Appendix A – Scope of Services, Schedule, and Fees

Introduction

HDR Engineering, Inc. (HDR) proposes to provide an operations efficiency study for the City of Fort Smith's (City) utility department. The intent of this study is to establish an understanding of each utility's overall "efficiency" and to identify those areas where improvements may be made to improve efficiency and/or levels of service. This proposed scope of services will utilize a systematic and comprehensive review process for the City's utilities.

Defining Efficiency and the Limitations of this Study

"Efficiency" can be defined in a number of different ways. The most obvious definition of "efficiency" is the improvement of an operation that leads to direct cost savings. While that type of "efficiency" is certainly a main focus of this study, "efficiency" can also be defined as an improvement to a process that may lead to improved levels of service, but not necessarily significant cost savings (e.g. improved financial policies that leads to a more efficient and consistent decision making process). Both of these types of "efficiencies" will be considered within this study. At all times, the City should be focused on providing the highest level of service at the lowest reasonable cost. Both of these types of efficiencies capture the essence of level of service at the lowest reasonable cost.

In conducting this study, the main intent is to identify those areas where improvements can be made to create efficiency improvements. It is not the intent of this study to identify every single area where an improvement can be made. A simple analogy may help to relate the purpose of this study. This study will "sift" through the organization and identify the larger "boulders" where significant cost savings may be captured. Smaller stones or gravel will sift-through. That is not to say that potential efficiencies could not be captured from the smaller items or areas, but the City should begin with those areas that will capture the largest and most immediate savings or improvements. Over time, the City can work on identifying the smaller areas for efficiency improvements and savings. Hence, the term continuous improvement will be important long after this study is completed.

Detailed Description of Proposed Scope of Services

HDR has developed a detailed scope of services to conduct a study that meets the overall and specific goals and objectives of the City. Two basic premises are included in the proposed scope of services. First, it is assumed that the operations efficiency study will be conducted simultaneously between water and sewer. The second item to note is that the general approach or review to be undertaken for each utility is assumed to be identical, except where noted otherwise.

Task 1—Initial Project (Kick-Off) Meeting

Task Objective: Bring the HDR project team, City management and staff together, at the start of the project, to assure that all parties have a mutual understanding of the goals, objectives, issues and concerns related to the study.

The initial project (kick-off) meeting is important to the overall success of this engagement since it forms the foundation for the study process. The initial project meeting is used as a starting point in developing a strong working relationship between the HDR and the City. At the same time, this meeting allows both parties to discuss the overall goals and objectives for this study, while at the same time discussing any issues and concerns that either party may have. At the same time, this meeting can be used to communicate to key management and staff members the overall purpose or objective in conducting in the operations efficiency study. It is proposed that the initial project meeting be approximately one-half day in length.

At the same time, it will be important for the City to communicate to City and utility management and staff the purpose and objectives of this study. Gaining the full cooperation and participation of management and staff in conducting this study will only enhance the value of this study to the City.

Expected City Staff Support for Task 1: For this task, the City will be expected to:

- Have their key management/project team members attend a one-half day planning meeting.
- Communication to City and utility management and staff the purpose and objectives of the study.

Deliverables as a Result of Task 1—Initial Project (Kick-Off) Meeting. From the work accomplished above, the deliverables for this optional task will be as follows:

- Identification of objectives, issues and concerns by both parties.
- Face-to-face meeting to get the study off to a positive start.

Task 2—Data Collection and Review

Task Objective: Review and assess the City's existing water and sewer data, and provide a written data request detailing the data required to complete the study.

The initial written data request details the data and information required to conduct the study. This study has been segregated by task between operations, planning, financial/rate and organizational. A written data request will be provided to the City prior to the initial kick-off meeting so that it can be discussed at the meeting and any problem areas quickly resolved. The data and information requested for this study should be, for the most part, readily available information (e.g. operational, financial, statistical, customer, etc.). The key issue for data collection purposes may be the level of detail that is readily available and needed for the study. The written data request will be organized by key areas or functions. It will be the responsibility of the City to assign individuals or staff persons to collect/accumulate the data.

For those areas where the data is not readily available, or will require significant labor and expense on the City's part to provide, HDR and the City will determine the "sensitivity" or "importance" of the data required and if alternative data sources are available. As with any study, it is important that the City provide a timely response for the data requested.

Expected City Staff Support for Task 2: For this task, the City will be expected to:

- Gather the data requested in the written data request. (Note: typically requires 20 – 40 hours of total staff time to provide.)

