Efficiency Study Kick Off Meeting Update

The citizen's advisory committee for the water and sewer efficiency study met with City staff and HDR Engineering, Inc. on October 18, 2011 in order to understand the scope of the study as well as to meet the consultants and city staff. All members were present and the committee was welcomed by City Administrator Ray Gosack who gave them a brief purpose of the committee as well as informed them about Freedom of Information Act requirements for their meetings.

On the same day HDR engineers met with Utility and Finance department staff as a group to begin familiarizing themselves with the employees and current procedures. HDR engineers also performed interviews with finance and utility staff as a part of planning the study on October 18 and 19, 2011.

See the next slide for the power point presentation given by HDR on October 18, 2011.

ADVISORY COMMITTEE MEETING

Water and Sewer Operations Efficiency Study

October 18, 2011

The City of Fort Smith ARKANSAS

Presented by

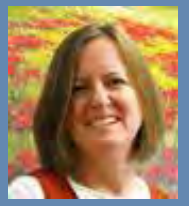
HDR Engineering, Inc.

HDR

Overview of the Presentation

- Introductions – Getting to know us and you!
- Understanding the Advisory Committee's expectations, your areas of interest and role in this study
- Overview of HDR and our experience and qualifications
- Project Scope of Services (Work Plan)
- Overview of the City's water and sewer system
- Next Steps

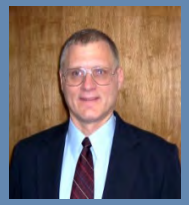
Key City Project Team Members



- Mitzi Kimbrough, CPA, Internal Auditor
  - (479) 784-2271 mkimbrough@fortsmith.gov

- Ray Gosack, City Administrator

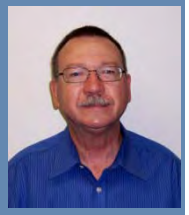
- Alie Bahsoon, Dept. of Finance; Purchasing Mgr.



- Kevin Sandy, M.B.A., Rate & Financial Analyst

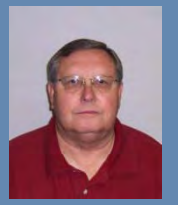
Key City Project Team Members

- Steve Parke, Director of Utilities



- Jack Dillon, P.E., Civil Engineer / Assistant Director of Utilities

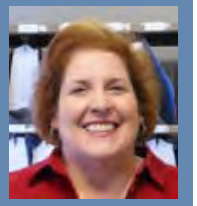
- Steve Floyd, Superintendent



- Leroy Jeremiah, Superintendent

Key City Project Team Members

- Bill Hon, Business Manager



- Kara Bushkuhl, Director of Finance

- Chuck Guillory, Collections Manager

- Jackie Joyce, Assistant Finance Director

Key HDR Project Team Members

- Don Lindeman, P.E. – Project Manager and Task Manager: Planning

- Tom Gould – Assistant Project Manager

- Glenn Dostal, P.E. – Task Manager: Operations

- Scott Bash, Task Manager: Organizational

Key HDR Project Team Members
(continued)

- Chris Sheridan, Operations Specialist

- Priscilla (Cil) Pierce, Task Manager – Finance/Rates

Should other personnel or other areas of expertise be required HDR has significant resources and experts

Advisory Committee Members

- Dave Burrell
- Gary Campbell
- Michelle Cernak
- Tim Dooley
- Matthew Garner
- Patrick Jacobs
- Bruce King
- Bill Maddox
- Kevin Moran
- C. Leo Patterson
- Lorie Robertson

Role of the Advisory Committee

- Goal: To provide an effective public involvement process during the study
- An Advisory Committee should:
  - Fully participate and have two-way communication (listen and provide input/feedback)
  - Take into consideration differing viewpoints, along with local community values and needs
  - Recognize the challenges of providing safe drinking water and wastewater collection and treatment services in a cost-effective and efficient manner
  - Receive Committee recommendations throughout process
  - Review draft final report and study recommendations

