



AGENDA ITEM

March 22, 2011

TO: Honorable Mayor and
Members of the City Council

THRU: John W. Sibley
City Manager

FROM: Joe DeFrancesco
Public Works Director

Reviewed/Verified By:

City Manager
Finance Director

To Be Presented By:
Joe DeFrancesco

<input checked="" type="checkbox"/>	Cons Calendar	City Mgr Rpts
<input type="checkbox"/>	Council Reports	Legal Affairs
<input type="checkbox"/>	Boards/Cmtes	Public Hrgs
<input type="checkbox"/>	Admin Reports	Plan/Environ

1. SUBJECT

Second amendment to Black & Veatch Corporation's agreement for professional services for Water Rate Study.

2. SUMMARY

This is the second amendment to the agreement that provides for professional services to update the water rate analysis and water rate model for the City. The analysis will include a review and report on the City's current rates and structure including the ratio of fixed costs and variable costs. The scope of work includes updating the water rate model with recommendations for possible pass-through and multi-family options that are Proposition 218 compliant.

3. RECOMMENDATION / ACTION

Approve the second amendment to the contract in an amount not-to-exceed \$54,590.00 to Black & Veatch Corporation and authorize the Mayor and City Clerk to execute on behalf of the City.

4. FISCAL IMPACT

Funds are available in the following account:

600.8011.51620.00000	Engineering Services	\$88,008.00
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5. STRATEGIC PLAN GOAL(S)

- 2d) Be a fiscally healthy community – Analyze future fiscal needs and potential revenue opportunities
- 4b) Provide outstanding public service - Provide facilities and services to meet customer expectations

6. GENERAL PLAN IMPLEMENTATION

Infrastructure Element Goal 6.0: Ensure water, sewer, and storm drain systems that meet the needs of residents and businesses.

Policy 1.1: Provide sufficient levels of water, sewer, and storm drain service throughout the community.

Economic Development Element Goal 6.0: Provide sufficient infrastructure to support anticipated economic development and growth.

Policy 6.1: Provide public improvements to support commercial, industrial and institutional uses.

7. DISCUSSION and BACKGROUND

Due to escalating water supply costs, the Water Division sent out a request for proposal (RFP) in May 2009 to professional firms to conduct an analysis of the Water Fund’s revenues, expenditures, and reserve balances in order to develop a water rate model. Responses to the RFP were opened in June 2009. After review and evaluation of the three proposals received, a contract was awarded at the July 14, 2009 City Council meeting to Black & Veatch Corporation in the amount of \$45,000.00. A subsequent amendment to the agreement was approved by the City Manager in September 2010 in the amount of \$6,350 for a total contract of \$51,350.00.

Black & Veatch Corporation conducted the analysis and completed the original water rate model in November 2009. This model has been used since its completion in November 2009 to develop possible scenarios for water rate increases to offset escalating water supply costs. The financial data in the model was updated by Black & Veatch Corporation in the fall of 2010 to reflect the latest Water Division expenditures and revenues. This is the same model that staff used at the January 25 and February 8, 2011 public hearing for proposed water rate increases.

As directed at the February 8, 2011 public hearing, staff has requested a proposal from Black & Veatch Corporation for additional work to conduct a revised water cost of service analysis and a rate structure analysis to:

- Develop an accurate ratio of fixed charges and variable charges for water service
- Develop proposition 218 compliant multi-family tier and/or rate options
- Develop proposition 218 compliant pass-through options for OCWD costs, MWD/MWDOC costs, and inflation for infrastructure maintenance
- Revise the water rate model to incorporate outcomes from the three options listed above
- Generate a final report with findings and recommendations

In order to provide continuity with already completed data acquisition and the water rate model, staff is recommending amending the current Black & Veatch Corporation agreement to include the additional scope of work listed above. The cost for this additional scope of work is \$54,590.