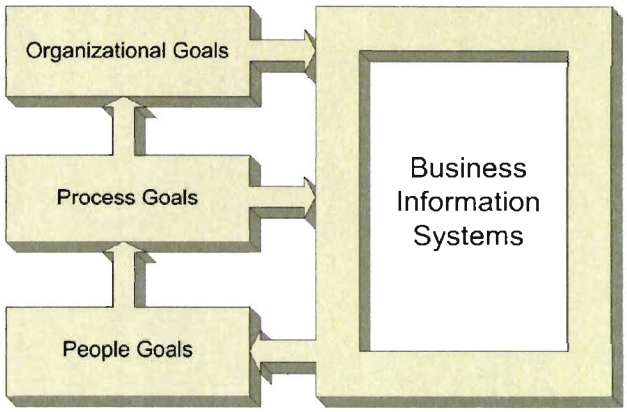
Deliverables as a Result of Task 2—Data Collection and Review. From the work accomplished above, the deliverables for this task will be as follows:

- An initial written data request to the City.
- Identification of any data constraints.

Task 3—Review of Organizational Structures/Issues

Task Objective: *Review the organizational structure to better understand and define the levels of responsibility at three levels of the utility's performance; strategic, process, and people. We will look at how people see and value their roles in performing processes and meeting the strategic goals.*

In identifying potential improvements for the organization, HDR will identify opportunities to improve performance at three levels—the strategic level of the organization, the business process level, and at the people level.



- **Strategic Level** - This includes strategic goals, organizational design of core services, and the process of managing organizational performance.
- **Business Process Level** - This includes process goals, the way in which these processes support the organizational goals, and the management of processes.
- **People Level** - Staff have a set of job-related goals, they have roles to play in a variety of processes, and they need measures of human performance to allow for feedback in meeting the organizational goals.

Technology is often a key part of the answer to organizational optimization and performance improvement, but accountability of the people is essential. It takes the desire of people to want to gain efficiencies, make improvements or changes and then follow processes to actually achieve improvements. Human behavior and motivation will be discussed throughout the evaluation process.

Subtask 3.1 Strategy Review – This subtask will be a component of the kick off meeting with City and utility management and staff to discuss the high level goals and the business processes relevant to the meeting the strategic goals of the organization.

The strategic review subtask will be used to set up the Business Process Review and finalize the approach and deliverables for performing individual key people interviews. One of the key

areas to be specifically reviewed within this study is the utility billing and collection function. This section will capture the following information:

- High level goals and opportunities for the organization.
- Major management and implementation obstacles and problems faced by Utilities staff and management.
- Listing of the key roles within Utilities that support utility billing and collections functions.
- Listing of the primary data sources and tools used to support utility billing and collection and service delivery.

Subtask 3.2 Business Process Review – The purpose of the operational review will be to evaluate operating procedures, the accomplishment of meeting past goals, and look at the current use of metrics (performance measures). It will be important to look at the business interactions, communication and coordination of staff to gain a full understanding of the utility's organization and how it functions.

For example, utilities manages the meters and meter reading functions. The billing and collection processes are the responsibility of the Finance Department with the billing processes outsourced to a third party. This subtask will look at the process from new service request through the billing and collection. The goal will be to study the efficiency of the customer service and billing and collection processes as well as meters and meter reading. Certainly, at the very least the issue of meter replacement cycles and automated meter reading to gain efficiencies will be explored as a part of this subtask.

HDR will conduct a "high level" inventory of the applications and systems used to meet the strategic business goals and how the supporting software and hardware are used by staff within the key business processes to meeting the goals.

Meetings and phone interviews will be scheduled to evaluate the key business processes, analyze the levels of risk within the utilities and diagram business interactions. These operational steps will also include a study of the key business information systems and how they align with the processes for meeting the defined goals. The goal will be to define the improvement opportunities and requirements of each utility to improve efficiency with changes to the organization and/or business processes.

- Define the necessary levels of communication with customers, with staff, and with the community
- Determine the required business interactions and remove all the causes of poor coordination.
- Determine the points of accountability and to remove any barriers or shortcomings.
- Make a list of all high risk processes where the utilities has taken past risk and is willing to take future risks

Performance indicators or benchmarking will be used to compare the levels of efficiency for certain core functions. These performance indicators will be developed for "comparable" local, regional or national utilities.

Subtask 3.3 Staff Interviews – Staff must have a good understanding of their job, how the processes they perform support the processes of others and how the organization as a whole operates. During this subtask we will interview representative staff to gather insights on improvement areas, seek to understand what does and does not motivate utility management and staff and gather information on ways to improve coordination and communication of the work force.

We look at the activities performed by people. Ultimately, people use business information systems (data, tools, and systems) within the operational business processes to meet the strategic goals of Utilities' Business Plan. Therefore, it is important to establish an alignment of the Business Plan with all three levels of performance, especially the people.

