



## AGENDA MEMORANDUM

Action Item for the City Council Meeting of July 19, 2022

**DATE:** July 19, 2022

**TO:** Peter Zanoni, City Manager

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### Utility Rate Model and Consulting Services

#### **CAPTION:**

Motion authorizing a 16-month service agreement, with five one-year options with NewGen Strategies and Solutions, LLC, of Richardson, Texas, in an amount not to exceed \$233,770.00 and a potential amount not to exceed \$458,770.00 if the options are exercised, for utility rate model development and consulting services for the City's water and wastewater system utilized by Corpus Christi Water (CCW), with FY 2022 funding of \$144,938.00 from the Water Fund and \$88,832.00 from the Wastewater Fund.

#### **SUMMARY:**

This motion authorizes a 16-month service agreement with five one-year options with NewGen Strategies and Solutions, LLC for rate model development for the City's water and wastewater system. CCW serves over 100,000 residential, commercial, large volume and wholesale customers. A consulting firm is critical to meet the challenges of balancing the long-term infrastructure investment, maintaining customer satisfaction and overall affordability of rates and charges. The consulting firm will work in close partnership CCW to optimize data analysis and identify the best strategic approach to deliver the right programs, address stakeholder demands and ensure public trust.

#### **BACKGROUND AND FINDINGS:**

The prior rate model development and consulting services agreement was awarded to HDR, Inc. from July 2019 through September 2022 as an annual contract with up to (2) one-year extension options. To ensure that pricing and services were competitive, management made the decision to solicit for new proposals. The service agreement with HDR, Inc. was for a total amount of

\$274,512, which included the first-year pricing of \$134,400, extensions one and two pricing of \$49,500 and three amendments pricing of \$41,112.

The recommended rate model consultant, NewGen Solutions and Strategies, LLC will partner with CCW to provide the following services:

- **Project Initiation and Management**
  - Coordinate a project kickoff meeting with city staff to review/identify project tasks, approach and methods, communication channels, deliverables, and data needs to complete the project.
  - Identify pricing and rate setting objectives.
- **Consumption and Revenue Analysis**
  - Study historical consumption by all customer types and develop usage and growth factors for each type. Examine all current customer classifications.
  - Analyze current revenues at current rates.
- **Financial Planning and Rate Model Development**
  - Review financial policies. Determine revenue requirement for water, wastewater, and reuse for multi-year period. Determine impacts that each customer class puts on assets of the water, wastewater, and reuse system.
  - Develop financial planning and rate model with the following attributes/functionality:
    - User friendly and flexible
    - Ability to model multiple rate structures at the same time
    - Ability to change one or more factors of usage, debt service, O&M, etc. and observe rate impacts
    - Incorporate financial planning over multiple years with the ability to change certain standard assumptions by year
    - Flag results such as failure to meet debt coverage reserves falling below target levels
    - Provide graphics and easy to understand summary tables
- **Water, Wastewater, and Reuse Cost of Service**
  - Conduct a water utility cost of service study as detailed in the American Water Works Association (AWWA) Manual of Water Supply Practices M1, Principles of Water Rates, Fees, and Charges (AWWA Manual M1).
  - Conduct wastewater utility and reuse cost of service study as detailed in the Water Environment Federation (WEF) Manual of Practice No. 27, Financing and Charges for Wastewater Systems published by the WEF.
- **Rate Design and Comparison**
  - Evaluate current rate structure providing alternatives. Evaluation will include affordability and equity.
  - Complete a benchmarking analysis to compare the proposed rate structure and rates with the seven (7) largest Texas cities and other communities of comparable size and service characteristics.
- **Reports and Presentations**
  - A draft and final report will be completed documenting the process, recommended changes, and results of the cost of service and rate study. An electronic copy of the final financial planning and rate model will be provided.

- **Training and Support**

- Training on the model will be provided to City staff.
- A comprehensive Training Manual on the model will be developed.

In addition to the services listed in the above bullets the consultant will establish and maintain a complete Quality Assurance/Control Program that is acceptable to CCW to assure that the requirements of the project are provided as specified.

The five one-year option periods will allow NewGen to provide annual financial consulting services during annual rate model update and rate review processes for both retail and public agency for resale (wholesale) customers. Annual updates of the rate model are required to ensure contract compliance with the City's public agency for resale customers.

**PROCUREMENT DETAIL:**

Finance-Procurement conducted a competitive Request for Qualifications process to obtain qualification statements for Rate Model Services. Two firms submitted for the Rate Model Services. NewGen Strategies and Solutions, LLC scored the highest and was selected to provide Rate Model Services. The selection committee was comprised of representatives from Budget and CCW. The final evaluation, including pricing, qualified NewGen Strategies and Solutions, LLC as the highest ranked firm based on three factors: 1) firm's experience 2) team experience and identification, and 3) understanding of project scope.

NewGen Strategies and Solutions, LLC has worked on other projects of similar scope and complexity, to include projects with the following cities in Texas: Ft. Worth, Austin, Lubbock, Waco, Irving, and Odessa.

**ALTERNATIVES:**

The City can choose not to hire a rate model consultant to oversee development of water and wastewater rates. However, in the absence of a rate model consultant, the current rate model would need to be used to compute annual required rates for public agency customers as per contract.

**FISCAL IMPACT:**

The fiscal impact in FY 2022 for CCW is an amount not to exceed \$233,770.00, of which \$144,938.00 will be from the Water Fund and \$88,832.00 from the Wastewater Fund. The cost in an amount not to exceed \$255,000.00, if option years are exercised, will be budgeted during the annual budget process.

**FUNDING DETAIL:**

Fund:	Water Fund
Organization/Activity:	30000
Mission Element:	041
Project # (CIP Only):	n/a
Account:	530000
Cost:	\$144,938.00

Fund: Wastewater Fund  
Organization/Activity: 33000  
Mission Element: 042  
Project # **(CIP Only)**: n/a  
Account: 530000  
Cost: \$88,832.00

**RECOMMENDATION:**

Staff recommends approval of this motion authorizing a 16-month service agreement, with five one-year options, with NewGen Strategies and Solutions, LLC, as presented.

**LIST OF SUPPORTING DOCUMENTS:**

Service Agreement  
Evaluation Matrix