

**CONSULTANT AGREEMENT  
NBS GOVERNMENT FINANCE GROUP, dba NBS**

**THIS AGREEMENT** is entered into and becomes effective on \_\_\_\_\_ (Effective Date), by and between the CITY OF MORGAN HILL, a municipal corporation, ("CITY"), and NBS GOVERNMENT FINANCE GROUP, dba NBS a California corporation ("CONSULTANT") hereinafter referred to collectively as "Parties." In consideration of the promises and the mutual covenants contained in this Agreement, the Parties agree as follows:

1. **City Authority.** This Agreement is entered into pursuant to action of the Morgan Hill City Council taken on \_\_\_\_\_, \_\_\_\_\_, 20\_\_\_\_.

2. **Term of Agreement.** This Agreement shall cover services rendered from the Effective Date of this Agreement until January 31, 2016 at which time CONSULTANT'S services shall be completed. The City Manager is authorized to extend the term of this Agreement for a maximum period of one year. Any such extension shall be in writing and signed by both Parties to this Agreement.

3. **Scope of Service.** The services to be performed by CONSULTANT shall be for Water and Wastewater Comprehensive Rate Study as further described in **Exhibit A** ("SERVICES").

4. **Compensation.** CONSULTANT shall be compensated as follows:

4.1. **Amount.** \$74,290.00. Total compensation under this Agreement shall not exceed Seventy Four Thousand Two Hundred Ninety dollars and shall be billed based on the rate and basis set forth in **Exhibit B**.

4.2. **Billing.** CONSULTANT shall provide CITY with a monthly invoice containing the dated, detailed, and itemized descriptions of all services performed and expenses incurred (if such expenses are reimbursable pursuant to Exhibit B) by CONSULTANT. Any rate charged shall be prorated where services are interrupted or not provided for any rate period (for example, any monthly rate charge should be prorated when services were interrupted or provided for only part of the month). For services billed on an hourly rate, the minimum unit of billed time shall not exceed one tenth of one hour. CITY shall pay for services and expenses (if so provided in Exhibit B) up to the limit of compensation set forth above, that in the CITY's judgment were necessary and reasonable. Services for work performed and expenses incurred in excess of the total compensation set forth in paragraph 4.1 above shall be at no cost to CITY.

5. **Termination.** CITY or CONSULTANT shall have the right to terminate this Agreement, without cause, by giving thirty (30) days' written notice or less under urgent circumstances. Upon such termination, CONSULTANT shall submit to CITY an itemized statement of services performed for which compensation has not been paid. CITY may require CONSULTANT to complete certain work product or documents and CONSULTANT shall deliver to CITY all documents in its possession without additional compensation to CONSULTANT. The CITY Manager of CITY is authorized to terminate this AGREEMENT on behalf of CITY.

6. **Performance of Work.**

6.1. CONSULTANT represents that it is qualified by virtue of experience, training, education, and expertise to accomplish these services. Services shall be performed by CONSULTANT in accordance with professional practices in a manner consistent with a level of care,

competence and skill exercised by qualified members of the CONSULTANT'S profession. By delivery of completed work, CONSULTANT certifies that the work conforms to the requirements of this Agreement and all applicable federal, state and local laws. CONSULTANT shall perform all work and services under this Agreement in conformance with the time schedule set forth on Exhibit C, "Schedule of Performance," attached hereto and incorporated herein by this reference. CITY's City Manager is authorized on behalf of CITY to modify the timeframes set forth on the Schedule of Performance within the term of this Agreement.

- 6.2. CITY shall furnish CONSULTANT with any pertinent information that is available to CITY that is applicable to the SERVICES. CITY shall designate a contact person to act with authority on CITY's behalf (to the fullest extent such authority exists or has been delegated) in respect to the SERVICES. CITY shall promptly respond to CONSULTANT's requests for reviews and approvals of CONSULTANT's work and to CONSULTANT's requests for administrative decisions related to the SERVICES. CITY understands and agrees that CONSULTANT is entitled to rely on all information, data and documents supplied to CONSULTANT by CITY or any of CITY's agents, contractors or proxies (collectively, "INFORMATION"), and CONSULTANT will have no obligation to confirm that the INFORMATION is correct and will have no liability to CITY or any third party if such INFORMATION is not correct.

7. **Insurance Requirements.** CONSULTANT shall procure and provide proof of the insurance coverage required by this section in the form of certificates and endorsements. The required insurance must cover the activities of CONSULTANT, including its subcontractors, relating to or arising from the performance of any work or service under this Agreement, and must remain in full force and effect at all times during the period covered by this Agreement. The coverages may be arranged under a single policy for the full limits required or by a combination of underlying policies with the balance provided by excess or "umbrella" policies, provided each such policy complies with the requirements set forth herein. CONSULTANT further understands that the CITY reserves the right to modify the insurance requirements set forth herein, with thirty (30) days' notice provided to CONSULTANT, at any time as deemed necessary to protect the interests of the CITY.

7.1. **Insurance Types and Amounts.**

7.1.1. **Commercial General Liability (CGL).** CONSULTANT shall maintain CGL against claims and liabilities for personal injury, death, or property damage providing protection in the minimum amount of: (i) one million dollars (\$1,000,000.00) for bodily injury or death to any one person for any one accident or occurrence and at least one million dollars (\$1,000,000.00) for property damage, or (ii) the maximum amount of such insurance available to CONSULTANT under CONSULTANT's combined insurance policies (including any excess or "umbrella" policies), whichever is greater.

7.1.2. **Automobile Liability.** CONSULTANT shall maintain Automobile Liability covering all owned, non-owned and hired automobiles (if CONSULTANT does not own automobiles, then CONSULTANT shall maintain Hired/Non-owned Automobile Liability) against claims and liabilities for personal injury, death, or property damage providing protection in the minimum amount of: (i) one million dollars (\$1,000,000.00) for bodily injury or death to any one person for any one accident or occurrence and at least one million dollars (\$1,000,000.00) for property damage, or (ii) the maximum amount of such insurance available to CONSULTANT under CONSULTANT's combined insurance policies (including any excess or "umbrella" policies), whichever is greater.

7.1.3. Workers' Compensation Insurance and Employer's Liability. CONSULTANT shall maintain Workers Compensation coverage, as required by law, in the minimum amount of: (i) one million dollars (\$1,000,000.00) for any one accident or occurrence, or (ii) the maximum amount of such insurance available to CONSULTANT under CONSULTANT's combined insurance policies (including any excess or "umbrella" policies), whichever is greater. If CONSULTANT is self-insured, CONSULTANT shall provide its Certificate of Permission to Self-Insure, duly authorized by the Department of Industrial Relations.

7.1.4. Pollution (Environmental) Liability. If the performance of CONSULTANT'S work or service under this Agreement involves hazardous materials, contaminated soil disposal, and/or a risk of accidental release of fuel oil, chemicals or other toxic gases or hazardous materials, CONSULTANT shall procure and maintain Pollution Liability covering the contractor's liability for bodily injury, property damage and environmental damage resulting from pollution and related cleanup costs arising out of the work or services to be performed under this Agreement. Coverage shall be provided for both work performed on site, as well as during the transport of hazardous materials. Such coverage shall be in the minimum amount of: (i) one million dollars (\$1,000,000.00) for any one accident or occurrence, or (ii) the maximum amount of such insurance available to CONSULTANT under CONSULTANT's combined insurance policies (including any excess or "umbrella" policies), whichever is greater.

7.1.5. Professional Liability.

7.1.5.1. If the performance of CONSULTANT's work or service under this Agreement involves professional and/or technical services (examples include, but are not limited to, architects, engineers, land surveyors, and appraisers), CONSULTANT shall procure and maintain either a claims made or occurrence Errors and Omission liability insurance in the minimum amount of: (i) one million dollars (\$1,000,000.00) each claim, or (ii) the maximum amount of such insurance available to CONSULTANT under CONSULTANT's combined insurance policies (including any excess or "umbrella" policies), whichever is greater. Further, if CONSULTANT maintains a claims-made policy, CONSULTANT shall provide written evidence of such insurance to the CITY for at least five (5) years after the completion of work performed under this Agreement.

7.1.5.2. If the performance of CONSULTANT's work or service under this Agreement relates to Information Technology or related services (examples include, but are not limited to computer programmers, hardware engineers, or other systems consultants), CONSULTANT shall procure and maintain a claims made Errors and Omission liability insurance, including Cyber Liability and Data Breach, in the minimum amount of: (i) one million dollars (\$1,000,000.00) each claim, or (ii) the maximum amount of such insurance available to CONSULTANT under CONSULTANT's combined insurance policies (including any excess or "umbrella" policies), whichever is greater.

7.1.5.3. If the performance of CONSULTANT's work or service under this Agreement involves contact with minors, CONSULTANT shall procure and maintain Sexual Abuse and Molestation insurance in the minimum amount of: (i) one million dollars (\$1,000,000.00) each claim, or (ii) the maximum amount of such insurance

available to CONSULTANT under CONSULTANT's combined insurance policies (including any excess or "umbrella" policies), whichever is greater.

7.2. **Endorsements.** CONSULTANT shall provide proof of the following endorsements, listed for each policy for which endorsements are required, as outlined below:

7.2.1. General Liability.

7.2.1.1. The City of Morgan Hill, its elected or appointed officials, boards, agencies, officers, agents, employees, and volunteers are named as additional insureds;

7.2.1.2. the insurer waives the right of subrogation against the City of Morgan Hill and the CITY's elected or appointed officials, boards, agencies, officers, agents, employees, and volunteers; and,

7.2.1.3. insurance shall be primary non-contributing.

7.2.2. Workers Compensation.

The insurer waives the right of subrogation against the City of Morgan Hill and the CITY's elected or appointed officials, boards, agencies, officers, agents, employees, and volunteers.

7.3. **Qualification of Insurers.** All insurance required pursuant to this Agreement must be issued by a company licensed and admitted, or otherwise legally authorized to carry out insurance business in the State of California, and each insurer must have a current A.M. Best's financial strength rating of "A" or better and an financial size rating of "VII" or better.

7.4. **Certificates.** CONSULTANT shall furnish CITY of Morgan Hill with copies of all policies or certificates as outlined herein, whether new or modified, promptly upon receipt. No policy subject to the CONSULTANT's agreement with the CITY shall be canceled or materially changed except after thirty (30) days' notice by the insurer to CITY. Certificates, including renewal certificates, may be mailed electronically to [riskmgmt@morganhill.ca.gov](mailto:riskmgmt@morganhill.ca.gov) or delivered to the Certificate Holder address provided herein

Certificate Holder address:

City of Morgan Hill  
Attn: Risk Management  
17575 Peak Avenue  
Morgan Hill, CA 95037

8. **Non-Liability of Officials and Employees of the CITY.** No official or employee of CITY shall be personally liable for any default or liability under this Agreement.