- Assess the organizational competencies and hiring process.
- Set goals and measures for maintaining performance control with a continually improving action planning process.
- Understand human motivation and how to improve staff's potential by focusing on what motivates, not on what dissatisfies.
- Update the staff education programs, as necessary to prepare staff in advance, in order to grow the staff and to support the business action plan and core Utilities' principles.

Expected City Staff Support for Task 3: For this task, the City will be expected to:

- Provide inventory of current software and business information systems.
- Assist with scheduling meetings and phone interviews.

Deliverables as a Result of Task 3 – Review of Organizational Structures/Issues. From the work accomplished above, the deliverables for this task will be as follows:

- Strategic goals and high level business processes.
- Study of the efficiency of the billing and collection processes/relationships.
- Diagram of key business interactions.
- Review of operational business procedures and list of opportunities for improvement.
- Summary of key staff interviews and ideas solicited from staff that may be used in making improvements.
- Review of the critical business information systems.
- Summary of best practices and what other water and wastewater utilities are doing with business information systems to improve performance.
- Review of key performance indicators (benchmarking) in relation to other "comparable local, regional or national utilities.
- Sections of the report dealing with the organizational efficiencies summarizing the observations and proposed improvements.

Task 4—Review of Water and Sewer Operations

Task Objective: *Review the key operating costs of the two Water Treatment Facilities and the two Wastewater Treatment Facilities. The key cost components generally include staffing, power, and chemicals.*

The treatment facilities have recently been expanded and upgraded, so input from the City regarding areas of focus will be necessary during the evaluation. Regulatory compliance (SDWA and NPDES permit), operator and laboratory certifications, and the wet weather

requirements will be reviewed. The efficiency of the plants will be compared to similar facilities in terms of staffing for operators and maintenance, and the laboratory. The power requirements and chemical consumption will be reviewed and evaluated for overall efficiency. A comparison to similar sized facilities will be completed, but a good understanding of the unique features and characteristics of the Fort Smith facilities is necessary.

The primary focus of the reviews will be the Lake Fort Smith WTP, the Lee Creek WTP and P Street WWTP and Massard WWTP. The staffing for the distribution system, booster pumping stations, collection system and lift stations will be reviewed but the power costs for the smaller system components would not likely result in significant savings, so that is not included in the evaluation.

Subtask 4.1 Review of staffing for facilities - The staffing for the treatment facilities will be reviewed in terms of operations/maintenance and laboratory staff with regard to the type of the facilities, process units and SCADA/automation available. The information will be summarized in terms of staff per MGD of capacity. Staffing for the laboratories will evaluate the type of testing required, amount of industrial testing and facilities size. The collection system, distribution system, lift stations, booster pump stations and storage facilities will be evaluated based on the number of staff per mile of distribution main, mile of collection line, pumping station, and storage facility.

Subtask 4.2 Review of power costs- The power costs for each facility will focus on the overall power used at each of the facilities and will be compared to similar size and type of WTP's and WWTP's. The key processes will be evaluated and the major electrical loads identified at each facility. Major electrical loads will be summarized and evaluated. Potential area of cost reduction will be identified.

Subtask 4.3 Review of chemical costs- Chemical costs for each of the facilities will reviewed. Chemical requirements are significantly impacted by water quality conditions and treatment requirements. An evaluation of chemical usage and potential savings will be completed.

Subtask 4.4 Review of residuals handling and disposal costs- Residuals handling will be summarized for each facility and the associated costs will be evaluated. The costs/ton for materials handling will be summarized and compared to other similar facilities.

Expected City Staff Support for Task 4: For this task, the City will be expected to:

- Provide background data to allow review and analysis of unit operating costs.
- Assist in the review of the treatment facilities and provide input on operations.
- Participate in interviews with supervisors of each facility.

Deliverables as a Result of Task 4 – Review of Water and Sewer Operations. From the work accomplished above, the deliverables for this task will be as follows:

- Sections of report dealing with operational efficiency of facilities.

Task 5—Review of Planning

Task Objective: *Review and assess the City's past practices as it relates to water and wastewater master/comprehensive planning. The planning process influences and directly impacts the short and long-term efficiencies of the organization. This task will evaluate the planning process in relation to industry best practices, the timing of master plan updates and how that information is fed back into the capital improvement planning, financial/rate planning*

and operational planning.

