

# Lompoc City Council Agenda Item



**City Council Meeting Date:** August 19, 2014

**TO:** Patrick Wiemiller, City Administrator

**FROM:** Brad Wilkie, Management Services Director  
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**SUBJECT:** Award of Professional Contracts in Preparation for FY 2015-17 Budget

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## **Recommendation:**

Staff recommends the City Council:

- 1) Enter into a contract with Revenue and Cost Specialists, LLC, the lowest responsible proposer for a User Fee Study, for a total contract amount of \$28,000 (Attachment 1);
- 2) Enter into a contract with HF&H Consultants, LLC to conduct an Enterprise Reimbursement Analysis for a contract amount of \$29,920 (Attachment 2);
- 3) Authorize contingency amounts of up to 10% of each contract for change orders for additional work identified during the course of the proposed work of \$5,792;
- 4) Approve supplemental appropriations as identified in Schedule A below; and
- 5) Authorize the City Administrator to execute the contracts and to execute other such documents necessary to complete the studies; or
- 6) Provide alternate direction.

## **Background:**

### **User Fee Study**

The City Council provided staff direction to solicit services to prepare an updated User Fee Study (Study) during the FY 2013-15 Budget cycle. The Study will provide a basis for a revised Master Fee Schedule (Schedule) to replace the existing Schedule, prior to the beginning of the FY 2015-17 Budget cycle. The existing Schedule has not been substantially updated since 2009-10 and is based on a Study completed in June 1990; almost 25 years ago.

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The City anticipates the Study to address the following:

- 1) Proposition 26, approved on November 2, 2010, imposes restrictions on the City's ability to set fees. In general, fees for services must not exceed the City's reasonable costs for providing the service;
- 2) The Schedule was established in 1990. Few fees have been added to the Schedule since then, although the City provides more services now than in 1990;
- 3) The Study's results will provide a framework for the appropriate level of governmental support for programs that have both a specific benefit to the payer of the fee and a general benefit to the community; and
- 4) The resulting new Schedule is anticipated to be effective for the FY 2015-17 Budget cycle, allowing for more services to be funded with fees rather than with general tax revenues, such as property, sales, or transient occupancy taxes.

The Purchasing Division provided support preparing the Study for bid in accordance with Lompoc Municipal Code (LMC) sections 3.36.030 and 3.36.040. Section 3.36.030 provides direction for sealed bid procedures, while section 3.36.040 provides for exceptions to formal bidding procedures.

#### Enterprise Reimbursement Analysis

The City's major utility charges (provided by Water, Wastewater, and Solid Waste enterprise funds) are subject to Proposition 218, enacted in 1996. The language of Proposition 26 includes an exception specifically for property assessments and property-related fees that are already subject to the approval requirements of Proposition 218. While the City's Electric utility charges are not subject to Proposition 218, they are subject to Proposition 26, approved in 2010. With the passage of Proposition 218, the City implemented cost of service reimbursements for the Water, Wastewater, and Solid Waste utilities, based on analysis of services provided. The City adopted a Cost of Service model for the Electric utility prior to 1994, which was last modified in 2006. The two reimbursement systems have not been reviewed for changes in circumstances; and it is recommended the City review the current methodologies to verify they do not exceed the cost of services provided.

#### Discussion:

##### User Fee Study

The Study was bid in accordance with the sealed bid procedures prescribed in LMC section 3.36.030. While the City's previous study was completed in 1990, there are a number of regional jurisdictions that have had studies performed more recently and

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more frequently. Enough consultants perform this specialized work, such that a Request for Proposal (RFP) was developed and issued on May 30, 2014 (Attachment 3). A total of eight firms received the RFP. In addition to the delivery of the RFP to firms known to perform such studies, the RFP was advertised in the Lompoc Record and published on the City's website. The closing date of the RFP was July 14, 2014, and a total of six firms submitted proposals.

Following is the list of the firms that submitted proposals:

Capital Accounting Partners  
Matrix Consulting Group  
MGT of America Financial Services

NBS Government Financial Group  
Revenue & Cost Specialists  
Willdan Financial Services

Finance staff reviewed the proposals and identified Revenue & Cost Specialists as the first choice in both the scope of work and overall cost. The remaining firms were very evenly ranked, but below the ranking of Revenue & Cost Specialists. While Revenue & Cost Specialist's proposed amount is less than the amount requiring formal sealed bid procedures, the high-end of the range of costs proposed by all bidders exceeded the level, allowing for an exception to the formal bid process. The cost of the Study was not known at the time the bid procedures were implemented, although the scope was sufficiently broad that a cost in excess of \$30,000 was anticipated. (See Attachment 4, Revenue & Cost Specialists' proposal.)

#### Enterprise Reimbursement Analysis

The City modified its method of allocating costs to the Water, Wastewater, and Solid Waste funds to comply with Proposition 218 shortly after its adoption in 1996. The City's methodology of allocating Electric fund resources has been in place since at least 1994. Services to analyze such allocations are more unique than a User Fee Study and, thus, the number of qualified firms able to perform such analysis is much more limited. HF&H Consultants has provided that service to a number of municipal electric providers that also have water, wastewater or solid waste services. They have also provided similar services to municipalities without an electric utility.

