

**AGENDA ITEM EXECUTIVE SUMMARY**

Agenda Item number: 6.a

Title:

Recommendation to award Utility Rate Study to Burns McDonnell Engineering

Presenter:

Chris Minick, Finance Director

Meeting: Government Services Committee

Date: September 25, 2017

Proposed Cost: \$80,000

Budgeted Amount: \$ 100,000

Not Budgeted: **Executive Summary** *(if not budgeted please explain):*

The City last performed a utility rate study during 2011. At that time the City's rate structure was inadequate to meet operational and capital needs in all 3 utilities and as a result of the rate study, a plan was formulated to return the utilities to operating solvency over the next several years.

The City has executed significant elements of that plan and the financial performance for all 3 utilities has stabilized significantly. Due to significant pending capital projects for the Wastewater Fund, there may be a few more years of rate increases that will be necessary to provide adequate funding to meet the identified infrastructure needs to comply with EPA standards. In addition, the City needs to assure that there is a plan in place to meet the minimum reserve threshold of 25% of annual operating expenses for all 3 utilities. To that end, there is a need to update the utility rate study.

The primary goal of the rate study is to provide a guideline for a 5-year rate structure to assure that all of the operating, capital, and reserve requirements are provided for. A secondary feature of the study will be to make any prudent recommendations regarding creation or combining of various customer classes based on an analysis of costs by customer class and industry practices. Additional operational and rate recommendations may also be made if conditions warrant. Also, an analysis of connection fees for the utilities will be performed.

The City sent an RFP for a rate study to various qualified firms and 4 responses were received. The RFP's were reviewed and scored by a team of 4 individuals representing the Finance and Public Works Departments. The scoring summary sheet is attached. The Committee selected Burns McDonnell Engineering and is recommending award of the rate study to Burns McDonnell at a combined cost not to exceed \$80,000 for all 3 utilities.

Burns McDonnell has significant experience with electric, water and wastewater rate studies performing several for local, regional, and national communities. They are familiar with IMEA and its operations and have performed rate studies for the City of Naperville for several years. In addition they have done rate analysis and System Renewal and Replacement Plans and Studies for Mt Prospect, Joliet and the City of DeKalb in the local area. In addition, Burns McDonnell will prepare a customized Excel spreadsheet model that City Staff can keep and update in the interim years when a rate study is not performed. This was a key functionality from the last rate study and Staff has made extensive use of the prior model provided by RW Beck.

**Attachments** *(please list):*

\* Scoring Summary Sheet \* Selection Rationale Memo

**Recommendation/Suggested Action** *(briefly explain):*

Recommendation to award Utility Rate Study to Burns McDonnell Engineering in the amount of \$80,000 for the Electric, Water, and Wastewater Utilities of the City of St. Charles.

## Utility Rate Study RFP

### Vendor: Baker Tilly

	Avg	Overall Rank	Cost
Technical Approach/Methodology	90.63		
Qualifications & Experience	67.50		
Understanding of Project Requirements/Scope	80.00		
Proposed Schedule	71.25		
Quality of References	35.00		
Quality & Completeness of Proposal	40.00		
	<b>384.38</b>	<b>3</b>	<b>\$54,990</b>

### Vendor: Burns McDonnell

	Avg	Overall Rank	Cost
Technical Approach/Methodology	100.00		
Qualifications & Experience	90.00		
Understanding of Project Requirements/Scope	75.00		
Proposed Schedule	71.25		
Quality of References	42.50		
Quality & Completeness of Proposal	40.00		
	<b>418.75</b>	<b>1</b>	<b>\$80,000</b>

### Vendor: M&FSG/PSE

	Avg	Overall Rank	Cost
Technical Approach/Methodology	90.63		
Qualifications & Experience	87.50		
Understanding of Project Requirements/Scope	75.00		
Proposed Schedule	67.50		
Quality of References	45.00		
Quality & Completeness of Proposal	36.25		
	<b>401.88</b>	<b>2</b>	<b>\$87,758</b>

### Vendor: Utility Financial Solutions LLC

	Avg	Overall Rank	Cost
Technical Approach/Methodology	84.38		
Qualifications & Experience	72.50		
Understanding of Project Requirements/Scope	85.00		
Proposed Schedule	67.50		
Quality of References	32.50		
Quality & Completeness of Proposal	28.75		
	<b>370.63</b>	<b>4</b>	<b>\$54,000</b>

