

Ordinance 10-19

**AN ORDINANCE APPROVING AN AGREEMENT WITH
BAKER TILLY VIRCHOW KRAUSE, LLP**

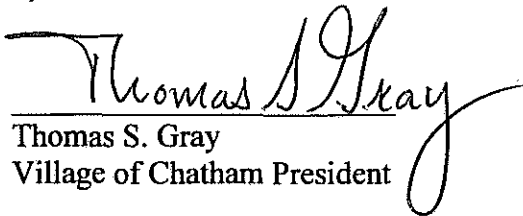
*BE IT ORDAINED BY THE PRESIDENT AND BOARD OF TRUSTEES OF THE
VILLAGE OF CHATHAM, SANGAMON COUNTY, ILLINOIS AS FOLLOWS:*

SECTION 1: The Village of Chatham shall engage the firm of Baker Tilly Virchow Krause, LLP to perform a cost of service study and rate design for the Village of Chatham's Water and Sewer utility. An outline of the services and fees is attached hereto, is hereby approved.

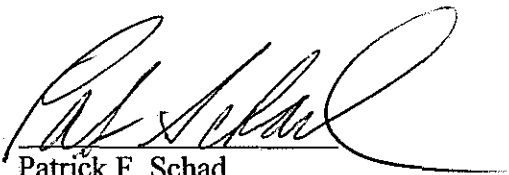
SECTION 2: The Village President is authorized and directed to approve the agreement on behalf of the Village, and the proper officers of the Village are authorized and directed to carry out the agreement by its terms.

SECTION 3: This Ordinance is effective immediately.

PASSED the 27th day of April, 2010.


Thomas S. Gray
Village of Chatham President

ATTEST:


Patrick F. Schad
Village of Chatham Clerk

AYES: 6 *HERRMAN BOYCE REYNOLDS*
KAVANAGH SCHATTAMAN PASSED: 4-27-10
NAYES: 0 APPROVED: 4-27-10
ABSENT: 0

STATE OF ILLINOIS)

)

COUNTY OF SANGAMON)

I, the undersigned, do hereby certify that I am the duly qualified and acting Village Clerk of the Village of Chatham, Sangamon County, Illinois.

I do hereby certify that the ordinance attached hereto is a full, true, and exact copy of Ordinance No. 10-___ adopted by the President and the Board of Trustees of said Village on the 27th day of April, 2010 said Ordinance being entitled:

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BAKER TILLY VIRCHOW KRAUSE, LLP**

I do further certify that prior to making of this certificate, the said Ordinance was spread at length upon the permanent records of said Village, where it now appears and remains.

ON WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of said Village this 27th day of April, 2010.

Dierking, Sherry

From: Mike Johnson [Michael.Johnson@bakertilly.com]
Sent: Friday, April 16, 2010 1:26 PM
To: Dierking, Sherry
Cc: Russ Hissom
Subject: Water Wastewater Services

Sherry,

It was good to speak with you earlier. We estimate that the study we discussed earlier would cost the village \$12,000-15,000 depending on the availability of relevant data from the Village. Expenses would be additional at cost. I think we could cover it all on the phone or by email so have not included any time for us to come and present the report, if needed that would add \$2,000 to the above. The following details my understanding of the services you are looking for (I made the forecast 5 year as it's as easy as a 3), if you are in agreement and would like us to start I'd happily put together an engagement letter for approval.

REVENUE REQUIREMENT MODEL- FIVE YEAR FINANCIAL PLAN - STEP 1

We will determine the total cost of providing water and sewer services to all customers and develop a rate structure to ensure adequate revenues are being recovered from customers for the test period.

Baker Tilly will meet with the designated Village of Chatham representatives to discuss anticipated growth, system peak demands, capital additions, personnel changes, and non-routine expenses in water and sewer operations.

We will forecast the village's water and sewer utility sources and uses of funds in the form of a cash flow analysis for a five year period. This analysis will consider changes in usages due to customer growth, timing of capital improvement projects and financing alternatives to fund capital purchases. We will incorporate the capital improvement budgets into the revenue requirement for the five year period.

This analysis will cover a five year period and include the following:

1. Forecasts of annual revenues under existing rates and the revenue requirements of the water and sewer operations including all operating expenses, capital improvements, debt service and margins
2. The forecast will identify the timing and size of potential rate increases to fund capital additions, meet operating expenses, debt service and maintain desired cash balances and reserves
3. Impact of the analysis on forecasted cash flows

COST-OF-SERVICE STUDY - STEP 2

The forecasted revenue requirement will be used to design rates that ensure the utilities recover enough revenue to remain financially healthy. The cost of service study will provide the basis for an equitable rate structure that allocates costs considering any legal issues. This can be consistent with the existing rate methodology or a shift in approach based on management desires. The cash method of rate-making focuses on current costs such as operation and maintenance costs, debt service and routine capital additions. The utility method designs rates to recover operation and maintenance costs, depreciation expense and a return on rate base, or net investment in capital assets.

We will analyze the revenue requirement to determine the cost drivers by customer classes. For sewer, we will use the industry standard use flow, strength, and customer cost parameters. This ensures that customer types that are more responsible for expenses than others are charged appropriately. These methodologies also identify the fixed and variable costs for treating wastewater, information that will be used in the rate design process.

The water cost of service analysis will be done using the "base extra-capacity" industry method as set forth in the American Water Works Association M-1 manual. This method also ensures that customer classes are allocated functional costs on a cost-casual basis, such as volume, base, contribution to system peak demands and customer service costs.

Based on availability, we will rely on billing characteristics such as flow, max day and max hour as provided by the village. For statistics that are not available from the village, we will use data obtained from similar sized utilities and our experiences in providing cost of service studies to utilities across the nation.

The last step in the cost of service study is to compare the cost of service by customer class to revenue provided under existing rates. This information will show any cross-subsidizing that may be occurring and will also provide important information for the rate design.

RATE DESIGN AND ANALYSIS— STEP 3

We will design rate alternatives that will provide adequate funding for the operational, debt service, and capital project needs for water and sewer operations.

Rates will be developed that equitably distribute costs on the functions per customer class. Alternative rate designs will be discussed with management prior to establishing the final rate design.

Sewer rates may include fixed customer charges, volume charges and high strength charges that should be applied to customers whose wastewater discharge requires additional treatment for BOD, SS, phosphorus, etc. These charges are necessary not only to recover the additional cost of operations caused by this type of waste discharge, but also to send price signals to customers that changes in their operations and options such as pretreatment of wastewater can lower their operating costs. The sewer rates designed will meet the requirements of the IEPA Code.

The rate design will incorporate an analysis of current administrative and overhead costs provided by the village. Our study will include changes as determined by the cost of service study results identifying the drivers behind the various cost parameters.

Please feel free to email or call with any questions.

Thanks

Mike

Mike Johnson, Manager

Baker Tilly Virchow Krause, LLP

Ten Terrace Ct., Madison WI 53718

tel 608 240 2623, fax 608 249 8532

michael.johnson@bakertilly.com Connect with us: bakertilly.com

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Candor. Insight. Results.

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