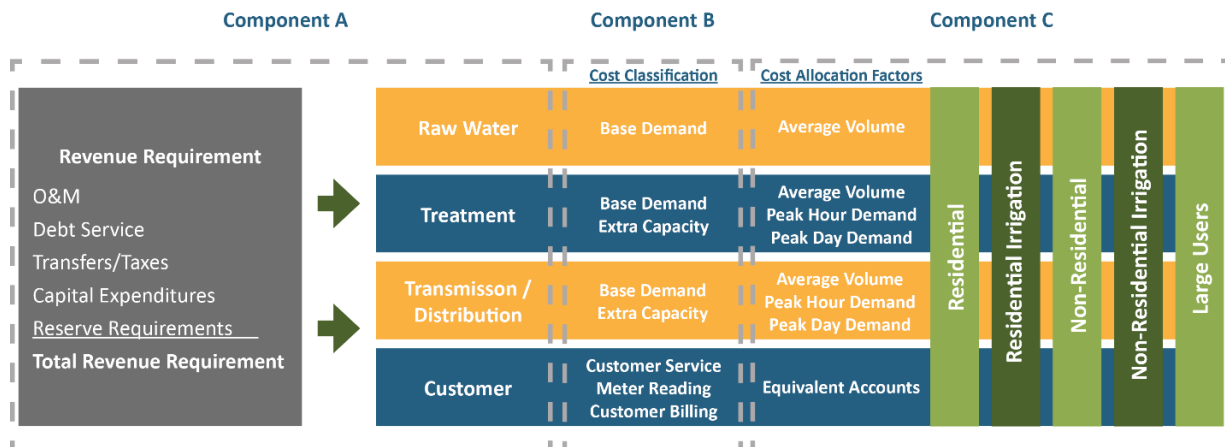
Water Revenue Requirement Cost Allocation

The revenue requirements from rates may be allocated as necessary by class to serve as the basis for rate determination for each class. To complete a cost-of-service analysis we would propose to follow the methodology described in American Water Works Association (AWWA) Manual M1 – *Principles of Water Rates, Fees and Charges* for allocating water system revenue requirements.

Analyze Detailed Usage / Peak Demands

A key step in understanding of the make-up of the customers serviced by the Town’s water system and how and when they use water throughout the year is reviewing how various customers peak the system. This is necessary for determining appropriate cost allocations. To facilitate this review, NewGen will request several years of detailed consumption at the customer account level. NewGen will analyze the customer and customer usage data to identify usage patterns, including seasonal usage and customer class peaking. Demand ratios (max week, max day, max hour, etc.) will be identified and considered in this analysis (if appropriate, and based on existing data), as will peak demands related to any large customers or customer classes.

Exhibit 2. Industry Standard Water Cost of Service Components



Note: For illustrative purposes only. Functions and allocators may change to align with utility operations/services.

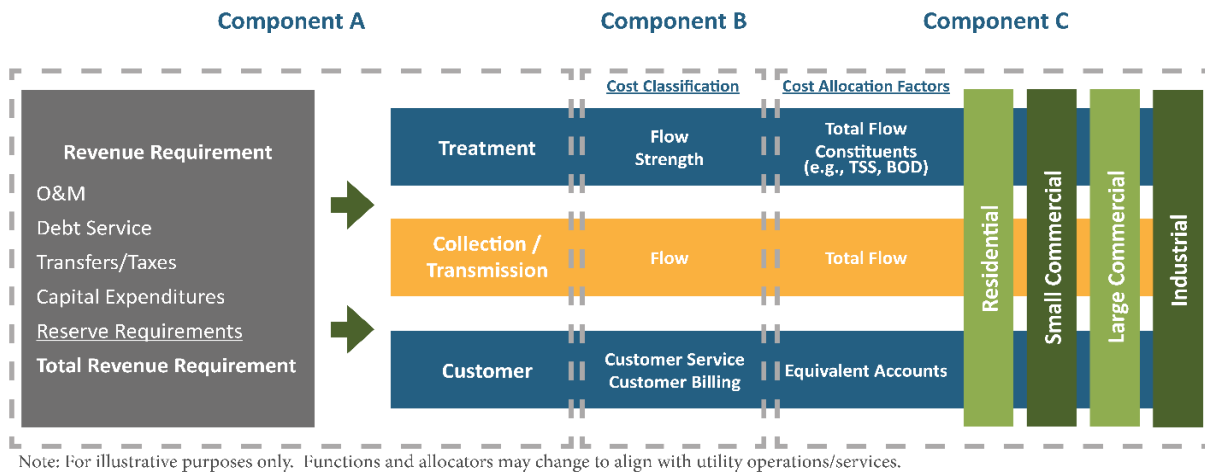
Sewer Revenue Requirement Cost Allocation