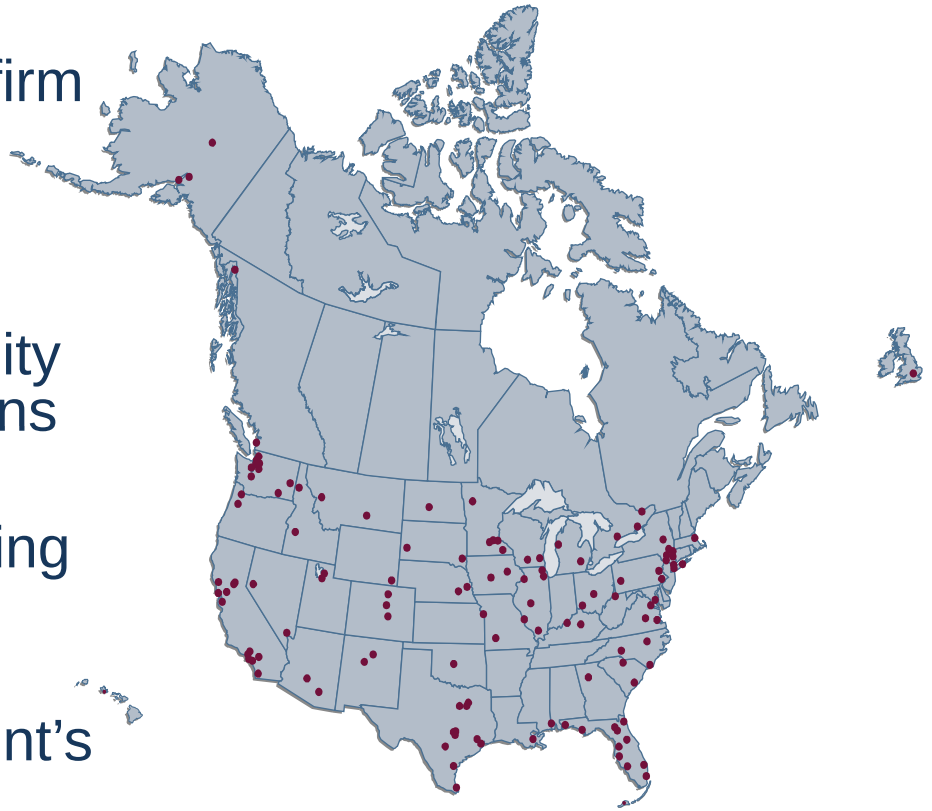
Advisory Committee "Ground Rules"

- Have a fun and enjoyable experience!
- Be on time for meetings; if you can't attend, please let us know
- Be respectful of all opinions and viewpoints
- HDR will manage the discussion of the group to keep the group focused
- All Committee communications should go through Mitzi Kimbrough
  - (479) 784-2271 mkimbrough@fortsmith.gov

About HDR Engineering, Inc.

About HDR Engineering

- Founded in 1917. Based in Omaha
- Diverse engineering and management consulting firm
- HDR consists of more than 7,800 employees in 165 offices
- Experts in all areas of utility engineering and operations
- Nationally recognized experts in financial planning and rate setting
- Constantly growing and changing to meet our client's ever changing needs



HDR Provides Expertise in Several Areas of Service

- Utility Management Services
- Water Supply and Treatment
- Wastewater Treatment and Disposal
- Pump Stations and Pipelines
- Alternate Delivery
- Construction Services
- Utility Financial Planning and Rate Setting
- Efficiency Studies

HDR's Experience With Other Utilities

- HDR Clients
  - City of Fayetteville AR
  - City of Bentonville AR
  - Rogers Water Utilities AR
  - City of Tontitown AR
  - Hope Water and Light AR
  - City of Clarksville AR
  - City of Jacksonville AR
  - City of Russellville AR
  - City of North Little Rock AR
  - City of Wichita KS
  - City of Salina KS
  - City of Neosho MO
  - City of Charlotte NC
  - San Diego Public Utilities Department
  - City of Branson MO