Water and sewer master and/or comprehensive[1] plans are a key component in a utility's overall efficiency. The purpose of the planning process is to logically and clearly demonstrate the system's operational, technical, managerial, and financial capability to achieve and maintain compliance with relevant local, state, and federal plans and regulations. At the same time, the master or comprehensive plan should demonstrate how the particular utility system will address present and future needs in a manner consistent with other relevant plans and local, state, and federal laws, including applicable land use plans. In the City's case, Section VII.H of the Arkansas *Rules and Regulations Pertaining to Public Water Systems*, the City is required to have a written Long Range Plan covering a planning period of at least ten years. The plan is to be updated at least every 5 years and contains specific elements to be addressed which address the technical, managerial and financial "capacity" of the City. While this clearly provides a framework for the City to develop a plan, a critical question to be undertaken within this review is the quality of the planning process. As an example, the forecast or projection of future demands drives the entire planning process. A demand forecast that is overly optimistic will potentially generate over-sized or unneeded facilities and capacity on the system. The City is at a critical cross-road in terms of continued growth and the need for expansion. By improving the planning process, a project may be delayed or deferred, thereby avoiding a potential significant investment and an impact to costs and rates. Given that perspective, this task will undertake to review key elements of the planning process for the water and sewer system.

Subtask 5.1 Review of Demand Forecasts – Both the water and sewer plans are initially driven by customer and demand forecasts. There are a number of different methods that may be used to project demands. These methods may range from a simple escalation of historical demands to as sophisticated as econometric demand forecasting. This subtask will review the current water and sewer planning documents and consider the forecasting method used, and whether the forecasting method could or should be improved. As noted above, an overly optimistic demand forecast can have significant implications upon the utility system. In particular, our review will consider whether the demand method does or does not take into consideration changing trends (e.g. reduced per capita demands) that appear to be occurring within the industry, and potentially within the City.

Subtask 5.2 Capital Planning Process – The planning documents take the demand forecasts and then translate them in capital needs or capital infrastructure. How those demands are translated into capital infrastructure can also vary, and again, have significant impacts upon needed capital improvements. For example, consideration may be given to planning from a hydraulic modeling perspective. At the same time, consideration may be given to the age and condition of the infrastructure. Next, items such as maintaining water quality or reducing inflow and infiltration may be a consideration in the capital planning process. Finally, regulatory requirements or the City's consent decree certainly have an impact upon the capital planning process. HDR will review the City's water and sewer plans and consider the technical process/considerations used to develop the list of needed capital infrastructure improvements. In addition to reviewing the technical process used by the City, the study will also review whether O&M solutions, where potentially viable, were considered (e.g. explore the potential trade-off between an O&M procedure and a capital project to improve or maintain water quality).

[1] Note: A master plan or comprehensive plan may have a very specific meaning, or these terms may be, and often are, used interchangeably.

Subtask 5.3 Financial Capability – The best planning process can not ignore the reality of the financial impacts of the capital plan. For a utility, this is an important sticking point. Failure to meet the simple test of financial capability at this point implies the need to go back into the planning process and develop a plan that is financially viable. It is not beneficial to the City to adopt a master or comprehensive plan that is not financially viable. Arkansas does require a review of "financial capacity" which contains a forecast of all future capital needs and operating expenses . . ." This subtask will review the level of detail involved in the financial capability test and how well that information is communicated within the planning document. While the financial capability test is not a formal "rate study" or "financial plan" it is an important screening test for each utility and the City to understand the potential future impacts of the capital infrastructure plan.

Expected City Staff Support for Task 5: For this task, the City will be expected to:

- Copies of existing Master/Comprehensive Plans, asset management information
- Participate in interviews with other City department staff.

Deliverables as a Result of Task 5 – Review of Planning. From the work accomplished above, the deliverables for this task will be as follows:

- Review of the demand projection/demand forecasting method and potential recommended changes or improvements.
- Review of the planning process for developing the capital improvement plans.
- Review of the financial capability test used within the City's planning process.

Task 6—Review of Finance/Rates

Task Objective: Provide a review of the role of finance and rates in the efficiency process. Identify areas of financial/rate deficiency and specific areas of potential improvement.

Financial planning and rates are the foundation for the proper and adequate funding of the utilities. Failure to properly and adequately fund the utility has efficiency implications for both the capital infrastructure and operations. This task is not a comprehensive analysis of the City's rates. Rather, it is a review of the financial planning and rate process from the perspective of "generally accepted" financial planning and rate setting processes, but more importantly, how these various aspects may integrate into the equation of efficiency (e.g. failure to adequately fund renewal and replacement of mains may lead to greater water losses and higher source of supply production costs). Provided below are the subtasks outlining specific areas to be reviewed under Task 6.

Subtask 6.1 Benchmarking of Financial/Performance Indicators – There are a number of different financial performance indicators that may be useful to the City to better judge the "financial health" of the City's utilities. As a part of this study, the financial indicators will be determined based upon the availability of data, along with the benchmarking information that may be available from other comparative utilities. These comparative utilities will be both Arkansas utilities (e.g. Fayetteville, Bentonville, etc.) and other regional or national utilities. The objective of the benchmarking exercise is to determine the City's financial strengths and weaknesses in relative to other utilities. It is important to note that benchmarking against other utilities is not a representative indicator unless there is an understanding of the other utilities and how well they are managed (i.e. comparing apples, oranges and rotting pears). With that in mind, the more important exercise is to create performance indicators which can be used by the City, over the long-term, to measure continuous performance improvement.