9. **Compliance with Law.** CONSULTANT and its officers, employees, agents, and subcontractors shall comply with all applicable laws, ordinances, administrative regulations, and permitting requirements in carrying out their obligations under this Agreement. CONSULTANT and its officers, employees, agents, and subcontractors covenant there shall be no discrimination based upon race, color, creed, religion, gender,

marital status, age, sexual orientation, national origin, mental disability, physical disability, medical condition, or ancestry, in any activity pursuant to this Agreement.

10. **Independent Contractor.** CONSULTANT is an independent contractor and not an agent or employee of CITY.

11. **Confidentiality.** All data, documents, or other information received by CONSULTANT from CITY or prepared in connection with CONSULTANT'S services under this Agreement are deemed confidential and shall not be disclosed to any third party by CONSULTANT without prior written consent by CITY.

12. **Conflict of Interest and Reporting.** CONSULTANT shall at all times avoid conflict of interest or appearance of conflict of interest in performance of this Agreement.

13. **Notices.** All notices shall be personally delivered or mailed, via first class mail to the below listed address. These addresses shall be used for delivery of service of process. Notices shall be effective five (5) days after date of mailing, or upon date of personal delivery.

Address of CONSULTANT is as follows:

NBS  
32605 Temecula Parkway, Suite 100  
Temecula, CA 92592

Address of CITY is as follows:

Public Works Director	with a copy to:
City of Morgan Hill	City Clerk
17575 Peak Avenue	City of Morgan Hill
Morgan Hill, CA 95037	17575 Peak Avenue
	Morgan Hill, CA 95037

14. **Licenses, Permits and Fees.** CONSULTANT shall obtain a City of Morgan Hill Business License, all permits and licenses to the extent required by ordinances, codes and regulations of the federal, state and local government.

15. **Maintenance of Records.**

15.1. **Maintenance.** CONSULTANT shall prepare, maintain, and preserve all reports and records that may be required by federal, state, and CITY rules and ordinances related to services provided under this Agreement. CONSULTANT shall maintain records for a period of at least 3 years after receipt of final payment under this Agreement. If any litigation, claim, negotiation, audit exception, or other action relating to this Agreement is pending at the end of the 3 year period, then CONSULTANT shall retain said records until such action is resolved.

15.2. **Access to and Audit of Records.** The CITY shall have the right to examine, monitor and audit all records, documents, conditions, and activities of the CONSULTANT and its subcontractors related to services under this Agreement. Pursuant to Government Code Section 8546.7, if this Agreement involves the expenditure of public funds in excess of \$10,000, the Parties to this Agreement may be subject, at the request of the CITY or as part of any audit of the CITY, to the examination and audit of the State Auditor pertaining to

matters connected with the performance of this Agreement for a period of three years after final payment under the Agreement.

15.3. **Ownership of Work Product.** All documents or other information developed or received by CONSULTANT for work performed under this Agreement shall be the property of CITY. CONSULTANT shall provide CITY with copies of these items upon demand or upon termination of this Agreement. CONSULTANT may retain copies of documents and information developed by CONSULTANT for CONSULTANT's internal files and internal use only.

16. **Familiarity with Work.** By executing this Agreement, CONSULTANT represents that: (1) it has investigated the work to be performed; (2) it has investigated the site of the work and is aware of all conditions there; and (3) it understands the difficulties and restrictions of the work under this Agreement. Should CONSULTANT discover any conditions materially differing from those inherent in the work or as represented by CITY, it shall immediately inform CITY and shall not proceed, except at CONSULTANT'S risk, until written instructions are received from CITY.

17. **Time of Essence.** Time is of the essence in the performance of this Agreement.

18. **No Assignment.** Neither this Agreement nor any portion shall be assigned by CONSULTANT, without prior written consent of CITY.

19. **Attorney Fees.** In any legal action, dispute or arbitration arising out of or relating to this Agreement, the prevailing party shall be entitled to an award of its reasonable attorney fees, costs and expenses incurred.

20. **Defense and Indemnification.**

20.1. **Defense and Indemnification.** CONSULTANT shall, to the fullest extent permitted by law, indemnify, defend and hold harmless CITY, its elected or appointed officials, boards, agencies, officers, agents, employees, and volunteers ("INDEMNITEES") from and against any and all claims, liabilities, expenses, liens, or damages of any nature, including liability for bodily injury, property damage or personal injury, and including reasonable attorneys' fees and expenses, that arise out of, pertain to, or relate to the performance of this Agreement or the failure to comply with any obligations contained in this Agreement by CONSULTANT, and/or its agents, officers, employees, subcontractors, or independent contractors ("CLAIM").

20.2. **Exceptions.** CONSULTANT is not required to indemnify INDEMNITEES against liability for bodily injury, property damage or personal injury, or any other loss, damage or expense arising from the sole negligence or willful misconduct of the CITY.

20.3. **Not limited by insurance.** The indemnity, defense and hold harmless provisions of this Agreement apply to all CLAIMs alleged against an INDEMNITEE, regardless of whether any insurance policies are applicable. Policy limits do not act as a limitation upon the amount of indemnification or defense to be provided by CONSULTANT.

20.4. **Right to Offset.** CITY shall have the right to offset against any compensation due CONSULTANT under this Agreement any amount due CITY from CONSULTANT as a result of CONSULTANT's failure to pay CITY promptly any indemnification arising under this Section (20) and any amount due CITY from CONSULTANT arising from CONSULTANT's failure either to (i) pay

taxes on amounts received pursuant to this Agreement or (ii) comply with applicable workers' compensation laws.

20.5. Interpretation. This Section shall constitute an agreement or contract of indemnity, incorporating the interpretations under California Civil Code Section 2778. It is expressly understood and agreed that the obligation of the CONSULTANT to indemnify the INDEMNITEE shall be as broad and inclusive as permitted by the laws of the State of California and shall survive termination of this Agreement.

21. Entire Agreement; Modification; Conflicting Provisions. This Agreement constitutes the entire Agreement between the Parties and supersedes any previous agreements, oral or written. This Agreement may be modified or provisions waived only by a subsequent mutual written agreement executed by CITY and CONSULTANT. If the provisions contained in the main body of this Agreement conflict with any provision contained in an exhibit to this Agreement, the provisions of the main body of this Agreement shall govern and control over any provision contained in an exhibit to this Agreement.

22. Governing Law and Venue. This Agreement shall be construed in accordance with the laws of the State of California. This Agreement was entered into and is to be performed in the County of Santa Clara. Any action or dispute arising out of this Agreement shall only be brought in Santa Clara County.

23. Interpretation. This Agreement is a negotiated document and shall be deemed to have been drafted jointly by the Parties, and no rule of construction or interpretation shall apply against any particular Party based on a contention that the Agreement was drafted by one of the Parties including, but not limited to, California Civil Code § 1654, the provisions of which are hereby waived. This Agreement shall be construed and interpreted in a neutral manner.

24. Preservation of Agreement. If any term, provision, covenant, or condition of this Agreement is held by a court of competent jurisdiction to be invalid or unenforceable, the rest of the Agreement shall remain in full force and effect and shall in no way be affected or invalidated.

//

//

//

//

//

//

25. **Authority to Execute.** Those individuals who are signing this Agreement on behalf of entities represent and warrant that they are, respectively, duly authorized to sign on behalf of the entities and to bind the entities fully to each and all of the obligations set forth in this Agreement.

**IN WITNESS THEREOF**, these Parties have executed this Agreement on the day and year shown below.

AS SET FORTH IN CA. CORP. CODE § 313, TWO SIGNATURES ARE REQUIRED FOR CALIFORNIA CORPORATIONS:

- (1) CHAIRPERSON OF THE BOARD, PRESIDENT, OR VICE PRESIDENT; AND
- (2) SECRETARY, ASSISTANT SECRETARY, CHIEF FINANCIAL OFFICER OR ASSISTANT TREASURER.

ATTEST:

CITY OF MORGAN HILL

\_\_\_\_\_  
City Clerk/Deputy City Clerk

\_\_\_\_\_  
City Manager

Michelle Wilson  
\_\_\_\_\_  
Print Name

Steve Rymer  
\_\_\_\_\_  
Print Name

Date: \_\_\_\_\_

Date: \_\_\_\_\_

APPROVED AS TO FORM:

NBS GOVERNMENT FINANCE GROUP

\_\_\_\_\_  
City Attorney

By: 

Renee Gurza  
\_\_\_\_\_  
Print Name

Title: President  
Print Name and Title of Signer.

If Corporate: Chairman, President or Vice President

Date: \_\_\_\_\_

Date: 6/10/15



By: \_\_\_\_\_

Title: Secretary  
Print Name and Title of Signer.

If Corporate: Secretary, Assistant Secretary, Chief Financial Officer or Assistant Treasurer

Date: 6/10/15



## EXHIBIT "A"

# PROJECT APPROACH AND SCOPE OF WORK

## PROJECT APPROACH

---

We understand that the City is facing a number of challenges as it anticipates conducting this rate study. The following are some of the key aspects of our proposal for the City to consider.

### City of Morgan Hill's Rate Study Objectives and Key Issues:

1. **Water rates that balance both environmental and financial sustainability** – NBS will take the lead in designing a water rate structure that meets the City's goals and objectives and help the City balance the competing priorities of encouraging permanent water conservation and maintaining revenue stability. This is a balancing act that will require the consultant to explain and work cooperatively with City staff to evaluate the pros and cons of various rate design alternatives, and show how different options will affect customer bills, revenue stability, and water conservation.
2. **Ensure that the revenues generated by the utility rates are adequate to maintain the required level of service and maintenance standards during reduced demand conditions** – Addressing drought restrictions and meeting the City's planned 30% per capita water use reductions will be a key objective that will be addressed in this study. We will develop rates that will meet total revenue requirements during the "new normal" conditions. Rates developed in this study will ensure sufficient funding to maintain the current level of service for the City's utilities.
3. **Affirm the appropriateness of existing usage tiers and develop a new rate structure to encourage conservation, and adequately balance short and long term financial and environmental sustainability** – We will evaluate the City's existing tiered rates for compliance with Proposition 218 requirements, which have been further complicated by the appellate court ruling on the San Juan Capistrano case. Attorneys specializing in Prop 218 issues are advising water agencies to link tiered rates as closely as possible to actual costs of water for each tier. This will be a key challenge, and NBS has been doing considerable work on this issue with other clients and will provide the benefits of that experience to your rate design.
4. **Update sewer surcharges and develop new elevation-related water surcharges.** NBS will evaluate and update the City's current sewer surcharges related to sewer pump stations and related assets and develop new surcharge alternatives for appropriate elevation zones in the water system. Both surcharges will consider the appropriate capital assets and annual operating costs that should be included in these surcharges.
5. **Address the capital maintenance, improvement, and replacement needs by incorporating reasonable projections in revenue requirements and rate calculations** – We will incorporate the City's projections for capital needs for the water and wastewater utilities in the financial plans that will be developed in this study, to ensure an appropriate level of funding is available to fund capital needs.
6. **Ensure that revenues are adequate to meet future debt that may be needed to finance capital improvements** – In the financial planning and revenue requirement analysis, we will provide the City with a comprehensive evaluation of all utility obligations, and we will work with

City staff to develop a well-conceived approach to funding capital needs including pay-as-you go and/or bond financing, and ensure revenues will be sufficient to meet any planned debt obligations.

