

RESOLUTION APPROVING THE AWARD OF A CONTRACT TO HDR ENGINEERING, INC. FOR THE WASTEWATER COST OF SERVICE RATE STUDY AND AMEND THE FY 2017-18 ANNUAL BUDGET

RECOMMENDATION

It is recommended that the City Council adopt a resolution authorizing the City Manager to:

1. Award a Professional Services Contract to HDR Engineering, Inc. of Folsom, CA in the amount of \$175,040 for the Wastewater Cost of Service Rate Study, Project No. PUR 17-024.
2. Approve findings pursuant to Stockton Municipal Code section 3.68.070 in support of an exception to the competitive bidding process.
3. Appropriate funds in the amount of \$175,040 from the Wastewater Utility Fund fund balance (431-0000-287) to the Wastewater Current Operating Expense Account (431-4331-574).

It is further recommended that the City Manager be authorized to take appropriate and necessary actions to carry out the purpose and intent of this resolution.

Summary

Adoption of the proposed resolution would retain HDR Engineering, Inc. to conduct a wastewater enterprise cost of service rate study to identify the appropriate wastewater rates to be adopted by the City Council necessary to fund capital improvements and ongoing operation and maintenance of the City's sewer collection and treatment system in accordance with Proposition 218 and recent legal decisions related to utility rates.

The Municipal Utilities Department (MUD) operates and maintains the City's sewer collection system comprised of over 900 miles of pipelines and 27 pump stations that collects wastewater from its customers and conveys to the Regional Wastewater Control Facility (RWCF) where it is treated prior to discharge to the San Joaquin River. The RWCF processes wastewater to meet strict federal and State environmental standards. The costs for wastewater conveyance and treatment are paid by utility customers monthly in accordance with the current rates established by the City Council. The current wastewater rate structure was last reviewed in 2010, and it is now timely to revisit its structure and applicability.

On October 21, 2017, the City advertised a Request for Qualifications (RFQ) for the Wastewater Cost of Service Rate Study. Four Statements of Qualifications (SOQ) were received and evaluated.

It is recommended that Council adopt a resolution authorizing the City Manager to execute a Professional Services Contract with HDR Engineering, Inc. of Folsom, CA in the amount of \$175,040 to provide a comprehensive review of the wastewater utility cost of service and rate structure. It is also recommended that Council approve findings pursuant to Stockton Municipal Code section 3.68.070, in support of an exception to the competitive bidding process and appropriate funds in the amount of \$175,040 from the Wastewater Utility Fund fund balance (431-0000-287) to the Wastewater Current Operating Expense Account (431-4331-574).

DISCUSSION

Background

The wastewater utility provides regional wastewater service to the greater Stockton Metropolitan Area through an extensive sewer collection system and treatment facility. Wastewater generally flows by gravity through the collection system from east to west aided by 27 sewer pump stations located throughout the City and conveyed to the RWCF. The RWCF discharges an average of 28 million gallons per day (MGD) of treated wastewater to the San Joaquin River in accordance with strict federal and State environmental standards.

The costs for wastewater collection and treatment are paid for by wastewater utility customers monthly in accordance with rates adopted by the City Council. Wastewater rates fund the cost to operate, maintain and replace existing collection and treatment facilities. Wastewater rates differ from connections fees which pay for the expansion of the collection and treatment system.

Monthly wastewater rates are determined by user classes consisting of three general categories: residential, commercial/institutional, and industrial. Residential customer rates are based on a fixed rate whereas commercial/institutional and industrial customers are based on wastewater quantity and strength. Should there be a determination that a proposed rate increase is necessary, any future rate proposal relating to any of these user classes must comply with the Proposition 218 mandate which allows utilities to charge rates sufficient to recover the cost of providing utility services. One particular substantive requirement of the California Constitution for property-related fees and charges, is that the amount of the fee or charge imposed must not exceed the proportionate cost of the service attributable to the parcel. As a property-related service, any rate increase for sewer service is subject to the procedural notice and majority protest requirements and other limitations of Proposition 218. Part of the objectives for the work associated with this rate study will be to provide rates designed to meet the legal requirements of the California Constitution Article XIII D and recent legal decisions related to Article XIII D.