Subtask 6.2 Review of Current Financial Policies - Financial policies are the foundation for the financial planning and rate setting process. The adoption of a strong and complete set of financial policies will provide a strong foundation for the long-term financial sustainability of the utilities and will provide the outside financial community with a better understanding of the City's commitment to managing each of the utilities in a financially prudent manner. At the same time, it provides to the City's Board of Directors with a consistent decision-making framework for establishing the City's water and sewer rates. Finally, it provides the City's customers with an understanding that the utilities will be operated in "business-like" manner.

A review will be undertaken of the City's current financial policies as they specifically relate to the utilities. While there is no "generally accepted" set of financial policies for utilities, there certainly are best practices related to this area. The GFOA website (http://www.gfoa.org/services/nacslb/index.htm) details "The Best Practices in Public Budgeting" and also provides examples from municipalities. It is from that context that HDR will provide their review of the City's financial and rate setting policies. Some of the more important areas to be explored include:

- Development of policies specific to the utilities versus City-wide policies.
- Description of methodologies to be used for financial planning and rate setting (e.g. cash basis methodology, projection of five-year period, etc.).
- Debt issuance policies and target debt service coverage from a planning perspective.
- Reinvestment in the system (renewal and replacement of existing facilities) – minimum annual funding for system replacement.
- Types of reserves and specification of minimum reserve levels.
- Frequency of review of rates (e.g. rates shall be reviewed on an annual basis).
- Growth policy – "Growth pays for growth" and connection fee policy.

At the conclusion of this subtask review, HDR will provide an overview of our observations of the City's current policies and recommended improvements or modifications to help achieve efficiency in decision making and/or funding for improvements in operating efficiency.

Subtask 6.3 Review of the Financial Planning Process – The financial planning process is essentially a roadmap for financial decisions. The lack of a clear financial plan often leads to decisions which are more reactionary than proactive. This subtask will review the historical financial planning process that the City has used for the utilities. More specifically, the review will focus on the length of the planning horizon, the methodology utilized and the key inputs and outputs of the model (i.e. does it provide the appropriate information for the decision-makers within management and the Board). At the end of this subtask, the City will have an understanding of the strengths and weaknesses of their financial planning process for each utility in the context of best practices and generally accepted methodologies.

Subtask 6.4 Review of Infrastructure Replacement Funding – A major failure of the utility industrial (and government as a whole) is the failure to adequately fund infrastructure to maintain sustainable facilities through cash reserve. It is not unusual to have facilities with a useful life of 30 to 50 years and schedule for replacement funding of 100 years and beyond. Simply stated, the failure to properly and adequately maintain infrastructure leads to higher overall repair and replacement, and operation costs. For example, failure to properly maintain

water mains leads to more main breaks and higher water losses. This subtask will review the current funding levels for the infrastructure of each utility and compare those funding levels to the generally accepted guidelines. This subtask will provide the City with an understanding of the potential funding gap between current levels and more prudent and sustainable levels of funding. In addition, this funding gap will be placed in the context of potential rate impacts.

Subtask 6.5 Review of Debt/Rate Financing – The City is faced with very large infrastructure investments. How these projects are paid for and financed will have an impact upon the overall rates of the City. Over-reliance upon debt financing can drive rates up simply to meet debt service coverage requirements. This task will review the current approach used to finance these projects, including the use of a sales tax, and consider the long term viability of this approach. The harsh reality is that rates will need to be increased, but the more important question is whether there is a mix of funding that may help minimize rates over time, while still meeting the needed investments in infrastructure.

Subtask 6.6 Review of Rate Affordability – There are a number of different measures of affordability and an important consideration in rate setting is affordability. Affordability may trigger more favorable terms for the City. As an example, recent federal legislation has been introduced to amend the Federal Water Pollution Control Act to assist municipalities that cannot meet unfunded mandates to improve their wastewater infrastructure projects. If approved, the impact may be extended repayment periods on loans, extension of time periods for implementation, and potentially, the availability of grant funding. While not passed, it is important to understand the issue of affordability and how it may impact the City in the financing and funding of the legally mandated projects.