Key Components of Efficiency

Putting the Pieces of the Puzzle Together

Defining "Efficiency" and the Main Focus of this Study

- Efficiency can be defined in different ways
  - Improvements leading to direct cost savings
  - Improvement to a process leading to improved levels of service, but potentially not significant cost savings
- Main focus of this study
  - Identify those areas where major improvements can be made
    - Not intended to identify all areas, only those with significant potential (i.e. a "sifting" process)
    - City should begin with improvements to those areas with greatest potential
    - "Continuous improvement" and performance measurement should be an organization's culture

Gaining Efficiency – Sources of Cost/Rate Impacts

- Rate impacts are primarily driven by:
  - Regulatory requirements
  - Increasing energy, chemical, fuel prices
  - Bond covenants – need to meet debt service coverage

Costs outside the control of the City

  - Operating costs – electrical usage, chemical consumption, wages/benefits, etc.
  - Growth/expansion
  - Capital improvement plans
  - Utility programs
  - Financial policies

Costs managed and controlled by the City (where major efficiencies may be found)

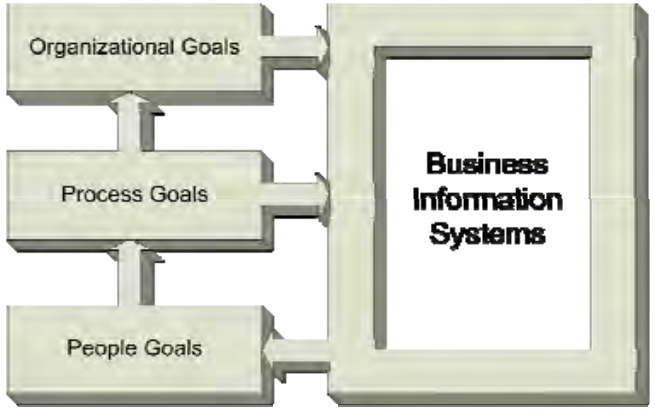
Overview of Technical Approach

- Task 1 – Initial Project Meeting
- Task 2 – Data Collection and Review
- Task 3 – Review of Organizational Structure/Issues
- Task 4 – Review of Water and Sewer Operations
- Task 5 – Review of Planning
- Task 6 – Review of Finance/Rates
- Task 7 – Written Report
- Task 8 – Citizen's Advisory Committee
- Task 9 – Board (Public) Presentation

At the conclusion of the study, the City will have a prioritized list of the specific steps/actions to be taken to gain efficiency in costs and the organization

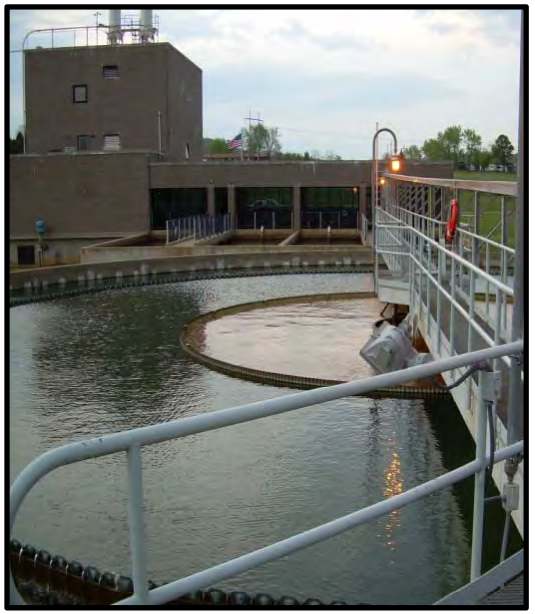
Task 3 – Review of Organizational Structures/Issues

- **Task Objective:** Review the organizational structure to better understand and define the levels of responsibility for Utility's, Finance and other support services at three levels of the utility's performance; strategic, process and people
- Subtasks
  - 3.1 – Strategy (Org.) Review
  - 3.2 – Business Process Review
  - 3.3 – Staff Interviews