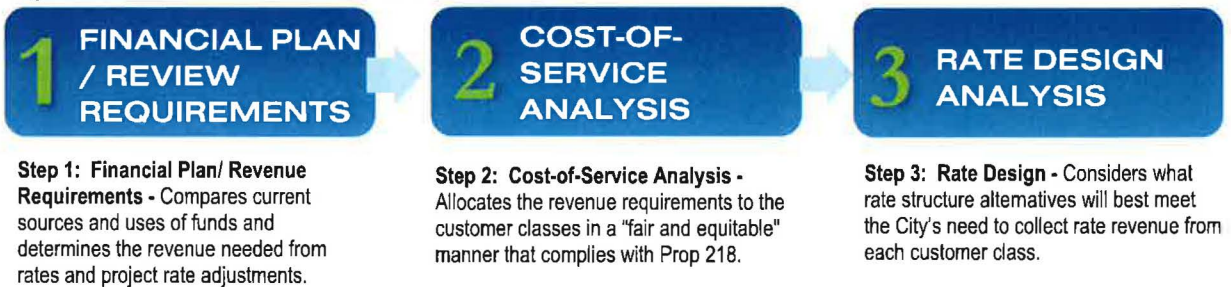
**7. Confirm policies with respect to adequate reserves for operations, rate stabilization, and capital improvements** – We will evaluate the City’s existing reserve fund policies for the utilities, the sufficiency of existing reserve funds and target reserves to ensure they are in line with industry standards, and meet the needs of both utilities. We will either confirm the City’s policies are appropriate, or make recommendations for improvements.

**8. Ensure that the proposed rates are in conformance with all applicable laws, including the provisions of Proposition 218** - Recent court rulings (e.g., the City of Davis, Newhall CSD, San Juan Capistrano and Palmdale Water District cases) have detailed legal requirements that should be reflected in any rate structure alternative. NBS senior technical staff work with Prop 218 legal counsel on an on-going basis. They know the general legal constraints as well as when to solicit critical legal input to ensure alternatives will meet specific legal requirements. NBS will work with City staff to develop rate structures that comply with Proposition 218 and incorporate legal requirements from these recent court cases.

## PROJECT APPROACH

Figure 1 shows the three basic components of a rate study and the order in which each step is completed. Our proposed scope of work will follow this logical order, beginning with establishing the revenue requirements for the City’s water and wastewater utilities. A detailed scope of work is provided on the following page.

**Figure 1. PRIMARY COMPONENTS OF A RATE STUDY**



To address the key challenges facing the City, the rate consultant must be able to work cooperatively with City Staff, the City Council and the public to develop financial plans and rate recommendations that can be confidently defended from both a technical and legal perspective. NBS believes the City wants to fully explore the range of possible improvements to the existing rates, with an emphasis on those that are practical and implementable. With this objective in mind, some of the key background issues to consider as the City selects a consultant to perform this study include:

- **Financial Plan** – Developing a sufficient and sustainable financial plan that ensures the financial health of the City’s utilities while also balancing the affordability of rates. Balancing sources of funds for capital projects with rate increases is a key component in this task.

- **Rate Design** – We believe rate design is a critical part of this study and we will carefully evaluate the City's existing rate structure and develop alternatives for improving the current design, such as:
  - **Water Rates** – Evaluate different water rate structures with the objective of developing water rate structure alternatives that are cost-of-service-based, defensible, provide revenue stability, promote water conservation, and are fair and equitable. We understand that promoting water conservation is a high-priority to the City, so we will fully explore conservation-oriented options.
  - **Evaluation of Tiered Volumetric Charges** – NBS will evaluate the City's existing tiered water rate structure and explore alternatives, particularly in light of the recent appellate court ruling on the San Juan Capistrano case. We will also carefully analyze the City's costs and water consumption data in order to provide a sound cost basis for tiered water rates
  - **Fixed vs. Variable Rates** – The amount of rate revenue collected from fixed vs. volumetric charges significantly affects revenue stability and conservation objectives. Therefore, NBS will carefully review the amount of revenue collected from fixed vs. variable charges and the impacts of various rate alternatives on revenue stability and water conservation goals.
- **Achieving Long-Term Revenue Sufficiency and Stability** – While there are many rate-related tasks and concerns involved with rate studies, well-designed financial plans and rate structures are essential for providing long-term revenue stability. By ensuring that accurate financial, billing, and water consumption data is used to double-checking that proposed rate structures actually generate sufficient revenues, NBS will take responsibility for performing the highest quality analysis, and developing clear and concise reports and presentations.
- **Quality Project Delivery** – Our team offers an extensive array of technical experience that will be essential for successfully completing this study. Quite frankly, there have been a number of recent rate-study related lawsuits that have revealed poor judgment and a lack of quality control on the consultant's part<sup>1</sup>. These cases emphasize the need for the City to select a consultant that pays careful attention to your specific rate study issues and concerns. As demonstrated by both our project experience and client references, NBS has a proven track record doing just that. *(For example, see our client references and the Marin County Grand Jury Report highlighted in Section 2, References.)*
- **Transparency and Communication** – NBS continually strives for a high level of transparency and communication regarding the study methodology, assumptions and results. We view initial meetings and workshops as important steps in promoting a common understanding of the overall study goals and objectives, potential new rate structures, and customer bill impacts. We believe that "complexity is the enemy of understanding" – therefore we strive to ensure that we provide concise, simple and clear explanations at every part of the study.

## DETAILED WORK PLAN

We plan on providing the leadership in helping City staff, City Council members and the public understand the various options, key issues, and how other California communities are addressing similar problems. Ultimately, we want the City to be confident that it is taking reasonable and prudent steps and developing rates and fees that best meet the needs of the City's customers.

This section details NBS' proposed methodology and scope of work. These tasks serve as the basis for the proposed budget and can be incorporated into the formal agreement to perform this rate study.

---

<sup>1</sup> For examples, see the recent City of Glendale lawsuit and the tentative decision in Newhall County Water District v. Castaic Lake Water Agency.

## TASK 1. KICKOFF MEETING AND DATA COLLECTION

**Task Objectives:** Clearly communicate and work with City staff to obtain necessary data and review study objectives, scope, and schedule.

**Task Deliverables:**

- Data request to City staff prior to the kick-off meeting.
- Review of background information for each system and other initial data provided.
- Kick-off meeting with City staff (on-site)<sup>2</sup>.
- Preliminary plan for City Council presentations.

The kick-off meeting will be used to review and discuss the project objectives, scope, schedule and data requirements. The data the City will need to provide includes customer accounts, meter sizes, historical monthly consumption records for each customer, total rate revenue collected, financial data typically reported in financial statements, capital improvement programs and master plans.

## TASK 2. REVIEW OF CURRENT RATES AND POLICIES

**Task Objectives:** Work with City staff to review and evaluate the City's background information for both utilities, including current rate structures, reserve funds, and related policies at the beginning of the study. This will help set the direction for the study with a greater degree of clarity and avoid unnecessary complications when the final results are presented to the Council and public.

For example, policies related to basic equity and fairness, revenue stability vs. water conservation, drought-related supply reductions, reserve fund targets and the level of funding for capital and repair and replacement costs.

**Task Deliverables:**

- Assessment of *current reserve funds*, reserve fund policies and target balances.
- Assessment of *current rate structures* (pros and cons, areas for improvement, etc.)
- Assessment of *equity* of the rates for the various customer classes
- Assessment of *conservation impacts* (current rates and potential new rate designs)
- Assessment of current *rate-related policies* compared to industry practices and how they may relate to possible rate alternatives.
- Summary of pros & cons of current and alternative policies.
- Recommendations for changes to and/or additional policies for the Council to consider adopting, as well as a greater degree of direction on rate alternatives for further evaluation.

## TASK 3. FINANCIAL PLAN AND REVENUE REQUIREMENT ANALYSIS

**Task Objectives:** Prepare a detailed financial plan that details the City's revenues, expenditures, reserves, debt coverage ratios, capital improvement costs, repair and replacement costs, and net revenue requirements. Based on our review of reserve fund policies, those changes will be incorporated into the financial plans in order to better evaluate the City's current financial management concerns. NBS will provide three versions of the water financial plan to address various levels of funding needs.

**Task Deliverables:**

- 20-year financial projection models that will serve as financial "roadmaps" for the City's water and wastewater utilities.
- Summary of current and projected net revenue requirements.

---

<sup>2</sup> For budgeting purposes, we have included the kick-off meeting in Task 8.1.

- Establish reserve fund policies and targets, such as operating, rate stabilization, capital repair and replacement and debt service.
- Projected year-end reserve fund levels.
- Calculated debt service coverage ratios.

The financial plans will include recommended rate adjustments for the 20-year financial planning period; however, will be focused on the initial 5-year period, beginning in January 2016. Rate adjustments proposed in these financial plans will be inclusive of cost inflation and in compliance with Proposition 218. Three financial plan models will be developed and will include the following base assumptions, as outlined in the City's RFP:

- *Permanent Level 1 Consumption (New Normal) that assumes a 20% reduction in consumption from 2013 levels.*
- *Balanced Fiscal and Environmental Objectives that consider varying degrees of fixed vs. variable costs.*
- *A plan for funding for Capital Improvement Projects that evaluates pay-as-you-go and/or bond financing.*
- *Appropriate funding levels for reserves and debt coverage.*

These financial plans will lay the groundwork for the cost-of-service and rate design analyses addressed in Tasks 4 and 5. The following subtasks are anticipated:

- **Projected Revenues and Expenditures** – Using a cash-basis reflecting the City's system of accounts for the water and wastewater utilities, NBS will prepare a 20-year projection of revenues and expenses for each utility, and increases in rate revenue needed to meet all obligations, including future debt issues. This will provide the City with the financial planning tools needed for smoothing out future rate increases and maintaining appropriate reserve fund levels in light of revised budget projections.
- **Evaluate Reserve Fund Sufficiency and Debt Coverage** – NBS will evaluate the sufficiency of existing reserve funds and related issues such as debt service coverage ratios. We will provide recommendations for target balances for reserves such as operating, capital rehabilitation/replacement and rate stabilization.
- **Review Capital Improvement Funding** – NBS will incorporate the capital improvement plans including evaluating the timing, costs, and available reserves used to fund various projects. We will work with City staff to develop a well-conceived approach to funding these capital needs including pay-as-you go and/or bond financing.

