

Request for Proposals

For a
Water and Sanitary Sewer
Cost of Service and Rate Study

City of Lawrence, Kansas
October 6, 2003

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Purpose: The purpose of this document is to solicit proposals from qualified consultants to provide professional services for a cost of service study for Lawrence's water and sanitary sewer operations. These service costs are to be allocated to the appropriate customer classes and a new rate structure developed. The City of Lawrence is also requesting a five year projection of revenues and expenses. Water and sanitary sewer rates are requested to cover a five year time frame.

Background: The City of Lawrence, Kansas is located 38 miles west of Kansas City and 20 miles east of Topeka. The City encompasses over 30 square miles. The City and County Commissions are currently considering a significant expansion of the City's urban growth area because of continued population increases just outside the current city limits. The population of Lawrence according to the 2000 census was 80,098. The Planning Department has estimated the 2003 population to be 85,282.

The City of Lawrence has two water treatment plants. One plant obtains its raw water from the Kansas River and a second plant pulls water from the Clinton Reservoir. The wastewater treatment plant is nearing completion of a \$40 million upgrade. In 2002, the daily average water consumption was 12.6 million gallons with a maximum day capacity of 31.5 million gallons. The firm of Black & Veatch has updated the City's master plan for future water and sanitary sewer capital improvements. Among other projects, the master plan includes the construction of a new sanitary sewer treatment plant. It is estimated that Lawrence has over 28,000 service connections.

The City of Lawrence finances capital projects through cash, revenue bonds, and State Revolving loan funds. The City currently has three outstanding revenue bonds totaling \$10,510,000. One of these issues will be retired on November 1, 2003. In addition, the City has outstanding State Revolving loan funds for three projects totaling nearly \$50 million. The largest loan is for the upgrade of the wastewater treatment plant.

The operation of the Water and Sewer utility is divided between the Utilities and Finance Departments. The Utilities Department is responsible for all operations with the exception of meter reading and billing. The Finance Department utilizes H.T.E. software to bill our utility customers. The system runs on an A/S 400.

Contact: All questions concerning the request for proposal should be in writing and submitted to the City of Lawrence's Finance Director by fax at 785-832-3231 or by email at emullins@ci.lawrence.ks.us.

Selection: The award of this contract shall be made on the basis of the highest evaluated proposal on the basis of the following criteria; proposed method to accomplish the project, past record of performance, capacity of the firm to accomplish the project within the stated timetable (including qualifications of assigned personnel), the quality of the proposal, and the total cost of the project. The City of Lawrence reserves the right to reject any or all proposals.

Scope of Work: There are seven primary areas which need to be addressed in the study. The information to be provided by the City will be detailed in the scope of work section.

- A. Revenue Requirements – The first requirement will be for the consultant to establish the total operating revenue requirement for the Water and Sewer Fund for a five year period. The steps in projecting the required revenue will include: 1) A projection of customer volumes based upon historical information from the City’s data base and a projection of future growth based upon information from the Planning Department; 2) An estimate of future revenues based upon the estimated future consumption; 3) A projection of revenues from other sources that get credited to the Water and Sewer Fund; and 4) A projection of future expenses including operation and maintenance, routine and major capital projects, and debt service on existing and future debt issues.
- B. Capital Requirements – The second requirement is to develop a capital financing plan to fund the approved projects included in the most recent master plan. The master plan includes the major capital projects proposed for the Water and Sewer utility over the next 10 years. The plan is currently being reviewed by the City Commission. The consultant will need to: 1) Develop a proposed financing plan for the projects over a five year period. The plan will include cash, bond and possibly State Revolving loan fund financing; 2) Combine the capital and operating cost projections to determine the appropriate mix of cash and bond financing taking into consideration the current 1.45 coverage ratio on outstanding revenue bond debt.

A cash flow statement should be developed using the combination of the above two requirements. The cash flow statement will provide the basis for determining needed revenue adjustments in future years.