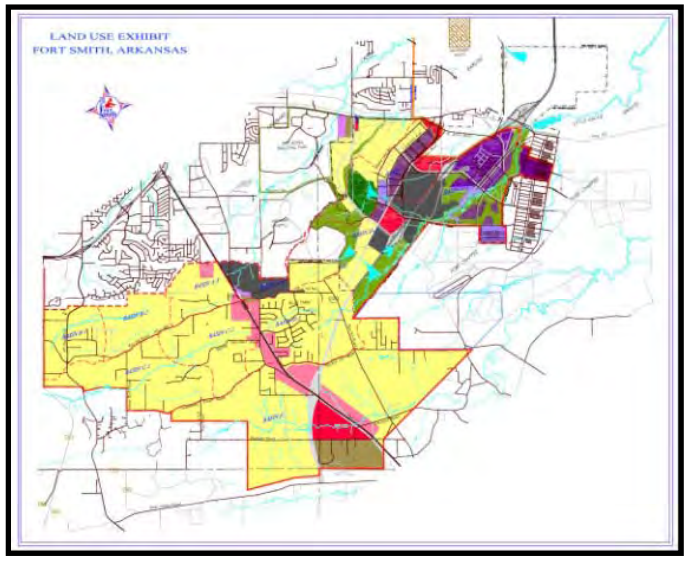
Task 4 – Review of Water and Sewer Operations

- **Task Objective:** Review the key operating costs of the two water treatment facilities and the two wastewater treatment facilities. Key costs typically include staffing, power and chemicals
- Subtasks
  - 4.1 – Review of Staffing for Facilities
  - 4.2 – Review of Power Costs
  - 4.3 – Review of Chemical Costs
  - 4.4 – Review of Residuals Handling and Disposal Costs



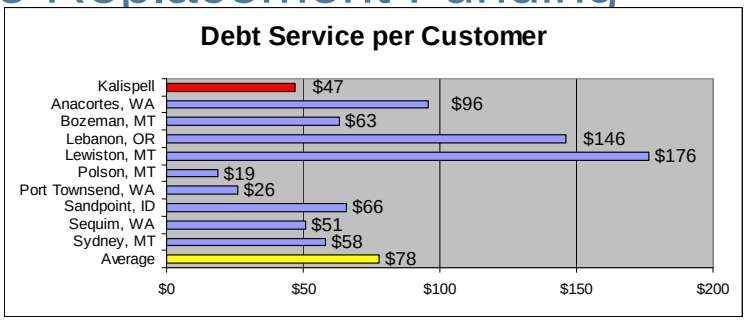
Task 5 – Review of Planning

- **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.
- Subtasks
  - 5.1 – Review of Demand Forecasts
  - 5.2 – Capital Planning Process
  - 5.3 – Financial Capability



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
- Subtasks
  - 6.1 – Benchmarking of Financial/Performance Indicators
  - 6.2 – Review of Current Financial Policies
  - 6.3 – Review of the Financial Planning Process
  - 6.4 – Review of Infrastructure Replacement Funding
  - 6.5 – Review of Debt/Rate Financing
  - 6.6 – Review of Rate Affordability



