

**RFQ – Attachment 1  
SCOPE OF WORK  
(Work Assignment 1)**

PRIME Consultant:	<b>TBD</b>
Contract No.:	<b>18-029-S</b>
Contract Title:	<b>Financial Assessments &amp; Modeling On-call Services</b>
Work Assignment Title:	<b>Financial Capabilities Assessment</b>

**BACKGROUND**

SPU operates under a Federal Consent Decree and Washington Department of Ecology Individual Wastewater permit for CSO overflows. In 2015, SPU completed and submitted a Long Term Control Plan, with Financial Capability Assessment to EPA and Ecology for approval. SPU is implementing this approved plan and is required to provide a CSO plan update in 2021. The financial situation of our customers and the Utility have changed since 2015. Affordability and race and social justice issues are a priority for SPU and have received more attention nationally. Because of this, SPU would like to complete a financial capability assessment to inform SPU’s 2021 CSO plan update that expands the analysis beyond the EPA guidance to incorporate new methods of evaluating the affordability of the program on different socio-economic segments of our customer base. To further these goals, the development of an updated financial model is needed and requested.

SPU requests a Financial Capability study to show a) the cost of complying with the consent decree and b) impacts on different classes of customers (including residential, commercial, and by income distribution.)

SPU seeks a partner to provide the following work:

**Task 1:** Complete calculations consistent with EPA’s “Combined Sewer Overflows – Guidance for Financial Capability Assessment and Schedule Development.”

**Task 2:** Compare the merits of up to four alternative methods (outside of the EPA’s measure of financial burden) of measuring affordability relating to SPU’s CSO program. Choose one or more methodologies you can craft or replicate for SPU and provide supporting documentation as to why SPU should use it (e.g. used for other utilities, published in research journals, etc.) Review and incorporate information from existing SPU Affordability studies as necessary.

**Task 3:** Apply the chosen methodologies from Task 2 to present additional measures of utility affordability. Additionally, identify low-income census tracts from Census data and provide this income data (for all available years since 2000) to SPU staff. Consultant will then compare historical customer bills to this data (SPU to provide customer billing data.)

**Task 4:** Prepare and submit draft final report with findings and Excel workbook used for traditional and alternative financial capability calculations for SPU review that is suitable for the CSO plan update.

**Task 5:** Prepare final report with findings to submit to EPA.

**Task 6:** Work with SPU staff to create a flexible financial model that can be updated in the future by SPU staff.

## **ASSUMPTIONS**

- Communications will be via E-mail with attachments in MS Word, Excel, Power Point or PDF formats (in the same version as is being used by SPU at the time of transmittal), so that SPU can use the material internally.
- The Consultant will use existing SPU forms if available to guide content of the submittals.
- SPU to provide annualized CSO program CIP and O&M costs through 2030.
- SPU to provide King County's CSO program CIP and O&M costs through 2030 if available.
- SPU to provide necessary requirements for financial model capabilities.

## **TASKS AND WORK PRODUCTS**

The Consultant shall furnish all services and labor necessary to complete the tasks described below.

### **Task No. 1 – Complete calculations in the 1987 EPA “Combined Sewer Overflows – Guidance for Financial Capability Assessment and Schedule Development” and 2014 “Financial Capability Assessment Framework.”**

The 1987 document is an essential starting point for negotiations with the EPA. The consultant will be responsible for reading, understanding and completing the calculations and analysis required by the document. It is expected that the consultant will:

- Read the document
- Gather any necessary data points
- Complete calculations
- Develop a completed workbook of necessary figures.

The 2014 Environmental Financial Advisory Board (EFAB) recommendations on the EPA Financial Capability Assessment will be reviewed and incorporated as appropriate. Consultant will document changes and modifications that are made to the 1987 guidance methodology.

### ***Assumptions***

- Consultant will review the requirements of the 1987 EPA Guidance document.
- Consultant will review the recommendations in the 2014 EFAB review of the Draft Financial Capability Assessment Framework.
- Consultant will complete calculations required within the 1987 EPA Guidance document.
- Consultant will document how calculations and results differ from 1987 EPA Guidance document if 2014 EFAB recommendations are incorporated.
- Consultant will include all appropriate documentation and references necessary for support of CSO documents submitted by SPU to EPA and Ecology.

### ***Deliverables***

- Completed excel workbook with formulas and data used to calculate the financial burden per the 1987 EPA Financial Capability Guidance

### **Task No. 2 – Compare the merits of up to four alternative methods of measuring affordability.**

The consultant will research and review up to four current methods to measure utility affordability.

