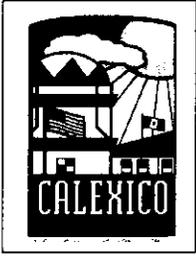


**AGENDA  
ITEM**

**20**



# AGENDA STAFF REPORT

**DATE:** August 1, 2018

**TO:** Mayor and City Council

**PREPARED BY:** David Dale, City Manager *DD*

**SUBJECT:** Authorize City Manager to Sign an Amendment to the Agreement between the City of Calexico and Willdan Financial Services for Additional Professional Services to Update the Water and Wastewater Rate Study

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**Recommendation:**

Authorize City Manager to Sign an Amendment to the Agreement between the City of Calexico and Willdan Financial Services for Additional Professional Services to Update the Water and Wastewater Rate Study in the amount of \$23,840.00.

**Background:**

On October 4, 2017, the City Council approved seeking proposals for a Water and Wastewater Rate Study. Proposals were received and reviewed by a selection committee. On November 15, 2017 the City Council approved Willdan Financial Services to perform the rate study.

The rate study was completed it in May 2018. The proposed rates were not approved in the subsequent public hearings. Prior to this, the last rate study was completed in 2006, with annual increases through 2009. There have been no modifications to the rates since FY 2009. With annual inflation rates above 2%, the cost of collection and treatment of wastewater and the treatment and distribution of potable water have risen greatly since 2009. Also, the City has identified a substantial Capital Improvement Program (CIP) for the next five years that requires funding. Although there are considerable assets in the Enterprise Funds, it is estimated that it is not enough fund the CIP.

The rate schedule will be reviewed, and possibly modified so that it is a more equitable rate structure based on consumption. The commercial water schedule also requires modification.

Other local cities have recently considered and modified their water and wastewater rates due to rising costs to purchase, treat and distribute water; and collect and treat wastewater to increasingly stricter State of California Department of Water Resources regulations. Infrastructure that was installed in the mid 1900's is starting to fail and requires costly replacement.

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**Discussion & Analysis:**

The Council authorized the City to proceed with the Willdan Financial Services Water and Wastewater Rate Study on November 15, 2017. This proposal would revisit the water and sewer rate study prior to a new Prop 2018 process. It has been requested to start the process once again at this time.

The current water and wastewater rate structure needs updating. The current structure and minimum water fee does not promote water conservation and does not allow residents to save on their monthly bill by conserving water.

The proposed study will contain recommendations only; it will not result in a change of the rates until a Proposition 218 process occurs, and the City Council approves the new rate structure in a Public Hearing.

**Fiscal Impact:**

Water Enterprise Funds \$11,920.00  
Sewer Enterprise Funds \$11,920.00

**Coordinated With:**

Public Works Department  
Finance Department

**Attachment(s):**

1. Willdan Proposal dated July 25, 2018
2. Amendment to the Existing Professional Services Agreement

**FIRST AMENDMENT TO PROFESSIONAL SERVICES AGREEMENT  
BETWEEN THE CITY OF CALEXICO  
AND  
WILLDAN FINANCIAL SERVICES**

**ARTICLE 1. PARTIES AND DATE**

This First Amendment to the Professional Services Agreement (“First Amendment”) dated as of the \_\_\_\_ day of \_\_\_\_\_, 2018 is entered into by and between the City of Calexico (“City”) and Willdan Financial Services (Willdan).

**ARTICLE 2. RECITALS**

**2.1** City and Willdan entered into that certain Professional Services Agreement dated November 16, 2017 (“Agreement”), whereby Willdan agreed to prepare a water and sewer rate study.

**2.2** City and Willdan now desire to amend the Agreement to revise the Scope of Services to update the water and sewer rate study and include additional compensation.

**ARTICLE 3. TERMS**

**3.1** Section \_\_\_\_\_ of the Agreement is hereby deleted in its entirety and replaced with a new Section \_\_\_\_\_ to read as follows:

“**Exhibit D.** A new Exhibit D (Water and Wastewater Utility Rate Study Update) which is attached hereto is hereby added to the Agreement.”

**3.2 Continuing Effect of Agreement.** Except as amended by this Amendment, all provisions of the Agreement shall remain unchanged and in full force and effect. From and after the date of this Amendment, whenever the term “Agreement” appears in the Agreement, it shall mean the Agreement as amended by this Amendment.

