



THE CITY OF SAN DIEGO

Report to the City Council

DATE ISSUED: May 2, 2017 REPORT NO: 17-026

ATTENTION: Honorable Council President Myrtle Cole and Members of the City Council

SUBJECT: Financial Consultant Services Contract Award for Various Water, Wastewater and Recycled Water Services Including Cost of Service Studies (10084319-17-H)

REQUESTED ACTION:

1. The Mayor or his designee is authorized to execute an agreement with Raftelis Financial Consultants, Inc. (RFC) to provide As-Needed Financial Consultant Services in an amount not to exceed \$981,382, with a contract duration of five years; and
2. The Chief Financial Officer is authorized to expend an amount not to exceed \$981,382 in total from Municipal Sewer Revenue Fund (700000), Metropolitan Sewer Utility Fund (700001), and Water Utility Operating Fund (700011) over five (5) years for the purpose of funding the As-Needed Financial Consultant Agreement with RFC, contingent upon the adoption of the Annual Appropriation Ordinance for the applicable fiscal year and contingent upon the Chief Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.

STAFF RECOMMENDATION:

Approve the requested actions.

EXECUTIVE SUMMARY OF ITEM BACKGROUND:

On November 17, 2015 the City Council approved a five year rate increase for potable water from FY 2016 – FY 2020 and an increase in the recycled water rate, which was a result of the cost of service study (COSS) completed in 2015. At that time, it was determined by the Public Utilities Department (Department) and their consultant, Black and Veatch, Corp. (B&V) that the Wastewater fund did not require any rate increase.

B&V was the previous financial consultant for 2015 COSS; however, their five-year agreement expired on May 7, 2017. The Department, via the City's Purchasing and Contracting Department, inclusive of Equal Opportunity Contracting Program staff input, solicited a Request for Proposals for a not-to-exceed five year agreement to aid the Department with financial expertise relating to cost of service and financial analysis for Water, Wastewater and Recycled Water services due to the B&V agreement expiring. Raftelis Financial Consultants, Inc. (RFC) was determined by the selection panel and the Purchasing and Contracting Department to be the most responsive bidder. The selection panel included

members from the Department, an Independent Rate Oversight Committee representative, and an Independent Budget Analyst's Office representative. RFC has an extensive history of providing financial consulting services to the Department, including the rate cases for the Water and Wastewater funds from FY 2007 and for rate cases that covered Fiscal Years 2008 through 2011.

The scope of the contract will cover several financial areas, with eleven different task orders. These specific task orders are as follows:

1. **Model updates and Financial Review:** the Department's financial needs / requirements are ever changing, based on system need, current environmental conditions, and other agency impacts, among a host of other items. It is envisioned that water and wastewater rate models will need to be updated on a regular basis to allow proper financial projections for operational forecasting and debt borrowing purposes, among other valuable and requisite purposes. These updates include any modeling of potential rate impact from Department initiated review of funds after FY 2017 and FY 2019.
2. **Alternative Water Rate Structure Study:** as part of the Department's commitments during the last rate case hearing, alternative rate structures for potable water that would conform to Proposition 218 requirements were to be explored in an open manner. RFC is well versed in the nuances of Proposition 218, but has a vast array of clients all across the country with different rate structures that they will be able to draw from to test against the Department's specific needs for input and consideration. Outreach for this task order has also been added to properly communicate any outcome and impact from this study.
3. **Water Cost of Service Study:** the current rate case for potable water ends after FY 2020. It is anticipated during this five-year contract with RFC, a water cost of service study will be required for public consideration. This cost of service would include developments from the alternative water rate structure study.
4. **Wastewater Cost of Service Study:** the wastewater fund currently does not require a rate increase, though one may be required during the contract period that will be developed for a proposed rate increase and / or proper cost allocation to customer classes for public consideration.
5. **Recycled Water Cost Analysis and Allocation:** recycled water pricing is currently based on a modified cost of service and it is anticipated that during this five year agreement the pricing should be renewed, though an update to this pricing may be needed.
6. **Pure Water Cost Allocation:** the division of Pure Water Program expenditures between the Water Fund and Metro Sewer Utility Fund and Participating Agencies is a complex allocation based on wastewater management, recycled water production, and potable water within each treatment process. This task order would assist in proper cost allocation to each specific ratepayer.
7. **Pure Water Grants:** the Department is now entering the design phase of the North City Pure Water project to produce 30 MGD of potable supply to augment the Miramar reservoir, with construction anticipated to begin in FY 2019. Leveraging RFC's nationwide presence and expertise in exploring and drafting applications for obtaining grants can assist in helping to mitigate rate increases.
8. **Capacity Fee Analysis:** capacity fees charged by the Water and Wastewater Funds aid in maintenance and expansion of each system & during this contract period, it is anticipated that capacity fee pricing will be required to be reviewed based on system need (potentially in conjunction with any COSS).
9. **Public Outreach:** As part of the RFP, the Department anticipated, at a minimum, the following level of outreach:

