

**Task Order: 01-2011-SWR  
Sewer Rate Study for FY2012  
City of Key West, Florida**

**1. Authorization to Proceed**

The execution of this Task Order by the City of Key West, Florida (the “City”) or receipt of a purchase order for the compensation in the amount detailed in Section 6 will establish permission for Red Oak Consulting, a Division of Malcolm Pirnie, Inc. (“Red Oak”) to proceed with the scope of work detailed herein.

The parties agree that the Task Order presented herein shall be performed based on the terms and conditions established in the Master Agreement to Furnish Financial and Other Consulting Service (“Master Agreement”) made effective on June 16, 2009 between the City and Malcolm Pirnie.

**2. Scope of Work**

Red Oak will utilize the City’s existing Sewer Rate Model to complete the engagement detailed herein. The Sewer Rate Model will be updated to reflect current revenue forecasts, operating and capital cost projections, and develop the appropriate rate increase recommendation required for FY 2012. Red Oak will prepare a 5-year forecast of sewer rates for the period starting in FY 2012 and ending in FY 2016. Red Oak will not be completing a detailed rate design analysis to determine the adequacy of the City’s existing sewer rate structure in generating revenues and design/re-structure existing rates accordingly. The following Tasks will be completed:

**2.1 Update Billing Information**

Red Oak will incorporate the last 12-months of historical billing information and the forecast of sewer usage over the forecast period as provided by the City into the existing sewer rate model. Upon receiving the forecast of sewer usage over the forecast period, the forecast will be reviewed for reasonableness and will be incorporated into the City’s Sewer Rate Model.

Red Oak understands that the City has contracted with Daniel R. Houser, Inc. (“DRH”) to provide sewer and stormwater customer billing services. Red Oak will rely on sewer billing information as provided by DRH. The format of the billing information to be provided by DRH will be detailed in the Initial Data Request to be provided at the initiation of the engagement detailed herein.

**2.2 Prepare Revenue Forecast**

Upon incorporating the billing information into the Sewer Rate Model, forecasted revenues under existing rates will be calculated. The determination of revenues under existing rates will provide an understanding of the expected levels of sewer revenues under existing rates

and an understanding of the expected levels of sewer revenues based on the existing and future anticipated sewer demand characteristics.

### **2.3 Forecast Operating and Maintenance Expenses**

Red Oak will incorporate the budgeted operating and maintenance (“O&M”) expenses for FY 2012 as provided by the City. A forecast of O&M expenses will be prepared for the five year forecast period. Expenses will be escalated based on cost indices, such as the Engineering-News Record construction cost index and the consumer price index.

### **2.4 Incorporation of the Capital Improvement Plan**

Red Oak will incorporate the City’s capital improvement plan (“CIP”) as provided by the City to determine the financial implications of funding the plan over the forecast period. Historically, the City has funded a large portion of the CIP on a pay-as-you-go basis without the need for long-term debt financing. Red Oak will work with the City to incorporate the most appropriate funding approach into the rate model.

### **2.5 Update the Cost Allocation Analysis**

Red Oak will review the existing cost allocation assumptions contained in the sewer rate model for reasonableness. These cost allocation assumptions are used to estimate the City’s cost to provide sewer services to specific customers served by the sewer system.

### **2.6 Update Navy Data**

Red Oak will update the billing information for the City’s Navy customer. Annual historical and projected sewer flows from the Navy, as provided by the City, will be incorporated into the sewer rate model to develop a projection of Navy revenues over the forecast period.

### **2.7 Develop and Update Financial Plan**

Upon updating the sewer rate model with updated historical cost data, forecast and cost allocation assumptions, a baseline financial forecast and financial plan will be developed. The financial plan will identify the rate revenues required to cover the anticipated sewer utility revenue requirements over the five-year forecast period, and will assess the ability of the City to meet its debt service coverage requirements, maintain acceptable levels of cash reserves. In addition, the financial plan will identify the sewer rates and rate adjustments that may be necessary to maintain a sound financial position. Up to three financial plan scenarios will be developed for City consideration.

### **2.8 Present Rate Recommendation**

Red Oak will present the proposed financial plan and sewer rate recommendations to the City Commission for their consideration, and be available to answer sewer rate-related questions. Participation at one City Commission meeting has been budgeted.

### **2.9 Document the Rate Recommendation and Provide Updated Sewer Rate Model**



Red Oak will document the sewer rate recommendations in a summary letter report. In addition, we will provide the City with an updated Sewer Rate Model at the completion of the project.

### 3. Summary of Deliverables

The following deliverables are associated with this project.

- An updated Sewer Rate Model for FY 2012;
- A letter report documenting the sewer rate increase recommendation; and
- A presentation of the Sewer Rate Study results to the City Commission.

We have assumed one trip to the City for the presentation of the Sewer Rate Study results to the City Commission. If more than one visit to the City or additional analysis beyond the scope identified above is required and requested by the City, Red Oak will provide on a time and expense basis at an additional cost.

### 4. City Responsibilities

The City will provide the necessary data and information to complete this scope of work in a timely manner, including customer, financial, and CIP data, and any other information that may be deemed necessary to complete the study.

### 5. Schedule

It is anticipated that the work will be completed within a four month time frame that corresponds with the City's budget adoption process.

### 6. Cost of the Project

Red Oak proposes to complete the scope of work for a lump sum, fixed fee of \$19,750. We will bill the City monthly based on the percent of project completion.

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If this scope of work and cost estimate is acceptable to the City, please accept and sign this task order below, and provide an executed copy to Mr. John Mastracchio.

**City of Key West**

**By:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

**Malcolm Pirnie, Inc.**

**By:** \_\_\_\_\_

**Title:** \_\_\_\_\_

**Signature:** \_\_\_\_\_

**Date:** \_\_\_\_\_