To perform the Town’s sewer cost of service study, NewGen will rely on wastewater cost allocation methodology that is consistent with and based on the principles provided by the Water Environment Federation’s (WEF) Manual of Practice 27 - *Financing and Charges for Wastewater Systems*. In any case in which the Town identifies and allocates costs among different classes of wastewater customers, NewGen’s review of those allocations will be consistent with industry standards.

Stormwater Revenue Requirement Cost Allocation

In preparing the cost of service specific to the Town’s stormwater utility, the Project Team will examine the impervious cover of properties as previously determined by the Town which comprise the Town’s assessed stormwater run-off area (ASTRO). Costs will be allocated to customers based on the Town’s existing system of assessment.

Exhibit 3. Industry Standard Wastewater Cost of Service Components



While developing the cost of service by customer class is important, our Project Team recognizes that deviation from cost of service principles may be required to meet policy objectives of the Town Council and to properly balance the affordability of service with the ability to pay. Our Project Team recognizes the sensitivity associated with such analysis and will seek direction from Town staff on how the results of such an analysis should drive the final recommendations from the engagement.

Task 2 Deliverable

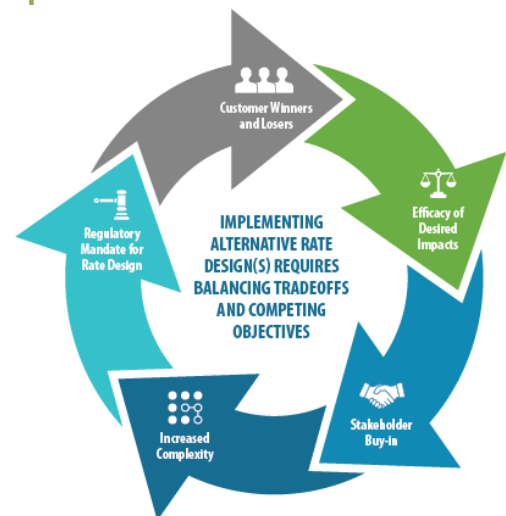
- Technical Memorandum detailing our evaluation and recommendations regarding the water, sewer, and stormwater Cost of Service functionalizations and allocations developed by the Town

Task 3 – User Rate and Fee Analysis and Alternative Development

After developing the cost of service analysis, we will review the Town's water, sewer, and stormwater rates and fees to determine if their structure is appropriate. It must be kept in mind that the issue of rate design is a "zero-sum" game; that is, the amount of money to be raised from rates is the same, regardless of the rate design. There are many rate designs that comply with industry practice and will withstand legal challenge. The policy determinations and preferences of the Town are important factors in determining the preferred water rate and fee design. Ultimately the Town may not need to change the current rate structure but rather change the allocation of costs among the components of the rate structure.

Fixed vs. Variable Cost Allocation

NewGen will review the fixed and variable portion of each rate and also the cost components that should be collected on the basis of fixed or variable charges. While it may be unrealistic to generate an identical proportion of fixed and variable costs in the revenue structure of the Town, NewGen will strive to increase cash flow stability using fixed charges where appropriate.