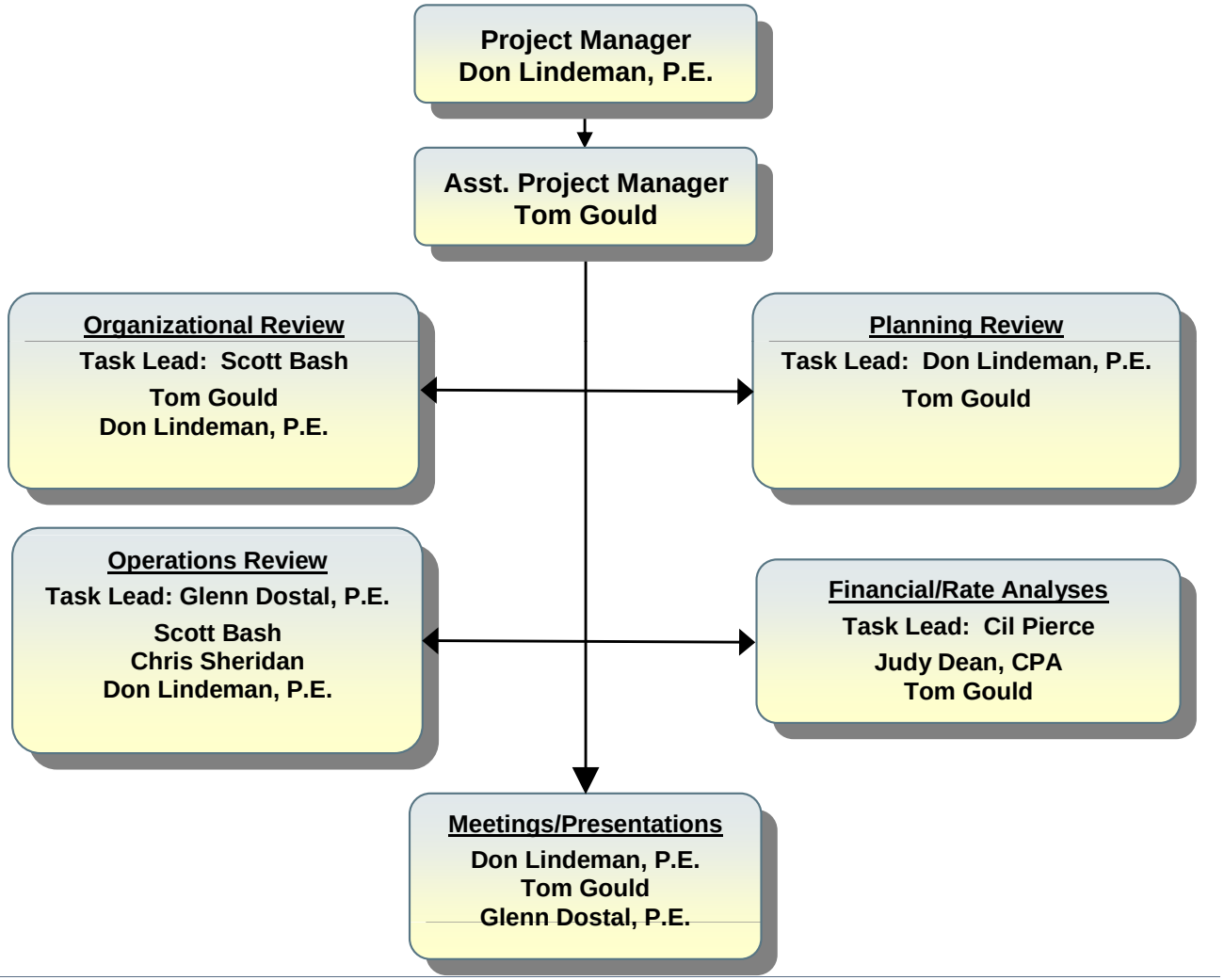
Task 8 – Citizen's Advisory Committee

- **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
- Assumes up to four (4) meetings
  - Review current operations and purpose of study
  - Preliminary review of organizational structure and planning process
  - Preliminary review of operations and financial/rate review
  - Review draft final report and study recommendations