September 12, 2017

To: Rita Payleitner, Chair  
Members of the Government Services Committee

From: Chris Minick, Finance Director

Subject: Rate Study Firm Selection Rationale

Staff is recommending that the Utility Rate Study project be awarded to Burns McDonnell Engineering at a total cost not to exceed \$80,000. Burns McDonnell was not the lowest cost proposal submitted; however, staff believes that it is the proposal that offers the most value for the fees expended. The scoring committee consisting of Julie Herr, Tim Wilson, Tom Bruhl, and me, is unanimous in recommending award of the study project to Burns McDonnell.

When the responses were received and scored, there was a clear delineation in the pricing and in the scores-2 responses were in the \$50,000-\$55,000 range with scores of approximately 375, and 2 responses were in the \$80,000 range with scores over 400 (on a scale of 500 points). Fees were not reviewed until all responses were reviewed by the committee. The scoring committee felt that any of the firms can do the requisite technical work related to the rate study, and they all had the same basic approach to the study itself. However, there were some distinct differentiators within the proposal responses that led the scoring committee to the ultimate decision to recommend award of the study to Burns McDonnell, even though they were not the lowest cost respondent.

One of the lower cost respondents did not include a spreadsheet modeling tool in their deliverables. The City currently uses a spreadsheet modeling tool that was provided as part of the prior rate study performed by RW Beck. The spreadsheet model has been an essential component of the annual budget and rate setting process since the completion of the prior rate study in 2011. Obtaining a new, updated spreadsheet model is a primary benefit of the rate study process. Additionally, the quality of the sample report and the proposal response submitted by this proposer were not as polished in appearance or quality as the other responses provided.

The other lower cost respondent did not provide a sample rate study report for an electric rate study. They did include a report related to a water and sewer rate study performed, but the remainder of the respondents included examples of a rate study that they had included for both an electric utility and a water and sewer utility. Additionally, the report provided was not as user friendly and easy to understand as the other reports submitted by other respondents. It was written more as an accounting style of a financial report with tables of numbers. Other respondents' report samples included the essential numbers and relevant amounts, but were also supported by more visual representations such as color graphs, color charts, tables, and other supporting documentation that appealed to a wider audience and were in a more user friendly format than the financial style report. Additionally, this response seemed to focus a bit too much on the numbers rather than taking into account the operational and engineering considerations for improvements that can be a secondary benefit of the rate study process.

Due to the factors identified above, these two firms were ranked 3<sup>rd</sup> and 4<sup>th</sup> in the scoring summary.

The other two firms' proposals were more advantageous to the City. The reports were more user friendly and had a more polished appearance, each firm also indicated that it would provide the spreadsheet modeling tool as a component of the fees charged, and the recommended respondent, Burns McDonnell had very beneficial Illinois, regional, and national experience noted in the response. Additionally, of the remaining firms, Burns McDonnell's fees proposed are of a lower cost than the other respondent.

Burns McDonnell has served as a consultant to the City of Naperville for many years and is therefore familiar with the IMEA. They have provided Naperville with rate studies in the past and have assisted and evaluated service and billing enhancements for the Naperville electric utility such as Time of Use (TOU) billing and automated metering. We anticipate that these elements will be evaluated for our electric utility. Additionally, Burns McDonnell has done water and sewer rate studies and system replacement analysis for Mt Prospect, Joliet, and DeKalb. They also have experience performing water and sewer rate studies in other parts of the country. As a result, we have communicated our expectation that they will evaluate our customer classes in all three utilities and make appropriate suggestions for changes if and as those changes are warranted.

Staff also believes that bringing in a fresh perspective is a benefit in a rate study type of analysis. Burns McDonnell has not performed significant work on behalf of the City or our utilities in the recent past and therefore can offer a fresh perspective about the City's utilities' billing practices and operations.

Once all of the discussion was held and all of the factors, costs, and fees were accounted for, we came to a unanimous consensus as the selection committee that Burns McDonnell's proposal offers the best value for the City and recommend award of the Utility Rate Study to Burns McDonnell at a cost not to exceed \$80,000.