



Public Resources Management Group, Inc.

Utility, Rate, Financial and Management Consultants

October 27, 2014

Mr. Roger T. Hernstadt
City Manager
City of Marco Island
50 Bald Eagle Drive
Marco Island, FL 34145

Subject: Request for Additional Services – Utility Rate Design Study

Dear Mr. Hernstadt:

As you know, Public Resources Management Group, Inc. (PRMG) has been working with the City of Marco Island (the "City") regarding the re-design of the rates for the City's water and wastewater system (the "System"). To date we have performed the following with respect to the study:

1. Acquired additional System customer statistical, financial and operating information and updated the cost of service evaluation that was initially prepared by Burton and Associates, Inc. (the "Burton Study"). This evaluation was considered by PRMG as an independent evaluation of the Burton Study and our recommendations for potential rate design modifications did contain some modifications to what was initially presented in the Burton Study.
2. PRMG prepared a presentation document of our initial cost allocation and rate design analysis and attended a public workshop before the City Council to present our initial findings. This presentation was made on August 4, 2014.
3. On September 8, 2014 the City Council held a workshop which identified additional rate structure options that they would like to be analyzed. PRMG reviewed the video of the workshop, identified the alternatives that was subsequently discussed for verification with City staff and the Council, and updated our initial analysis to incorporate the alternative analyses.
4. PRMG prepared a presentation document of the alternative cost allocation and rate design analysis and also prepared a significant update to the cost allocation / rate design model to allow for the ability to perform a variety of rate design scenario analyses on a "live basis" at a public workshop by the City staff and Council; such rate design scenarios focused primarily on the base charge and included metered based, unit based, and equivalent residential connection (ERC) based at various levels of service options as well as other rate structure considerations such as the modification of the wastewater usage billing cap for the individually metered residential class. This effort included a significant amount of additional

K:\1094-12\Requestforadditionalserives

341 NORTH MAITLAND AVENUE - SUITE 300 - MAITLAND, FL 32751
TELEPHONE: (407) 628-2600 - FAX: (407) 628-2610 - EMAIL: PRMG@PRMGinc.com

cost calculations to allow for the quick evaluation of rate structure modifications which were not specifically known as to the ultimate direction the Council may take. This detailed cost allocation scenario model is considered as an additional scope item by PRMG since it linked more to address City Council rate design options than the review and update of the Burton Study which was the primary focus of our initial scope associated with the re-design of rates.

5. PRMG attended a public workshop before the City Council to present the subsequent findings based on the Council directives; it was discovered at that hearing that one of the alternatives as prepared by PRMG was different than the intent of the Council. This presentation was made on October 20, 2014.
6. Participated in numerous analytical meetings and conference calls to compile, review and discuss information and analyses, to present results and discuss issues as part of the County's ongoing quality assurance and control process, and to discuss presentation strategies.

As you know, we have performed a significant amount of the services that were in our work authorization with the City for the project as summarized above. However, because of the continued rate review function requirements and the need to address future issues with the City Council, this has resulted in: i) the need to perform several additional analytical / fee evaluation scenarios and updates and ii) to attend additional City Counsel public presentations which were not initially contemplated in our cost proposal for the project. While PRMG has made every effort to perform our consulting services within the confines of our initial budget for the study, we have now exceeded our contract budget based on the amount of time and effort spent to-date (through October 2014) on the project by our project team and this has resulted in the need to respectively request additional services funding.

Based on our understanding of directions received from the City Council at the last October 20, 2014 Public Workshop (the "Workshop"), it is our understanding that the City would like PRMG to prepare the following additional rate structure alternatives:

1. *Design Water and Wastewater Rates Scenario 1* - PRMG will develop an alternative water and wastewater rate design based on the following assumptions: i) for the purposes of determining an ERC that will be used in the determination and application of the monthly base charges, each individually metered condominium or master metered multi-family unit will be treated as 0.75 ERC's for determination of the water base charges and 1.0 ERC's for the determination of the wastewater base (as compared to a single-family residential residence); ii) the commercial class of customers ERC's will be determined based on the average annual daily billed water sales and billed wastewater flows expressed on an annual average day basis determined for each individual commercial customer, assuming a level of service of 440 gallons per day for water and 220 gallons per day for wastewater; and iii) for determination of the single family residential water usage charges PRMG will eliminate the use of lot sizes for determining water allowances related to the City's inverted rate block structure and will develop a new inverted block

structure for single family residential water use based on each single family resident being treated the same regardless of lot size.