8. ATTACHMENTS

- Amendment to Consultant Service Agreement

**SECOND AMENDMENT
TO
CONSULTANT SERVICES AGREEMENT**

This Second Amendment to Consultant Services Agreement (the "Second Amendment") is made and entered into on this ____ day of _____, 2011 by and between the CITY OF ORANGE, a municipal corporation ("City"), and BLACK & VEATCH CORPORATION, a Delaware corporation, ("Consultant"), with reference to the following:

A. The City and the Consultant entered into that certain Consultant Services Agreement (Agreement No. 5440) dated as of July 30, 2009 (the "Original Agreement"), and a First Amendment dated September 9, 2010 (the "First Amendment"). The Original Agreement and the First Amendment are incorporated herein by this reference and hereinafter referred to collectively as the "Agreement".

B. The City and the Consultant desire to amend the Agreement to modify, amend and supplement certain portions of the Agreement with regards to scope of services and compensation.

NOW, THEREFORE, the parties hereby agree as follows:

Section 1. **Defined Terms.** Except as otherwise defined herein, all capitalized terms used herein shall have the meanings set forth for such terms in the Original Agreement.

Section 2. **Scope of Services.** Section 1 of the Original Agreement, as amended by the First Amendment, is hereby amended to add the scope of services attached hereto as Exhibit "A".

Section 3. **Compensation.** The total not-to-exceed compensation set forth in Section 2 of the Original Agreement, as amended by the First Amendment, for the services to be rendered was the sum of Fifty One Thousand Three Fifty Thousand Dollars (\$51,350.00). Section 2 of the Agreement is hereby amended to provide for an increase of Fifty Four Thousand Five Hundred Ninety Dollars (\$54,590.00) in the total not-to-exceed compensation such that the Consultant's total compensation under the Original Agreement, as amended by the First Amendment and this Second Amendment, shall not exceed One Hundred and Five Thousand Nine Hundred Forty Dollars (\$105,940.00) without the prior authorization of the City.

Section 4. **Integration.** This Second Amendment, the agreements specifically referred to herein, and all attachments hereto integrate all of the terms and conditions mentioned herein, and supersede all negotiations with respect to the subject matter hereof. This Second Amendment amends the Agreement and except as specifically amended hereby, the Agreement shall remain in full force and effect. To the extent that there is any conflict or inconsistency between the terms and provisions of this Second Amendment and the terms and provisions of the Agreement, the terms and provisions of this Second Amendment shall control and govern the rights and obligations of the parties.

IN WITNESS of this Second Amendment, the parties enter into this Second Amendment on the year and day first above written.

“CONSULTANT”

“CITY”

BLACK & VEATCH CORPORATION

CITY OF ORANGE, a municipal corporation,

*By: _____
Printed Name: _____
Title: _____

By: _____
Carolyn V. Cavecche, Mayor

*By: _____
Printed Name: _____
Title: _____

Attest: _____
Mary E. Murphy, City Clerk

APPROVED AS TO FORM:

David DeBerry
City Attorney

***NOTE:** *If CONSULTANT is a corporation, the City requires the following signature(s):*
-- *(1) the Chairman of the Board, the President or a Vice-President, AND (2) the Secretary, the Chief Financial Officer, the Treasurer, an Assistant Secretary or an Assistant Treasurer. If only one corporate officer exists or one corporate officer holds more than one corporate office, please so indicate. OR*
-- *The corporate officer named in a corporate resolution as authorized to enter into this Agreement. A copy of the corporate resolution, certified by the Secretary close in time to the execution of the Agreement, must be provided to the City.*



March 7, 2011

City of Orange
Department of Public Works
Attn: Mr. Michael Wolfe
189 South Water Street
Orange, CA 92866

Dear Mr. Wolfe:

In response to your February 17th and March 3rd emails to Ms. Ann Bui, , please find below an updated scope of services to provide the City of Orange (“City”) with additional services supporting the City’s Water Rate Study (“Study”).

We understand that the City is engaging a consultant for provision of the services set forth herein (“Services”). The purpose of this letter is to describe Black & Veatch’s (BLACK & VEATCH’s) scope of work to provide these Services.

