



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: March 26, 2019

SUBJECT: Approval of Task Order 03-2019-SWR from Arcadis to Create a Sewer Rate Model for the FY2020 Budget in the Amount of \$23,100.00.

Action statement:

This resolution will approve a task order from Arcadis in the amount of \$23,100 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 in response to RFQ 15-002, approved by resolution 15-162, extended by resolution number 18-167.

Background:

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

City staff has worked with staff from Arcadis U.S., Inc. over the last several years to develop utility rate models, the firm has good knowledge of our City and our sewer capital improvement plan. This consultant also has an extensive background with wastewater utility industry specific financial standards.

Purpose and Justification:

Arcadis will prepare a rate model as described in the attached scope of work:

- *Initial kickoff meeting* – Staff has requested Arcadis to meet prior to the initial budget deadline to assist in streamlining the model and layout specific goals the model is to provide.
- *Data Collection and Review* – Arcadis will gather historical customer, financial, and operating data and prepare information necessary to complete the task.

MEMORANDUM

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

- *Development of Revenues* – Upon loading the billing determinant information, Arcadis will apply the existing sewer rates to forecast revenues.
- *Customer, Usage, and Flow Projections* – Arcadis will incorporate the forecast of operating and maintenance expenses for FY 2020 to understand and forecast flow rates for future years.
- *Revenue Projections* - Arcadis 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 team will update the billing information necessary to determine the allocation of cost for the sewer system.
- *Update Navy Data*– Arcadis 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 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 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 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 rate payers. 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.

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

Options:

- 1) The City may opt to not award the task order with Arcadis. No 3rd party prepared rate model would be completed, which would violate bond requirements.
- 2) The City can hire Arcadis for a cost of \$23,100.00 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 \$23,100.00. It will be charged to the City's budget for line item, Utilities/Sewer/Administration/Professional Services account 401-3501-535-31.

Recommendation:

Staff recommends option #2, approving task order 03-2019-SWR from Arcadis to perform a sewer rate study for a price of \$23,100.00.