Figures 2, 3 and 4 are *generic* examples of the types of charts and tables we use to summarize these results (the City's chart of accounts will serve as the basis for the actual analysis and tables). The water and wastewater utilities will have similar charts and tables used to summarize financial plans and revenue requirements.

Figure 2. Summary of Five-Year Revenue Requirements and Rate Increases

Summary of Sources and Uses of Funds and Net Revenue Requirements	Budget	Projected				
	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19
<b>Sources of Water Funds</b>						
Rate Revenue Under Prevailing Rates	\$ 15,203,655	\$ 15,315,705	\$ 15,429,586	\$15,546,465	\$15,685,153	\$15,828,338
Non-Rate Revenues	599,330	635,770	600,769	575,976	571,953	571,970
<b>Total Sources of Funds</b>	<b>\$ 15,802,985</b>	<b>\$ 15,951,475</b>	<b>\$ 16,030,355</b>	<b>\$16,122,441</b>	<b>\$16,257,107</b>	<b>\$16,400,308</b>
<b>Uses of Water Funds</b>						
Operating Expenses	\$ 12,791,032	\$ 13,197,960	\$ 13,312,000	\$13,813,880	\$ 14,928,296	\$ 15,546,000
Debt Service	498,608	489,138	488,652	490,108	492,153	463,855
Rate-Funded Capital Expenses	-	3,515,232	7,310,656	5,620,544	5,217,171	4,346,899
<b>Total Use of Funds</b>	<b>\$ 13,289,640</b>	<b>\$ 17,202,330</b>	<b>\$ 21,111,308</b>	<b>\$ 19,924,532</b>	<b>\$ 20,637,620</b>	<b>\$ 20,356,754</b>
Additional Revenue from Rate Increases	-	765,785	1,581,533	2,450,511	3,561,824	4,565,472
<b>Surplus / (Deficiency) after Rate Increase</b>	<b>\$ 2,513,346</b>	<b>\$ (485,070)</b>	<b>\$ (3,499,420)</b>	<b>\$ (1,351,580)</b>	<b>\$ (818,690)</b>	<b>\$ 609,026</b>
<b>Projected Annual Rate Increase</b>	<b>0.00%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>5.00%</b>	<b>6.00%</b>	<b>5.00%</b>
Debt Coverage After Rate Increase <sup>1</sup>	4.25	1.30	1.30	1.30	1.30	1.30
<b>Net Revenue Requirement<sup>2</sup></b>	<b>\$ 12,690,310</b>	<b>\$ 16,566,560</b>	<b>\$ 20,510,539</b>	<b>\$ 19,348,556</b>	<b>\$ 20,065,667</b>	<b>\$ 19,784,784</b>

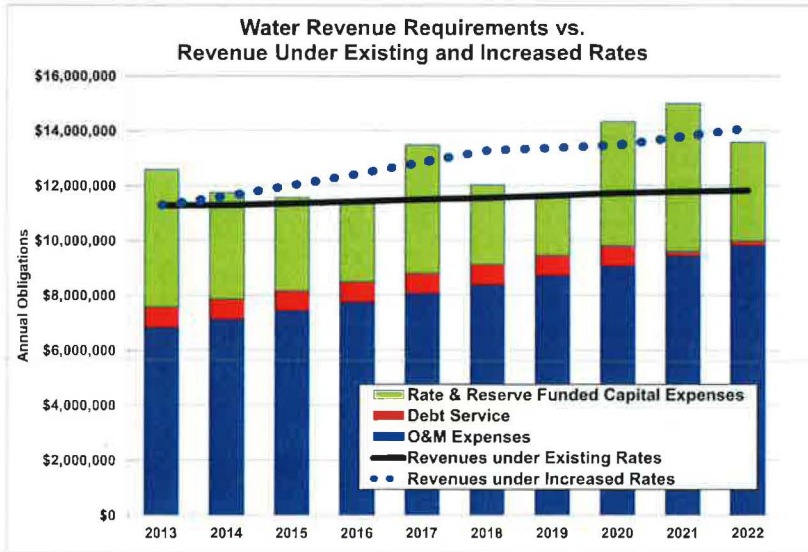
1. Includes use of cash reserves for coverage calculation purposes only.

2. Total Use of Funds less non-rate revenues and interest earnings. This is the annual amount needed from water rates.

Figure 3. Summary of Five-Year Reserve Fund Balances

Ending Reserve Fund Balances and Recommended Reserve Targets	Budget	Projected				
	FY 2013/14	FY 2014/15	FY 2015/16	FY 2016/17	FY 2017/18	FY 2018/19
<b>Operating Reserve</b>	\$ 1,708,000	\$ 1,586,173	\$ 1,781,660	\$ 1,938,000	\$ 1,605,258	\$ 2,095,000
<i>Recommended Minimum Target</i>	<i>1,708,000</i>	<i>1,781,000</i>	<i>1,858,000</i>	<i>1,938,000</i>	<i>2,015,000</i>	<i>2,095,000</i>
<b>Capital Rehab &amp; Replacement Reserve</b>	\$ 1,726,922	\$ 1,426,100	\$ 1,372,500	\$ 1,952,055	\$ 1,336,200	\$ 1,777,507
<i>Recommended Minimum Target</i>	<i>1,565,400</i>	<i>1,426,100</i>	<i>1,372,500</i>	<i>1,320,100</i>	<i>1,336,200</i>	<i>1,249,300</i>
<b>Debt Reserve</b>	\$ 536,949	\$ 536,949	\$ 536,949	\$ 536,949	\$ 536,949	\$ 536,949
<i>Recommended Minimum Target</i>	<i>536,949</i>	<i>536,949</i>	<i>536,949</i>	<i>536,949</i>	<i>536,949</i>	<i>536,949</i>
<b>Total Ending Balance</b>	<b>\$ 3,971,871</b>	<b>\$ 3,549,223</b>	<b>\$ 3,691,110</b>	<b>\$ 4,427,004</b>	<b>\$ 3,478,408</b>	<b>\$ 4,409,456</b>
<b>Total Recommended Minimum Target</b>	<b>\$ 3,810,349</b>	<b>\$ 3,744,049</b>	<b>\$ 3,767,449</b>	<b>\$ 3,795,049</b>	<b>\$ 3,888,149</b>	<b>\$ 3,881,249</b>
<b>Surplus / (Deficit)</b>	<b>\$ 161,522</b>	<b>\$ (194,827)</b>	<b>\$ (76,340)</b>	<b>\$ 631,955</b>	<b>\$ (409,742)</b>	<b>\$ 528,207</b>

Figure 4. Summary of Revenue Requirements and Existing vs. Proposed Rates



## TASK 4. COST OF SERVICE ANALYSIS

**Task Objectives:** Equitably allocate the revenue requirements to each customer class and determine the cost of providing water and wastewater services to each of these classes.

**Task Deliverables:** Cost of service summary tables, to be incorporated into the rate design and rate study report. This analysis provides a critical component necessary for establishing a defensible administrative record for cost-based water rates.

### 4.1 Cost of Service Analysis (Water)

The revenue requirements will be equitably allocated to individual customer classes based on industry standard methodologies. We will review the City's existing customer classes and analyze the historical characteristics of each customer class to determine if any changes should be made, in order to comply with industry standards. If there are any changes to the customer classes resulting from the review of the current rate structures and customer characteristics (i.e., incorporating differential rates for single-, multi-family and commercial, etc.), these changes will be incorporated into this analysis. The main components of the cost-of-service analysis are as follows:

**Functionalization/Classification of Expenses** – Functionalizing the expenses means arranging costs into basic categories, such as source of supply, treatment, transmission, and distribution, as well as administrative and overhead costs. Once the costs have been functionalized, they are then classified to their various cost components, such as fixed capacity, variable (commodity), or customer related costs, as illustrated in Figure 5.

**Figure 5. Classification of Water Revenue Requirements**

Budget Categories	Total Revenue Requirements	Commodity	Capacity	Customer	% Allocation		
	2013/14	(COM)	(CAP)	(CA)	(COM)	(CAP)	(CA)
<b>Operating Expenses</b>							
Administration	\$ 1,623,270	\$ 600,610	\$ 762,937	\$ 259,723	37%	47%	16%
Purchased Water	\$ 704,330	\$ 704,330	\$ -	\$ -	100%	0%	0%
Water Treatment	\$ 5,919,390	\$ 3,788,410	\$ 2,130,980	\$ -	64%	36%	0%
Water Distribution	\$ 4,950,970	\$ 1,584,310	\$ 1,584,310	\$ 1,782,349	32%	32%	36%
<b>Subtotal: Operating Expenses</b>	<b>\$ 13,197,960</b>	<b>\$ 6,677,660</b>	<b>\$ 4,478,228</b>	<b>\$ 2,042,072</b>	<b>51%</b>	<b>34%</b>	<b>15%</b>
<b>Other Expenses</b>							
Debt Service	\$ 489,138	\$ 244,569	\$ 244,569	\$ -	50%	50%	0%
Rate Funded Capital	\$ 3,515,232	\$ 1,757,616	\$ 1,757,616	\$ -	50%	50%	0%
<b>TOTAL REVENUE REQUIREMENTS</b>	<b>\$ 17,202,330</b>	<b>\$ 8,679,845</b>	<b>\$ 6,480,412</b>	<b>\$ 2,042,072</b>	<b>50%</b>	<b>38%</b>	<b>12%</b>
<i>Less: Non-Rate Revenues</i>	<i>\$ (476,925)</i>	<i>\$ (240,644)</i>	<i>\$ (179,666)</i>	<i>\$ (56,615)</i>	<i>50%</i>	<i>38%</i>	<i>12%</i>
<b>Net Revenue Requirements</b>	<b>\$ 16,725,404</b>	<b>\$ 8,439,201</b>	<b>\$ 6,300,747</b>	<b>\$ 1,985,457</b>			
<i>Allocation of Revenue Requirements</i>	<i>100%</i>	<i>50%</i>	<i>38%</i>	<i>12%</i>			

**Allocation of Costs to Customer Classes** – These costs are then allocated to individual customer classes based on allocation factors specific to each cost classification, producing fixed and variable revenue requirements for each customer class. These allocations will be used for the actual rate calculations. Figure 6 describes the allocation factors that will be developed in this phase of the analysis and used to allocate costs.