Expected City Staff Support for Task 6: For this task, the City will be expected to:

- Provide financial and rate data and information to review key issues.
- Review performance indicators for relevance

Deliverables as a Result of Task 6 – Review of Finance/Rates. From the work accomplished above, the deliverables for this task will be as follows:

- Financial benchmarks and performance indicators to gain an understanding of potential areas of financial/rate strengths and weaknesses in the utility.
- Develop a set of performance indicators for use by the City over the long term to measure continuous improvement.
- A review of the utility's current financial policies and suggested improvements.
- A review of the current financial planning process and financial models with a summary of observations and recommended improvements.
- A review of the City's infrastructure replacement approach or policies and recommendations to gain efficiencies.
- A review of the City's debt policies and reliance upon long-term debt as a funding mechanism.
- A review of the issue of rate affordability.

Task 7—Written Report

***Task Objective:** Provide a well written report to summarize the findings, conclusions, and recommendations of the operations efficiency study.*

Upon completion of the efficiency study, HDR will develop a draft written report. The written report is intended to be comprehensive in nature and document all of the activities undertaken as a part of the project, along with our findings, conclusions and a clear set of recommendations.

The report will include an evaluation of the City with regard to (American Water Works Association (AWWA) performance indicators and benchmarks similar to what is used in AWWAs "Benchmarking Performance Indicators for Water and Wastewater Utilities: Survey Data and Analysis Report." These performance indicators and benchmarks include both water and wastewater utilities and benchmark performance for the organization, customer relations, operations and business operations. The selection of specific benchmarks and performance indicators for the City's study will be based upon the relevance of the measure to the City's system, along with the availability of data to provide comparable indicators.

It is important to note that this study will likely identify improvements in efficiency which may or may not require additional investment and may or may not lead to savings (e.g. improved service to the customer at no additional cost). In order to appropriately evaluate the recommended efficiency measures, along with any other future efficiency measures to be considered, the City requires a "framework" to determine that evaluation. The report will discuss and provide examples of the various evaluation measures that are typically used in this process. This will include, but not be limited to cost-benefit measures such as return on investment, payback periods, net present value analysis, along with cost and risk allocation. No single measure is universally used and the report will provide examples of the appropriate application (e.g. a change in equipment that leads to reduced power use (savings) may be a simple payback method. In contrast, an AMR system may require a detailed net present value analysis to compare the current manual method to different AMR solutions/alterantives). For each recommended improvement, HDR will provide a preliminary cost/benefit evaluation of the potential savings.[2]

Within all of our reports, HDR provides technical appendices of all the technical analyses undertaken. HDR will provide four (4) copies of the preliminary (draft) final report to the City for their review and comment. Any comments, suggestions or corrections from the City concerning the draft final report will be incorporated into the final report. Ten (10) copies of the final report will be provided to the City, along with a PDF electronic version of the study.

Expected City Staff Support for Task 7: For this task, the City will be expected to:

- Review and comment on the draft written report.

Deliverables as a Result of Task 7 – Written Report. From the work accomplished above, the

[2] HDR notes that for purposes of this study it will provide a "*preliminary*" cost/benefit analysis. This study is limited in scope and depth, and as a result, in some cases, a more detailed study or analysis may be required to better understand and refine the needed capital improvements, potential costs of investment and the potential savings. An example of this would a decision to move to an automated meter reading system. A far more detailed analysis should be undertaken before undertaking an investment of that magnitude, but this study should be able to "screen" the potential cost/benefit of AMR to ascertain whether a more detailed study would be justified (i.e. potentially worth further study).

deliverables for this task will be as follows:

- A draft and final written report.
- A PDF copy of the final operations efficiency study.

Task 8—Citizen's Advisory Committee

Task Objective: *Provide an effective public involvement process by working closely with a Citizen's Advisory Committee to be formed by the City. Gain input and feedback from the Advisory Committee during the study process.*

An effective means of gaining public input and feedback is to form a Citizen's Advisory Committee. The overall objective of forming a committee is to gain the perspective of the customer, particularly in relation to levels of service. Potential operational improvements (efficiencies) may negatively impact service levels and the advisability of changes in levels of service as a trade-off to cost savings is best judged by those receiving the service. At the same time, customers can provide a different perspective to the process that may not be seen by a utility manager or consultant. To that end, a citizen's advisory committee can be a valuable addition to the overall study.

The City has requested that this study utilize a citizen's advisory committee to gain input and feedback. Given that, the City will be responsible for the selection and formation of the committee. HDR will be responsible for the development of the handout materials for each meeting. HDR will lead and facilitate the advisory committee meetings to gain the committee's input, feedback and final recommendations.

HDR has assumed up to four (4) meetings with the Citizen's Advisory Committee. The objective of these four meetings would be as follows:

- Review the City's current operations (primarily presented by City management staff) and an overview of the purpose of this study (HDR).
- Review of the Preliminary Review of the Organizational Structure and Planning Process.
- Review of the Preliminary Review of the Operations and Financial/Rate Review.
- Review of the Draft Final Report and Study Recommendations/Gain Committee Recommendations.

