

TO: James L. App, City Manager
FROM: Doug Monn, Public Works Director
SUBJECT: Utility Rates and Connection Fee Study
DATE: November 18, 2014

NEEDS: For the City Council to consider contracting for a water and sewer rate / connection fee study.

FACTS:

1. The City provides potable water production and wastewater collection and treatment service to approximately 10,000 service accounts throughout the City of Paso Robles.
2. Monthly utility user rates cover the cost of system operation and ongoing repair / replacement. Similarly, new development pays a connection fee to connect to reimburse the City for installed infrastructure and fund system enhancements needed to serve new development.
3. The latest Wastewater Rate and Revenue Analysis were prepared in November 2011 to facilitate development of the user rates adopted in December 2011. The latest Wastewater Facility Charge Study was prepared in September 2011 and connection fees adopted in November 2011.
4. The latest Water Rate Study was prepared in January 2010 with uniform user rates adopted in April 2011. The latest Water Capacity Charge Study was prepared in January 2009 with connection fees adopted in March 2009.
5. Articles XIII(C) and XIII (D) of the State Constitution (a.k.a. Proposition 218) limits rate increases to a five year period, after which an updated utility rate study must be completed, with any proposed rate increase subject to a protest ballot.
6. Existing utility user rates sunset in 2016 in accordance with Proposition 218; thus updated rate studies are needed to evaluate whether increases beyond that time frame are needed.
7. Water rates need to be re-evaluated in the context of drought, drought related impacts on the timing of critical infrastructure, updated project financing costs, revised timing of City build out, and other related factors.
8. As part of its water portfolio, the City is planning to recycle its treated wastewater stream for irrigation supply. The additional filtration and disinfection facilities required to recycle wastewater

may qualify for low-interest State Revolving Fund financing and an updated wastewater rate study is required to qualify for such low-interest financing.

9. The City requested proposals from prospective consultants to update both wastewater and water rates studies and to re-evaluate water connection fees. Six proposals were received.

**ANALYSIS &
CONCLUSION:**

Attachment A is a comparison of the proposals received noting how teams and their approaches varied. The City requires the study to consider needs through build out including funding of depreciation. Notably, some teams propose only a 10-year financial forecasting and omitted funding of repair and replacement (i.e. depreciation). Others propose to project financial needs through build out, including funding of depreciation.

Based on technical review of proposals, depth of team experience, phone interviews with project managers, and reference checks, Kennedy/Jenks Consultants is the best qualified firm for these primary reasons:

1. Depth of experience in rate studies as well as the capital planning supported by such rates;
2. Understanding of the State Revolving Fund loan program and ability to position the City to qualify for further SRF financing;
3. Rate-setting approach that projects through build out;
4. Demonstrated effective communications; and
5. Familiarity with Paso Robles' setting, issues, and ratepayer impacts.

Kennedy/Jenks recognizes that rates and fees set today must set a solid course toward solvency all the way through General Plan build out. In other words, growth and ratepayers alike must cover costs of buy-in, operations, and repair/replacement of system components over more than just 5 or 10 years. Kennedy/Jenks also recognizes the breadth of variables faced by the City such as uncertainty about future water supply costs and pace of growth.

In the event that the City fails to agree on contract terms with Kennedy/Jenks Consultants, Bartle Wells Associates is also well qualified to complete the requested work.

Bartle Wells proposes a strong team with good qualifications, but ranked second in the selection panel's process due to their abbreviated forecasting (10 years as opposed to build out) and omission of depreciation from their base scope.

Using the hourly rate provided in the proposal, City staff estimates that forecasting through General Plan build out could add \$25,000 to \$30,000 to the Bartle Wells proposal making the adjusted cost over \$160,000; however, the total fee would need to be discussed with Bartle Wells.

The services of Mrs. Christine Halley, TJCross Engineers, Inc. are also proposed to assist in the utility rates and connection fee study. Mrs. Halley assisted the City with previous rate studies, integrated resource planning, and Proposition 218 compliance and is needed to provide similar support services to the City.

Based on a notice to proceed in November 2014, the draft utility rate study could be issued by May 2015. Public workshops and rate hearings would follow.

POLICY

REFERENCE: Economic Strategy; Integrated Water Resource Plan, Recycled Water Master Plan, Nacimiento Water Project Entitlement Contract.