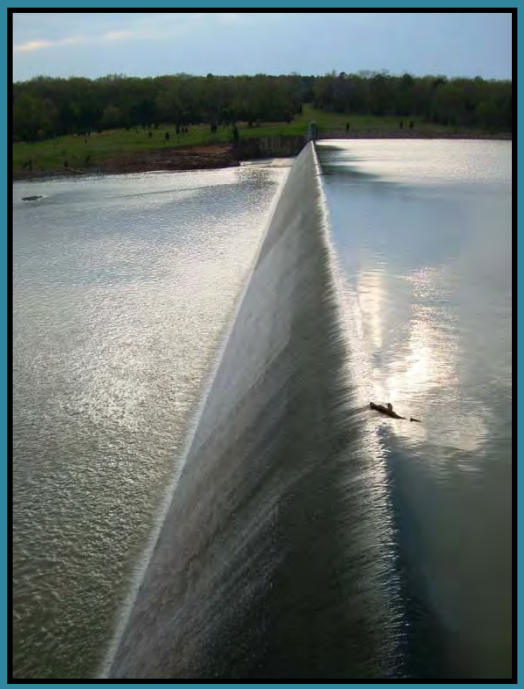
Deliverables from the City's Study

- An understanding of the overall level of efficiency for each utility and supporting functions of other departments
- A prioritized list of potential:
  - Areas for efficiency improvement
  - Policy modifications
  - Financial planning/rate modifications
  - Operational improvements
- Provide a final report documenting
  - Areas needing additional evaluation
  - Potential improvements
  - Clear set of findings, conclusions and recommendations

