

*City of Bainbridge Island*  
**EXECUTIVE DEPARTMENT**



**MEMORANDUM**

TO: Doug Schulze, City Manager

FROM: Ellen Schroer, Finance Director  
Morgan Smith, Deputy City Manager

DATE: January 8, 2013

RE: Revised Analysis of Responses to City RFP for Water Utility Management

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**Background**

In October, 2012 the City received three responses to an RFP to solicit management services for the water utility. An initial review of those responses was developed in December, 2012. Subsequently, staff performed additional review to supplement that initial analysis. As a result, some updates to the preliminary review are presented below and in the attached exhibits.

**Updates to Previous Analysis**

As described in the previous memo, the use of an outside manager would eliminate the City's direct responsibility for most operational activities. However, significant other management and planning activities would be retained. Examples of retained activities include financial reporting, asset management, capital planning, legal support and response to public records requests.

Staff evaluated the likely financial and staffing impacts from outsourced operational management and have determined the following:

- Outside management would allow a reduction in City staff allocated to the water utility. Current staff allocation to the water utility is 4.16 FTE. Analysis suggests that the City may be able to reduce to roughly 1.83 FTE in the event of outside management. Reductions would be achieved in Public Works maintenance technician and mechanic positions, as well as some Finance billing and cashiering positions. Minor adjustments in allocations to Executive and IT would also result (see Exhibit A for details).
- Non-personnel operating expenses can be reduced by roughly \$160,000 under a third-party management scenario. Staff have refined estimates for cost reductions in the event

of external management, including updated estimates for debt service, insurance, interfund rent, supplies and professional services (see Exhibit B for details).

- The budget line for external tax payments should be reduced. While preparing this analysis, staff identified a budget assumption related to annual tax payments that fails to reflect the 45% rate reduction adopted by the City in early 2012. This budget item has been updated in the current analysis to reflect the correct amount for estimated tax payments. Regardless of the decision related to management of the water utility, this budget item can be corrected through a 2013 budget adjustment.
- The revised analysis continues to assume that some services and activities would be billed by the provider as incremental charges above the base fee. Examples of incremental services for which the City would be charged additional fees include repairs above minimum costs, engineering and GIS services, service connections and billing inserts. As a placeholder, the current analysis identifies incremental fees equal to 5% of proposed base fees.

Per this revised analysis, the City's current annual cost for functions that may be outsourced is roughly \$393,000 (Exhibit B).

### **Results from Respondents**

Two respondents – Kitsap Public Utility District (KPUD) and Washington Water Service Co. (Washington Water) – proposed services that would reduce City staffing and activities related to the Water utility<sup>1</sup>.

- KPUD appears to propose a higher cost than the current configuration (see Exhibit C). Their proposal includes annual base fees of \$587,000 which is 49% higher (roughly \$194,000 per year) than City provision of these services. This does not include \$35,000 in one-time start-up costs related to data entry. Staff assumes that some level of additional services would be billed above the proposed base fees. If the additional fees average 5% of the base fees, or \$29,000 per year, total costs relative to the current configuration would be roughly 57% higher.

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<sup>1</sup> A third respondent, Northwest Water Systems (NWS), proposes supplemental services while retaining current City staff. Thus there is no prospect for immediate cost savings with this approach. However the NWS proposal does offer to assess whether the City could achieve additional operational efficiencies, and to review whether the City is meeting regulatory requirements. This type of assessment, by NWS or another entity, might provide useful third-party guidance on the quality and cost-effectiveness of the City's Water utility operations. Depending on the outcome of other decisions, the City may want to consider receiving proposals for this type of short-term assessment as part of the completion of the 18-month review period for the "optimized" Water utility operations that were implemented in early 2012.

- Washington Water Service also appears to propose annual base fees that are higher than the City's current configuration (see Exhibit D). Their proposal includes annual base fees of \$420,000, which is 7% higher (roughly \$27,000 per year) than City provision of these services. Staff assumes that additional services would be billed above the proposed base fees. If the additional fees average 5% of the base fees, or \$21,000 per year, total costs relative to the current configuration would be roughly 12% higher.
- For either provider, a more detailed estimate of average annual services to be billed above base fees could be developed with further analysis. Since both proposals appear to add costs as compared to the City's current service configuration, staff has not undertaken additional analysis of potential incremental fees.