**3.3 Adequate Consideration.** The Parties hereto irrevocably stipulate and agree that they have each received adequate and independent consideration for the performance of the obligations they have undertaken pursuant to this Amendment.

**3.4 Counterparts.** This Amendment may be executed in duplicate originals, each of which is deemed to be an original, but when taken together shall constitute but one and the same instrument.

**[SIGNATURES ON FOLLOWING PAGE]**

**CITY OF CALEXICO**

**WILLDAN FINANCIAL SERVICES**

By: \_\_\_\_\_  
Lewis Pacheco, Mayor

By: \_\_\_\_\_  
Its: \_\_\_\_\_

Date: \_\_\_\_\_

Date: \_\_\_\_\_

ATTEST:

\_\_\_\_\_  
City Clerk

APPROVED AS TO FORM:

\_\_\_\_\_  
Best Best & Krieger LLP  
City Attorney

**EXHIBIT D**

**WATER AND WASTEWATER UTILITY RATE STUDY UPDATE**

(Proposal dated July 25, 2018)

July 25, 2018

Mr. David Dale, P.E.  
City Manager  
City of Calexico  
608 Heber Avenue  
Calexico, California 92251

**Re: Water and Wastewater Utility Rate Study Update**

Dear David:

Willdan Financial Services ("Willdan") is pleased to submit the following proposed scope of services and budget to update the recent Water and Wastewater Utility Rate Study Update for the City of Calexico ("City").

## Scope of Services

### Executive Summary

The City of Calexico wishes to update the financial study and rate analysis update for its existing Water and Wastewater utilities and their current rates. The results of the initial study were presented to the City Council in June, however, the Council decided not to take action on the recommended rate increases and rate structure adjustment. Now the City wishes to take updated recommendations back before Council in Fall 2018. In order to do that, the City wishes to update the previous analysis with newly available financial information, such as the new budget, updated fund balances, and updated Capital Plan data. This new effort includes gathering new updated data to update the prior analysis and model associated with water and wastewater operations, and to develop updated rates, including recommendations (if possible) for phasing in changes in structure. ***It is important to note that while we will be able to use the model framework from the initial study, this update will be a whole new analysis, as all key financial data and inputs will need to be either updated or re-validated, to ensure the model results and recommendations are based on the most current available information.*** New results will be presented to City Staff for direction on what to present to Council for their eventual action.

The City of Calexico is located in Imperial County with approximately 41,000 residents. Willdan completed the initial analysis of the City's water and wastewater financial plans and rates in the first half of 2018. The update of the analysis is intended to address the following:

- Meet future revenue requirements, including provision for operation and maintenance costs, personnel, debt service coverage, funding and maintenance of appropriate reserves, and funding of anticipated repair and replacement projects as identified in the recently updated master plans;
- Ensure the future financial plan and rates include provision for substantial capital projects that are anticipated over the next five years (more than \$13MM in planned water improvement projects, and approximately \$32MM in planned wastewater improvement projects);
- With updated metering technology in place, the City wishes to update their current rate structure to maintain compliance with the requirements set forth in Proposition 218; and
- Evaluation of future revenues and expenses to ensure they are appropriate.

### Work Plan

The following proposed work plan is intended to capture the City's goals and objectives for this updated study.

Willdan's work plan will culminate in the successful development of updated water and wastewater rates for five years, a ten-year financial plan, and the education of staff and key stakeholders. The new recommendations will be developed using the model created for the original study, with all key data updated or re-validated.

## Task 1: Data Gathering and Study Preparation

Willdan will review and identify the following:

- 1) Updated components to incorporate into the updated revenue requirements; such as, capital improvements, debt repayment, reserves, annual repair and replacement, cost of imported water, etc.;
- 2) Update the data used in the baseline financial forecast; and
- 3) Review and resolve (or develop a plan for resolving) data issues and questions.

We will request and begin acquiring data necessary to conduct the analyses. We will provide the City with a detailed list of data requirements pertaining to the subsequent financial and consumption analysis. As these studies are data intensive, and in order to remain on schedule, it is imperative that all data be provided in a timely manner and be delivered in an electronic format.