FISCAL IMPACT: Estimated project costs are:

Kennedy/Jenks Consultants base fee	\$149,808
TJCross Engineers, Inc.	\$29,500
<u>Contingencies</u>	<u>35,892</u>
TOTAL =	\$215,200

Contingencies are advised because adopting utility rates and connection fees is associated with a high degree of public interface. Public involvement may necessitate added study iterations and hearings.

The cost for this undertaking would be paid from Water and Wastewater Enterprise Funds.

OPTIONS:

- a. Adopt Resolution No. 14-xx appropriating \$65,200 from Wastewater Enterprise Fund (No. 601) and \$150,000 from Water Enterprise Fund (No. 600) to perform a utility user rate and connection fee study and authorizing the City Manager to enter into contractual arrangements with Kennedy/Jenks Consultants and TJCross Engineers in that amount. Should negotiations fail, authorize the City Manager to enter into negotiations with Bartle Wells Associates.

- b. Amend, modify, or reject the above option.

**ATTACHMENT A
MATRIX COMPARISON OF PROPOSALS RECEIVED**

Base Fee / Man-Hours ⁱ	Background and Qualifications	Scope Contrast	No. of Meetings
Bartle Wells (Alex Handlers)			
\$138,000 Man-hours not stated ⁱⁱ	Firm specializes in utility rates/financing. Two primary team members: Project Manager with >100 utility rate and fee studies in CA and Senior Financial Analyst that is UC Berkeley and Columbia University grad with unstated years' experience.	Prior peer review for Paso Robles; 10-year financial projection only ; strong views about asset valuation as relates to connection fees; to discuss pros and cons of different rate structures and general equity in rate setting; no mention of depreciation; to adjust development fees annually.	Up to 14 meetings including 2 City Council presentations and 2 public workshops
HDR (Shawn Koorn)			
\$84,680 464 man-hours	Firm >8,660 employees. >40 financial planning and rate study projects for CA utilities. Team members based in 3 different offices: Project Manager >14 yrs experience (4) Analysts with 1-16 yrs experience	10-year financial projection only ; expects to start with Paso's "financial policies" and work from there; missed funding of depreciation ; no mention of pace of growth ; leaning toward wastewater rate based on sewage strength, not Winter Water Use.	Up to 14 meetings including 4 City Council presentations
Kennedy/Jenks (Roger Null)			
\$149,808 688 man-hours	Firm >400 employees; >100 similar plans for other utilities. Utility rate/fee experience + engineering of capital projects. Most experienced team with broad utility management background. Primary team members: Project Manager 38 yrs experience Financial Planner 20 yrs experience Support staff in 4 office locations.	Broadest experience among proposers , extends beyond solely financial background. Familiar with limitation of City's Harris Billing System esp. in report generation; includes funding of depreciation and projects through buildout; good understanding of recycled water enterprise.	Up to 11 meetings including 2 City Council presentations and 2 public workshops plus teleconferences

Base Fee / Man-Hours	Background and Qualifications	Scope Contrast	No. of Meetings
NBS (Greg Clumpner)			
\$103,520 630 man-hours	37 employees in (3) CA offices. Projects with >300 public agencies. Primary team members: Project Manager >30 yrs experience (2) Rate Consultants with 6-8 yrs exper.	Comparatively less experienced team. Scope suggests financing as opposed to pay-as-you-go rate setting; proposes to analyze thru buildout; consider annual capacity charge increase by EMU.	Up to 11 meetings including 2 City Council presentations and 2 public workshops
Urban Futures (James Lee)			
\$42,638 ⁱⁱⁱ 381 man-hours	Firm specializes in CA rate studies and debt financing. Primary team members with degrees in economics/accounting, physics, public policy. Unstated years of experience.	10-year financial projection only; no mention of recycled water; omitted depreciation; team experience notably less than others; failed to demonstrate understanding of City's expectations.	Up to 12 meetings, including 2 City Council presentations and 2 public outreach meetings
Willdan Financial Services (Chris Fisher)			
\$74,115 498 man-hours	>60 employees in financial services group. Worked with >800 public agencies. Offered list of (7) relative experience. Primary team members: Project Manager >15 yrs experience Principal Consultant >10 yrs exper. Financial Analyst 9 yrs experience	Good recycled water approach but missed depreciation ; key team members <15 yrs experience; 10-year projection only.	Up to 12 meetings, including 1 public workshop

Comparison matrix compiled based on review notations by City review panel (Public Works Director, Wastewater Resource Manager, Water Resources Manager, and Water Resources Consultant)

ⁱ Est. man-hours and fees as stated in proposals dated August 29, 2014; actual fee to be negotiated with the City during final scoping with selected firm.