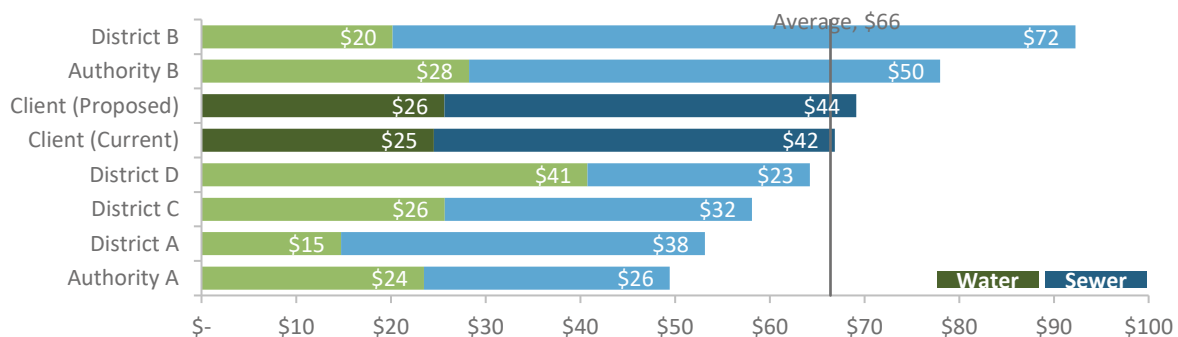
Adverse Impacts to Customer Groups

Any rate structure change will have disproportionate impacts on certain customer groups. For example, increasing the proportion of revenue raised from fixed charges disproportionately impacts small users, as a higher proportion of their bill is due to the fixed fee. These impacts will be noted and explained for each rate structure recommended as a part of the study and implementation strategies will be developed to mitigate or phase in each impact.

Customer Bill Impact Benchmarking

NewGen will conduct a benchmarking evaluation to facilitate comparison of what the Town's current and proposed water, sewer, and stormwater bills will be for a typical customer of each classification compared to a similar customer in surrounding utilities of similar size as shown in Exhibit 4.

Exhibit 4. Example Water and Sewer Bill Comparison



Task 3 Deliverables

- Technical Memorandum detailing our review of the Town's water, sewer, and stormwater rate design and any recommendations to better align pricing with cost of service results and/or Town policy goals
- Bill comparison of a median Town residential water, sewer, and stormwater customer to a similar customer in surrounding comparable jurisdictions under the current rates and any alternative rate structures developed during the review

Task 4 – Project Reporting

NewGen will document all work performed in a concise narrative report. A draft of the report will be provided to Town staff for review and comment. NewGen will incorporate modifications to the report suggested by Town staff, where appropriate, into a final report. A PowerPoint presentation will also be developed and presented by NewGen to the Town Council.

One of the most important tasks of any change in rates or rate structures is public engagement and education. NewGen has experience coordinating public outreach programs with clients during the implementation phase of rate and fee studies. There are various tools available to communicate and engage with the public.

Exhibit 5. Stakeholder Engagement and Outreach Tools



While not included within our proposed pricing, NewGen can develop, with the input of Town staff, public friendly engagement tools for use at open house public meetings or committee meetings to inform and engage the public of any study findings, recommendations, and impacts. NewGen can also coordinate on a day-to-day basis with any public information staff of the Town in response to any social media or print media disinformation that may arise during any stakeholder outreach.

Task 4 Deliverables

- | | |
|---|--|
| <ul style="list-style-type: none">■ Final Project Reports■ PowerPoint Presentation Summarizing Results | <ul style="list-style-type: none">■ Attendance at Town Council meeting to present the results of the Study |
|---|--|

Proposed Timeline

The technical approach outlined in this proposal will result in delivery of a draft report approximately sixteen (16) weeks after notice to proceed and a final report two weeks after meeting with Town staff to discuss the draft results. Conference calls and web meetings with Town staff will occur monthly throughout the study.

Of course, NewGen is willing to adjust these expected delivery dates and the number of meetings if needed to accommodate the Town's schedule.

COVID-19 Statement

The above stated schedule and the following not-to exceed cost assume that NewGen team members will be attending all meetings (except the monthly status meetings) in person. Due to the uncertainty surrounding COVID-19 and how its impact is changing our work environment, in-person meetings may not be feasible or advisable. We are fully capable to complete this scope of work and conduct all project meetings remotely, if so desired by the client. We have the project experience and technology to perform meetings and presentations by conference call and virtual/video conferencing.

Proposed Budget

The total costs for the work detailed by the scope of services in this proposal is \$55,820. A detailed breakdown is shown in the exhibit below.