SCOPE OF WORK

Services to be rendered by BLACK & VEATCH. BLACK & VEATCH will provide the following services to the City.

Task 1 – Conduct Cost of Service Analysis

The objective of this task will be to conduct a cost-of-service analysis for the City’s water utility. Specific subtasks are:

- 1.1 Update the existing rate model with the City’s fiscal year (FY) 10/11 year-end estimates, and if available, the proposed FY 11/12 budget.
- 1.2 Review the City’s current customer classifications and allocate the cost of service to each customer class. Specifically, BLACK & VEATCH will review the multi-family residential (MFR) classification. At the City’s request, we will use FY 10/11 as the test year for the development of the cost-of-service analysis. In the event that billing information for FY 10/11 is not available, BLACK & VEATCH will use FY 09/10 as the basis of the analysis. We further understand that concurrent with this our analysis, the City will validate the number of units per multi-family dwelling.
- 1.3 Identify fixed and variable cost elements to assist the City in communicating the nature of costs incurred in running a water agency.



Black & Veatch will identify the fixed and variable cost elements for each year of the planning period.

Task 2 – Develop Alternative Rate Structures

Based on discussions with City staff, Black & Veatch will develop up to four (4) alternative rate structures for consideration by City Council. The specific alternatives evaluated include:

- Maintain current rate structure;
- Addition of a fourth tier at the upper end; and
- Potentially different rates for the following customer classes: MFR

Black & Veatch will compare typical bills for each customer class considered under each alternative.

Task 3 – Evaluate Options for a Low-Income Program

Based on discussions with City staff, Black & Veatch will evaluate the options available to the City for development and implementation of a low-income program that is compliant with Prop 218 requirements. Under this task, Black & Veatch will conduct a review of other California water agencies' low-income programs. Black & Veatch will prepare a summary of findings together with recommendations for the City's consideration.

Task 4 – City Council Presentations

To address the City's request for additional transparency in the rate-making process, Black & Veatch will attend and present recommendations at up to 2 City Council meetings. The purpose of these presentations is to help explain cost-of-service principles and rate-making standards, including the limitations of Proposition 218. Black & Veatch anticipates that City Council will provide guidance and direction at the end of the first meeting to help finalize rate alternatives and these results will be presented during the second meeting.

Task 5 – Reports

Black & Veatch will provide a preliminary cost-of-service analysis with the rate structuring options considered. As part of the task, Black & Veatch will specifically address the methodology behind the development of the City's proposed tier structure. We will provide City Council with the preliminary report for review one week prior to the scheduled workshop. Upon receipt of direction from City Council after the first workshop, Black & Veatch will



incorporate comments and provide a draft final report one week prior to the second scheduled workshop. Black & Veatch will provide a final report addressing final comments from the Board two weeks following receipt of comments.

Task 6 – Development of Pass-Through Charges

Under this task, Black & Veatch will work with the City to develop the calculation methodology for the pass-through charge related to OCWD and MWD/MWDOC costs. Black & Veatch will include changes in all costs and the basis for such costs, from OCWD and MWD/MWDOC, including the Basin Pumping Percentage (BPP). The purpose of the pass-through charge is to provide the City a mechanism whereby larger than anticipated increases from outside parties are passed directly to the rate-payer. Black & Veatch will provide the City with a spreadsheet outlining the calculation of future pass-through charges, as well as rationale for those costs for which a pass-through charge would not be feasible.

Task 7 – Identification of Inflation Index Pass-through Mechanism

At the City's request, Black & Veatch will work with City staff to examine the feasibility of identifying an inflation index compliant with Government Code Section 53756 to address cost changes related to capital and / or O&M activities. The index formula will be specific to the Water Industry with weighted factors for certain industry variables (other than purchased water costs).

Task 8 – Apartment Association of Orange County Meetings (OPTIONAL)

Under this optional task, Black & Veatch will work with the City to meet with the Apartment Association of Orange County (AAOC) at up to two (2), 2-hour meetings. The purpose of these meetings is to work with AAOC on addressing issues specific to multi-family residential (MFR) accounts.