## Task 2: Water Rate Study

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### Subtask 2.A: Revenue Requirements Analysis

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In developing reliable and accurate revenue and financial projections, it is necessary to project and analyze the impact and sensitivity of multiple and sometimes complicated variables. We will develop the updated revenue requirements component of the comprehensive financial plan to include operating (water supply, treatment, personnel, etc.) and non-operating (debt, depreciation, etc.) costs incurred by the water utility.

Since a utility's revenue requirements (financial plan) and rate structure are directly dependent on one another, our goal during the development of the revenue requirements is to clearly identify each variable and describe the result of adjustments to the overall revenue requirements and rates. This will allow City staff and City Council to examine the effect of decisions made at the policy level, on the City revenue requirements and rates.

We will discuss specific policy objectives such as levels of reserves and debt funding guidelines. Specifically, we will discuss the implementation of a rate stabilization reserve, its impacts and uses, and funding scenarios.

Willdan has developed an easy to use graphical dashboard component in our financial model, which clearly identifies parameters that City staff can adjust to create and test new scenarios, while visualizing and balancing those outcomes with the impact to water rates, operating revenues and reserve balances.

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### Subtask 2.B: Baseline Analysis

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Before variables are identified and projected into the revenue requirements, a baseline revenue and rate analysis is performed. Willdan will utilize a "cash-needs" approach, where cash needs refer to the total revenue required by the utility to meet its cash expenditures.

Basic revenue requirement components of the cash-needs approach include:

- Operating and Maintenance expenses;
- Debt-service payments – both existing and anticipated;
- Contributions to specified reserves such as an operating reserve and a rate stabilization reserve; and
- Cost of capital expenditures that are not debt-financed or contributed from other sources.

The revenue requirements analysis will be developed based upon the utility's existing financial statements, to test for base year revenue sufficiency. If operating revenues are shown to be deficient, revenue adjustments will be implemented to adequately recover costs.

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### Subtask 2.C: Cost of Service Analysis

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The principal in establishing adequate rate schedules that are fair and equitable is that rates should reflect the costs of providing service. Our approach recognizes differences in the cost of providing services to different types of customers, areas and levels of service. The cost incurred by the users should be incurred by those whom benefit. Accordingly, cost allocation procedures should recognize the particular service requirements of the customer for not only total volume of water, but pumping/distribution costs and other factors.

This analysis will include gathering cost information associated with water and non-potable water services and allocation to functions, classification and allocation of costs to each existing customer class.

Since demand patterns of various customers differ, depending on their peak-day and peak-hour rates of demand relative to average demands, we will review the number and type of existing customer classes and make recommendations to add or consolidate customer classes, if necessary.

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### **Subtask 2.D: Rate Design Analysis Update**

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Utilizing the cost-of-service approach, the level of the City's rates is a function of the utility's costs and customer demands.

Willdan will fully modify and provide scenario planning to reflect the impact of different rates and/or revenue adjustments, including options for tiered rates and/or a drought surcharge. Willdan will recommend updates to the current water rates that are designed to focus on deficiencies in the current structure, and address and uphold key objectives, notably short and long-run financial stability, minimal economic stress for customers, equity and defensibility. Our recommendations will comply with the cost-of-service guidelines of Proposition 218, AWWA, WEF, existing bond covenants and current legislation.

The methodology utilized to determine how the water utility costs are allocated is expressed in the bullets below. While the methodology may be an "industry standard," our experience and understanding of key variables allow for a comprehensive and well-rounded rate design process:

- **Existing Rate Compatibility to the City's Objectives:** Rate structure is the area of the study that tends to generate the most attention and scrutiny. Prior to implementing new rates, Willdan will work collaboratively with staff to verify that key objectives for the City and stakeholders, such as understandability, avoidance of rate shock, public outreach (public buy-in), conservation, revenue stability, etc., have been addressed.
- **Existing Rate Structure:** When updating rates, there are numerous variables and considerations, ranging from access and quality of data, cost-causation, price elasticity, conservation, and weather conditions. Willdan will work with staff to provide recommended revisions to the City's existing water rate structure to ensure key issues are addressed.

The rate design task will involve modeling several alternative rate structures using the City's financial data and billing statistics to demonstrate the resulting customer impacts and to identify key issues associated with the new rates and charges.

