



AGENDA REPORT

Meeting Date: October 20, 2015
Item Number: E-14
To: Honorable Mayor & City Council
From: Trish Rhay, Assistant Director of Public Works Services,
Infrastructure & Field Operations

Caitlin Sims, Senior Management Analyst

Subject: AMENDMENT NO. 1 TO AGREEMENT BETWEEN THE CITY OF BEVERLY HILLS AND HF&H CONSULTANTS, LLC FOR SERVICES RELATED TO WATER RATE EVALUATION AND RESTRUCTURING; APPROVAL OF A CHANGE PURCHASE ORDER IN THE AMOUNT OF \$179,369 FOR A TOTAL NOT TO EXCEED AMOUNT OF \$225,369 FOR THESE SERVICES; AND APPROVAL OF AN APPROPRIATION IN THE AMOUNT OF \$179,369 FROM THE WATER UTILITY FUND BALANCE

Attachments: 1. Amendment

RECOMMENDATION

It is recommended that the City Council approve Amendment No. 1 between the City of Beverly Hills and HF&H Consultants, LLC for water rate evaluation and restructuring; approve a Change Purchase Order in the amount of \$179,369 for a not to exceed amount of \$225,369 for these services; and appropriate \$179,369 from the Water Utility Fund Balance to fund the additional work required to complete the City's water rate structuring analysis.

INTRODUCTION & BACKGROUND

In April 2015, the City entered into a contract with HF&H Consultants, LLC, ("HF&H") for water rate structuring related to water rate evaluation and restructuring. The initial contract was for \$40,000, with a contingency of \$6,000, for a total cost not-to-exceed \$46,000. The scope of work was to evaluate the City's rate structure in light of the legal ruling in *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* and to make recommendations. In essence, the Court of Appeals ruled that cities shall ensure that water rates are consistent with the cost of providing service.

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At the time the Agreement was executed, the Governor mandated statewide water use reductions; the City was mandated to reduce its water usage by 32%. Subsequently, the City Council declared Stage D of its emergency water conservation measures, which required water customers to reduce water use by at least 30%. The City Council additionally directed staff to review the City's existing water rates and determine if a rate increase was necessary given increasing operating costs and anticipated reductions in water sales and revenue. The City Council also directed staff to evaluate its existing penalty surcharge framework in light of the *Capistrano Taxpayers Association, Inc. v. City of San Juan Capistrano* court decision.

Due to the court decision ruling, staff modified the HF&H scope of work and asked HF&H to assist the City in developing a defensible penalty surcharges and rate increase framework for FY 2015-16. Both the proposed rate increase and penalty rate structure frameworks were presented to the City Council for consideration and approval to move forward at its June 30, 2015 meeting.

After the work on the proposed rate increases and penalty rate structure frameworks were completed, HF&H resumed its original assignment to evaluate the rate structure for potential modification. The City Council and Public Works Liaison Committee asked that the process of developing a long-term rate structure be accelerated and be in place by February 2016. To date, approximately half of the work of Phase 2 has been completed. The total cost to complete all three tasks is an additional \$179,368.

Staff is recommending the City Council approve Amendment No. 1 to the existing Agreement No. 213-15 between the City of Beverly Hills and HF&H Consultants, LLC; and approve a change Purchase Order in the amount of \$179,369 for a not-to-exceed amount of \$225,369 for these services.

FISCAL IMPACT

Given the unanticipated court decision, additional funds related to the rate structure modification were not included in the FY15-16 water operations budget. As such, staff is requesting that the City Council appropriate \$179,369 from the Water Utility Fund Balance to fund work required to complete the City's water rate structuring analysis.



