



AGENDA REPORT

Meeting Date: May 3, 2016
Item Number: D-7
To: Honorable Mayor & City Council
From: Trish Rhay, Assistant Director of Public Works Services,
Infrastructure & Field Operations 
Caitlin Sims, Senior Management Analyst

Subject: AUTHORIZE THE CITY MANAGER TO EXECUTE AN AGREEMENT BETWEEN THE CITY OF BEVERLY HILLS AND MATRIX CONSULTING GROUP TO COMPLETE A COMPREHENSIVE OPERATIONAL, ORGANIZATIONAL, AND FINANCIAL AUDIT OF THE WATER SYSTEM; AND

AUTHORIZE THE CITY MANAGER TO APPROVE A PURCHASE ORDER IN THE NOT-TO-EXCEED AMOUNT OF \$89,000 FOR THESE SERVICES

Attachments: None

RECOMMENDATION

Staff recommends that the City Council authorize the City Manager to execute an agreement between the City of Beverly Hills and Matrix Consulting Group to complete a comprehensive operational, organizational and financial audit of the water system, and authorize the City Manager to approve a purchase order for the not-to-exceed amount of \$89,000 for these services.

INTRODUCTION

In July 2015, City staff and the Public Works Commission's Conservation Subcommittee began working with HF&H Consultants, LLC, ("HF&H") to complete a comprehensive analysis and evaluation of the City's water rate structure to determine if any modifications should be made considering decreased revenues as a result of water conservation, especially the City's mandatory water use reductions resulting from the Governor's drought declaration, and increased expenses as the City implements the Water Enterprise Plan. The purpose of the revised rate structure would be to create a structure that is revenue-neutral as customers' water purchases decrease – both as a result of the short-term conservation mandate prompted by the drought and the long-

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term conservation mandate to reduce water consumption 20% by 2020 as prompted by SB X7-7 – and as the City implements the Water Enterprise Plan. The proposed water rate structure must also adhere to the precedent set in the San Juan Capistrano court case, which re-emphasized that water agencies must demonstrate that tiered water rates are based on the actual cost of providing service for the tiers within each customer class.

Staff presented the proposed water rate structure at the November 17, 2015, Study Session and the City Council directed staff to proceed with the sixty-day notice of public hearing. The public hearing was held at the January 5, 2016, City Council meeting and community members expressed concern about the proposal. The City Council tabled its discussion related to the water rates and directed staff to complete additional analysis before returning with a new water rate proposal. The City Council directed staff to immediately identify opportunities to reduce capital expenses and to increase revenues to minimize the on-going budget shortfall. Additionally, the City Council also directed staff to complete an organizational, operational and financial audit of the water utility prior to moving forward with any additional water rate increase, to ensure that the water utility is operating as efficiently as possible. On February 16, 2016, the City Council approved the Public Works Commission's recommendation to transfer funding from the General Fund to pay back the Water Enterprise Fund for below-market leases and delaying certain capital projects.

DISCUSSION

Following the direction from the City Council at the January 5, 2016, meeting, staff developed a request for proposals, with input from members of the Public Works Commission, seeking firms to complete an organizational, operational and financial audit of the water utility. The City received proposals from five firms: Hazen and Sawyer, Matrix Consulting Group, Navigant, Raffellis Financial Consultants ("RFC") and Willdan Financial Services. Interviews with three firms were conducted by the Assistant Director of Public Works Services—Infrastructure and Field Operations, the Director of Administrative Services/Chief Financial Officer, the Chair of the Public Works Commission and the Vice-Chair of the Public Works Commission. Matrix Consulting Group was selected based on their written proposal and performance on the interview.

It is recommended that the City Council authorize the City Manager to execute an agreement with Matrix Consulting Group and authorize the City Manager to approve a purchase order for a not-to-exceed amount of \$89,000. Staff is looking to move forward with the assessment as quickly as possible. If approved by the City Council, the work would be completed within four months.

Once the organizational, operational and financial assessment is completed, staff will continue to work with the Public Works Commission's Conservation Subcommittee to implement the recommendations resulting from the audit. In addition, the study results and conclusion will help guide the development of a rate structure that accounts for the City's long-term water conservation goals and the projects proposed in the Water Enterprise Plan.

While the water utility assessment is being completed, staff will also be conducting additional public outreach to homeowners' associations, commercial customers and other interested stakeholders over the next several months to collect feedback on the potential framework of the water rate structure.

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FISCAL IMPACT

Funding for this project is available in the Water Master Plan Capital Improvement Project.



George Chavez

Approved By