Basic standards for rate design accepted by the industry are:

- **Revenue sufficiency** – rate revenue should provide sufficient income so that, when combined with other sources of funds, total system costs are covered;
- **Fairness and equity** – based on cost responsibility, as reflected in cost of service allocations, in accordance with industry standards;
- **Resource conservation** – under conditions of scarcity, the pricing of water as a commodity should promote conservation and discourage unnecessary water use;
- **Administrative simplicity** – so that rates are understandable to customers and efficiently administered by staff;
- **Customer acceptance** – customers understand the rates, view them as fair, and consider them to be reasonable compared to other costs and other utilities; and
- **Public health and welfare** – rates are structured so that essential domestic water consumption is encouraged through affordability.

### **Task 3: Wastewater Rate Study**

Willdan will undertake the following steps to provide an updated comprehensive model and financial plan, and updated wastewater rates, similar to the work on the water utility. The wastewater analysis closely mirrors the cost of service and rate setting approach for water. The following outlines unique tasks specific to this rate study.

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### **Subtask 3.A: Cost Projection Analysis**

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To determine annual required revenue, we will analyze and project the utility Operations Fund and Capital Fund. Furthermore, we will discuss the best way to finance the essential and prioritized projects required to operate the wastewater system. Willdan will analyze the City's planned CIP, and any necessary adjustments, based on staff discussions and reviews of the existing planning documents.

As such, we will generate “what-if” funding scenarios (financing, phasing, and costs) to illustrate the impact of different options on revenues and rates.

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#### **Subtask 3.B: Revenue Requirements Analysis**

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Similar to the water utility, we will prepare a comprehensive financial forecast for the wastewater enterprise with the objective of funding the utility's cash needs. Numerous financial projections of cash-flows will be based on various scenarios that reflect adjustments to O&M, capital expenditures, and funding sources, debt covenants, and reserve targets. We will make recommendations on reserve funds and rate of accrual to reach reserve targets.

As with the water analysis, Willdan will summarize total cash flows for a period of ten years, to support a five-year rate plan. To create a baseline, the project team will confirm the current rate-based revenues based on customer loads by comparing the calculated and actual revenues by customer class under the current rate structure.

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#### **Subtask 3.C: Scenario Planning**

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As previously mentioned, it is important to identify and avoid rate shock from excessive and compounding simultaneous changes. As such, the rate recommendations will include an evaluation of the effects of the combined utility bills on customers under several variations of inputs. In addition to the financial presentation of data, for each scenario our model also displays a sample customer bill to easily demonstrate the customer bottom line.

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#### **Subtask 3.D: Cost Distribution to Billable Parameters**

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A system of billable parameters is required to relate the costs of providing wastewater service to the City's customers, as prescribed by the WEF rate setting recommendations, which include the following:

Evaluating the City's cost of service for each customer class and billing parameter

Determining appropriate wastewater billable parameters

Determining unit costs for each billable parameter

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#### **Subtask 3.E: Wastewater Rate Plan and Bill Update**

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Based on the costs distribution developed in the prior subtask, we will update the current rates based on feedback received from City staff. We will review the rate structure and provide various recommendations for residential, multi-family and commercial rates based upon water use, discharge and strength characteristics, or other bases to achieve equity between customer classes. Each alternative derives the same required revenue and will be adaptable to work on the current billing system. Each revenue requirement scenario developed will demonstrate the impact of different assumptions on each of the developed rate structures.

Willdan will list the advantages and disadvantages of each alternative, and prepare comparison bills for each scenario. For the recommended alternative, we will project the annual unit rates for each customer class, and the current versus proposed bills for typical customers in each class.

### **Task 4: Communicating the Results – Presentations and Meetings**

Willdan believes in proactive stakeholder outreach, feedback and understanding during the entire process, not only at the time the results are proposed. Throughout the course of the study, in addition to the project kick-off, **Willdan will conduct discussions with key staff and the City Council** to walk-through the model, discuss the preliminary findings, and to discuss the draft results and study findings. We anticipate up to three (3) meetings with the City during the course of this project, one (1) meeting with staff to discuss and present results; and two (2) meetings with City Council, to discuss the proposed financial plan and rates, and provide support at the Public Hearing, and to initiate the Proposition 218 process. Additionally, we have increasingly been utilizing the effective online communication tools provided by GoToMeeting® and Join.me® to better facilitate discussion and feedback. This has proven to be more beneficial than common conference calls and does not count as a formal meeting, which can add unnecessary additional costs to the project.

