

VILLAGE OF TEQUESTA
ENGINEERING SERVICES WORK AUTHORIZATION

STORMWATER UTILITY REVENUE SUFFICIENCY AND RATE EVALUATION

This Work Authorization authorizes Kimley-Horn and Associates, Inc. to perform work set forth herein and is issued pursuant to The Professional Engineering Services Agreement, between the Village of Tequesta ("Client" or "Village") and Kimley-Horn and Associates, Inc. ("Kimley-Horn" or "Consultant"), dated May 12, 2016 ("Agreement"). All terms and conditions of said Agreement are hereby incorporated and made part of this Work Authorization.

PROJECT UNDERSTANDING

The Village desires to have the Consultant perform an in-depth look at their current Stormwater Utility ("Utility") rate structure and revenue generation in support of upcoming capital/renewal and replacement projects. This analysis will include the following;

- Preparation of a financial forecast to evaluate the current near-term fiscal position of the Utility.
- Development of a prospective financing plan to fund the Utilities capital improvement/renewal and replacement program (the "Program").
- Determine projected expenditure requirements.
- Make an evaluation of the overall sufficiency of the rate revenues to meet the Village objectives for sustained utility service, assistance in validating customer statistical information received from Palm Beach County regarding billing of the Utility.
- Restructure the Village's existing Utility rates where appropriate.

Based on our discussions with the Village, this Project will primarily consist of preparing a six-fiscal year financial forecast (current budget year plus an additional five fiscal years) of the service needs and expenditures for the Utility, developing a financial management benchmark analysis as part of a financial model to evaluate the financial position of the Utility, the development of the capital funding plan, and determination of the need for future user rate adjustments (if any) as appropriate in order to meet the overall financial needs and capital funding requirements of the Utility

The Consultant shall engage Public Resources Management Group, Inc. (PRMG) as their sub-consultant for the performance of the financial aspects of this project.

SCOPE

Kimley-Horn will perform the following services:

Task 1 – Data Acquisition and Review: In order to perform the evaluation, it will be necessary to collect information from the Village at the beginning of the evaluation process in order to complete the financial forecast. A list of information required to be provided by the Village is contained in the "Information and Services Provided by The Village" Section of this Work Authorization.

Task 2 – Customer Statistical and System Demand Forecast: Based on an up-to-five-year historical trend of customer statistics, a six-year customer statistical forecast of the Utility will be prepared. The Test Year for the forecast will be Fiscal Year 2018 and the forecast period will consist of the Fiscal Years ending September 30, 2018 through 2023 (collectively the Test Year and the subsequent five-year forecast is referred to as "Forecast Period"). The Consultant will also review the current customer statistical information and estimated impervious surface area data received from Palm Beach County regarding the Village's Utility in order to test the accuracy of the information being provided to confirm that existing rates for service are being applied correctly to the existing customer base.

Task 3 – Development of Revenue Projections from Existing Rates: This task involves the development of projections of the Utility rate revenues for the Forecast Period from existing rates recognizing: i) the results of the customer statistical forecast performed in Task 2; and ii) the Village's existing rates for service. Additionally, this task will involve a rate-revenue "reasonableness" test (reconcile model results to reported amounts on Village financial statements) to determine if the revenue model and billing determinants are reasonable relative to the modeling process. The Consultant will prepare a forecast of the Utility rate revenues from existing rates based on the customer forecast delineated above as currently allowed by Village ordinance. The customer and corresponding revenue forecast will serve as the basis for the review of net margins and availability of funds associated with the overall fiscal evaluation of the Utility.

Task 4 – Development of Operating Expense Projections: This task involves the development of the estimated amount of operating expenses required to be funded from Utility rates for the Forecast Period. The Consultant will work with the Village to identify changes in utility operations that may result due to the implementation of the anticipated Program for the Village, or as a result of changes in regulations or operating practices by the Village which may affect the operations of the Utility. The Consultant projections will be based on recent historical trends and changes in cost of providing service, estimates provided by the Village as it relates to ongoing operations, and the recognition of inflationary allowances for the general cost of operations. Finally, other operating expenses such as inter-fund transfers, administrative allocations, contingency reserves, insurance needs, and other expenses will be evaluated to determine that the full recovery of costs are reflected in the rate sufficiency analysis.

Task 5 – Program Cost Development: The Consultant will work with the Village to identify proposed capital improvement and renewal/replacement projects within the Village during the Forecast Period and will develop conceptual opinions of probable cost to be used in the financial evaluation.

Task 6 – Capital Improvement and Funding Analysis: This task involves a review of the Village's current budget and subsequent five-year or applicable capital Program requirements and other engineering planning documents, and the performance of a funding analysis to identify available sources of funds for financing of the Programs and the estimated impact on utility rate revenues associated with the capital funding program for the Forecast Period. This task will include the development of the estimated fund balance by individual fund / account and the development of a flow of funds analysis for liquidity evaluation purposes.

