



# City of Homer

[www.cityofhomer-ak.gov](http://www.cityofhomer-ak.gov)

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## Memorandum 21-042

TO: City Council  
THROUGH: Rob Dumouchel, City Manager  
FROM: Janette Keiser, Director of Public Works  
DATE: October 6, 2020  
SUBJECT: Resolution 20-077(S) – Water/Sewer Reserve Funds

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**Issue:** The City Council asked us to review and make recommendations on how the City’s Capital Asset Repair and Maintenance Allowance Funds for the Water and Sewer Utilities should be built and administered. Deliberation on Resolution 20-077(S) was postponed pending this work. We respectfully ask for additional time.

### **Background:**

The City Council adopted Ordinance 21-03 authorizing a contract to HDR Engineering for specialized Utility Financial Management Services, in an amount not to exceed \$35,000. We worked with HDR to identify a specific scope, which is set forth on the attached proposal and have a fully executed Task Order in place. The scope includes at least two Work Sessions with Council to update the body on findings and interim recommendations.

We need time to make progress through the proposed work in order to develop a meaningful new Policy Manual for the CARMA Funds. We ask that Resolution 20-077(S) be further postponed until we are able to come back with sensible recommendations. We will have a kick-off meeting the week of February 15 and will updated the Council through the City Manager’s Report that will be issued for the March 8 Council meeting.

### **Recommendation:**

That Resolution 20-077(S) be tabled until April 26, which is when, according to the Budget Schedule for FY 2022 and 2023, Council is scheduled to review “Preliminary Budget Assumptions”.

**TASK ORDER #6**  
**Water/Sewer Utility Financial Services**

This Task Order pertains to an Agreement by and between the City of Homer, (“OWNER”), and HDR Inc., (“ENGINEER”), dated May 8, 2017, (“the AGREEMENT”); extended December 20, 2019 to April 17, 2022. Engineer shall perform services on the project described below as provided herein and in the Agreement. This Task Order shall not be binding until it has been properly signed by both parties. Upon execution, this Task Order shall supplement the Agreement as it pertains to the project described below.

**PART 1.0 - PROJECT DESCRIPTION:** Review City’s financial policies and practices related to its water/sewer utilities and make recommendations for improvement

**PART 2.0 - SCOPE OF SERVICES TO BE PERFORMED BY ENGINEER:**

See attached HDR proposal, dated 2-3-21, which generally describes the work as:

- |         |  |
|---------|--|
| Task 1  | Data Collection and Review   |
| Task 2  | Kick-Off Meeting   |
| Task 3  | Review the City’s Past Rate Setting Approach and Key Financial Variables |
| Task 4  | Review and Development of Financial/Rate Setting Policies                |
| Task 5  | Preliminary Review of the Capital Planning Approach                      |
| Task 6  | Development of the Preliminary Financial Plan (Revenue Requirement)      |
| Task 7  | Participate in City Council Workshop                                     |
| Task 8  | Finalize the Phase I Revenue Requirement                                 |
| Task 9  | Review of the City’s Rate Designs  |
| Task 10 | Develop written report documenting technical analysis & recommendations  |
| Task 12 | Develop Computer model   |

**PART 3.0 - OWNER’S RESPONSIBILITIES:** Owner’s representative shall provide the consultant team with direction related to City’s improvement needs and:

- 1) Provide appropriate records.
- 2) Review submittals expeditiously.
- 3) Process pay requests expeditiously.

**PART 4.0 - DELIVERABLES AND TIME PERIOD:** See Attached Proposal

**PART 5.0 - PAYMENTS TO ENGINEER:** Time and expense contract, not to exceed \$35,000.

This Task Order is executed this 9th day of February 2021.