- C. Cost Allocations to Service Components – The third requirement is to allocate the total cost by year to the appropriate cost component. The cost allocation should be related to average and peak demands, customer related costs such as meter reading and account billing, and fire protection. The consultant is requested to justify the selection of the basis of cost allocation. At a minimum, the following methods should be evaluated; base-extra capacity method and commodity-demand method.
- D. Cost Allocations to Customer Class – Cost of providing service to various customers depends upon the relationship between average and peak demands. In addition, the City of Lawrence sells water to outside customers, typically rural water districts. Designation of the appropriate customer classes for Lawrence must be discussed with City staff in sufficient detail for staff to understand the factors in establishing appropriate classes. The consultant will then determine the units of each type of service provided to each class. City staff will provide historical usage information from the utility billing data base. Based upon these units of usage, the costs of service will be allocated

to the various customer classes in proportion to their respective units of service.

- E. Development of a Rate Structure - The consultant will work with City staff and elected officials to select the most appropriate rate structure for Lawrence. The rate structure must stand up to public scrutiny. At a minimum, the consultant is requested to explain the advantages and disadvantages of the following rate structures; declining block, uniform block, inclining block, and seasonal. Regardless of the structure selected, the rates schedules must equitably meet the revenue requirements for the respective customer classes. In addition, consideration must be given to the capability of the current utility billing software. A comparison of typical bills under the existing and proposed rates for various levels of service is required.
- F. Calculation of System Development Charges - Many of the capital projects included in the proposed master plan are growth related. The consultant is requested to review the methodology used to determine the current system development charges and recommend system development charges for the water and sanitary sewer systems for the next five years. At a minimum, the consultant is requested to explain the advantages and disadvantages of the equity method and incremental cost method of calculating system development charges. Recommendation for the appropriate timing of the assessment of the system development charge is also requested.
- G. Determination of Septage Charges - A review and update of the current septage charges and a recommendation for future charges is required. The charge should be based upon cost of service, but may be modified in recognition of the public good of providing safe disposal of septage wastes.

Reports: Upon completion of the scope of work, the consultant shall:

- 1. Provide eight copies of a draft report for staff review. A copy of the report in Microsoft Word document is also required. After review by staff, a meeting to respond to questions and proposed changes may be required.
- 2. Provide 25 copies of the final report and any other relevant information.
- 3. Meet with elected officials to explain the details of the report, the consultant's recommendations, and respond to any questions.
- 4. Provide the City of Lawrence with a computer model that can be used for future rate adjustment calculations in an agreed upon software application format. The model would allow for rate adjustments based upon changes in the master plan, water and sanitary sewer revenue, operating costs, and debt service payments.

Timeline: The consultant shall provide a timeline for completing the different phases of the study. All work for the project should be completed within 150 days after the notice to proceed is issued by the City of Lawrence. The City staff will attempt to have all records and pertinent information available to the consultant in a timely manner. The consultant will be provided the necessary contacts to assist in the compilation of the

required data. All services in this study shall be performed in accordance with procedures for water and sanitary sewer rate studies developed by the American Water Works Association.

Additional Services: If it should become necessary to request additional services, such additional services shall be performed at the hourly rates for key personnel listed in the consultant's response to this proposal. The proposal shall identify any subcontracting firms used to prepare this study.

Submission of Response: The consultant's response to this proposal shall include eight copies and shall be sent to: City of Lawrence, Finance Director, 6 East 6th, P.O. Box 708, Lawrence, Kansas 66044. The deadline for submission is 5:00 p.m., November 3, 2003.

Proposal Components: To assist the City in evaluating your proposal, please include; a narrative providing your understanding of the scope of services and reports to be presented, a work plan that describes your methodology and data to be delivered by the City of Lawrence, a detailed timeline for completion of the required tasks, a list of all team members and their resumes (including experience on related projects), the firm's experience with similar projects, and the years of experience the firm has in doing rate studies for water and sanitary sewer systems. The proposal should provide the primary contact person for this project. The firm must list the nature of any litigation it is involved in related to past rate studies. The response shall also include the hourly rates of all personnel to be assigned to this project, any applied overhead factors, travel and per diem charges, and an estimate of out-of-pocket expenses that would be reimbursed by the City of Lawrence. A total cost of the study, based upon the hours worked times the hourly rates is also required. The consultant shall substantiate all billings for out-of-pocket expenses in excess of \$25.