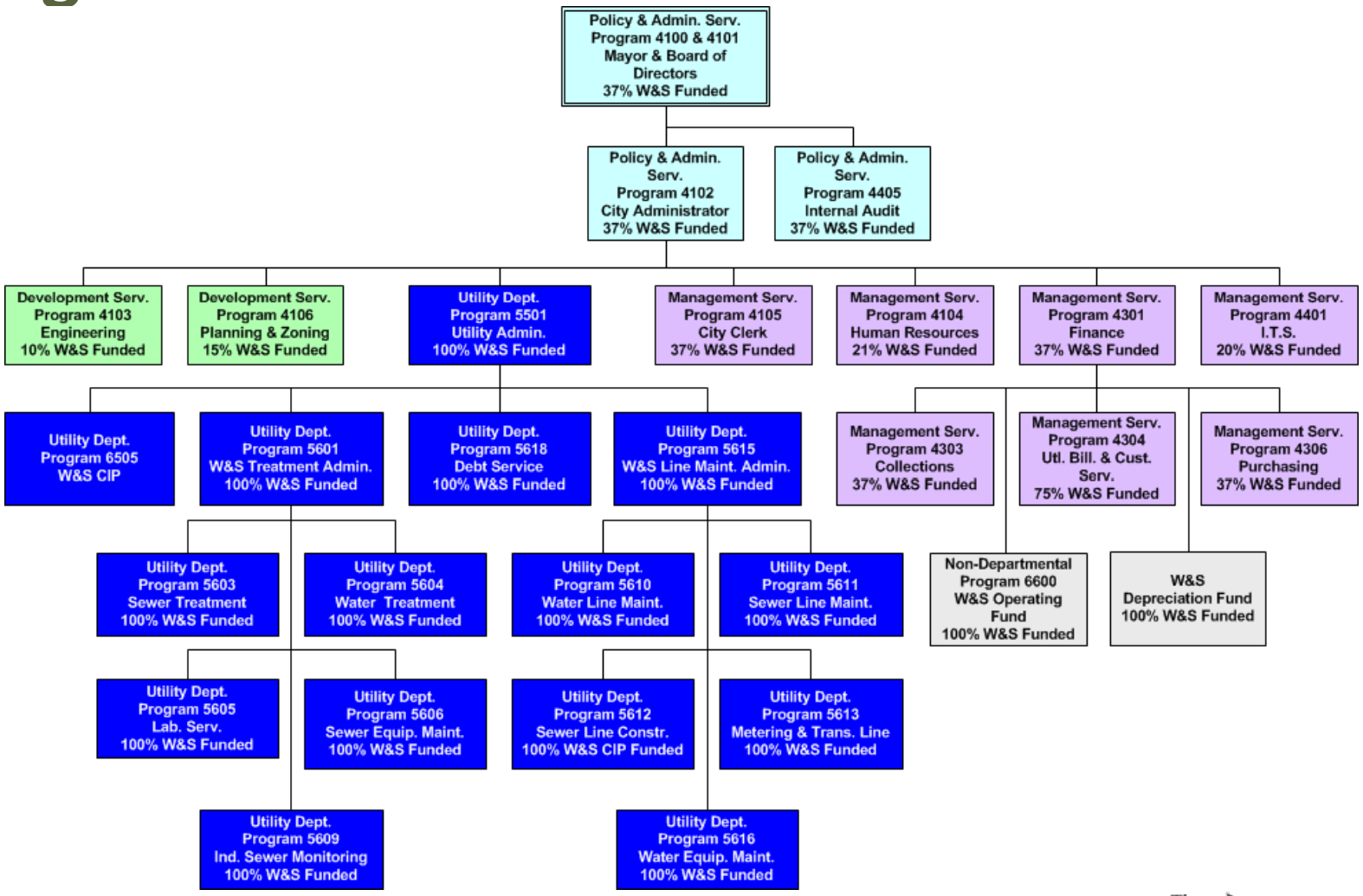
Project Team Organization



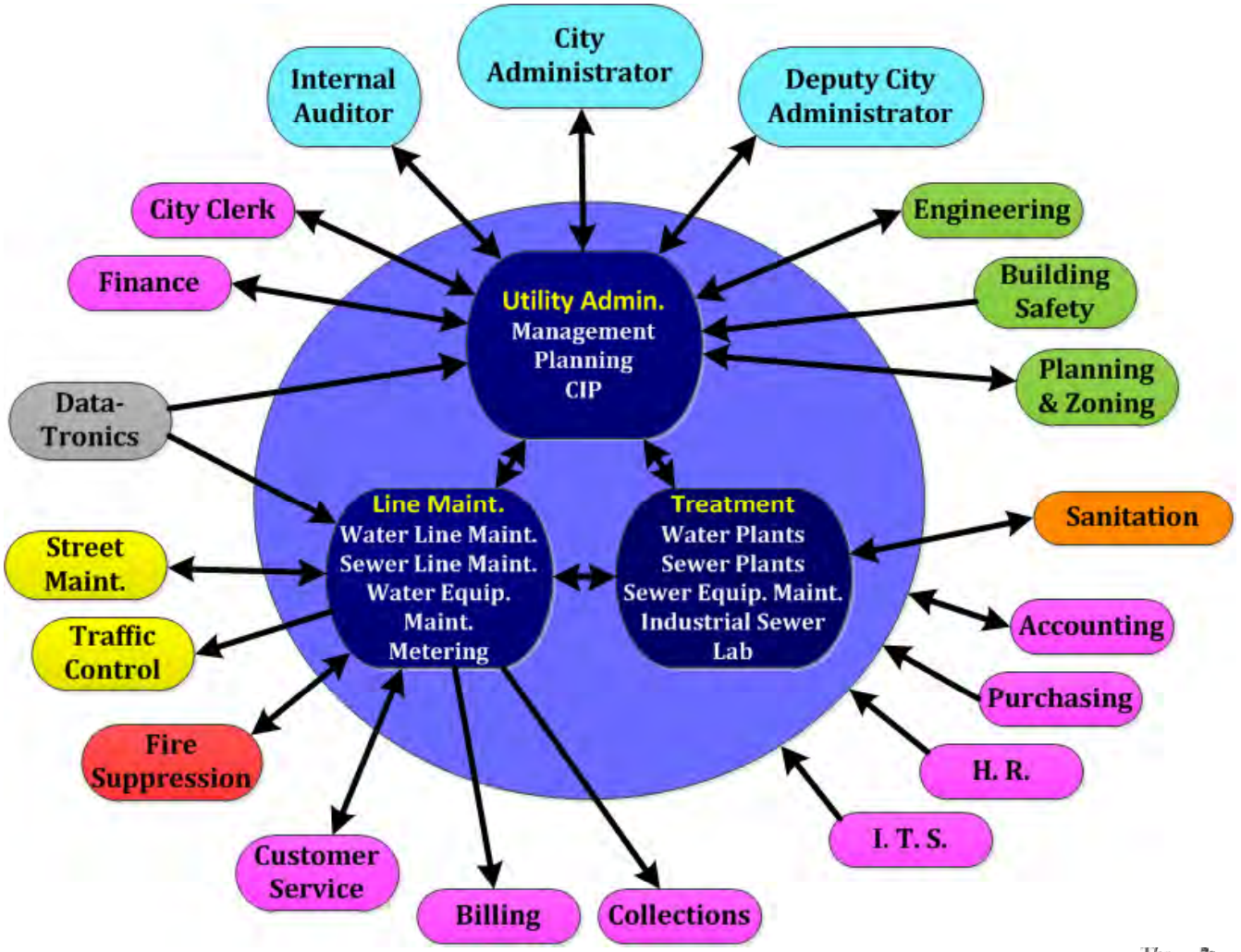
Overview of the City's Water and Sewer Operations