### **Other Issues**

It is important to continue to note other significant impacts to the City organization that may result from the decision to contract for outside management of the water utility.

- Could generate increased personnel costs for the Sewer or Stormwater (SSWM) utility, due to loss of access to cross-trained Water utility personnel.
- Could generate increased equipment costs for Sewer, SSWM or Tax-Supported funds due to the elimination of Water utility support for shared equipment.
- Could generate staffing impacts among various City employees due to bumping rights specified in labor agreements.
- Would generate new responsibilities for City management staff related to management of the contract with the third-party water purveyor.
- Would eliminate the ability of Water or Sewer utility customers to make in-person bill payments at City Hall.
- Would require the City to bargain with the City's labor union over impacts from hiring an outside provider for work currently performed by union members.

### **Conclusion**

The information submitted indicates that none of the three respondents offers the potential for cost reductions relative to the City's current operations. In each case, the respondent proposed fees that would exceed the City's existing cost structure for operational activities.

# EXHIBIT A

## Estimated Impact to Water Fund FTE

Dept #	Dept Description	2013 Water Fund FTE	Outsource Scenario FTE	Variance
31	EXECUTIVE ADMIN	0.10	0.07	(0.03)
32	EXECUTIVE LEGAL	0.09	0.09	-
36	EXEC - CITY CLERK	0.04	0.04	-
43	FINANCE	0.73	0.47	(0.26)
61	PCD ADMIN	0.09	0.09	-
62	BUILDING	0.02	0.02	-
71	PW ADMIN	0.10	0.10	-
72	PW ENGINEERING	0.58	0.51	-
73	PW OPERATIONS & MAINT.	2.05	0.24	(1.81)
81	IT ADMIN	0.37	0.20	(0.17)
<b>TOTAL:</b>		<b>4.16</b>	<b>1.83</b>	<b>(2.33)</b>

## EXHIBIT A - DETAIL

Position Title	2013 Adopted Water	3rd Party Mngt Water	Change	Hours under 3rd Party Mngt Scenario	Tasks performed	Allocation basis
CITY MANAGER	0.03	0.02	(0.01)	42	Council and community communication and support, general oversight, capital projects oversight, budget development	FTE, Community Support, Budgeted Operating Expenses
DEPUTY CITY MANAGER	0.04	0.03	(0.01)	62	Capital project planning, strategic planning, community communication	FTE, Budgeted Operating Expenses, Community Support
EXECUTIVE ASST/SR HR	0.03	0.02	(0.01)	42	HR tasks (hiring, performance management, safety committee), external communications, scheduling	FTE, Community Support, Executive Support
CITY ATTORNEY	0.07	0.07	-	146	Legal advice and consultation, legal representation	Litigation Exp, Risk Mgmt, City Manager Allocation
PARALEGAL	0.02	0.02	-	48	Contract review, public records requests	Council Support, Contract Mgmt, Real Property, Public Records
CITY CLERK	0.04	0.04	-	83	Council agenda and minutes, filings, public records requests	Council Support by Fund, Public Records
ACCOUNTING MANAGER	0.08	0.08	-	168	Required financial reporting, grant reporting, invoice payment, payroll processing	Budgeted Operating Exp, JE's, Grants, Long-Term Debt, Acct Mgmt FTE
ACCTG TECH	0.06	-	(0.06)	-	None under third party management	Front Desk, Business License
ADMIN SECRETARY DEPT	0.02	0.02	-	47	Public records requests, records management/retention, UAC meeting support	Records Mgmt, Public Records Request, General Admin, Council Agenda Items, Utility Advisory
BUDGET MANAGER	0.05	0.04	(0.01)	83	Budget preparation, budget monitoring, HR tasks and support	FTE, Budgeted Operating Expenses
DIRECTOR FINANCE	0.04	0.04	-	92	Financial reporting oversight, budget development, ongoing monitoring, quarterly reporting to Council and community, public records request response, HR oversight	Budgeted Op Exp, QTR Reporting, Capital, Projects, Legal Issues/Risk Mgmt, Cash Mgmt, Council and Committee Support, Staff Mgmt, HR, Public Records
FISCAL SPECIALIST 1	0.07	0.07	-	140	Budget data entry, budget adjustment data entry, payroll back up	Budgeted Operating Exp
FISCAL SPECIALIST 1	0.02	0.01	(0.01)	21	Payroll processing	FTE
SR ACCTG TECHNICIAN	0.15	-	(0.15)	-	None under third party management	Utility Customers, LID Customers
SR ACCTG TECHNICIAN	0.09	0.07	(0.02)	141	Invoice processing	AP, Front Desk
SR FINANCIAL ANALYST	0.14	0.14	-	295	Quarterly monitoring/forecasting, monthly cash flow reporting, financial statement preparation, budget development, revenue forecasting	Budgeted Operating Exp, Cost Allocation, QTR reporting, Capital, Cash Mgmt
COMM DEV ADMINSTRATOR	0.03	0.03	-	62	Plan review, code interpretation, staff oversight.	Allocation is representative of the staff this position oversees
DEVELOPMENT ENGINEER	0.03	0.03	-	62	Review plans, coordinate with private design engineers, coordinate site inspections with Public Works.	Allocation reflects the time associated with the review and inspection of privately constructed public facilities associated with short plats, subdivisions, and site plan reviews. These projects often involve multiple plan revisions and inspections throughout the construction process
DEVELOPMENT ENGINEER	0.03	0.03	-	62	Review plans, coordinate with private design engineers, coordinate site inspections with Public Works.	Allocation reflects the time associated with the review and inspection of privately constructed public facilities associated with short plats, subdivisions, and site plan reviews. These projects often involve multiple plan revisions and inspections throughout the construction process