Exhibit 6. Detailed Not-to-Exceed Study Cost

					Ekrut	Callocchia	Kirkland	Keaton	Labor Hours	Professional Fees	Out-of-Pocket Expenses	Total	
					\$300	\$225	\$150	\$135					
Task 1 Develop Financial Plans					8	12	16	24	60	\$ 10,740	\$ 2,000	\$ 12,740	
Task 2 Cost of Service Evaluation					12	16	24	32	84	\$ 15,120		\$ 15,120	
Task 4 Rate and Fee Analysis and Alternatives					8	12	24	32	76	\$ 13,020	\$ 1,000	\$ 14,020	
Task 4 Project Reporting					12	12	16	24	64	\$ 11,940	\$ 2,000	\$ 13,940	
Labor Hours					40	52	80	112	284				
					Total Proposed Budget						\$ 50,820	\$ 5,000	\$ 55,820

Proposal Statement

This proposal has been prepared by Chris Ekrut, Chief Financial Officer for NewGen and a Director of the firm. Mr. Ekrut is authorized to legally bind the Proposer. Mr. Ekrut confirms NewGen’s availability to accomplish this project and commits to complete the project in a timely manner. Our proposal and the price contained within will remain firm for a period of 90 days.

4. STAFF ASSIGNED TO PROJECT

NewGen’s Project Team consists of highly experienced financial and management consultants. All team members have significant and recent experience in the development of rate strategies, analyzing and integrating metering and consumption data, financial planning, development of COS studies, rate design and emerging rates. We guarantee the specific performance of the key personnel identified in this section of our proposal. Short biographies of proposed Project Team members are provided below and complete, detailed resumes can be provided upon request.

Chris Ekrut | Project Manager



Mr. Chris Ekrut, MPA, Chief Financial Officer for NewGen, will serve as Project Manager for this engagement. Mr. Ekrut has been providing consulting services since 2004, with the majority of projects centered in the water and wastewater industry around user/impact fees. Chris has filed expert witness testimony with regard to cost of service and rate design, as well as provided litigation support before rate regulatory agencies. He has conducted a number of wholesale and retail water and

wastewater rate studies, developed water and wastewater rate models, storm water fee models, and assisted in the negotiation and/or litigation involving a number of wholesale water contracts. Chris also specializes in the development of Utility Business Plans and has been called on by the Texas Section of the American Water Works Association to speak on the importance of business planning for municipal and governmentally owned utilities. Chris also serves as an instructor for the national “Fundamentals of Water Cost of Service and Rate Design” class sponsored by EUCI. Additionally, Chris recently joined the Faculty

EDUCATION

BA, Public Administration, West Texas A&M University
 Master of Public Administration, University of North Texas

AFFILIATIONS

AWWA
 EUCI, Instructor, Water Cost of Service Fundamentals
 Faculty, NARUC Rate School

and serves as an instructor and Coach for the National Association of Regulatory Utility Commissioner's Rate School.

Eric Callocchia | Assistant Project Manager



Mr. Callocchia is an Executive Consultant in the Annapolis office of NewGen, applying economic, mathematic, and financial skills to a broad range of projects for clients. He has experience with both rate modeling and cash flow simulations. He is involved in both

water and wastewater industry associations. **He is a contributing author to the most recent edition of the Water Environment Federation's Manual of Practice 27 – Financing and Charges for Wastewater Systems, an active member of the American Water Works Association (AWWA) Rates and Charges Committee, and a contributing author to the upcoming new edition of AWWA's Manual M1 – Principles of Water Rates, Fees and Charges.** He is also accredited as an expert witness concerning utility rate setting matters by the Maryland Tax Court, under whose jurisdiction utility rate disputes fall.

EDUCATION

BA, Economics/Mathematics, Johns Hopkins University

AFFILIATIONS

AWWA, WEF, CWEA, GFOA
AWWA Rates and Charges Committee

PUBLICATIONS

Contributing Author, WEF MOP 27 – *Financing and Charges for Wastewater Systems*

Megan Kirkland | Financial Analysis



Ms. Megan Kirkland joined NewGen in May 2018 as a Staff Consultant and provides analytical support and assistance with industry and project research and performs financial analysis and modeling for clients. She graduated from Texas A&M

with a Petroleum Engineering degree with a minor in Business Administration.

EDUCATION

BS, Petroleum Engineering, Texas A&M University

AFFILIATIONS

AWWA

Aaron Keaton | Financial Analysis



Mr. Keaton applies financial modeling skills to a broad range of rate design projects for clients. He has served as lead data analyst for several water, sewer, stormwater, and/or solid waste rate studies throughout the United States. In

addition to rate design projects, Mr. Keaton has also assisted in operation and management, benchmarking, and performance management studies.

EDUCATION

BS, Energy Business and Finance, Pennsylvania State University

AFFILIATIONS

AWWA, WEF

5. SUB-CONSULTANTS

NewGen will not need to utilize the services of any sub-consultants to complete the services requested by the Town.