MEMORANDUM

TO: CITY COUNCIL

FROM: GEOFF ENGLISH, DIRECTOR OF PUBLIC WORKS

BY: DEBBIE MALICOAT, ADMINISTRATIVE SERVICES DIRECTOR

SUBJECT: CONSIDERATION TO APPROVE AMENDMENT NO. 1 TO CONSULTANT SERVICES AGREEMENT WITH RAFTELIS FINANCIAL CONSULTANTS, INC.

DATE: FEBRUARY 25, 2014

RECOMMENDATION:

It is recommended the City Council approve Amendment No. 1 to the Consultant Services Agreement with Raftelis Financial Consultants, Inc. (Raftelis) in the amount of $7,580 to prepare a Water and Wastewater Rate Study Update.

IMPACT ON FINANCIAL AND PERSONNEL RESOURCES:

The Water Fund and Sewer Fund budgets include an appropriation for consultant services, which will be sufficient to provide for the additional cost. No budget appropriation is required. The Water Fund will provide $5,675 and the Sewer Fund will provide $1,895 for the contract amendment. Impact to personnel resources will involve staff time to meet with consultants, verify data and assumptions, and review report.

BACKGROUND:

At the May 28, 2013 meeting, the City Council approved an agreement with Raftelis to prepare a Water and Wastewater Rate Study. Staff has been working with the consultant on the study and has provided consumption data as well as other input to the study. The consultant and City staff has worked through several telephonic meetings to discuss the rate study and the consultant has completed a large portion of the modeling necessary to project revenues as well as recommendations for rates and their final report. Recently, it was discovered that consumption data for 145 accounts was not provided in the original data file. All consumption data has now been provided to the consultant. Having accurate consumption data is critical to effectively project revenues, and therefore, adequately set the required water and sewer rates necessary to achieve those revenues.

ANALYSIS OF ISSUES:
Given the late stage of the project, Raftelis will need to incorporate this additional data into their revenue model and update their analysis, as described more completely in the amended scope of work attached. The necessary analysis and modifications to the recommendations in the draft report will require more time due to the additional consumption data. Updating the draft to incorporate this additional data is required in order to help ensure that the results of the rate study are accurate and defensible.

ALTERNATIVES:
- Approve staff recommendation;
- Do not approve staff recommendation; or
- Provide direction to staff

ADVANTAGES:
Amending the contract with Raftelis will provide the City with a rate study that is as accurate as possible and legally defensible. It will ensure the model used to generate options is based on information that is fully up to date.

DISADVANTAGES:
There will be a slight delay in the project while the consultant recalculates and analyzes the additional data. Staff believes this is outweighed by the additional accuracy provided by including all consumption data in the analysis.

ENVIRONMENTAL REVIEW:
This item is exempt from environmental review per Section 15061(b)(3) of CEQA Guidelines.

PUBLIC NOTIFICATION AND COMMENTS:
The Agenda was posted in front of City Hall on Thursday, February 20, 2014. The Agenda and report were posted on the City's website on Friday, February 21, 2014. No public comments were received.

AGREEMENT FOR CONSULTANT SERVICES

AMENDMENT NO. 1

This First Amendment ("First Amendment") to Agreement for Consultant Services ("Agreement") by and between the **CITY OF ARROYO GRANDE** and **RAFTELIS FINANCIAL CONSULTANTS, INC**. ("RFC") is made and entered into this ___day of _____2014.

WHEREAS, the parties entered into the Agreement dated June 3, 2013 for preparation of a water and wastewater rate study update; and

WHEREAS, the parties desire to modify the Agreement as set forth herein.

NOW THEREFORE, for valuable consideration the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

1. Section 1 (" TERM") of the Agreement, shall be modified in its entirety to read as follows:

   This Agreement shall commence June 3, 2013 and shall remain and continue in effect until June 30, 2014, unless sooner terminated pursuant to the provisions hereof.