### **Task 5: Prepare and Document Rate Recommendations**

Willdan will document the results of the study in a new report, consistent with the tasks identified throughout this task. The documentation will include an executive summary, methodology, background assumptions, findings, recommendations and conclusions.

The presentation and report will include a comparison of Calexico water and wastewater rates and fees to select neighboring water agencies. We will provide City staff with a digital copy of the preliminary draft report for review and comment, and based on the comments received, prepare a final printed and digital copy of the report. The City will also have full access to Willdan's fully customized, non-proprietary, Excel-based model for its use in the future.

### **Task 6: Customize Rate Model – Preparation and Delivery**

As part of our scope, Willdan will deliver a version of its financial planning and rate design model for staff. The model will allow City staff to monitor financial performance, and perform necessary analysis to identify necessary adjustments. Specifically, the model will allow for:

- Performance of sensitivity analyses; by quickly changing inputs such as growth rates, cost escalation factors, policy assumptions, cost of capital, costs of operation, and monitoring the effect on the overall financial plan;
- Calculation and analysis of costs of operation such as purchase, treatment and distribution of water;
- Analysis of costs of service, and their impact on rates;
- Evaluation of CIP financing alternatives such as debt or PAYGO;
- Ability of revenue to fund debt repayment and coverage requirement, and estimate debt capacity; and
- Use of the graphical user interface dashboard to quickly make changes and evaluate their effects.

### **City Staff Responsibilities**

Willdan recommends that the City assign a key individual as project manager for each project. As our analyses is developed, the City's appointed project manager will:

- Coordinate responses to informational requests;
- Coordinate review of work products; and
- Identify appropriate staff members for participation in meetings and facilitate in scheduling.

We will ask for responses to initial information, follow-up requests and comments on reports within five business days or otherwise agreed upon timetable. If there are delays, the project manager will follow up with the parties involved to establish an estimated date for the delivery of information and/or feedback. To ensure continued progression, the project manager will reconvene with the rest of the Willdan Team to identify tasks that can be started while waiting for requested data.

Willdan will rely on the validity and accuracy of the City's data and documentation to complete our analysis. Willdan will rely on the data as being accurate without performing an independent verification of accuracy, and that we will not be responsible for any errors that result from inaccurate data provided by the client or a third party.

## Fees

Willdan will perform the previously described tasks, including updating the models, analysis, reports and recommendations for both water and wastewater, for the **lump sum fee of \$23,840**. This fee does not include the cost of printing, processing and mailing of the Proposition 218 Notices. If the City requests Willdan to complete the mailing, these direct costs would be billed directly to the City, with a 10 percent (10%) markup. However, the City completed this effort itself for the initial study, so it is anticipated that they will do so again, and Willdan's assistance will not be necessary for the Notice preparation and mailing. The following additional notations are applicable to the proposed scope.

- Telephone conference calls are not considered meetings and are not limited by our proposal.
- Additional services, including additional meetings, may be authorized by the City and will require an additional fee.
- If the City wishes for Willdan to attend additional meetings, the fee is estimated to be \$1,875 per meeting, but will be billed based on our current hourly rate including travel time plus travel expenses.
- We will invoice the City monthly based on percentage of project completion.
- The City shall reimburse Willdan for any costs incurred, including without limitation, copying costs, digitizing costs, travel expenses, employee time and attorneys' fees, to respond to the legal process of any governmental agency relating to the City or relating to the project. Reimbursement shall be at Willdan's rates in effect at the time of such response.

## Additional Services

Additional services may be authorized by the City and will be billed at our then-current hourly overhead consulting rates. Our current hourly rates are:

Willdan Hourly Rate Schedule	
Position	Hourly Rate
Managing Principal	\$240
Senior Project Manager	\$185
Senior Project Analyst	\$135
Analyst II	\$110

We appreciate this opportunity to continue to serve the City of Calexico and look forward to hearing from you. If you have any questions regarding this proposal, please contact me at (951) 587-2528 or via email at [CFisher@willdan.com](mailto:CFisher@willdan.com).

Sincerely,

**WILLDAN FINANCIAL SERVICES**



Chris Fisher  
Vice President - Group Manager  
Financial Consulting Services