2. Design Water and Wastewater Rates Scenario 2 - PRMG was also asked to prepare an additional water and wastewater rate design alternative reflecting Mr. Ori's professional opinion on assumptions which should be used in determining alternative monthly water and wastewater rates for the City.
3. Impact to Monthly Rates For Installation of Deduct Meters - Based on the two alternative rate design scenario's discussed above PRMG will also adjust the alternatives to reflect the potential impact to monthly user charges assuming that the City implements a program designed to encourage single-family residents to install a deduct meter for the purposes of monitoring irrigation.
4. What-If Alternative Rate Design - Based on Council discussions, PRMG will also be prepared to run multiple "What-if" analyses at the next scheduled City Council Workshop addressing the rate design analysis. The "What-if" scenarios may include, changes to the ERC relationships between single-family and multi-family classes of service, changes to inverted block structure usage thresholds, and changes to monthly sewer billing cap allowance for the single-family class of customers.

Because of the additional time to complete the project that was not contemplated in our original cost estimate, we are respectfully requesting an increase of \$15,000 above the original contract amount to attend additional meetings, perform additional analysis related to alternative structures and prepare presentations for presentation to City Council. A summary of the estimated cost of the additional services by task is included on Attachment C, which is made a part of this additional services request.

A summary of the contract price for the engagement as previously approved by the City and the amount being requested for additional funding by PRMG is shown below:

Description	Amount – PRMG Contract
Initial Contract Budget	\$33,800.00
Amendment No. 1	15,000.00
Total Amended Contract Budget	<u>\$48,800.00</u>

With respect to this request to increase the contract budget, PRMG would still consider this to be a not-to-exceed budget amount. To the extent that the remaining amount is not required to complete the project, any remaining budget would not be billed (i.e., the billings would be predicated on an hourly basis based on the actual services provided).

We appreciate the opportunity to submit this request for additional services and project funding and respectfully hope that the City will consider our request as being reasonable. To the extent that the City approves of our request for additional funding, please notify PRMG of the change

Mr. Roger Hernstadt
City of Marco Island
October 27, 2014
Page 4

in the contract budget such that our accounting / contract billing parameters can be modified. In the meantime, if you have any questions with our request for additional funding or disagree with our request, please do not hesitate to give me a call. Again, thank you for your consideration of our request, and I look forward to hearing from you soon.

Very truly yours,

Public Resources Management Group, Inc.

A handwritten signature in cursive script, appearing to read "Robert J. Ori".

Robert J. Ori
President

ATTACHMENT C

City of Marco Island, Florida

Cost Estimate Associated With Rate Design Analysis - Additional Services

Line No.	Task Ref.	Principal	Supervising Consultant	Rate Analyst	Analyst	Clerical and Administration	Totals
1	Direct Labor Rates	\$ 180.00	\$ 115.00	\$ 75.00	\$ 60.00	\$ 50.00	
2	Rate Design Analysis						
3	Design Water and Wastewater Rates Scenario 1	1	4	8	-	-	12
3	Design Water and Wastewater Rates Scenario 2	2	4	8	-	-	12
3	Impact to Monthly Rates for installation of Deduct Meters	3	2	8	-	-	10
4	What-If Alternative Rate Design Analysis	4	4	8	-	-	12
5	Additional Meetings and Report/Presentation Preparation:						
6	Report and Presentation Preparation	4	12	16	-	-	36
6	Additional Workshop with City Council	8	6	6	-	-	12
7	Presentation of Findings at Public Hearing with City Council	8	6	6	-	-	12
8	Project Administration and Management	All	1	-	-	-	2
9	Total Hours	39	60	-	-	9	108
10	Direct Labor Cost	\$ 7,020	\$ 6,900	\$ -	\$ -	\$ 450	\$ 14,370
11	Average Hourly Rate						\$ 133.06
12	Other Direct Costs						
12	Mileage @ \$0.485 Per Mile - 500 Miles Roundtrip; 2 Trips						\$ 485
13	Other (e.g., Telephone, Other Miscellaneous Travel Costs, Delivery Charges)						100
14	Miscellaneous Allowance and Fee Rounding						45
15	Total Other Direct Costs						\$ 630
16	Total Estimated Project Cost						\$ 15,000