2. Section 2 ("SERVICES") and Section 5 ("PAYMENT") of the Agreement shall be amended to include the additional services at the increased cost as specified in Exhibit "A" attached hereto and incorporated herein by this reference.

3. Except as modified herein, all other terms and conditions set forth in the Agreement, as amended, shall remain unchanged.

IN WITNESS WHEREOF, CITY and **RFC** have executed this First Amendment on the day and year first above written.

CITY OF ARROYO GRANDE

By:_____
Tony Ferrara, Mayor

Attest:

_____
Kelly Wetmore, City Clerk

Approved As To Form:

_____
Timothy J. Carmel, City Attorney

RAFTELIS FINANCIAL CONSULTANTS

By:_____

Its:_____

RAFTELIS FINANCIAL CONSULTANTS, INC.

201 S. Lake Avenue
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Pasadena, CA 91101

Phone 626 . 583 . 1894
Fax 626 . 583 . 1411

www.raftelis.com

February 6, 2014

Mr. Geoff English
Public Works Director
City of Arroyo Grande
1375 Ash Street
Arroyo Grande, CA 93420

Subject: Amendment to Water and Wastewater Rate Study Update

Dear Mr. English:

In connection with the Water and Wastewater Rate Study Update Agreement between Raftelis Financial Consultants, Inc. (RFC) and the City of Arroyo Grande ((the "Agreement"), please accept this letter as a formal request to amend the Agreement, pursuant to Item 24 of the Agreement, for additional work to complete the study. It is anticipated that an additional 40 hours will be required. These additional 40 hours will be used to update the entire water rate model as a result of the new account data recently provided by the City that was not included as part of the original data used in our analysis.

As part of our initial review and due diligence of the original consumption files, we found 186 duplicate accounts. However, the amount of revenue generated by taking the product of the fixed and variable rates by the respective quantities generated a surplus of revenue when compared to budgeted revenue. Therefore, eliminating these accounts was appropriate, which resulted in a slightly lower amount of total meters and water consumption than expected.

On January 30, 2014, RFC received a new data file with the additional 145 accounts that were not within the original database. At this point in the project, we have completed the cost of service analysis and are currently finalizing the Report with City staff. However, the additional account data needs to be incorporated into the model and rate design. Doing so will require RFC to redo the cost of service analysis by updating the following items:

- Update base revenue analysis by tiers and accounts
- Update Financial Plan
- Update total usage and peaking characteristics by Customer Class
- Cost Causation (allocation of cost to each customer class and to each tier)
- Update Rates by Customer Class
- Update Report reflecting new findings

Please note that we have already incurred an additional $5,000 above the current contract amount, but we are not requesting the City to cover this cost; however, an additional 40 hours of work would result in an additional $7,580 from this point moving forward. Below is a breakdown of cost by task identified above.

We will still attend one City Council meeting as part of the original Agreement, and that cost is not within the hours listed on the following page.

Proposed Hours and Fees

Task No	Task Descriptions	Hours Requirements			Total Fees
		HI	GT	Total	
1	Update Base Revenue Analysis	1	4	5	$ 935
2	Update Financial Plan	1	2	3	$ 565
3	Update Total Usage and Peaking Characteristics	4	6	10	$ 1,890
4	Cost Causation	4	6	10	$ 1,890
5	Update Rates by Customer Class	4	2	6	$ 1,150
6	Update Report Reflecting New Findings	4	2	6	$ 1,150
	TOTAL ESTIMATED MEETINGS / HOURS	18	22	40	
	HOURLY RATES	$185	$175		
Legend:		Total Professional Fees			$7,180
HI = Habib Isaac		Total Expenses			$400
GT = Gregg Tobler		TOTAL FEES & EXPENSES			$7,580

We appreciate the opportunity to be of assistance on this engagement. Please do not hesitate to contact me at (951) 595-9354 if you have any questions.

Sincerely,
RAFTELIS FINANCIAL CONSULTANTS, INC.

Habib Isaac

Habib Isaac
Manager