



THE CITY OF KEY WEST

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EXECUTIVE SUMMARY

TO: Patti McLauchlin, City Manager

FROM: Todd C. Stoughton, ACM

DATE: April 14th, 2022

SUBJECT: Requesting Approval of 3 Proposals from Raftelis Financial Consultants, Inc. for Utility Rate Models

Action statement:

Requesting approval of 3 proposals from Raftelis Financial Consultants, Inc. for all utility rate models for FY2023 in the amount of \$65,700.00 pursuant to code of ordinances 2-797 (4) b, 'Exempt contractual services and commodities', for the best interest of the city.

Background:

The City has established rate models for billing for our wastewater, stormwater, and solid waste accounts. This study will provide an independent analysis of all three models.

The City Utilities department has worked with John Mastracchio, vice president of Raftelis Financial Consulting, Inc. for over 10 years developing our rate models. He has historical knowledge of our City and our utility capital improvement plan. Mr. Mastracchio also has an extensive background with the utilities financial standards for the industry.

Purpose and Justification:

Raftelis will prepare rate models as described in the attached scope of work:

- *Update Billing Information* – Raftelis will incorporate the last 12 months of historical billing information and the forecast stormwater usage.
- *Forecast of Revenues* – Upon loading the billing determinant information, Raftelis will apply the existing utility rates to forecast revenues.
- *Operating and Maintenance Expenses*– Raftelis will incorporate the forecast of operating and maintenance expenses for FY 2023.
- *Capital Improvement Program*– Raftelis will incorporate the City's CIP to determine the financial implications of funding the plan over the forecast period.

MEMORANDUM

- *Financial Plan* – The Raftelis team will review the financial forecast to determine the appropriate financial plan which is necessary to maintain the financial viability of the utilities.
- *Present a Rate Recommendation* – The Raftelis team will present a rate recommendation to the City Commission and answer questions based on the financial plan decided by City staff.
- *Updated Rate Model and Recommendation* – Raftelis will provide the City with updated rate models along with a summary letter documenting any recommended utility rate adjustments.

Rate models are created to recommend the most appropriate utility charges to the public. These models consider a proposed budget, historical data, inflation, and future capital needs to provide forecasts that ensure the public utilities will maintain assets and proper operations for future years. The models allow the commission to use rates that flow consistently as they consider major future capital requirements.

Utility rate models are complex, lengthy, and time consuming. Current staffing is not adequate to prepare both budgets and rate models at the level of expertise made available by our financial consultants.

Exceptional circumstances exist in that John Mastracchio of Raftelis, formally of Arcadis U.S., Inc., has the most experience and expertise with the City of Key West utility rate models. Both utilities and finance staff have worked with Mr. Mastracchio for over a decade. For this reason, we request the commission approve the rate model proposals to acquire his expertise and waive formal bidding.

Options:

- 1) The City may opt to not award the 3 proposals from Raftelis, however, no third-party prepared rate model would be completed.
- 2) The City can hire Raftelis for a cost of \$65,700 to provide independent rate studies to give further credibility to our utility rate model and billing structure.

Financial Impact:

The maximum price for these proposals will be \$21,900 each. Utilities has budgeted \$23,000.00 in fund 401 and 402, and \$22,000 in fund 403 in FY2022 for the rate models (\$68K total) within each respective funds professional services cost center (3100).

Strategic Plan:

This request supports the Key West Forward Strategic Plan, Priority 4: Environmental Protection overall goal of ‘Protect the Health and Longevity of the Island and its Inhabitants’.

Recommendation:

Staff recommends option #2, approving the 3 proposals from Raftelis Financial Consulting, Inc. to perform utilities rate studies for a total price of \$65,700.00.