ⁱⁱ Man-hours not tabulated in Bartle Wells proposal; estimated based on rate sheet provided. Fee includes direct expenses and contingencies

ⁱⁱⁱ Fee in text differs from tabulated fee in Urban Futures proposal.

RESOLUTION NO. 14-xxx

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF EL PASO DE ROBLES
AUTHORIZING PREPARATION OF A UTILITY RATES AND CONNECTION FEE STUDY

WHEREAS, the City must have water and sewer user rates in place that meet the revenue requirements of the full range of utility operations and related system repair and replacement; and

WHEREAS, the latest Water Rate Study was prepared in January 2010 with uniform user rates adopted in April 2011; and

WHEREAS, the latest Water Capacity Charge Study was prepared in January 2009 with connection fees adopted in March 2009; and

WHEREAS, the latest Wastewater Rate and Revenue Analysis were prepared in November 2011 to facilitate development of the user rates adopted in December 2011; and

WHEREAS, the latest Wastewater Facility Charge Study was prepared in September 2011 and connection fees adopted in November 2011; and

WHEREAS, Articles XIII (C) and XIII (D) of the State Constitution (a.k.a. Proposition 218) limits rate increases to a five year period, after which an updated utility rate study must be completed, with any proposed rate increase subject to a protest ballot; and

WHEREAS, utility user rates are now in effect through 2016 thus updated studies are needed to evaluate whether adjustments beyond that time frame are needed; and

WHEREAS, the City also wishes to forecast the financial implications of bringing a recycled water delivery system into operation as described in the "Recycled Water Master Plan" dated March 2014; and

WHEREAS, a comprehensive revenue plan, cost of service study and rate restructuring analysis is needed to analyze both water and sewer user rates that would generate revenues needed to provide these vital public services; and

WHEREAS, an updated water connection fee evaluation is needed to establish updated capacity charges for water service to new customers; and

WHEREAS, the City determined that retaining an independent, third party professional would provide an objective evaluation of the City's utilities financial needs; and

WHEREAS, the City invited proposals and received six proposals to provide the necessary utility rates and connection fee study; and

WHEREAS, based on a technical review of those proposals and on phone interviews with prospective project managers and references, Kennedy/Jenks Consultants was determined to be best qualified to perform the work and proposed a comprehensive scope of services; and

WHEREAS, the services of TJ Cross Engineers, Inc. are also needed in support of the utility rates and connection fee study particularly with regard to integrated resource planning, continuity with previously adopted rates and fees, and overall compliance with Proposition 218 requirements.

THEREFORE BE IT HEREBY RESOLVED by the City Council of the City of El Paso de Robles to approve the appropriation of up to \$65,200 from Wastewater Enterprise Fund (No. 601) and \$150,000 from Water Enterprise Fund

(No. 600) to perform a utility user rate and water connection fee study and authorizing the City Manager to enter into contractual arrangements with Kennedy/Jenks Consultants and TJCross Engineers, Inc. in that amount. Should negotiations fail, authorize the City Manager to enter into negotiations with Bartle Wells Associates.

PASSED AND ADOPTED by the City Council of the City of Paso Robles, this 18th day of November 2014 by the following vote:

AYES:
NOES:
ABSENT:
ABSTAIN:

Duane Picanco, Mayor

ATTEST:

Caryn Jackson, Deputy City Clerk

Approvals/workflow 1. Dept Head 2. Admin Svcs 3. City Manager 4. City Council	City of Paso Robles BUDGET ADJUSTMENT REQUEST Utility Rate and Connection Fee Study	Budget JE # AGENDA DATE 11/18/2014
---	---	---

DESCRIPTION	ORG #	OBJECT #	PROJECT #	AMOUNT
FINANCING SOURCES				
Water Fund	600	99999		\$215,200
TOTAL FINANCING SOURCES				\$215,200
FINANCING USES				
Professional Services	6001501	52240		\$215,200
TOTAL FINANCING USES				\$215,200

JUSTIFICATION: (attach letter if required)

REQUESTED BY: _____ Date Department Head	REVIEWED & APPROVED BY: _____ Date Administrative Services
APPROVED BY: _____ Date City Manager	

PASSED AND ADOPTED by the City Council of the City of Paso Robles, State of California, this 18th day of November 2014 Agenda Item No. _____

ATTEST: _____
Deputy City Clerk