**Figure 6. Example of Allocation Factors**

Cost Classification Category	Commodity	Capacity	Customer
<b>Allocation Factors</b>	Water Consumption by Customer Class	Peak Water Use	Number of Accounts by Customer Class
<b>Types of Costs</b>	<i>Costs associated with the consumption of water over time.</i>	<i>Costs associated with the maximum demand required at one point in time or the maximum size of facilities required to meet this demand.</i>	<i>Costs associated with having customers connected to the system.</i>
<b>Examples of Costs</b>	<ul style="list-style-type: none"> <li>• Variable Cost of Purchased Water</li> <li>• Electricity</li> <li>• Chemicals</li> </ul>	<ul style="list-style-type: none"> <li>• Primarily capital facilities</li> <li>• Fixed cost of purchased water</li> </ul>	<ul style="list-style-type: none"> <li>• Meter Reading</li> <li>• Customer Billing</li> <li>• Customer Service</li> </ul>

As a result of applying the allocation factors to the cost classifications, the revenue required from each customer class is accumulated by customer class, as shown in Figure 7.

**Figure 7. Allocation of Revenue Requirements to Customer Classes**

Customer Class	Classification Components			Total
	Commodity	Capacity	Customer	
<b>Net Revenue Requirements</b>	<b>\$ 9,730,242</b>	<b>\$ 4,823,021</b>	<b>\$ 1,528,227</b>	<b>\$ 16,081,490</b>
	61%	30%	10%	100%
Single-Family Residential	\$ 6,251,321	\$ 3,230,845	\$ 1,284,960	\$ 10,767,126
Multi-Family Residential	\$ 490,683	\$ 206,841	\$ 57,405	\$ 754,929
Commercial	\$ 2,988,238	\$ 1,385,335	\$ 185,862	\$ 4,559,436
<b>Total</b>	<b>\$ 9,730,242</b>	<b>\$ 4,823,021</b>	<b>\$ 1,528,227</b>	<b>\$ 16,081,490</b>

**Elevation Zone Surcharges** – The City’s water system has distinct elevation zones that require additional pump stations and annual operating costs that could be allocated to customers in those zones. NBS will evaluate the capital assets and annual operating costs that could be allocated to each of these zones as either a fixed monthly surcharge or a volumetric rate surcharge.

**4.2 Cost of Service Analysis (Wastewater)**

This task identifies some of the differences in the technical analysis necessary for equitably allocating wastewater revenue requirements to each of the customer classes.

**Wastewater Classification of Expenses** – Classifying expenses involves arranging costs into basic categories, including flow and strength characteristics (i.e., BOD and TSS), as well as customer costs. Figure 8 illustrates this process NBS used for a recent client.



Figure 8. Classification of Wastewater Revenue Requirements

Classification of Expenses									
Budget Categories	Total Revenue Requirements	Flow	Strength		Customer	Basis of Classification			
	2013	(VOL)	(BOD)	(TSS)	(CA)	(VOL)	(BOD)	(TSS)	(CA)
<b>Personnel Services</b>									
Regular Salaries	\$ 846,544	\$ 338,618	\$ 126,982	\$ 126,982	\$ 253,963	40%	15%	15%	30%
Retirement	\$ 134,715	\$ 53,886	\$ 20,207	\$ 20,207	\$ 40,415	40%	15%	15%	30%
Group Insurance	\$ 151,154	\$ 60,462	\$ 22,673	\$ 22,673	\$ 45,346	40%	15%	15%	30%
Longevity Pay	\$ 234,957	\$ 93,983	\$ 35,244	\$ 35,244	\$ 70,487	40%	15%	15%	30%
<b>Total Personnel Services</b>	<b>\$ 1,367,370</b>	<b>\$ 546,948</b>	<b>\$ 205,106</b>	<b>\$ 205,106</b>	<b>\$ 410,211</b>				
<b>Maintenance &amp; Operations</b>									
Utilities	\$ 76,000	\$ 68,400	\$ -	\$ -	\$ 7,600	90%	0%	0%	10%
Contributions to Agencies (1)	\$ 2,272,000	\$ 1,272,320	\$ 522,560	\$ 477,120	\$ -	56%	23%	21%	0%
Rental of Land	\$ 360,000	\$ 324,000	\$ -	\$ -	\$ 36,000	90%	0%	0%	10%
Other Contractual Services	\$ 733,316	\$ 659,984	\$ -	\$ -	\$ 73,332	90%	0%	0%	10%
Misc. Other Expenses	\$ 394,305	\$ 196,403	\$ 27,450	\$ 27,450	\$ 143,002	50%	7%	7%	36%
Administrative Charges	\$ 655,484	\$ 65,548	\$ -	\$ -	\$ 589,936	10%	0%	0%	90%
<b>Total Maintenance &amp; Operations</b>	<b>\$ 4,491,105</b>	<b>\$ 2,586,656</b>	<b>\$ 550,010</b>	<b>\$ 504,570</b>	<b>\$ 849,869</b>				
<b>Total Operating Expenses</b>	<b>\$ 5,858,475</b>	<b>\$ 3,133,604</b>	<b>\$ 755,116</b>	<b>\$ 709,676</b>	<b>\$ 1,260,080</b>				
<b>Allocation of Operating Expenses</b>	<b>100%</b>	<b>53%</b>	<b>13%</b>	<b>12%</b>	<b>22%</b>				
<b>Debt Service Payments</b>									
2009 Series A Revenue Bonds:	\$ 1,606,800	\$ 803,400	\$ 401,700	\$ 401,700	\$ -	50%	25%	25%	0%
<b>TOTAL USES OF SEWER FUNDS</b>	<b>\$ 7,465,275</b>	<b>\$ 3,937,004</b>	<b>\$ 1,156,816</b>	<b>\$ 1,111,376</b>	<b>\$ 1,260,080</b>	<b>53%</b>	<b>15%</b>	<b>15%</b>	<b>17%</b>
<b>Less Non-Rate Revenues</b>									
(less) Industrial Waste Inspection Fees	\$ (70,000)	\$ (37,442)	\$ (9,022)	\$ (8,480)	\$ (15,056)	53%	13%	12%	22%
(less) Interest Earnings	\$ (202,000)	\$ (108,047)	\$ (26,036)	\$ (24,470)	\$ (43,448)	53%	13%	12%	22%
<b>NET REVENUE REQTS (Unadjusted)</b>	<b>\$ 7,193,275</b>	<b>\$ 3,791,516</b>	<b>\$ 1,121,757</b>	<b>\$ 1,078,426</b>	<b>\$ 1,201,576</b>				
<b>Adjusted Net Revenue Req'ts</b>	<b>\$ 7,545,151</b>	<b>\$ 3,976,986</b>	<b>\$ 1,176,630</b>	<b>\$ 1,131,180</b>	<b>\$ 1,260,354</b>				
<b>Allocation of Revenue Requirements</b>	<b>100%</b>	<b>53%</b>	<b>16%</b>	<b>15%</b>	<b>17%</b>				

**Allocations to Wastewater Customer Classes** – The next step in the cost-of-service analysis is allocating the wastewater costs to each of the customer classes using the allocation factors for each of the classes of costs, which are shown in Figure 9.

Figure 9. Example of Allocation Factors (Wastewater)

Cost Classification Category	Flow/Effluent Volume	Strength Factors		Customer
		BOD	TSS	
<b>Allocation Factors</b>	Water Consumption by Customer Class	BOD Effluent levels (in Mg/L)	TSS Effluent levels (in Mg/L)	Number of Accounts by Customer Class
<b>Types of Costs</b>	Amount of Effluent generated by each Customer Class	BOD-Related WWTP Processing	TSS-Related WWTP Processing	Costs associated with having customers connected to the system.
<b>Examples of Costs</b>	<ul style="list-style-type: none"> <li>Hydraulic Capacity of WWTP</li> <li>Effluent Pumping Stations</li> <li>Collection System Costs</li> </ul>	BOD-Related WWTP Equipment	TSS-Related WWTP Equipment, Sludge Handling	<ul style="list-style-type: none"> <li>Meter Reading</li> <li>Customer Billing</li> <li>Customer Service</li> </ul>

As a result of applying the allocation factors to the cost classifications (i.e., the Volume, BOD, TSS, and Customer costs), the revenue required from each customer class is accumulated by customer class, as shown in Figure 10.

**Figure 10. Allocation of Revenue Requirements to Customer Classes (Wastewater)**

Customer Class	Classification Components				Total
	Volume	Treatment		Customer Related	
		BOD	TSS		
<b>Net Revenue Requirements</b>	<b>\$ 3,976,986</b>	<b>\$ 1,176,630</b>	<b>\$ 1,131,180</b>	<b>\$ 1,260,354</b>	<b>\$ 7,545,150</b>
	53%	16%	15%	17%	100%
Single-Family Residential	\$ 962,013	\$ 246,676	\$ 239,608	\$ 544,013	\$ 1,992,310
Multi-Family Residential	\$ 1,522,095	\$ 390,290	\$ 379,107	\$ 587,925	\$ 2,879,417
Commercial - Business	\$ 888,087	\$ 227,720	\$ 221,195	\$ 102,998	\$ 1,440,000
Commercial - Restaurants	\$ 225,777	\$ 188,523	\$ 202,890	\$ 15,649	\$ 632,839
Commercial - Hotels	\$ 258,430	\$ 84,956	\$ 71,316	\$ 3,319	\$ 418,021
Institutional	\$ 113,140	\$ 37,194	\$ 16,011	\$ 5,406	\$ 171,751
Schools	\$ 7,444	\$ 1,273	\$ 1,053	\$ 1,043	\$ 10,813
<b>Total</b>	<b>\$ 3,976,986</b>	<b>\$ 1,176,632</b>	<b>\$ 1,131,180</b>	<b>\$ 1,260,353</b>	<b>\$ 7,545,151</b>

**Sewer Surcharges** – The City’s sewer system has distinct pump stations and annual operating costs that are currently allocated to sewer customers by zone. However, these surcharges have not been updated in some time. NBS will evaluate the capital assets and annual operating costs that could be allocated to each of these zones and update the existing sewer surcharges.