Don Rhoads
Approved By



George Chavez
Approved By

Attachment 1

AMENDMENT NO. 1 TO AGREEMENT BETWEEN THE CITY OF
BEVERLY HILLS AND HF&H CONSULTANTS, LLC FOR SERVICES
RELATED TO WATER RATE EVALUATION AND RESTRUCTURING

NAME OF CONTRACTOR: HF&H CONSULTANTS, LLC

RESPONSIBLE PRINCIPAL OF CONTRACTOR: John W. Farnkopf, Senior Vice President

CONTRACTOR'S ADDRESS: 201 North Civic Drive, Suite 230 Walnut Creek, California
94596
Attention: John W. Farnkopf, Senior Vice President

CITY'S ADDRESS: City of Beverly Hills
455 N. Rexford Drive
Beverly Hills, CA 90210
Attention: George Chavez, Director of Public Works
Services

COMMENCEMENT DATE: April 27, 2015

TERMINATION DATE: May 1, 2016

CONSIDERATION: Original Agreement:
Not to exceed \$40,000.00; and more particularly described
in Exhibit B;
Contingency for additional work not to exceed \$6,000.00,
as more particularly described in Exhibit B;
Total not to exceed \$46,000.00

Amendment No. 1:
Not to exceed \$179,369, and more particularly described in
Exhibit B

Original and Amendment No. 1:
Total not to exceed \$225,369, and more particularly
described in Exhibit B

AMENDMENT NO. 1 TO AGREEMENT BETWEEN THE CITY OF
BEVERLY HILLS AND HF&H CONSULTANTS, LLC FOR SERVICES
RELATED TO WATER RATE EVALUATION AND RESTRUCTURING

This Amendment No. 1 is to that certain Agreement between the City of Beverly Hills (hereinafter called "CITY"), and HF&H Consultants, LLC (hereinafter called "CONTRACTOR"), dated May 26, 2015 and identified as Contract No. 213-15 (the "Agreement"), a copy of which is on file in the Clerk's office.

RECITALS

A. CITY entered into a written agreement with CONTRACTOR for consulting services related to water rate evaluation and restructuring.

B. CITY and CONTRACTOR desire to amend the scope of work to include additional services, and amend the compensation to include such services.

NOW, THEREFORE, the parties agree as follows:

Section 1. The Consideration shall be amended as set forth on the cover sheet above.

Section 2. Exhibit A, "Scope of Work" of the Agreement is hereby amended as set forth in Exhibit A, attached hereto and incorporated herein.

Section 3. Exhibit B, "Schedule of Payment and Rates" is hereby amended as set forth in Exhibit B, attached hereto and incorporated herein.

Section 4. Except as specifically amended by this Amendment No. 1, the terms and conditions set forth in the Agreement shall remain in full force and effect.

EXECUTED the _____ day of _____ 20____, at Beverly Hills, California.

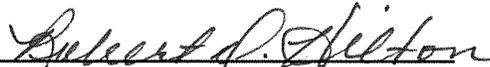
CITY OF BEVERLY HILLS
A Municipal Corporation

JULIAN A. GOLD, M.D.
Mayor of the City of Beverly Hills, California

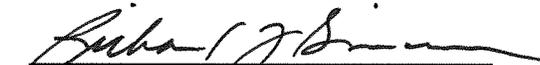
ATTEST:

(SEAL)
BYRON POPE
City Clerk

CONTRACTOR: HF&H CONSULTANTS, INC.

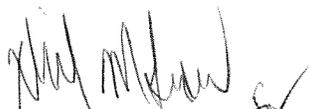


ROBERT D. HILTON
President



RICHARD J. SIMONSON
Vice President

APPROVED AS TO FORM:



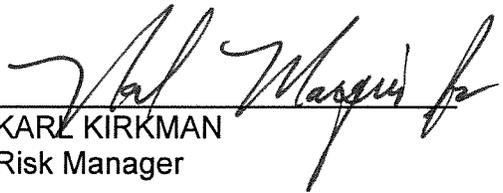
LAURENCE S. WIENER
City Attorney

APPROVED AS TO CONTENT

MAHDI ALUZRI
City Manager



GEORGE CHAVEZ
Director of Public Works Services



KARL KIRKMAN
Risk Manager

EXHIBIT A

SCOPE OF WORK

ORIGINAL AGREEMENT:

CONTRACTOR shall perform the following services:

CONTRACTOR shall evaluate rate structure refinements that would be consistent with the CITY's master planning effort and promote its implementation by fairly apportioning costs among customer classes and within each class. Examples of potential refinements are:

- ❖ Adjusting the amounts of revenue generated by the meter service charges and the quantity charges.
- ❖ Adjusting the current residential increasing block quantity charges (i.e., the location of breakpoints in volume between each tier and the rate for each tier).
- ❖ Adding an additional tier/s to either the single-family or multi-family volume charges.
- ❖ Converting the current non-residential uniform volume charge to a tiered structure or other structure (e.g., a budget-based structure that is based on prior water use).
- ❖ Converting to a form of residential water budget rates, which can require varying levels of implementation effort.
- ❖ Converting the current flat residential sewer rates to volumetric sewer rates (similar to the commercial sewer rate structure that is a combination of a fixed and volumetric charge).
- ❖ Expanding the number of commercial customer classes from the current single class (e.g., create low, medium, and high strength categories).

CONTRACTOR shall implement a phased study process that promotes focused interaction with appropriate representatives selected by the CITY. CONTRACTOR shall provide information as requested by the CITY in evaluating the preferred refinements that would merit further development and analysis. Such a pragmatic approach shall specifically target the CITY's information needs so that alternatives appropriate to the CITY's interests can be evaluated efficiently.

CONTRACTOR shall present general rate information to the CITY regarding the following:

- ❖ Common rate-making objectives – We can assist in reviewing and refining the City's rate-making objectives, which can be compared with industry practices, particularly during a time of drought.
- ❖ Industry trends - Emerging industry trends with similar cities in California and particularly in southern California can be presented. Rate structure changes, including drought rates, and recent and projected rate increases can be presented.
- ❖ Design guidelines – We can present information we have developed to assist the California PUC in developing design criteria for its regulated water utilities, which are also relevant to non-regulated municipalities.
- ❖ Regulatory considerations – We can provide information regarding the California Urban Water Conservation Council's plans for revising its best management practices for designing conservation-oriented rates (BMP 1.4). This revision is in the pilot stage of development and will be promulgated in June 2015. BMP 1.4 contains guidelines and evaluation criteria that are useful to all water agencies.

- ❖ Recent court decisions – Significant recent litigation (e.g., Palmdale and San Juan Capistrano) serves to underscore the importance of developing an administrative record that meets the burden of proof.

CONTRACTOR shall present this information to the CITY to lay the foundation for potential refinements.

Based on input from the CITY, CONTRACTOR shall present and prepare quantitative analysis to address areas of particular relevance to the Subcommittee. Part of this analysis will rely on data provided by the CITY (e.g., customer billing data). With customer billing data, CONTRACTOR shall develop bill distribution curves that can be used for evaluating the number of tiers. Various pricing structures will be studied to determine the combination of rates for a given set of tiers that will provide an appropriate price signal while recovering the cost of service. CONTRACTOR shall also estimate customer conservation response and strategies for improving revenue stability as demand is reduced.

CONTRACTOR shall provide graphical and tabular summaries comparing the existing rate structures with the alternatives as a means of understanding the potential impacts on customers across the full range of consumption. Upon request of the CITY, CONTRACTOR shall use models during meetings to make refinements and to test options.

CONTRACTOR shall use customer billing data to evaluate tiered water rate structures and volumetric residential wastewater charges. With loading data from a recent rate study, CONTRACTOR shall evaluate wastewater charges for commercial customers.

CONTRACTOR shall assist in summarizing alternative solutions in a technical memorandum and in presenting the summary to the Public Works Commission for its review. The technical memorandum will supplement the staff report, which CONTRACTOR shall assist in preparing upon request of the CITY.

Staffing

John W. Farnkopf, Senior Vice President shall be assisted by three HF&H consulting staff, Rick Simonson, Vice President; Sima Mostafaei, Senior Associate; and April Hilario, Associate. Such consulting staff shall assist in researching and compiling background information for presentation to the CITY. Such staff will also assist in preparing any analyses or models that may be required. Rick and Sima are experienced water and sewer rate consultants located in CONTRACTOR's Walnut Creek headquarters and April is located in CONTRACTOR's local Irvine office

Schedule

Since original discussions between the CITY and CONTRACTOR, the Governor issued Executive Order B-29-15, which calls for mandatory statewide water conservation. Time is clearly of the essence. However, further regulations will be forthcoming. In addition, the *San Juan Capistrano* may have a bearing on setting proportionate rates. CITY shall determine which pending developments to fold into the work needed and CITY shall adjust the schedule set forth accordingly.