While the above approach is preliminary in nature, it can be adjusted to meet the needs of the City and the Committee. Should additional meetings beyond the four scheduled meetings be required, they will be provided by HDR on a time and material basis.

Expected City Staff Support for Task 8: For this task, the City will be expected to:

- Form the Citizen's Advisory Committee (i.e. find and select members)
- Manage all communications with the committee (e.g. send notices of meetings, etc).

Deliverables as a Result of Task 8 – Citizen's Advisory Committee. From the work accomplished above, the deliverables for this task will be as follows:

- Up to four (4) citizen's advisory committee meetings.
- Prepare meeting summaries.

Task 9—Board (Public) Presentation

Task Objective: *Provide an effective public presentation of the findings, results and*

recommendations of the study.

Providing a clear, concise and easily understandable public presentation of the findings, conclusions and recommendations of this study is paramount. It is suggested that one study session meeting be held with the Board of Directors to discuss the findings, conclusions and recommendations of this study. The HDR Project Manager, Don Lindeman, will provide these presentations to the Board, and will likely be assisted by other key project team members.

Only one meeting is suggested for the Board, since the role of the Citizen's Advisory Committee is to review the progress of the study and provide input. HDR will also have met with the Board in a study session prior to the start of the study to gain any relevant input from the Board that may be important to the study. Should additional public meetings/presentations be required, they will be provided on a time and material basis.

Throughout this study, we will schedule, as appropriate, project meetings with the City staff to keep them abreast of the progress of the study and to review the key assumptions, progress and preliminary results of the study.

Expected City Staff Support for Task 9: For this task, the City will be expected to:

- Review and comment on any proposed handouts for public meetings

Deliverables as a Result of Task 9 – Board (Public) Presentation. From the work accomplished above, the deliverables for this task will be as follows:

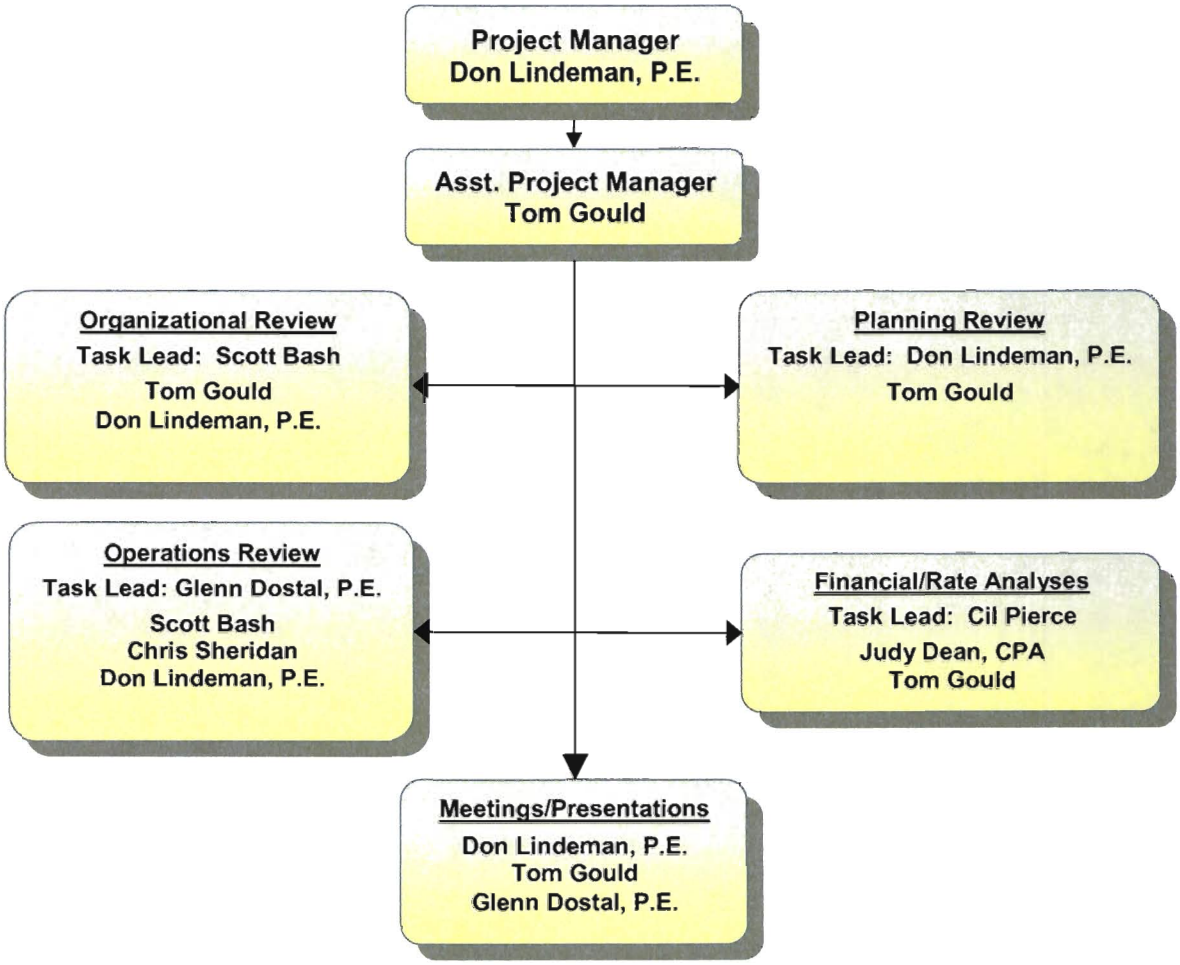
- One (1) public presentation to the Board of Directors to discuss the findings, conclusions and recommendations of the operations efficiency study.