Water and Sewer Operating Fund Organizational Chart



Utility Department Interdepartmental Processes



Overview of the City's Water System

- Overview
  - 156,000 Service Population (Includes Wholesale)
  - 9.7 Billion gallons/yr (170gpd/per person)
  - Several Large Industrial Users
- Infrastructure Description
  - Two WTP's – Capacity 63.5 MGD
  - Storage & Pumping – 18 Pump Stations
  - Mains/Services – 680 Miles 1 ½ - 48"
  - Valves/Hydrants
- Regulatory Compliance
  - SDWA
  - Sanitary Survey – ADH
  - Laboratory Certification
  - Operator Certification

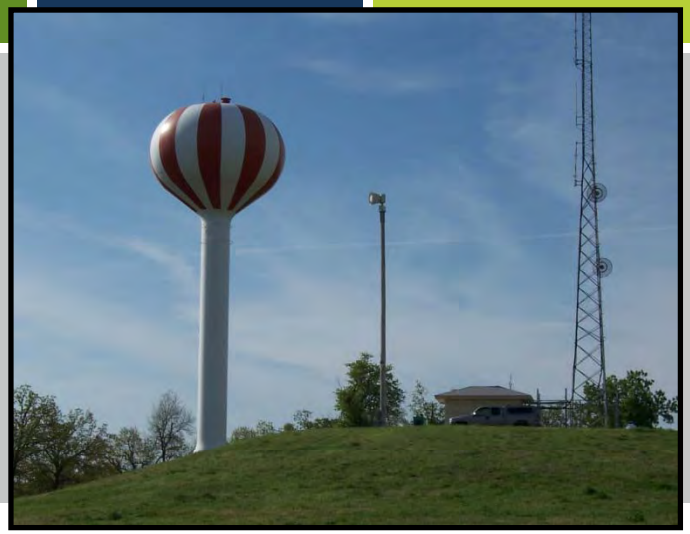
Overview of the City's Wastewater System

- Overview
  - 91,000 Service Population
  - Average Day Treatment – 15 MGD
- Infrastructure Description
  - Two Wastewater Plants – Capacity 22 MGD
  - Collection System
    - Mains/Manholes – 500 miles 6-60"
    - Pumping – 24 Stations
  - Solids Process/Disposal
- Regulatory Compliance
  - Sanitary Sewer Overflows – Wet Weather 65 MGD
  - NPDES Permit
  - Operator Certification
  - Nutrient Limits

Wastewater Costs Are Driven by Regulatory Issues

- Capital Costs
  - Sewer Overflows
  - Nutrient Removal
- Operation & Maintenance Efficiency

Next Steps



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Next Steps

1. HDR has lots of work and research
2. Next meeting will begin to focus on planning and organization
3. Selection of a Chairperson at next meeting