Task 7 – Other Revenue Requirement Identification and Management Dashboard: In order for the Village to meet the financial obligations of the Utility, the Consultant will review the financial aspects of the Village's utility systems in order to potentially recognize other revenue requirements or funding requirements that may need to be allocated or included in the rate analysis and in the development of the financial forecast model. This task will include assistance in the development of fiscal policies in terms of working capital maintenance, the funding of capital re-investment for long-term planning needs, the funding of other departmental capital or maintenance reserves for items such as vehicles and equipment, and the recognition of any other transfer requirements that may be associated with the Utility. The Consultant will develop a "management dashboard" to allow for the review of the financial position of the Utility and the ability to perform sensitivity analyses in order to finalize the financial forecast. The Consultant will work with the Village to identify any fiscal policies and financial performance targets that will provide guidelines and support for the financial forecast and revenue sufficiency fiscal policies necessary to address the need for goals related to financial performance indicators, such as debt service coverage ratios and reserve fund levels which the Village may deem necessary.

Task 8 – Rate Design Analysis: The Consultant will review the Village's existing Utility rate structure and recommend changes as necessary in order to align future cost recovery with the cost of providing service to the customers.

Task 9 – Rate Comparisons with Neighboring Utilities: The Consultant will prepare a rate comparison of the Village's existing Utility rates, rate structure and impervious surface area per unit costs with other neighboring utilities and illustrate the potential customer impact on any recommended rate adjustment associated with the development of the financial forecast and rate evaluation.

Task 10 – Development of Net Revenue Requirements, Rate Impact Analyses and Staff Presentation: Based on the results of the aforementioned tasks, the Consultant will prepare a summary of the total net revenue requirements of the Utility and the accompanying rate impact requirements for each fiscal year of the Forecast Period. A meeting with Village staff will be held in order to present the results of the initial study findings and observations. Based on the results of the Village staff meeting, the Consultant will make modifications to the analysis prior to the presentation of the utility rate and financial evaluation to the Village Council.

Task 11 – Report Preparation and Presentation: The Consultant will prepare a technical memorandum in support of the evaluation of the sufficiency of rates to meet the expenditure requirements of the Utility, which encompasses the financial plan and capital the Program funding analysis. This task will also include a presentation of financial ratios and targets to illustrate the overall financial position of the Utility in relation to the funding needs, especially as it pertains to the Program requirements.

Task 12 – Meetings: During the course of this project, it is anticipated that the Consultant will attend a total of two (2) on-site meetings with the Village and attend one (1) WebEx (teleconference) meetings to present ongoing results with Village staff.

ADDITIONAL SERVICES

Any services not specifically provided for in the above scope, as well as any changes in the scope requested by the Village, will be considered additional services to this Work Authorization and will be performed based on subsequent Work Authorizations approved prior to performance of the additional services.

INFORMATION AND SERVICES PROVIDED BY THE VILLAGE

Kimley-Horn assumes that all information provided by the Village can be relied upon in the performance of professional services. The following information shall be provided to Kimley-Horn and/or the following services will be performed by the Village.

- Customer statistical information required to develop a detailed revenue model for rate estimation purposes as it relates to the service area needs.
- Utility financial and billing data.
- Customer usage profiles.
- Stormwater utility rate resolutions.
- Comprehensive Annual Financial Reports.
- Information regarding the operating expenses of the Utility.
- Information regarding the funds availability by type of fund.

ASSUMPTIONS AND CLARIFICATIONS

The scope of work and fees stated in this Work Authorization are based on the following assumptions and clarifications:

1. The Owner will pay for any/all public advertisements and any general public mailings to residents if required.
2. Kimley-Horn is not giving advice or making recommendations with regard to municipal securities or financial products. If such advice or recommendations are needed, the Client should retain a Municipal Advisor registered with the Securities and Exchange Commission.

SCHEDULE

Kimley-Horn will complete the work set forth herein within 90 days after receipt of an executed Work Authorization and Purchase Order, with the goal of allowing the Village to present the findings of this evaluation at their July 11th Council meeting. The schedule noted herein is exclusive of delays beyond the control of the Consultant and the timely delivery of the Information and Services Provided by the Village noted above.

COMPENSATION

Kimley-Horn will perform the services described in the Scope of Services (Tasks 1 thru 12 above) on a lump sum basis fee in the amount of forty-eight thousand and three hundred and fifty dollars (\$48,350.00).


(STORMWATER UTILITY REVENUE SUFFICIENCY AND RATE EVALUATION)

Accepted by:

Village of Tequesta

Kimley-Horn and Associates, Inc.

Jim Weinand, Acting Village Manager



Kevin Schanen, P.E., Sr. Vice President

Date: _____

Date: 4/1/19