



THE CITY OF KEY WEST

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EXECUTIVE SUMMARY

TO: Jim Scholl, City Manager
Greg Veliz, Asst. City Manager- Operations

FROM: John Paul Castro, Utilities Director

DATE: February 8, 2016

SUBJECT: Approval of Task Order 03-2016-SWR for FY 2017 Sewer Rate Study by Arcadis U.S., Inc. in the Amount of \$24,000.00

Action statement:

This resolution will approve Task Order 03-2016-SWR for Arcadis U.S., Inc in the amount of \$24,000 to provide a rate study preparation of the City's sewer billing. The agreement is executed pursuant City Code 2-841, and the City's contract with Arcadis U.S., Inc. in response to RFQ 15-002, resolution number 15-162.

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 our rate models. We have worked with staff from Arcadis U.S., Inc. over the last several years for our rate model, so the firm has good knowledge of our City and our sewer capital improvement plan. This consultant also has an extensive background in knowing the utilities financial standards for the industry.

Purpose and Justification:

Arcadis U.S., Inc. will prepare a rate model as described in the attached scope of work:

- *Initial kickoff meeting* – Staff has requested Arcadis U.S., Inc. to meet prior to the initial budget deadline to assist in streamlining the model and layout specific goals the model is to provide.
- *Update Billing Information* – Arcadis U.S., Inc. will incorporate the last 12 months of historical billing information and the forecast sewer usage over the forecast period as provided by the City.
- *Forecast of Revenues* – Upon loading the billing determinant information, Arcadis U.S., Inc. will apply the existing sewer rates to forecast revenues.

Key to the Caribbean – Average yearly temperature 77° F.

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- *Operating and Maintenance Expenses*– Arcadis U.S., Inc. will incorporate the forecast of operating and maintenance expenses for FY 2016
- *Capital Improvement Program*– Arcadis U.S., Inc. will incorporate the City’s CIP to determine the financial implications of funding the plan over the forecast period.
- *Update the Cost Allocation Analysis* – The Arcadis U.S., Inc. team will update the billing information necessary to determine the allocation of cost for the sewer system.
- *Update Navy Data*– Arcadis U.S., Inc. will update the billing information on the total annual historical and projected sewer flows from the Navy to determine the projected Navy revenues over the forecast period.
- *Financial Plan* – The Arcadis U.S., Inc. team will review the financial forecast to determine the appropriate financial plan which is necessary to maintain the financial viability of the sewer utility.
- *Present a Rate Recommendation* – The Arcadis U.S., Inc. 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* – Arcadis U.S., Inc. will provide the City with an updated sewer rate model along with a summary letter documenting any recommended sewer rate adjustments.

Rate models are created to recommend the most appropriate utility charges to the public. These models take into account 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.

The rates proposed are consistent with the contract documents attached. The labor mix is reasonable for the level of effort necessary for this particular task.

Options:

- 1) The City may opt to not award the task order with Arcadis U.S., Inc. No 3rd party prepared rate model would be completed, which would violate bond requirements.
- 2) The City can hire Arcadis U.S., Inc. for a cost of \$24,000.00 to provide an independent rate study to give further credibility to our sewer rate model and billing structure.

Financial Impact:

The maximum price for this task order will be \$24,000.00. It will be charged to the City’s budget for line item 401-3501-535-31. Staff has \$20,000 budgeted for this item, similar to prior years. Staff believes an initial 1.5 day kickoff meeting in Key West would benefit current staff as there was no transition from any staff members who managed the rate model from past years. Sufficient funds exist in account 401-3501-535-31 to cover the additional \$4,000 required for this tasking.

Recommendation:

Staff recommends option #2, the hiring of Arcadis U.S., Inc. Consulting to perform a sewer rate study for a price of \$24,000.00