- Four presentations (two each for Water & Wastewater) for the City's Independent Rates Oversight Committee (IROC);
- Four presentations (two each for Water & Wastewater) to the Mayor and / or staff;
- Two presentations to each (9) City Council member and / or staff;
- Two presentations (one each for Water & Wastewater) at a Council Committee meeting;
- Two presentations (one each for Water & Wastewater) at a City Council meeting;
- Six presentations to outside stakeholder groups;
- Two presentations to the Metropolitan Joint Power Authority or its technical review committee.

On top of this level of outreach, additional funding can be utilized from task order 11 for additional outreach service from RFC. However, during the FY 2015 Water Fund COSS, Department staff was the primary presenters of information to City staff, stakeholders, and the community. B&V was utilized in the previous rate case to accompany Department staff to provide technical detail to specific groups, including Council Committee, City Council, and IROC. The majority of outreach anticipated in the upcoming five-year period for Department proposals are expected once again to be performed by Department staff, with support from RFC to specific groups. This support will be to those groups that will be interested in the specific details associated with COSS development such as customer allocation, Proposition 218 compliance, and rate setting best practices as outlined by American Water Works Association and Water Environment Federation, among others. To assist the Department in developing appropriate outreach to various groups of stakeholders, RFC has partnered with the local firm of Katz and Associates to assist in presentations and informational materials.

10. Value of Groundwater: the Water Fund has a dozen or more customers that use ground water via wells. Most are small farmers that lease Water Fund land in the San Pasqual Valley. The leases are administered by the Real Estate Assets Department, but there is not a standard method of charging for water use. Some leases include water in the lease payment, while others pay for water on an individual contract basis with different rates. The Department would prefer to set a standardized rate for groundwater and as part of this agreement, RFC will analyze all aspects of the costs that should be recovered in a groundwater rate and make a recommendation to the Department.
11. Additional Services: An additional \$200,000 has been included for additional services that are similar in scope to tasks 1-10 to allow greater flexibility based on need.

CITY STRATEGIC PLAN GOAL(S)/OBJECTIVE(S):

Goal # 2: Work in partnership with all of our communities to achieve safe and livable neighborhoods

Objective # 3: Invest in infrastructure

Goal #3: Create and sustain a resilient and economically prosperous City

Objective #2: Increase water independence

FISCAL CONSIDERATIONS:

The total amount not to exceed for this agreement is \$981,382. Funds are, or will be, available in Municipal Sewer Revenue Fund (700000), Metropolitan Sewer Utility Fund (700001), and Water Utility Operating Fund (700011), contingent upon the adoption of the Annual Appropriation Ordinance for the applicable fiscal year and contingent upon the Chief

Financial Officer furnishing one or more certificates certifying that funds necessary for expenditure are, or will be, on deposit with the City Treasurer.

EQUAL OPPORTUNITY CONTRACTING INFORMATION (if applicable):

This agreement is subject to the City's Equal Employment Opportunity Outreach Program (San Diego Ordinance No. 18173, Section 22.2701 through 22.2708) and Non-Discrimination in Contracting Ordinance (San Diego Municipal Code Sections 22.3501 through 22.3517).

PREVIOUS COUNCIL and/or COMMITTEE ACTIONS:

At the February 16, 2017 Environment Committee, a request was made that the Department attend a future Environment Committee meeting to discuss how to include additional Council and IROC outreach as part of the scope-of-work of future Department COSS consultant contracts and include those recommendations in the next COSS contract.

COMMUNITY PARTICIPATION AND OUTREACH EFFORTS:


N/A

KEY STAKEHOLDERS AND PROJECTED IMPACTS:

All City potable water, wastewater, and recycled water customers.



Halla Razak
Director, Public Utilities Department



Paz Gómez
DCOO, Infrastructure / Public Works

Attachment(s):

1. RFP Solicitation No. 10084319-17-H
2. Raftelis Financial Consultants, Inc. RFP Response
3. Raftelis Financial Consultants, Inc. Best and Final Offer
4. EEOC