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July 14, 2014

Mr. Brad Wilkie
Management Services Director
City of Lompoc
100 Civic Center Plaza
Lompoc, CA 93436

Subject: Proposal to Conduct Enterprise Reimbursement Analyses

Dear Mr. Wilkie:

At your request, we have prepared this proposal to evaluate cost-based methods for reimbursing the General Fund, Public Works and Public Safety Departments for services provided benefitting the Water, Wastewater, Electric, Broadband, and Refuse Enterprises. Our proposal is based on our recent conversations in which we discussed the relevant background and the City's objectives and requirements. In this letter, I briefly describe the project background, our proposed scope of services, the budget estimate, and schedule.

BACKGROUND

The City historically provided funding from its enterprises to the General Fund based on a 1998 study, which justified a transfer of 5% of operating revenues. After sixteen years, the City would like to evaluate cost-based methods by which the City's Water, Wastewater, Electric, Broadband, and Solid Waste Enterprises could reimburse the General Fund for three types of benefits that it provides these enterprises: (1) public safety services (i.e., police and fire), (2) governmental facilities (e.g., City Hall, corporation yards), and (3) right-of-way maintenance. Such benefits are in addition to other governmental overhead that is already allocated to the enterprises. The services described in this proposal would establish a cost allocation framework and conduct the cost allocation analyses.

APPROACH

Cost allocation algorithms will be identified that could apply to each of the five enterprises. Our approach will include a detailed review of the existing services and funding already received by the General Fund from overhead cost allocation plans.

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Although the project is focused on allocating justifiable costs to the enterprises for reimbursement, we will identify (but not quantify) any other potential direct sources of reimbursement that could be made through fees charged.

Figure 1 is a generic framework that shows the potential services that are provided by the City's governmental funds to the enterprise funds for which the enterprise funds should provide reimbursement. The General Fund, Public Works Department, and Public Safety Departments provide a variety of services for which the enterprise funds currently provide some level of reimbursement. Presumably the enterprises are already contributing toward the cost of General Fund overhead as a separate transfer.

Figure 1. Cost Allocation Framework for Funding Governmental Services

Governmental Services	Sources of Funds					Basis of Funding
	Enterprise Funds					
	Water	Wastewater	Solid Waste	Electric	Broadband	
General Fund						
Overhead						Overhead Cost Allocation Plans (OMB A-87)
Facilities (City Hall, Corp Yard)						Reimbursement for Construction Costs
Public Works Department						
Streets						
Right-of-Way Maintenance						
Vehicle Impact						Repair damage caused by collection trucks
Pavement Repairs						Trench excavation and subsidence
Public Safety Department						
Police, Fire						Security and property protection

Using Figure 1 as a starting point, we will work with the City to determine the framework that is appropriate to its specific circumstances. Figure 2 indicates the work plan tasks that will be followed.

WORK PLAN

We will hold a kickoff meeting by telephone to discuss the data required to calculate the cost allocations.¹ A spreadsheet model will be developed to perform the calculations. The calculations will indicate the amount of funding for each of the governmental services that should be reimbursed by each enterprise as well as the estimated impact on each enterprise's revenue requirements. We would present preliminary models to

¹ It should be possible to conduct this study without on-site meetings, which will save costs. However, in the event that on-site meetings are requested, they can be billed as an additional service.

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the City for review to ensure that the City accepts the methodology and that we have interpreted the data correctly.

The analysis will be documented in a brief report that will include the spreadsheet model for the City's subsequent use. The documentation will explain how the methodology complies with the substantive provisions of Proposition 218.² We will prepare a draft report for review with the City. We recommend that the City have its special legal counsel review the report, too. A final report will be produced incorporating the comments received.

BUDGET ESTIMATE, STAFFING AND SCHEDULE

We recommend a budget of \$29,920, as shown in Figure 2.

Figure 2. Work Plan and Budget Estimate

Tasks	Labor Estimate			
	Farnkopf Proj Mgr	Mostafaei Analyst	Barbieri Analyst	Total
<i>Hourly rates</i>	\$255	\$165	\$140	
1. Data Collection				
Kickoff (Conf Call)	2	2	0	4
Data Request and Review	2	6	2	10
Task 1 Hours	4	8	2	14
Task 1 Fees	\$1,020	\$1,320	\$280	\$2,620
2. Analysis/Modeling				
General Facilities	6	8	2	16
Right-of-Way Maintenance	8	26	4	38
Public Safety	8	20	2	30
Review Model with Staff (Conf Call)	2	2	0	4
Task 2 Hours	24	56	8	88
Task 2 Fees	\$6,120	\$9,240	\$1,120	\$16,480
3. Report Preparation				
Draft Report	12	24	2	38
Review Draft Report with Staff (Conf Call)	2	2	0	4
Final Report	2	6	1	9
Task 3 Hours	16	32	3	51
Task 3 fees	\$4,080	\$5,280	\$420	\$9,780
4. Project Management				
Task 4 Hours	2	2	0	4
Task 4 Fees	\$510	\$330	\$0	\$840
Total Labor				
Total Labor Hours	46	98	13	157
Total Labor Fees	\$11,730	\$16,170	\$1,820	\$29,720
Direct Expenses				\$200
				\$29,920

² Proposition 218 was passed by 1996 and enacted California Constitution Article XIIIID.

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We should review the estimated level of effort for each task to ensure that it is commensurate with your requirements. Please note that the City would only be billed for time spent on the project. Conversely, any hours for out-of-scope work would be billed in addition to the estimated fees. Out-of-scope work constitutes work on additional, new tasks, as well as extra time spent on existing tasks as authorized by the City. Budget estimates can be provided at the time that additional work is requested.

The work would be performed primarily by Sima Mostafaei with technical support from Lauren Barbieri. Sima is a highly experienced rate analyst; she will collect all data, prepare the model, attend meetings and draft the report. Lauren has assisted on numerous other studies of this type; she will assist by advising on the type of data collected and the model preparation.

We understand that the City would like to complete the study by October 2014 with time to incorporate the revisions to the cost allocation methodology into the FY 2015-17 biennial budgets. Every attempt will be made to conduct the study as quickly as possible.

I hope this proposal is responsive to the City's requirements. We greatly appreciate this opportunity to be of assistance with this challenging project.

Very truly yours,

HF&H CONSULTANTS, LLC

John W. Farnkopf, P.E.
Senior Vice President