CONTRACTOR shall make three presentations to the CITY. The first presentation shall provide general information intended to help focus on more specific information that shall be presented

at a second presentation. CONTRACTOR shall complete such presentations within 30 days of CITY's notification to proceed.

Afterward, CONTRACTOR shall compile the data required for the analysis and prepare preliminary analyses for CITY review. CONTRACTOR shall present such analysis in a third presentation to the CITY. CONTRACTOR shall prepare the technical memorandum for submittal to the CITY for the CITY to review within 30 days of the second presentation. Upon CITY approval of a satisfactory technical memorandum, CONTRACTOR shall assist CITY in presenting the report to the CITY's Public Works Commission at the next available Commission meeting.

AMENDMENT NO. 1:

CONTRACTOR shall perform the following services:

CONTRACTOR shall evaluate the existing rate structure and recommend rate adjustments. The evaluation shall include an assessment of CITY's current operating expenses, an evaluation of the impact of increased water conservation on revenues, and a recommendation for rate adjustments.

CONTRACTOR shall develop a penalty surcharge framework that relates to the costs that will likely be imposed on CITY if water users fail to meet the conservation goals mandated by the State Water Resources Control Board. The framework should establish an equitable approach for distributing potential risk costs and imposing penalties on those that fail to meet the conservation targets and thus trigger these additional costs.

CONTRACTOR shall evaluate rate structure refinements that would be consistent with the CITY's master planning effort and promote its implementation by fairly apportioning costs among customer classes and within each class. Examples of potential refinements are:

- ❖ Adjusting the amounts of revenue generated by the meter service charges and the quantity charges.
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CONTRACTOR shall compile the data required for the analysis and prepare preliminary analyses for CITY review. CONTRACTOR shall present such analysis in a presentation to the CITY. CONTRACTOR shall prepare a technical memorandum for submittal to CITY staff for review. Upon CITY staff approval of a satisfactory technical memorandum, CONTRACTOR shall assist CITY in presenting the report to the CITY's Public Works Commission and the City Council.

EXHIBIT B

SCHEDULE OF PAYMENT AND RATES

ORIGINAL AGREEMENT:

CITY shall compensate CONTRACTOR for the satisfactory performance of the work described in this Agreement in an amount not to exceed Forty Thousand Dollars (\$40,000.00) based on the rates set forth in this Exhibit.

In the event the CITY requests Additional Services for services outside the scope set forth in Exhibit A, the fee shall be negotiated in advance and set forth in writing, but shall not exceed Six Thousand Dollars (\$6,000.00).

Total fee under this Agreement shall not exceed Forty-Six Thousand Dollars (\$46,000.00).

CONTRACTOR shall submit an itemized statement to CITY on a CITY approved form for its services performed, which shall include documentation setting forth in detail a description of the services rendered, and the hours of services, if appropriate. CITY shall pay CONTRACTOR the amount of such billing within thirty (30 days) of receipt of same.

AMENDMENT NO. 1:

CITY shall compensate CONTRACTOR for the satisfactory performance of the work described in this Amendment No. 1 to the Agreement in an amount not to exceed One Hundred Fifty-Two Thousand, Three Hundred Sixty-Nine Dollars (\$159,369.00) based on the rates set forth in this Exhibit.

Total fee under this Agreement shall not exceed Two Hundred Five Thousand, Three Hundred Sixty-Nine Dollars (\$205,369.00).

RATES (Original Agreement and Amendment No. 1):

CONTRACTOR shall submit an itemized statement to CITY on a CITY approved form for its services performed, which shall include documentation setting forth in detail a description of the services rendered, and the hours of services, if appropriate. CITY shall pay CONTRACTOR the amount of such billing within thirty (30 days) of receipt of same.

Project Manager (John Farnkopf)	\$260/hr
Rate Analyst (Rich Simonson)	\$215/hr