**CITY OF HOMER**  
“OWNER”

**HDR, Inc.**  
“ENGINEER”

By: Rob Dumouchel

By: Tim Gallagher

Signature: \_\_\_\_\_

Title: City Manager

Signature:  \_\_\_\_\_

Title: Vice President

## City of Homer Water and Sewer Rate Study

### Scope of Services

#### Task 0—Project Management

This task includes the general project management activities that are required to complete the rate study on time and within budget. This includes allocating the appropriate labor resources to the project and working with the City's Project Manager to schedule project meetings and provide monthly invoices and progress reports.

##### ***Expected City Staff Support for Task 0:***

- Coordination with the HDR project manager and local liaison on scope, budget, and schedule

##### ***Deliverables as a Result of Task 0:***

- Monthly invoice and progress report of project status and budget.

#### Task 1—Data Collection and Review

HDR will provide a written data request to City for review prior to the project kick-off meeting. The written data request will provide a detailed and organized list of the data required for the study. It is anticipated that the data should be readily accessible information. In development of this study, additional data requests may be necessary to complete each task.

##### ***Expected City Staff Support for Task 1:***

- Collect the requested data as provided in the initial data request.
- Identify data constraints or unavailable data.

##### ***Deliverables as a Result of Task 1:***

- An initial written data request to City.
- Additional data request identifying outstanding data needs.

#### Task 2—Kick-Off Meeting

The kick-off meeting will be used to discuss the key objectives to be achieved in the study. The City project team and HDR project team will review the general approach (scope of services), project time schedule, the initial data provided by the City, and identify any outstanding data needs. HDR will schedule a virtual two-hour initial project kick-off meeting.

##### ***Expected City Staff Support for Task 2:***

- Have City project team members attend a two-hour kick-off meeting.
- Provide input on the study goals and objectives, challenges, and concerns for the study.

##### ***Deliverables as a Result of Task 2:***

- Lead a two-hour virtual kick-off meeting attended by up to three HDR project team members.
- Summary outline of the study approach, schedule, challenges, and concerns.

### **Task 5—Preliminary Review of the Capital Planning Approach**

A key element of the development of cost-based rates is the determination of the capital improvement needs. HDR will assist the City to evaluate annual needs (e.g., asset replacement, minimum annual depreciation expense) to provide the basis for capital improvement plan for each utility. This will include and consider the City provided data and approaches to establish the renewal and replacement needs, age and condition of the assets, and regulatory requirements of each utility.

#### ***Expected City Staff Support for Task 5:***

- Provide as needed assistance to clarify the City's data and information and provide as needed additional data and information.
- Collaborate with HDR in the development of the approach to establish capital improvement needs.

#### ***Deliverables as a Result of Task 5:***

- Preliminary list of capital improvement projects to be included in Task 6 – Preliminary Financial Plan.

### **Task 6—Development of the Preliminary Financial Plan (Revenue Requirement)**

This task will develop a preliminary financial plan, or revenue requirement, to provide the City with a long-term forecast that considers the prudent and proper funding for O&M and capital expenditures and evaluates the need for rate adjustments over the time period for each utility. The various analytical steps of this task are described below.

Using generally accepted methodologies, the revenue requirement analysis for each utility will be developed for a minimum five-year projected time period. This time period allows the City to review the impacts to rates, identify future revenue short falls, and develop a transition plan to adequately fund each utility's operating and capital improvement expenses on an annual basis.

Operational costs are generally projected from historical or budgeted costs, using escalation (inflationary) factors for future costs, and adjusted for known changes in operations (e.g., changes in personnel, operating costs, growth and expansion). For each utility, HDR will begin with the City's current budget and financial results to project costs into the future using escalation factors for the various types of costs that the City incurs (e.g., labor, benefits, electricity, consumable items). Costs will also be analyzed and adjusted for changes in service levels, customer growth, and other factors.

The starting point for projecting capital expenditures will be the results of the discussion in Task 5. The goal is to develop a capital funding plan for each utility that maximizes the funds available while minimizing overall rate impacts. Consideration of internal and external source of funds will be made to minimize rate impacts to the greatest extent possible.