**Outside Surcharges** – The City has historically added a surcharge to water and sewer charges for customers outside the City’s existing service area, which the City would not normally serve. These surcharges are typically justified on the basis of a number of additional costs that inside customers bear that outside customers do not. NBS will provide in the rate study report the normal industry accepted principals and rationale for these surcharges.<sup>3</sup>

## TASK 5. RATE DESIGN ANALYSIS

**Task Objectives:** NBS will work with City staff to develop the best suited alternative rate structures for the water and wastewater utilities by incorporating the City’s broader rate design goals and objectives.

**Task Deliverables:** Rate alternatives for three water rate structures and wastewater, including the evaluation of the pros and cons of various rate structure alternatives.

**Develop Rate Design Recommendations** – While we believe rate design is more applicable to water rates, we will also review the wastewater rate design. Rates will be developed based on the cost of service analyses for each system. We will include a discussion of the relative merits (pros and cons) of the City’s current rate structures and the new alternatives. This discussion and analysis may include issues such as the amount of revenue collected from fixed vs. volumetric charges, the percentage rate increases between tiers, total quantities of water included in each tier, and amount of revenue collected in each tier.

**Criteria for Improving the Rate Design** – Revenue sufficiency and stability are critical components to consider when evaluating rate designs. In projecting future rates and rate increases, NBS’ approach is a conservative one in which we want to ensure that there are no significant under-collections of rate revenue, which represents a “worse-case” scenario. Erring on the conservative side (i.e., one where there is a greater chance of over-collecting revenue than under-collecting) would potentially enable the City to

<sup>3</sup> Although there are other cities that have been sued over outside surcharges (e.g., City of Pasadena), the City’s current surcharges do not appear to be excessive or unreasonable from the perspective of similar cities in California.

reduce future rate increases, but would not leave the utility reserves under-funded. There are a number of criteria that NBS will discuss with City staff in considering new rate structures, including:

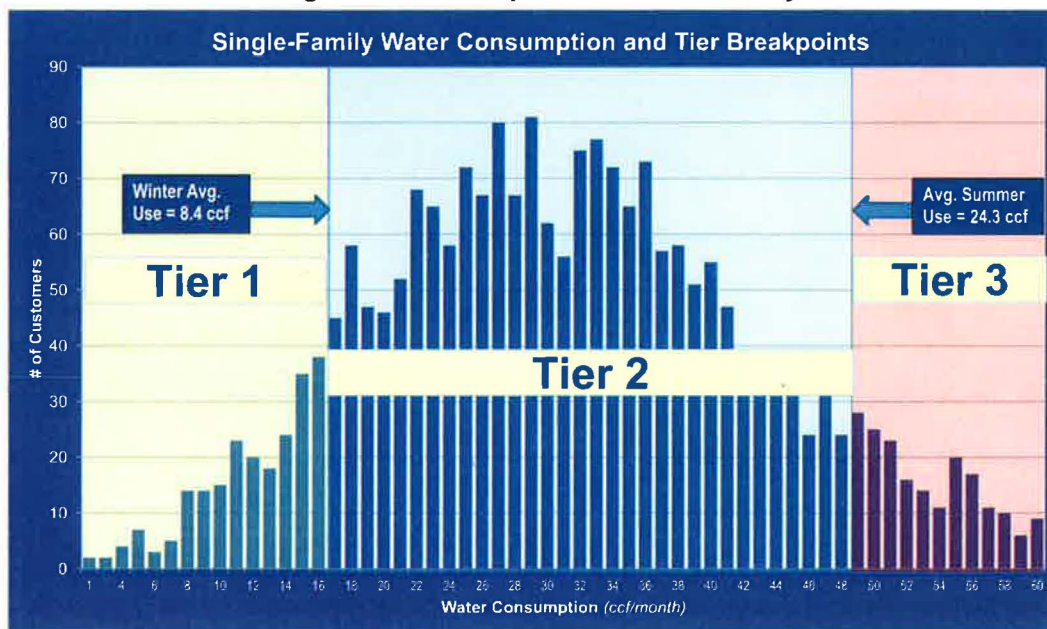
- How costs allocated to fixed and volumetric rates affect revenue stability.
- How decreased water usage will affect new rates.
- How summer peaking patterns are reflected in water rate design.
- How meter sizes are used in calculating fixed charges.
- The number of tiers that should be implemented.
- The amount of revenue that should be collected within each tier.
- How to address “price elasticity” reductions in water use in response to rate increases.
- Impacts on customer monthly bills.

The rate structure alternative selected will, in the end, provide the basis for comparing monthly customer bills under both the current and new rate structure. However, all rate structures will be “revenue neutral” because they will all collect the same amount of revenue from each customer class.

**Evaluation of Consumption Patterns** – NBS will perform a detailed analysis that will identify the *number* of customers at various levels of consumption and the *total water use* that occurs within each tier. The City’s most recent water consumption data will be used for this analysis.

This type of data analysis ensures an accurate projection of the revenue that will be collected within each tier, and allows for testing various rate structure alternatives (e.g., changing tier breakpoints and rates) in order to accurately design water rate tiers and recover sufficient revenues. Figure 11 illustrates the type of distribution curve that summarizes the number of customers by consumption level.

**Figure 11. Consumption Distribution Analysis**



**Calculate Fixed and Volumetric Charges** – Fixed costs consider the number of accounts, equivalent meters, and the number and size of meters. In contrast, variable costs are typically allocated in proportion to consumption.

We note that although a strict cost-of-service methodology would determine the percentages of rate revenue collected from fixed and variable rates, other factors are typically considered in this process.

Other factors include revenue stability, water conservation goals, ease of understanding, and ease of administration. NBS will recommend a rate structure that provides a balance between fixed and variable charges, with the goal of recovering all or a significant portion of fixed costs from fixed charges and variable costs from variable charges, while also encouraging water conservation.

Figures 12, 13 and 14 illustrate how the rate-design analysis recovers customer costs based on the total number of meters, capacity costs from each meter size based on the hydraulic capacity, and how commodity costs are recovered from customers based on water consumption.

**Figure 12. Example of Fixed Charges Calculations**

Meter Size	Number of Meters	Hydraulic Capacity Factor <sup>1</sup>	Total Equivalent Meters	Fixed Service Charges		
				Customer Costs (\$/Acct/ mo.)	Capacity Costs (\$/Acct/ mo.)	Total Fixed Service Charge
5/8 x 3/4 inch	34	0.67	23	\$4.50	\$6.51	\$11.01
3/4 inch	30,207	1.00	30,207	\$4.50	\$9.76	\$14.26
1 inch	14,295	1.67	23,825	\$4.50	\$16.27	\$20.77
1 1/2 inch	1,280	3.33	4,267	\$4.50	\$32.55	\$37.05
2 inch	2,314	5.33	12,341	\$4.50	\$52.07	\$56.57
3 inch	190	10.00	1,900	\$4.50	\$97.64	\$102.14
4 inch	96	16.67	1,600	\$4.50	\$162.73	\$167.23
6 inch	30	33.33	1,000	\$4.50	\$325.46	\$329.96
8 inch	62	53.33	3,307	\$4.50	\$520.73	\$525.23
10 inch	8	80.00	640	\$4.50	\$781.10	\$785.60
<b>Total</b>	<b>48,516</b>	<b>--</b>	<b>79,109</b>	<b>--</b>	<b>--</b>	<b>--</b>

**Figure 13. Example of Commodity Rate Calculations**

Customer Classes	Number of Accounts	Projected Water Consumption <sup>1</sup>	Target Revenue Requirement	Uniform Commodity Rates (\$/hcf)	Proposed Rate Structure
Single-Family Residential	23,257	6,396,362	\$ 6,251,321	\$0.977	Tiered
Multi-Family Residential	1,039	502,068	\$ 490,683	\$0.977	Uniform
Commercial	3,364	3,057,570	\$ 2,988,238	\$0.977	Uniform
<b>Total</b>	<b>27,660</b>	<b>9,956,000</b>	<b>\$ 9,730,242</b>	<b>--</b>	<b>--</b>

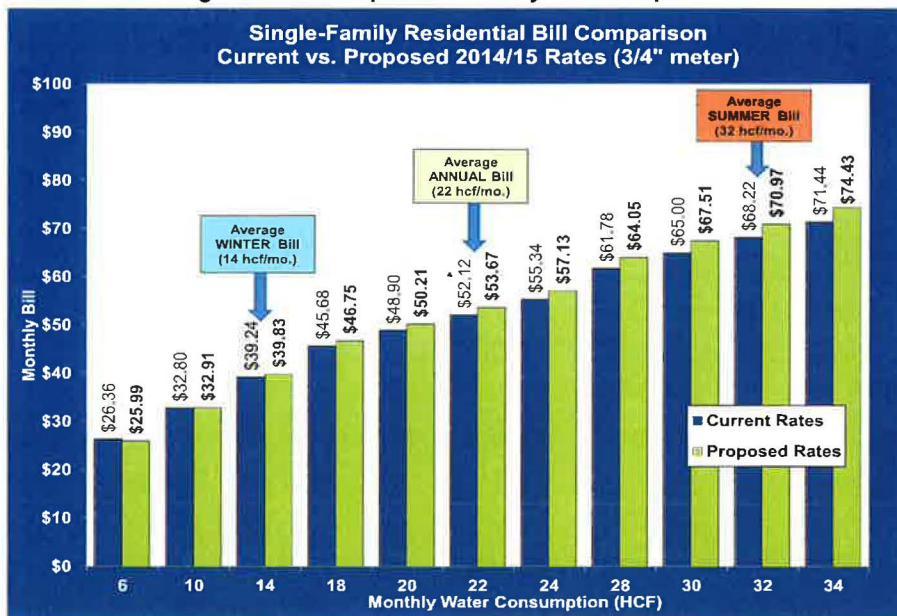
1. Assumes all customer classes will consume 5% less water than in FY 2012/13 due to conservation efforts.