Task 9 – Public Outreach Meetings (OPTIONAL)

Under this optional task, Black & Veatch will work with the City to present at up to four (4), 2-hour public outreach meetings. The purpose of these meetings is to help educate and inform the public of the rate process, proposed revenue increases, and any potential changes to the rate structure.



Additional Services

The Project Team will provide services in addition to those described in the Scope of Services upon request and authorization by the City. For any additional services requested, a supplemental Scope of Services will be prepared and the cost negotiated with the City.

1. Assumptions. The above scope of services, timeline, staffing levels, and fee estimates are based on the key assumptions listed below and throughout the proposal:
 - a. The scope of services presented above will take approximately 206 hours to complete, barring any unforeseen difficulties.
2. Fees and Expenses: For the Services, the City will pay to BLACK & VEATCH the following fees:
 - a. The Services above will be performed for a not to exceed amount of \$45,580, inclusive of all direct expenses. The table that follows presents a detailed level of effort.
 - b. Optional task elements are also presented in the table. For Optional Task 7, the estimated fee is provided on a per meeting basis.
3. Schedule: Upon receipt of a notice-to-proceed, Black & Veatch anticipates that the above scope of services will take approximately 6 months to complete. This estimated schedule assumes that City staff will require up to 3 months to validate the number of MFR units and that FY 10/11 consumption data is provided by the end of July 2011.

In the event that the City wishes to conduct the study using FY 09/10 consumption data and the MFR validation is expedited, Black & Veatch estimates that the study can be completed in 3 months upon receipt of a notice-to-proceed.



City of Orange
Cost of Service and Rate Structure Analysis
Work Effort and Cost Detail

Task Description	Project Manager	QA/QC	Technical Advisors	Project Analyst	Total Cost
Task 1. Cost of Service Analysis					
Subtask 1.1 Update Revenues and Expenses	4			24	\$4,900
Subtask 1.2 Identify Customer Classes				8	\$1,280
Subtask 1.3 Identify fixed and variable cost elements and perform COS	4		2	20	\$4,550
Total Task 1	8	-	2	52	\$10,730
Task 2. Develop Alternative Rate Structures					
Subtask 2.1 Develop up to 3 alternative structures	8		4	32	\$8,180
Total Task 2	8	-	4	32	\$8,180
Task 3. Evaluate Low-Income Program Options					
Subtask 3.1 Evaluate Low-Income Program Options	6		2	24	\$5,360
Total Task 3	6	-	2	24	\$5,360
Task 4. City Council Meetings					
Subtask 4.1 Attend up to 2 City Council Meetings	8			16	\$4,560
Total Task 4	8	-	-	16	\$4,560
Task 5. Reports					
Subtask 5.1 Prepare Draft Report	4	4		16	\$4,560
Subtask 5.2 Prepare Final Report	2			10	\$2,100
Total Task 5	6	4	-	26	\$6,660
Task 6. Development of Pass-Through Charges	4			22	\$4,250
Task 7. Development of Inflation Index Pass-through	4		2	26	\$5,240
Total Hours	44	4	10	198	\$44,980
Expenses					\$600
Total Fee					\$45,580
Task 8. Attend 2 Meetings with City Staff and AAOC	14			18	\$6,440
Task 8. Attend 2 Meetings with City Staff and AAOC - Expenses					\$200
Task 9. Public Outreach Meetings (OPTIONAL) - \$/MEETING	4			8	\$2,220
Task 9. Public Outreach Meetings (OPTIONAL) - \$/MEETING Expenses					\$150
Hourly Rate	\$235	\$295	\$235	\$150-\$185	

Thank you for the opportunity to present this scope of work and we look forward to continuing our work with the City. If you have any questions, please feel free to contact the Project Manager, Ms. Ann Bui at 949-302-6017.

Very truly yours,

BLACK & VEATCH CORPORATION

Peggy L. Howe
Vice President

Atb/plh

cc: Mr. Bob Baehner, City of Orange