HF&H Consultants was requested to provide a scope of work to the City to evaluate cost-based methods for reimbursing the General Fund (primarily Public Works and Public Safety services). The request for a scope of work was made in lieu of using the formal bid procedures, based on LMC subsection 3.36.040(I), which allows for professional services contracts of less than \$30,000 to be awarded without a formal bid process.

As cost allocations are based on studies implemented 16 years ago in 1998, it is a recommended action to review the cost allocation methodologies prior to the City entering its FY 2015-17 Budget cycle. The scope of service and proposal from HF&H

Consultants is reasonable in relation to the annual General Fund services provided to the City's various utilities (Attachment 5.)

**Fiscal Impact:**

The cost of performing the scope of work of the proposed Study agreement is \$28,000. The cost of performing the scope of work of the proposed Enterprise Reimbursement Analysis agreement is \$29,920. The completion of the two scopes of service will likely generate additional fee revenue for the General Fund in excess of the cost of conducting both studies beginning in FY 2015-16. Just as important, the Enterprise Reimbursement Analysis will support the ongoing revenue stream to the General Fund for cost of services provided to the various utilities. In addition, the Study will result in a methodology to increase fees on the Master Fee Schedule annually for a reasonable period of time, based on the Cost of Living or another inflation measure. The fee structure developed from the Study will incorporate components to fund the next Study in three to five years and to fund a reserve to provide for a portion of the replacement cost of computers used in the City to provide the services.

The current complement of fees listed in the City's Master Fee Schedule was generally updated most recently in FY 2009-10 and the complement of fees on the Master Fee Schedule was identified as part of the last study conducted in June 1990. The most common cost of living index for Lompoc (the Bureau of Labor Statistics, Consumer Price Index – All Urban Consumers, U.S. City average) has increased 83.5% since June 1990 and 10.5% since June 2009. If the fees included on the City's Master Fee Schedule in effect on July 1, 2009 were representative of the City's reasonable costs for providing the services, then the City would likely be able to increase General Fund fee revenue by about 10.5% from FY 2013-14 levels, or about \$85,000 annually.

The City Council provided direction to proceed with a study during the May 7, 2014 and June 4, 2014 budget presentations. However, appropriations were not included in the budget for that study, as the scope of work and an estimate of cost had not been determined at the time. As part of the discussion during deliberations regarding the FY 2013-2015 Budget in the Spring of 2013, Finance staff contemplated requesting appropriations along with the authority to award the Study contract and decided to make that request after that budget was adopted. Staff is now making the request. The recommendation to review the cost allocation methodology for the Enterprise Reimbursement Analysis was not contemplated as part of the planning for the FY 2013-15 Budget. Thus, appropriations are not included in the budget for that activity.

The following Schedule A is recommended for funding of the two reviews:

Schedule A

<u>Program</u>	<u>Object</u>	<u>Fund</u>	<u>Amount</u>
10900	53390	General	\$ 19,593
23000	53390	Transit	308
37000	53390	Housing Trust Fund	616
50000	53390	Airport	308
51500	53390	Water	10,106
52500	53390	Electric	10,106
53500	53390	Wastewater	10,106
54500	53390	Broadband	308
59500	53390	Solid Waste	10,105
61000	53390	Revolving Recreation	308
62000	53390	DeWees Center	308
63000	53390	TAP TV	308
66000	53390	Campground	616
68000	53390	Aquatic Center	616

Recommendations for appropriations for the Study and the Enterprise Reimbursement Analysis are based on the benefit provided. Many of the operating funds of the City will likely receive a benefit from both the Study and the Enterprise Reimbursement Analysis. However, the benefit allocation will not be fully known until the completion of the two reviews.

The recommendation is to use fund balance reserves from each fund to provide the appropriations necessary for the studies. If existing funding is identified in any individual fund, then the responsible department or division can initiate a budget adjustment to fund the portion of the project from existing appropriations in that fund or program, rather than utilizing fund balance reserves. It is anticipated several of the "minor" funding sources can identify budget adjustments to fund the work.

**Conclusion:**

In preparation for the upcoming FY 2015-17 Budget cycle, approval of both agreements is recommended for resource studies so the City can be positioned to have appropriate levels of resources to pay for existing services and to set policy levels of support for services from fee and non-fee sources.

Respectfully submitted,

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Brad Wilkie, Management Services Director

**APPROVED FOR SUBMITTAL TO THE CITY COUNCIL:**

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Patrick Wiemiller, City Administrator

- Attachments:
- 1) [Revenue and Cost Specialists, LLC Services Agreement](#)
  - 2) [HF&H Consultants, LLC Services Agreement](#)
  - 3) [RFP No. 2753 – Master Fee Study](#)
  - 4) [Revenue & Cost Specialists LLC Cost Allocation & User Fee Study Proposal](#)
  - 5) [HF&H Consultants LLC Proposal to Conduct Enterprise Reimbursement Analyses](#)