The current wastewater rates were established by a previous rate study completed in 2010. The established rate structure included a 5-year phased increase to satisfy bond coverage requirements and Capital Improvement and Energy Management Plan (CIEMP) funding. It is necessary to revisit the rate study every five years to confirm appropriate funding levels for the ongoing cost to operate, maintain, and replace collection system and treatment components.

Present Situation

On October 21, 2017, the City advertised a Request for Qualifications (RFQ) for the Wastewater Cost of Service Rate Study. On November 30, 2017, four Statements of Qualifications (SOQ) were received from the following firms:

- Raftelis Financial Consultants of Oakland, CA.
- HF&H Consultants of Walnut Creek, CA.
- Stantec Consulting Services Inc. of Walnut Creek, CA.
- HDR Engineering, Inc. of Folsom, CA.

A Committee evaluated all SOQ's based on each firm's understanding of work and project approach, specific experience with similar studies, experience, and qualifications of the proposed team and quality and clarity of the SOQ.

HDR Engineering, Inc. met, or exceeded, the requirements and was found to be best qualified based on the noted criteria and is familiar with the City's processes and procedures. HDR Engineering, Inc. has experts in utility operations and management available to assist the financial planning effort. Staff negotiated a fee of \$175,040 with HDR Engineering, Inc. for the Wastewater Cost of Service Rate Study.

It is anticipated the rate study will take approximately six months to complete. Recommendations on any potential changes to the current wastewater rate structure will be required to comply with the legal requirements set forth in Proposition 218 and will be brought back to Council for consideration in the form of a public hearing.

The staff recommendation to approve the award of this contract was considered and approved by the Water Advisory Group (April 4, 2018) and the Council Water Committee (April 12, 2018).

Staff recommends Council adopt a resolution to award a Professional Services Contract to HDR Engineering, Inc. in the amount of \$175,040 for the Wastewater Cost of Service Rate Study (Exhibit 1 to the resolution).

Findings

Pursuant to Stockton Municipal Code section 3.68.070, Council may approve findings which support an exception to the competitive bidding process for contracts negotiated following solicitation of competitive proposals.

These findings include:

1. Enterprise activities are supported by ratepayers, and rates must reflect the cost of operating the utility.
2. State statute defines requirements for conducting rate studies.
3. The City does not have the technical expertise to prepare the study in a timely and cost-effective manner for completion in 2019.
4. Use of the RFQ process is appropriate for this Professional Services Contract because it relies on the evaluation of professional qualifications and performance as the basis for selection of a vendor. Use of these criteria helps ensure selection of a vendor that will provide the highest quality professional service which is in the public interest.
5. It is in the public interest to have well established rates using the proper methodology, to ensure the wastewater utility service provided to the ratepayers consists of the necessary amount.
6. The City negotiated a contract following the solicitation of competitive proposals in accordance with SMC section 3.68.070.A.3.

The recommended resolution will approve a Professional Services Contract with HDR Engineering, Inc. in the amount of \$175,040 to provide a comprehensive wastewater utility cost of service rate study and recommendations on wastewater rate fee structure and its application.

FINANCIAL SUMMARY

The total cost of the contract is \$175,040. Staff recommends funding be appropriated in the amount of \$175,040 from the Wastewater Utility Fund available balance (431-0000-287).

The recommended budget amendment to the FY 2017-18 Annual Budget is as listed below:

From:

Wastewater Utility Fund available balance	431-0000-287	\$175,040
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To:

Wastewater Utility Fund – Treatment Plants division	431-4331-574	\$175,040
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There is no impact to the City's General Fund or to any other unrestricted fund because of the recommended action.