This concludes the discussion of the proposed scope of work for the City. This scope of work has been developed based upon our limited understanding of the City's goals and objectives for this study. HDR is willing to modify our approach to meet the City's specific needs.

Key Project Team Members

Provided below is an overview of he key project team members for the City's study and their role for this study.

Figure 1
Overview of the HDR Project Team

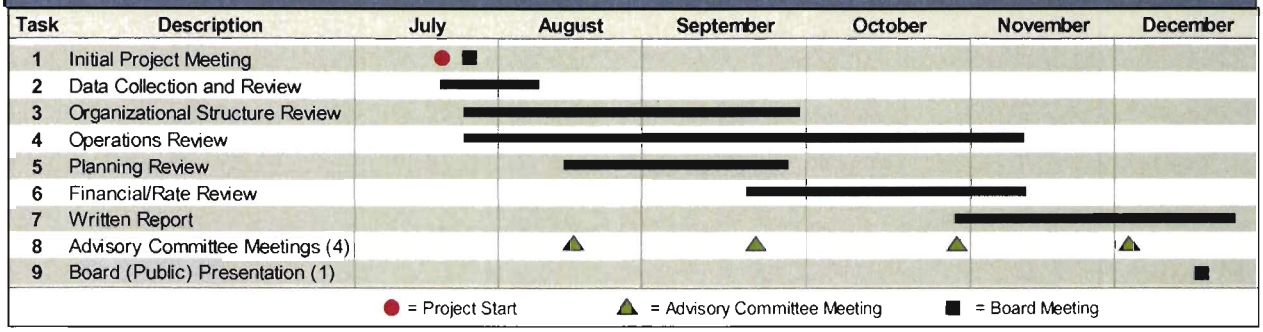


The Project Manager for the City's study will be Don Lindeman. In this role, Don will be responsible for the overall project management. Tom Gould will be the Assistant Project Manager for this study and assist in the day-to-day management and quality control of the project. All HDR team members, including Don Lindeman and Tom Gould will be committed to the successful completion of the City's project.

Estimated Project Time Schedule

A operational efficiency study of this complexity generally requires 20 to 28 weeks to complete, depending upon a number of factors. These factors include the amount of time required by the City to collect the necessary data, the quality of the data provided, the ability to schedule meetings with City staff in a timely manner and, most importantly, receive direction from the City's management team on the study. Provided below in Figure 2 is our estimated proposed time schedule for the City's project.

Figure 2
City of Fort Smith Operations Efficiency Study
Estimated Project Time Schedule



This time schedule has been developed based upon our best estimate of the level of effort required and the scope of services previously presented. The intent of this schedule is to complete the study by year end. As noted above, HDR is willing to adjust the project time schedule to meet the City's needs.

Estimated Project Fee

Summary of the Estimated Fees for the City of Fort Smith Operations Efficiency Study	
Task Description	**Total**
Labor:	
Task 1: Initial Project Meeting	$10,475
Task 2: Data Collection/Review	2,420
Task 3: Organizational Review	8,200
Task 4: Operational Review	15,690
Task 5: Planning Review	15,070
Task 6: Financial/Rate Review	7,520
Task 7: Written Reports	24,630
Task 8: Citizen Advisory Committee Meetings (4)	15,010
Task 9: Board (Public) Presentation (1)	4,520
Grand Total Labor	$103,540
Expenses:	
Total Expenses	$10,640
Grand Total "Not to Exceed" Fees	**$114,180**

HDR is willing to enter into a "not to exceed" contract of $114,180. HDR would further propose that the payments be made on a lump sum basis. The last payment may be held by the City until the successful completion of the study. The City will not unreasonably withhold final payment.