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Position Title	2013 Adopted Water	3rd Party Mngt Water	Change	Hours under 3rd Party Mngt Scenario	Tasks performed	Allocation basis
BUILDING OFFICIAL	0.01	0.01	-	21	Permit review related to connections to the City's water system.	Allocation is based on managing the process associated with building and planning permit reviews that involve connections to the City's water utility
PERMIT SPECIALIST	0.01	0.01	-	21	Permit processing related to connections to the City's water system.	Time spent accepting, processing and coordinating building and planning permits that involve connections to the City's water utility
DIRECTOR PUBLIC WORKS	0.05	0.05	-	104	Oversight of operations and capital projects, Council and community communications, strategic planning, communication w/state agencies, budget development and monitoring	Allocation is based on historic level of effort by task provided by the employees in this department
ADMIN SECRETARY DEPT	0.05	0.05	-	104	Capital project bid management, Council material support and agenda bills, grant paperwork	Allocation is based on historic level of effort by task provided by the employee and supervisor and project direct charging
ADMIN SECRETARY DIV	0.08	0.04	(0.04)	83	Capital project bid management, invoice processing, grant paperwork support, budget adjustment preparation	Allocation is based on historic level of effort by task provided by the employee
ADMIN SECRETARY DIV	0.08	0.04	(0.04)	83	Public records requests, coordinate inspections for right of way permits, capital project bid management	Allocation is based on historic level of effort by task provided by the employee
CONSTRUCTION INSPECT	0.05	0.05	-	104	Inspection of construction sites, both public and private	Work order based
ENGINEER 2	0.05	0.05	-	104	Capital planning, project management, plan review for public projects	Allocation is based on historic level of effort by task provided by the employee and supervisor and project direct charging
ENGINEERING MANAGER	0.08	0.08	-	166	Capital planning, project management, plan review for public projects, staff supervision	Allocation is based on historic level of effort by task provided by the employee and supervisor and project direct charging
ENGNRNG SPEC-WTR RE	0.12	0.12	-	250	Ground water monitoring and reporting	Allocation is based on historic level of effort by task provided by the employee and supervisor and project direct charging
PW ADMIN COORDINATOR	0.05	0.05	-	104	Capital project invoice coordination, grant management, staff supervision	Allocation is based on historic level of effort by task provided by the employee and supervisor and project direct charging
SURV, SSW TECHNICIAN	0.03	0.03	-	52	Survey of utility assets and project sites, capital design support	Allocation is based on historic level of effort by task provided by the employee and supervisor and project direct charging
SURVEY PROGRAM MGR	0.05	0.05	-	104	Survey of utility assets and project sites, capital design support, public records requests, recording legal documents	Allocation is based on historic level of effort by task provided by the employee and supervisor and project direct charging
ADMIN SECRETARY DIV	0.14	-	(0.14)	-	None under third party management	Allocation is based on historic level of effort by task provided by the employee

