



Detroit Water and Sewerage Department

735 Randolph Street
Detroit, Michigan 48226
(313) 224-4704 Office
dwsd.legistar.com

Legislation Text

File #: 16-0116, **Version:** 1

The Board of Water Commissioners for the City of Detroit, Water and Sewerage Department authorizes the Director to **grant an increase in the amount of \$4,275,000.00 and a time extension of 191 calendar days to DWS Contract No. DWS-894 “Water Shut-Off/Turn-On Project” with Homrich Wrecking, Inc.,** and also authorizes the Director to take such other action as may be necessary to accomplish the intent of this vote.

Agenda of August 3, 2016

Item No. 16-0116

Contract No. DWS-894

Proposed Change Order No. 4

Price Increase: \$4,275,000.00

Time Extension: 191 Calendar Days

TO: The Honorable
Board of Water Commissioners
City of Detroit, Michigan

FROM: Gary Brown, Director
Water and Sewerage Department

RE: **DWS Contract No. DWS-894 Proposed Change Order No. 4**
“Water Shut-Off/Turn-On Project”
Contractor: Homrich Wrecking, Inc.
Designer: DWS

MOTION

Upon recommendation of Gary Brown, Director, the Board of Water Commissioners authorizes the Director to **grant an increase in the amount of \$4,275,000.00 and a time extension of 191 calendar days to DWS Contract No. DWS-894, “Water Shut-Off/Turn-On Project” with Homrich Wrecking, Inc. (Contractor),** and also authorizes the Director to take such other action as may be necessary to accomplish the intent of this vote.

JUSTIFICATION

DWS historically has a significant amount of uncollectable water and sewage sales/accounts. The DWS-894 contract is utilized for assisting DWS staff in turning on/off delinquent customer accounts and has been proven to be successful.

The delinquent account program has been instrumental to stabilizing DWS revenue as well as changing customer behavior. This has contributed to a significant increase in the long term collection rate, currently estimated at 88% - 90% for retail accounts (versus an assumption of 85%). Maintaining these collections rates could increase DWS cashflows \$7 million - \$11 million. Further, to the extent the retail system performs

better than budgeted, Detroit's Water and Sewer System will be allowed to draw down on a portion of the \$8 million to be deposited into the Budget Stabilization Fund during FY 2017.

Incremental costs, save dig-up fees, related to delinquent account work orders are passed on to the delinquent customers. Post shut-off, 90% of commercial accounts, 85% of customers with broken installment agreements, and 70% of delinquent residential customers reestablish service. Accordingly, we anticipate that approximately \$1.4 million of the fees assessed by Homrich will be directly recovered through customer billings. The delta between fees incurred and anticipated customer receipts can be absorbed by favorable variances in the budget.

Project Costs

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|--|----------------------|
| Original Contract Price: | \$5,599,999.50 |
| Change Order No. 2: | \$1,000,000.00 |
| Change Order No. 3 | \$1,800,000.00 |
| Current Contract Price: | \$8,399,999.50 |
| Proposed Change Order No. 4 Addition to Contract Price | \$4,275,000.00 |
| New Total Contract Price | 12,674,999.50 |

Project Management Status

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|--|-------------------|
| A. Start Work Date: | June 25, 2013 |
| B. Original Final Completion Date: | June 25, 2015 |
| C. Current Completion Date | December 21, 2016 |
| D. Revised Final Completion Date (Change Order No. 4): | June 30, 2017 |

BACKGROUND

Since 2010, Detroit's Water and Sewer System uncollectable water and sewage sales has increased from 7.5% to 15% of revenue. Increasing uncollectable levels has contributed to a more than 60% rise in customer rates over this same timeframe and an inability of the Department to fund necessary repairs and replacement of lateral assets. For FY 2015, the assumed uncollectable sales rate is equivalent to 15% of water (\$16 million) and sewer (\$39 million) retail revenues. Currently, there are 43,000 accounts in installment agreements, a substantial number of which may move to delinquent status and 9,000 accounts which are delinquent and eligible for shutoff. Collectively, these accounts currently represent \$31.2 million to \$36.4 million in financial risk to DWSD.

In 2014, through its contract with Homrich Construction (DWS 894), DWSD significantly increased the number of work orders related to delinquent customer accounts. The pace of increase furthered in 2015; by comparison DWSD processed approximately 75,000 work orders related to delinquent retail accounts in 2014 vis-à-vis 111,000 accounts in 2015. Approximately 80% of these work orders were processed since July 2015. Resultantly, through six months in FY 2015, DWSD has incurred approximately \$3.4 million in fees from Homrich versus the FY 2016 budget of \$1.6 million. This figure includes approximately \$1.1 million in fees for material purchased by Homrich to effectuate work orders (it should be noted that DWSD no longer allows vendors to purchase inventory and pass through costs to DWSD). Further, the dollar limit on the Homrich contract, \$8.4 million, has been reached.

Historically, delinquent accounts rise during the winter months. Unlike previous years, and to smooth out its workload, DWSD will continue to address delinquent account work orders this winter, weather permitting. With that said, delinquencies are still likely to rise vis-à-vis the summer and fall months and require increased

activity in the spring. This increase is likely to be exacerbated by the fact that residential accounts were not placed on the tax roll. We estimate the necessary increase in the current contract for our delinquent account work order provider through the end of the fiscal year to total \$4.275 million. This amount includes a 5% cost reduction negotiated with Homrich.

Change Order No. 4 for Contract No. DWS-894 is an O&M funded project and was presented to the Finance Committee on August 3, 2016.