### ***Deliverables***

Paper listing and describing alternative methods of measuring financial capability for the utility. The paper will include a recommendation of which methodology to use. Where used in other cities, consultant will put these methods in context with the example Cities' external factors such as bond rating, financial policies, rate caps imposed by council, etc.

### ***Assumptions***

- Consultant will research alternative methodologies, and assess reasonableness and what would be needed to replicate the methodology.
- Where replicating analysis from other cities, provide information on relevant constraints, i.e. financial policies, bond rating, etc.
- The Consultant will evaluate these alternative methods and make a recommendation on which method best presents a case to EPA.
- Alternative methods will be identified by the Consultant.

### **Task No. 3 – Replicate methodologies in provided studies to present additional measures of utility affordability.**

The EPA allows for additional supporting documents to be submitted outside the “Combined Sewer Overflows – Guidance for Financial Capability Assessment and Schedule Development” packet. SPU would like to present a robust set of figures illustrating affordability concerns for the utility and county. The Consultant will be responsible for replicating the agreed upon method(s) to measure affordability for SPU.

### ***Deliverables***

Written report detailing SPU's affordability benchmark calculations based on the alternative methodologies applied in Task 2. Additionally, provide list of low income census tracts in Seattle, and provide all relevant household income data points since 2000.

### ***Assumptions***

- Consultant will read and review the methodology and identify data needed (from SPU and elsewhere.) SPU staff will provide any SPU-level data required when requested. Consultant will be responsible for collecting other data sources such as local property value trends, impact of future taxes, etc.

**Task No. 4 – Prepare final report with findings to submit for SPU review that is suitable for CSO Plan update.**

Consultant will provide a final written report detailing findings and calculations for Tasks 1-3. This report will also provide a separate section offering recommendations for facts and figures to submit to the EPA. The SPU project lead will review this report and make a final choice of what to submit to the EPA.

***Deliverables***

- Report of findings for different CSO program completion years (2030, 2035, 2040, 2050).
- Completed Excel workbook of data in a format that SPU can adjust in future if needed.

***Assumptions***

- SPU project manager and SPU executive sponsor will review and provide any comments in a timely manner.

**Task No. 5 – Prepare final report with findings to submit to EPA.**

Consultant will provide a final report for submitting to the EPA. This report will be based off the report in Task 4, but will be tailored based on SPU Project Lead review. SPU Staff will review paper upon completion.

***Deliverables***

- Paper with final, reviewed methodology and completed calculations and figures.
- 2 Power Point presentations, initial and final, on methods and findings to SPU.

***Assumptions***

- SPU project manager and SPU executive sponsor will review and provide any comments in a timely manner.
- SPU project manager will manage communications around report submittal and any further SPU staff review necessary.

**Task No. 6 – Work with staff to create a flexible financial model that can be updated in the future by staff.**

Consultant will design a flexible financial model with the following functionalities:

- Can provide long term (30 year) rate projections structured around current SPU financial policies (including net income, year-end cash target, debt service coverage, etc.)
- Can perform sensitivity analysis with various inputs.
- Can perform both program and project financing scenarios (including, but not limited to, bond sizing and timing, and integration of loans.)
- Must include user-defined inputs that can be updated over time (such as tax rates, interest rates, programmatic enrollment, and consumption forecasts.)

- Must have the ability to allocate portions of expenses between drainage and wastewater (including the allocation of third party expenses.)
- Must be able to be integrated into existing program structure and rate models in Excel.
- The model must be able to produce reports (including an income statement, construction fund cash flow report, rate study tables, and a quarterly financial report.)

**Deliverables**

- Financial model that can be updated over time.
- Instructions on how to use and update the model.

**Assumptions**

- SPU staff will review model capabilities, and provide input about functionality in a timely manner.
- Consultant will provide testing to ensure model integrity, compatibility with old model outputs, and resolve any data issues before project completion. Testing will include modeling rates in both the new model and the old model to verify identical results.

**SCHEDULE**

<b>Task</b>	<b>Schedule</b>
<b>Task 1:</b> Complete calculations in the EPA “Combined Sewer Overflows – Guidance for Financial Capability Assessment and Schedule Development”	One month following Notice to Proceed
<b>Task 2:</b> Compare the merits of up to four alternative methods of measuring affordability.	One month following Notice to Proceed
<b>Task 3:</b> Replicate methodologies in provided studies to present measures of utility affordability. Identify low-income census tracts for SPU.	Two months following Notice to Proceed
<b>Task 4:</b> Prepare final report with findings to submit for SPU review.	Three months following Notice to Proceed
<b>Task 5:</b> Prepare final report with findings to submit to EPA	Four months following Notice to Proceed
<b>Task 6:</b> Work with staff to create a flexible financial model that can be updated in the future by staff.	Three months following Notice to Proceed