**Figure 14. Example of Single-Family Residential, Three-Tier Rate Calculations**

Water Customer Class	Single-Family Tiers	Upper Tier Breakpoint	Price Differential Between Tiers	Projected Water Consumption	Proposed Commodity Rates (\$/hcf)	Tier Revenue Generated
Single Family Residential	Tier 1	11.0 hcf/mo.	--	2,686,499	<b>\$0.416</b>	\$1,118,250
	Tier 2	36.0 hcf/mo.	50%	2,443,475	<b>\$1.281</b>	\$3,129,777
	Tier 3	-	24%	1,266,388	<b>\$1.582</b>	\$2,003,294
<b>Total</b>	<b>--</b>	<b>--</b>	<b>--</b>	<b>6,396,362</b>	<b>--</b>	<b>\$6,251,321</b>

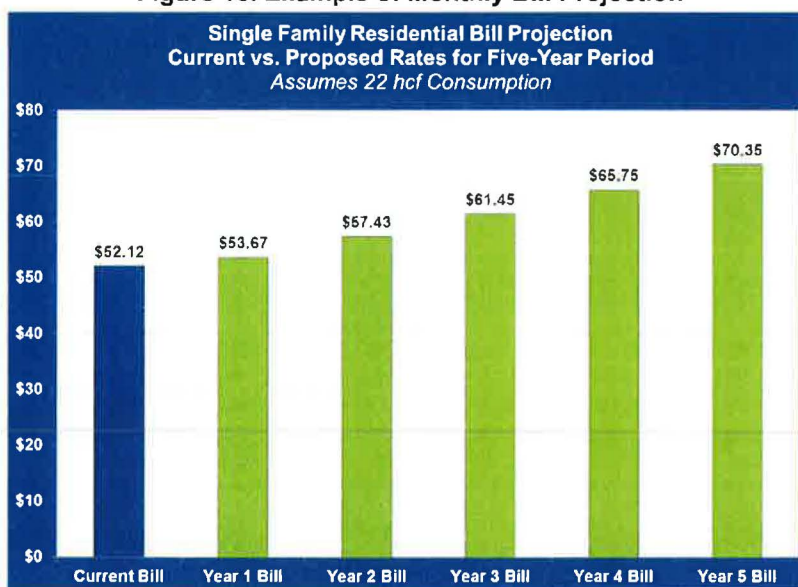
**Comparison of Monthly Water Bills** – We will prepare an analysis of monthly water bills for various types of customers, such as single-family customers with low-, average-, and high-water usage under each rate alternative evaluated in the study. This analysis is useful when evaluating the effects of different rate structures on customers, as illustrated in Figure 15.

**Figure 15. Example of Monthly Bill Comparison**



**Five-Year Rate Schedule** – We will provide the City with a rate schedule that includes proposed rates for the next five years and a projection of the typical bill for the five year period, as illustrated in Figure 16.

**Figure 16. Example of Monthly Bill Projection**



**Regional Rate Comparisons** – NBS will compare current and proposed water and wastewater rates to neighboring or similar communities to see how the City's rates and costs compare to other regional water and wastewater providers. NBS will update the City's existing local rate comparison (includes up to 10 providers). The results of this comparison will be presented in the rate study report and will provide City staff and Council with a basis to compare the cost of delivering water and wastewater service to customers in the region.

## **TASK 6. PROVIDE PROPOSITION 218 GUIDANCE**

**Task Objectives:** Assist the City in developing Proposition 218 compliant water and wastewater rates.

**Task Deliverables:** Guidance and advice to City staff, to ensure compliance with the Proposition 218 process.

NBS will provide the City with the necessary tables, as well as general guidance and advice in complying with the Proposition 218 process for adopting and implementing new water and wastewater rates. This includes the notification and public hearing process, preparation of the notices (if requested), and/or additional assistance with adopting and implementing new rates. NBS has close ties with legal counsel and will seek out advice for the City as needed. (*Note: at this time, our assistance is limited to the hours allocated in the study budget.*)

## **TASK 7. MEETINGS AND PRESENTATIONS**

### **7.1 Three Meetings with City Staff**

**Task Objectives:** To initiate the study and facilitate the review of initial results with City staff.

**Task Deliverables:** Provide three on-site meetings plus conference calls with Staff to review work products and study progress.

NBS will have three (3) on-site progress meetings with City staff and the City's financial advisor, including the kick-off meeting. These meetings will be to review initial work products, gain input on the direction of the study, and discuss options and strategies for the development of water and wastewater rates. We also expect to have regular phone conversations with City staff as needed, to discuss how the study is proceeding, get input from Staff, and prior to the public meetings to review and discuss the study's initial results and work products.

### **7.2 Three Public Workshops & Presentations**

**Task Objectives:** Effectively communicate with utility customers and the general public by providing three (3) public workshops.

**Task Deliverables:** Three on-site public workshops/presentations with City staff.

NBS will plan to prepare presentation materials in coordination with City staff to be presented at public workshops intended to inform, educate, and answer questions from the public. Additional meetings/presentations can be provided if needed. If selected for this study, we will discuss our approach to these workshops with City staff to ensure we can best meet the City's needs.

### **7.3 Two City Council Presentations**

**Task Objectives:** Summarize and discuss the study results with the City Council and the public to facilitate a successful completion of the study.

**Task Deliverables:** The two City Council presentations will include: (1) a Public Hearing to review and discuss preliminary rate study results, recommendations, proposed rates, and receive general input and answer questions from the Council, and (2) a Public Engagement Workshop and present at a Prop 218-related public hearing.

For both these meetings NBS will prepare all presentation material required for the adoption of new water and wastewater rates, including a PowerPoint presentation with visual aids, graphics, charts and any additional worksheets or handouts. Additional meetings/presentations can be provided as needed. If selected for this study, we would like to discuss our approach with City staff, in order to best meet the City's needs.

## **TASK 8. PREPARE A WRITTEN STUDY REPORT**

**Task Objectives:** Prepare preliminary, draft and final reports.

**Task Deliverables:** Preliminary, Draft and Final Reports for review by City Staff that include our final recommendations for the financial plans, reserve policies and rate structures. Sufficient information will be provided in the report for staff, the Council and the public to review and understand the study.

Recent Prop 218 court rulings have underscored the importance of thoroughly documenting and building an adequate administrative record to support the findings and recommendations of rate studies. This will be our objective in preparing the study report for the City. We will prepare preliminary, administrative draft and final rate study reports that include proposed rates for the next five years, although the financial models will cover a 20-year period. An executive summary and introduction will present the purpose of the report and results of the study. Tables, graphs, and charts will be used as appropriate, but the emphasis will be on providing a clear, concise and understandable report that will provide the City with a thorough administrative record that addresses:

- Findings and recommendations.
- Overall study methodology, with reference to AWWA M1 Manual and State laws (Prop 218) as needed.
- Brief physical description of the water and wastewater systems.
- Description of the City's service area and population characteristics.
- Overview of financial operation of the City's Water and Wastewater utilities for the past five years and current financial condition.
- Description of the capital improvement program and necessary improvements and how they are factored into the rate analysis.
- Comprehensive revenue and expense model.
- Rate structure alternatives.
- Customer bill comparisons including both current rates vs. proposed rates and the City's rates vs. regional and statewide rates for up to ten Bay Area water retailers.

We will provide an electronic file in Microsoft Word of the preliminary report that will be forwarded to City staff well ahead of the draft report, and then to the City Council once City staff is comfortable with the results. We typically will review initial results (e.g., revenue requirements, financial plans, cost-of-service analysis, and rate design results) with staff at the time they are developed. This helps ensure that City staff are "on-board" with the results before moving ahead with presenting any materials to the City Council or public. The City's comments<sup>4</sup> will be incorporated into the final report, and a final electronic copy will be provided.

---

<sup>4</sup> We assume City staff comments will be in an electronic Microsoft Word file using track-changes mode to incorporate all City comments.

## TASK 9. PREPARE RATE MODELS

**Task Objectives:** Develop water and wastewater financial planning/rate and capacity charge models for City Staff to use once the rate study is complete.

**Task Deliverables:** MS Excel-based financial planning, rate and capacity charge models.

We will develop MS Excel-based models for City Staff to use once the study is complete. These will be two financial planning and rate models for both water and wastewater. In these models, the revenue requirements and financial planning components of the model will cover a 20-year period, while the cost of service and rate design components will establish rates for a test year and include proposed rates for five (5) years. The models will not require any licensing fees and/or setup/updates from NBS.

We would like to provide the following comments and advice regarding the City's plans for using the models developed in this study:

**Complexity and Proprietary Models** – In terms of technical modeling, NBS models are not proprietary -- we avoid creating "black-box" models that are difficult to understand and follow. We believe that simplicity and transparency are essential. In considering what is important in a rate model, we note that most of the recent Prop 218-related rate design lawsuits have involved rate models, including "proprietary" models that have simply been deficient in establishing the administrative record. As the attorneys in recent lawsuits have stated, transparency is critical – if you can't explain your rate model, and the calculations aren't easily understood, you have weakened the defensibility of the results.

**Development of the Rate Model** – We will review the various tables included in the models as a part of the progress meetings with City staff. As a result, our goal is that City staff will be familiar enough with the models by the time the study is finished that they will be able to make changes and see the impacts of rates and financial plans.

## MANAGING TIMELINES AND PROJECT COSTS

We understand that budgets and timelines are critical to the success of this study, and our commitment to the City is that our proposed tasks will not cost more than budgeted or take longer than originally planned (to the extent that NBS has control over the schedule). If additional funds are needed due to tasks not included in the proposal, we will discuss this with the City and propose options for revising the budget and/or the scope of work. No additional work will be undertaken prior to approval by the City's project manager.

NBS has standard consulting-industry accounting systems and practices that track consulting hours by task, by team member, and by client. We provide monthly detailed reports and invoicing, but will discuss any particular needs the City may have with regard to invoicing and tracking of costs. Our projects are performed on a time-and-materials basis with not-to-exceed limits, thus guaranteeing that we will not exceed the proposed costs.

## TASK 10. CONTINGENCY

The water industry in California has been in a constant state of change over the last few years, particularly due to the drought, mandated conservation, and Prop 218 related court rulings. Per the City's request, we have added a contingency to address any additional rate study analysis related to the quickly changing nature of water issues, whether they are additional rate alternatives, regulatory-related costs, or a general desire for more evaluation of a particular issue.

issues.



## EXHIBIT "B"

### Hourly Rate Schedule

The following table shows our current hourly rates. Additional services authorized by the City but not included in the scope of services will be billed at this rate or the then applicable hourly rate.

