



NEWPORT BEACH

City Council Staff Report

March 12, 2019
Agenda Item No. 15

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

FROM: Mark Vukojevic, Utilities Director - 949-644-3011,
mvukojevic@newportbeachca.gov

PREPARED BY: Joshua Rosenbaum, Senior Management Analyst,
jrosenbaum@newportbeachca.gov

PHONE: 949-644-3057

TITLE: Approval of Professional Services Agreement with Raftelis Financial
Consultants, Inc. for the 2019 Water Rate Study

ABSTRACT:

The Utilities Department requests City Council approval to enter into a Professional Services Agreement with Raftelis Financial Consultants, Inc. for the purpose of conducting a comprehensive Water Rate Study. The City's previous Water Rate Study was conducted in 2009 and the last water rate adjustment took effect in January of 2014.

RECOMMENDATION:

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly;
- b) Approve the Professional Services Agreement for the 2019 Water Rate Study with Raftelis Financial Consultants, Inc. for \$153,400; and
- c) Authorize the Mayor and City Clerk to execute the Agreement.

FUNDING REQUIREMENTS:

The current adopted budget includes sufficient funding for this Agreement. The \$153,400 contractual cost will be expensed to the Water Enterprise Fund, Water System Service - Services Professional account in the Utilities Department, 7019052-811008.

DISCUSSION:

In 2009, the City retained a consultant to conduct a Water Rate Study. This study included the development of a five-year financial plan including an estimate of the Water Fund's annual projected operating expenses. The study also included a funding plan for the updated Water Master Plan and a new Reserve Policy. The result of this study included a commodity and fixed rate with gradual increases in each fiscal year starting in 2010 and ending in 2014.

The City has had the same water rates since January 2014 (i.e. no rate increases in the past five years). The two elements of the City's existing water rates comprise the commodity or "variable" charge for actual water use and the water meter or "fixed" charge. Currently, these elements recover the costs of providing water to our customers. The self-sustaining Water Fund has been able to operate under the current water fixed and variable commodity rate structure, through efficient operations by the Utilities Department and oversight of the City Council.

However, with increasing costs over the last five years (i.e. cost for groundwater and imported water, electricity, maintenance and operations, materials, capital projects, etc.), expenditures are forecast to exceed revenues in the coming fiscal year requiring a dip into the residual working capital (operational reserve). As a result, the ability of the Water Fund to continue to sustain itself under the current rate structure requires a thorough review, analysis and formal Water Rate Study by an independent third party.

Staff developed a Request for Proposal (RFP19-51) with a defined scope of services to perform a comprehensive water rate study and invited qualified firms to submit their proposals. Key deliverables of this study will include: Long Range Financial Plan, Cost of Service Analysis, Evaluation and Design of Proposed Rate Structure, Administrative Record/Report, a Proposition 218 Notice and a Public Hearing. In addition, through RFP19-51, the Utilities Department requested proposers to submit proposals for three optional tasks: Recycled Water Rate Study, Reserve Policy Review, and a Water Conservation Ordinance Review/Update.

Staff sent out the RFP on December 21, 2018 and proposals were due January 22, 2019. The City received four proposals in response to the RFP. With oversight from the Finance Department, a panel of four evaluators from the Utilities Department and Public Works Department reviewed the proposals and evaluated their qualifications, experience and their project approach. The evaluators, along with the City's Purchasing Agent, RFP Administrator, and Utilities Department Director, met to discuss the panel's technical scores of each proposal. Raftelis Financial Consultants, Inc. earned the highest technical scores from each evaluator and was then interviewed to confirm the evaluation. Raftelis' qualifications and experience was the strongest of the competitors, having a great deal of experience in water rate studies, especially relating to deep dive financial analyses and compliance with State Law if a future drought is implemented. Their proposed project approach was efficient, clear and flexible to allow input. Based on these findings, staff then selected Raftelis, and the City's Purchasing Agent and Utilities Department staff evaluated the sealed cost proposal.

The Utilities Department recommends that the Professional Services Agreement for the 2019 Water Rate Study be awarded to Raftelis Financial Consultants, Inc., with a total contract amount not-to-exceed \$153,400. The scope of work includes the three options tasks and a contingency. After City Council contract approval, a preliminary Water Rate Study report will be prepared within six months. Public outreach and review by the Finance Committee is also planned. The Utilities Department anticipates bringing the Final Water Rate Study back for City Council review and approval at the end of summer.

Should the findings and recommendations of the Water Rate Study result in any proposed water rate adjustments, the Utilities Department would request City Council approval to initiate a Proposition 218 process at that time.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENT:

Attachment A – Professional Services Agreement