



THE CITY OF KEY WEST

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EXECUTIVE SUMMARY

TO: Bogdan Vitas, City Manager
E. David Fernandez, Asst. City Manager- Operations

FROM: Jay Gewin, Utilities Manager

DATE: February 9, 2014

SUBJECT: Approval of Task Order 03-2014-SWR for FY 2015 Sewer Rate Study by Arcadis/Red Oak Consulting in the Amount of \$19,750.00

Action statement:

This resolution will approve Task Order 03-2014-SWR for Arcadis/Red Oak Consulting in the amount of \$19,750 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 Red Oak Consulting (a division of Arcadis, who purchased Malcolm Pirnie, Inc. - City Commission Resolution # 09-137 and extended through Resolution 13-053).

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/Red Oak Consulting 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. The fee for this service has not increased and will remain at the same level it has been since FY 2011.

The City's original contract for financial consulting services was with Red Oak Consulting, who originally was a subsidiary of Malcolm Pirnie, Inc. Malcolm Pirnie was subsequently purchased by Arcadis, with the Red Oak Consulting subsidiary still intact. The staff that has worked on the City's rate model in previous years therefore remains the same through the purchase of Malcolm Pirnie by Arcadis.

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

MEMORANDUM

Purpose and Justification:

Arcadis/Red Oak Consulting will prepare a rate model as described in the attached scope of work:

- *Update Billing Information* – Arcadis/Red Oak 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/Red Oak will apply the existing sewer rates to forecast revenues.
- *Operating and Maintenance Expenses*– Arcadis/Red Oak will incorporate the forecast of operating and maintenance expenses for FY 2015
- *Capital Improvement Program*– Arcadis/Red Oak 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/Red Oak team will update the billing information necessary to determine the allocation of cost for the sewer system.
- *Update Navy Data*– Arcadis/Red Oak 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/Red Oak 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/Red Oak 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/Red Oak will provide the City with an updated sewer rate model along with a summary letter documenting any recommended sewer rate adjustments.

Options:

- 1) The City may opt to not award the task order with Arcadis/Red Oak Consulting. No 3rd party prepared rate model would be completed, which would violate bond requirements.
- 2) The City can hire Arcadis/Red Oak Consulting for a cost of \$19,750.00 to provide an independent rate study to give further credibility to our wastewater rate model and billing structure.

Financial Impact:

The maximum price for this task order will be \$19,750.00. It will be charged to the City's budget for line item 401-3501-535-31. This figure is within the amount we have budgeted for the rate model.

Recommendation:

Staff recommends option #2, the hiring of Arcadis/Red Oak Consulting to perform a wastewater rate study for a price of \$19,750.00