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Position Title	2013 Adopted Water	3rd Party Mngt Water	Change	Hours under 3rd Party Mngt Scenario	Tasks performed	Allocation basis
MAINTENANCE TECH II	0.65	-	(0.65)	-	None under third party management	Work order based
MAINTENANCE TECH III	0.65	-	(0.65)	-	None under third party management	Work order based
MECHANIC II	0.06	-	(0.06)	-	None under third party management	Work order based
MECHANIC III	0.06	-	(0.06)	-	None under third party management	Work order based
PUBLIC WORKS MANAGER	0.21	0.14	(0.07)	291	Oversight of utility infrastructure, asset management, prioritizing capital projects, <u>coordinating w/management entity</u>	Allocation is based on historic level of effort by task provided by employees and supervisor
PW SUPERVISOR	0.06	-	(0.06)	-	None under third party management	Allocation is based on historic level of effort by task provided by employees and supervisor
UTIL STR PROJ COORD	0.22	0.10	(0.12)	208	Equipment planning and purchase, water backflow testing program, plan review, coordination with Planning	Work order based
CAD/GIS SPECIALIST	0.10	0.10	-	208	Maintain and update GIS records, projects as assigned	Map requests, zoning updates, culvert program, infrastructure update, various specific projects
IT MANAGER	0.09	0.04	(0.05)	83	Coordinating network access for telemetry, support technology upgrades, staff oversight	Average between determined allocations supporting programs/functions/divisions within department
SENIOR IT SPECIALIST	0.04	0.02	(0.02)	42	Support technology upgrades, web information, staff support	Based on FTE support provided, number of MUNIS users, Work Order Maintenance, Laserfische Connections, Bid Mgmt
SENIOR IT SPECIALIST	0.07	0.02	(0.05)	42	Coordinating network access for telemetry, support technology upgrades	Based on FTE support provided for computers, phones, other technical support
SYSTEMS ADMINISTRATOR	0.07	0.02	(0.05)	42	MUNIS structure, capital expense maintenance	Based on FTE support provided, number of MUNIS users, Work Order Maintenance, Laserfische Connections, Bid Mgmt
	4.16	1.83	(2.33)	3,812		

## EXHIBIT B

### Estimated Current Cost of Services

**Water Utility Operating Expenses:**

	<b>2013</b>	<b>2013</b>		<b>Third-Party</b>	
	<b><u>Adopted</u></b>	<b><u>Adjusted</u></b>	<b><u>Detail</u></b>	<b><u>Scenario</u></b>	<b><u>Notes</u></b>
EXPENDITURES					
Salaries	\$401,523	\$401,523		\$226,064	reduce to 1.8 FTE
Benefits	\$172,991	\$172,991		\$118,820	per current benefit rate, includes unemployment
Supplies	\$42,532	\$42,532		\$0	n/a (fuel & general supplies)
Professional Services	\$83,915	\$83,915		\$60,540	retain litigation budget, backflow services
Intergovernmental Services	\$229,550	\$158,100		\$158,100	taxes on revenue; remains the same for City or third-party management. Adjustment applies regardless of management.
Other Services & Charges	\$226,759	\$226,759		\$129,533	
Training/Travel			\$8,767	\$0	n/a
Phone/Communication			\$13,040	\$5,300	n/a
Postage			\$7,650	\$0	n/a
Leases			\$4,640	\$0	n/a
I/F rent			\$53,097	\$18,857	debt service; reduced w/FTE
Insurance			\$23,505	\$14,816	reduced due to personnel reduction
Utilities			\$73,440	\$73,440	n/a
SSWM			\$1,020	\$1,020	n/a
Repairs/Mntc			\$35,500	\$10,000	n/a
Permits			\$6,100	\$6,100	n/a
<b>Total - Operating Expenses:</b>	<b>\$1,157,270</b>	<b>\$1,085,820</b>		<b>\$693,057</b>	

<b>Variance/Current Cost of Services:    \$392,763</b>
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**EXHIBIT D**  
Washington Water Co. Proposed Costs

**Washington Water Co. Proposal:**

annual base fees	<b>\$419,808</b>	\$34,984 per month \$12.92 per connection
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<b>Total:</b>	<b>\$419,808</b>
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COBI current cost of services	<b>\$392,763</b>
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variance to current	\$27,045	Recurring
as a pct of current	6.89%	Recurring

variance to current	\$48,036 with fees of 5%
as a pct of current	12.23% with fees of 5%