This framework provides the proper approach to evaluate the financial/rate implications of the necessary capital improvements for each utility. From a financial planning perspective, HDR encourages utilities to fund, at a minimum, an amount equal to or greater than a utilities annual depreciation expense. This amount of funding reflects the portion of a utility's assets that are becoming obsolete or beyond its useful life. It is important to note that annual depreciation expense is not the same as replacement cost. If the City does not collect full replacement costs

- Participation one virtual meeting or workshop.
- Develop public meeting presentation materials (i.e., PowerPoint, charts, graphs).
- Review of the data provided by the City and identification of outstanding data needs.

### **Task 8—Finalize the Phase I Revenue Requirement**

Based on the analysis completed, and direction received from City staff and City Council, this task will develop the final revenue requirement. This will include the final operating and capital funding approaches, financial and rate setting policies, and overall rate revenue transition plan for each utility. At the completion of the draft final revenue requirement a one-hour virtual project meeting will be held to review the analysis for each utility. At the conclusion of the meeting, HDR will develop the final revenue requirement for each utility.

#### ***Expected City Staff Support for Task 8:***

- Participate in a one-hour virtual project meeting to review the draft final revenue requirement.

#### ***Deliverables as a Result of Task 8:***

- An electronic version of the draft final, and final revenue requirement.
- Lead a one-hour virtual project meeting to review the draft final revenue requirement.

### **Task 9—Review of the City's Rate Designs**

Transition is an important concept when setting water and sewer rates. This applies to both the level of the rates (how much) as well as the structure of the rates (how it is collected from customers). This task will not include the development of new water or sewer rate structures. It will, however, provide the City with the information necessary to develop future rates, based the development of the prior tasks.

This task will review the current rate structures and the City's approach to establishing rates. As noted, the starting point for this task will be the results and recommendations from the prior tasks and policy direction from City staff and Council as it relates to rate design goals and objectives. From these prior discussions and technical analyses, conceptual rate structures will be developed to reflect the City's rate setting approach. HDR will provide bill comparisons to demonstrate the bill impacts to customers at various levels of consumptive use. At the conclusion of this task, HDR will provide a recommendation on the rate structure and implementation approach.

Up to two, one-hour, virtual project meetings will be held to review and discuss the alternative rate structures and recommendations.

#### ***Expected City Staff Support for Task 9:***

- Participate in two virtual project meetings.
- Identification of key rate structure goals and objectives.

#### ***Deliverables as a Result of Task 9:***

- Development of conceptual rate structures and implementation approach.
- Lead two virtual project meetings.

**Estimated Project Time Schedule**

Based on HDR’s experience in developing similar studies, the following schedule has been developed.

## Exhibit B – Hourly Billing Rates and Project Fee

### Project Fees

Given the hourly billing rates, and the scope of services outlined in Exhibit A, the project fee for City's water and sewer rate study was developed on a task basis. Provided below is a summary of the project fee for City's study.

<b>City of Homer</b>	
<b>Water and Sewer Rate Review</b>	
<b>Task Description</b>	<b>Total</b>
<b>Labor:</b>	
Task 0: Project Management	\$2,456
Task 1: Data Collection and Review	\$1,051
Task 2: Kick-Off Meeting	1,110
Task 3: Past Rate Setting and Financial Variables	1,975
Task 4: Financial/Rate Setting Policies	2,394
Task 5: Review of the Capital Planning Approach	5,280
Task 6: Preliminary Financial Plan	7,841
Task 7: Council Workshop	1,332
Task 8: Finalize Revenue Requirement	3,286
Task 9: Review of the City's Rate Designs	3,294
Task 10: Public Workshops	2,122
Task 11: Written Documentation	2,815
Task 12: Computer Models	0
<b>Total Phase II</b>	<b>\$34,956</b>
Total Expenses	44
<b>Grand Total "Not to Exceed" Fees</b>	<b><u>\$35,000</u></b>

The above project fee is based on the scope of services previously presented as Exhibit A. Should City request any additional services under this contract, the services will be provided at the hourly billing rates stated above and as agreed to in writing between City and HDR.