Title	Hourly Rate
Director/Project Manager	\$ 225
Senior Consultant/ Assistant Project Manager	165
Consultant/Analyst	125

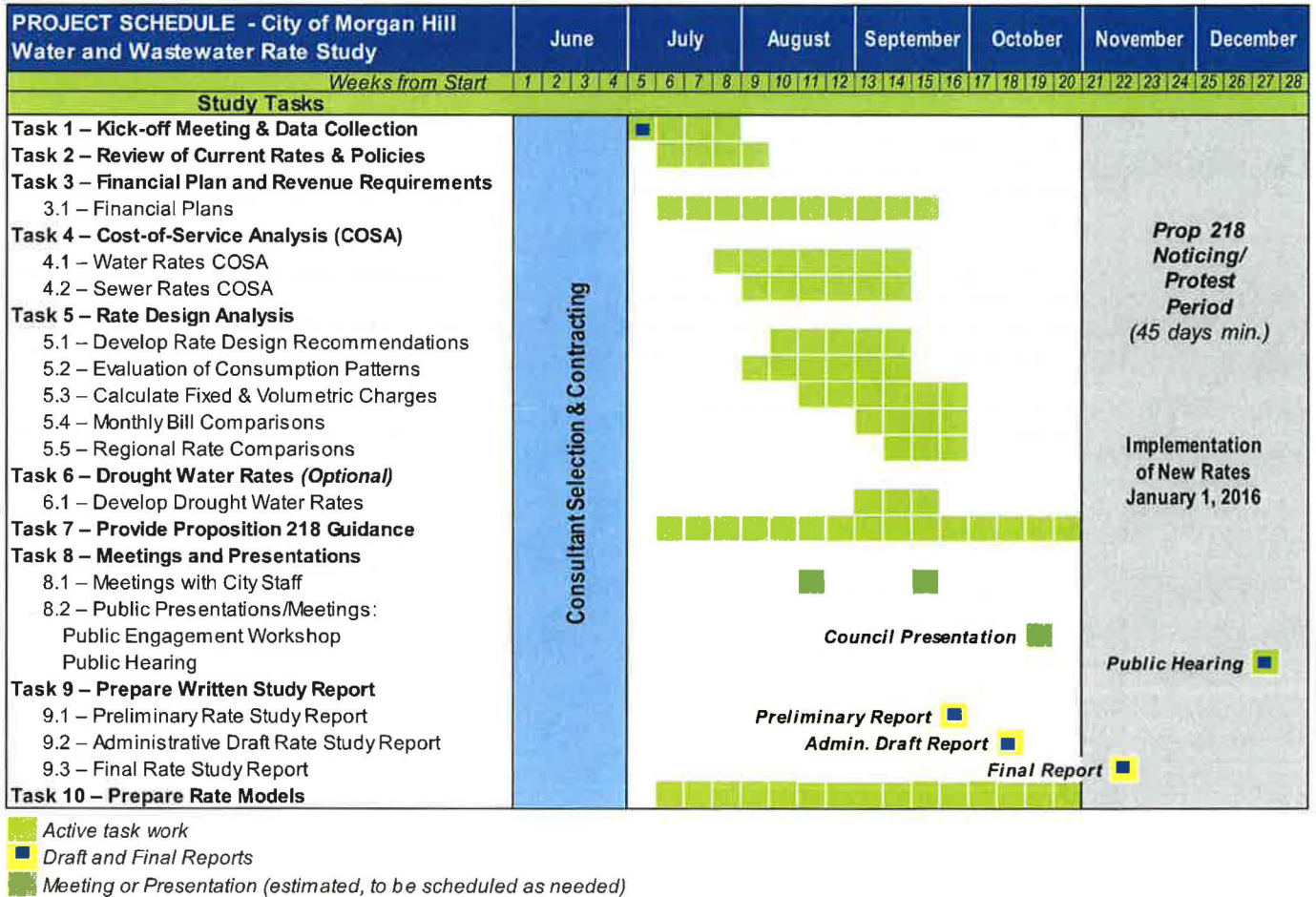
# EXHIBIT "C"

## RATE STUDY SCHEDULE

### PROJECT SCHEDULE

Exhibit D summarizes our proposed project schedule for completing the rate study. We understand that the City desires an implementation date of January 1, 2016 for new water and wastewater rates. We plan to have a more detailed discussion with City staff regarding this schedule at the kick-off meeting.

#### Exhibit D. Proposed Project Schedule





# CERTIFICATE OF LIABILITY INSURANCE

DATE (MM/DD/YYYY)

9/25/2014

THIS CERTIFICATE IS ISSUED AS A MATTER OF INFORMATION ONLY AND CONFERS NO RIGHTS UPON THE CERTIFICATE HOLDER. THIS CERTIFICATE DOES NOT AFFIRMATIVELY OR NEGATIVELY AMEND, EXTEND OR ALTER THE COVERAGE AFFORDED BY THE POLICIES 'LOW. THIS CERTIFICATE OF INSURANCE DOES NOT CONSTITUTE A CONTRACT BETWEEN THE ISSUING INSURER(S), AUTHORIZED REPRESENTATIVE OR PRODUCER, AND THE CERTIFICATE HOLDER.

IMPORTANT: If the certificate holder is an ADDITIONAL INSURED, the policy(ies) must be endorsed. If SUBROGATION IS WAIVED, subject to the terms and conditions of the policy, certain policies may require an endorsement. A statement on this certificate does not confer rights to the certificate holder in lieu of such endorsement(s).

PRODUCER License # 0B23506 Vanorsdale Insurance Services 6165 Greenwich Drive, Suite 200 San Diego, CA 92122	(858) 869-8300	CONTACT NAME: Janet Darby PHONE (A/C, No, Ext): 858-869-8300 E-MAIL ADDRESS: admin@vanorsdale.com	FAX (A/C, No): 858-869-8301
INSURED NBS Government Finance Group 32605 Temecula Parkway, Suite 100 Temecula, CA 92592		INSURER(S) AFFORDING COVERAGE	NAIC #
		INSURER A : Hanover Insurance Company	
		INSURER B : Allmerica Financial Benefit	19704
		INSURER C : Gemini Insurance Company	10833
		INSURER D :	
		INSURER E :	
		INSURER F :	

### COVERAGES CERTIFICATE NUMBER: REVISION NUMBER:

THIS IS TO CERTIFY THAT THE POLICIES OF INSURANCE LISTED BELOW HAVE BEEN ISSUED TO THE INSURED NAMED ABOVE FOR THE POLICY PERIOD INDICATED. NOTWITHSTANDING ANY REQUIREMENT, TERM OR CONDITION OF ANY CONTRACT OR OTHER DOCUMENT WITH RESPECT TO WHICH THIS CERTIFICATE MAY BE ISSUED OR MAY PERTAIN, THE INSURANCE AFFORDED BY THE POLICIES DESCRIBED HEREIN IS SUBJECT TO ALL THE TERMS, EXCLUSIONS AND CONDITIONS OF SUCH POLICIES. LIMITS SHOWN MAY HAVE BEEN REDUCED BY PAID CLAIMS.

INSR LTR	TYPE OF INSURANCE	ADDL INSR	SUBR WVD	POLICY NUMBER	POLICY EFF (MM/DD/YYYY)	POLICY EXP (MM/DD/YYYY)	LIMITS
A	<input checked="" type="checkbox"/> GENERAL LIABILITY	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	OH3A43196300	9/24/2014	9/24/2015	EACH OCCURRENCE \$ 2,000,000
	<input checked="" type="checkbox"/> COMMERCIAL GENERAL LIABILITY						DAMAGE TO RENTED PREMISES (Ea occurrence) \$ 2,000,000
	<input type="checkbox"/> CLAIMS-MADE <input checked="" type="checkbox"/> OCCUR						MED EXP (Any one person) \$ 10,000
	GEN'L AGGREGATE LIMIT APPLIES PER: <input checked="" type="checkbox"/> POLICY <input type="checkbox"/> PRO-JECT <input type="checkbox"/> LOC						PERSONAL & ADV INJURY \$ 2,000,000
B	<input checked="" type="checkbox"/> AUTOMOBILE LIABILITY			AW3A42745800	9/24/2014	9/24/2015	COMBINED SINGLE LIMIT (Ea accident) \$ 1,000,000
	<input checked="" type="checkbox"/> ANY AUTO						BODILY INJURY (Per person) \$
	<input type="checkbox"/> ALL OWNED AUTOS						BODILY INJURY (Per accident) \$
	<input type="checkbox"/> HIRED AUTOS						PROPERTY DAMAGE (Per accident) \$
A	<input checked="" type="checkbox"/> UMBRELLA LIAB			OH3A43196300	9/24/2014	9/24/2015	EACH OCCURRENCE \$ 1,000,000
	<input type="checkbox"/> EXCESS LIAB						AGGREGATE \$
	<input type="checkbox"/> DED <input type="checkbox"/> RETENTION \$						\$
A	WORKERS COMPENSATION AND EMPLOYERS' LIABILITY			WH3A42745700	9/24/2014	9/24/2015	<input checked="" type="checkbox"/> WC STATUTORY LIMITS <input type="checkbox"/> OTHER \$ 1,000,000
	ANY PROPRIETOR/PARTNER/EXECUTIVE OFFICER/MEMBER EXCLUDED? (Mandatory in NH)		N/A				E.L EACH ACCIDENT \$ 1,000,000
	If yes, describe under DESCRIPTION OF OPERATIONS below						E.L DISEASE - EA EMPLOYEE \$ 1,000,000
C	Professional Liability			VCPL062985	9/24/2014	9/24/2015	Each Wrongful Act \$2,000,000
C	Professional Liability			VCPL062985	9/24/2014	9/24/2015	Annual Aggregate \$2,000,000

DESCRIPTION OF OPERATIONS / LOCATIONS / VEHICLES (Attach ACORD 101, Additional Remarks Schedule, if more space is required)  
See attached page.

<b>CERTIFICATE HOLDER</b>  City of Morgan Hill Attn: Jack Dilles 17555 Peak Ave Morgan Hill, CA 95037-	<b>CANCELLATION</b>  SHOULD ANY OF THE ABOVE DESCRIBED POLICIES BE CANCELLED BEFORE THE EXPIRATION DATE THEREOF, NOTICE WILL BE DELIVERED IN ACCORDANCE WITH THE POLICY PROVISIONS.  AUTHORIZED REPRESENTATIVE 
---	--

Thank you for your business license payment. You may detach the license at the perforation and please display in a conspicuous area at your place of business. Please note the following regulations regarding your business license:

**TRANSFER OF LICENSE**

In accordance with section 5.04.280 of City's Municipal Code, no license or permit issued under any provision of this chapter shall be in any manner transferred or assigned, or authorize any person, other than the person named in the license, to carry on the business therein named, or to transact such business in any place other than the location named.

**POSTING OR DISPLAY OF LICENSE**

In accordance with section 5.04.270 of the City's Municipal Code, every person having a license under the provisions of this chapter and carrying on a business at a fixed place of business, shall keep such license posted and exhibited while in force, in some conspicuous part of such place of business. Every person having such a license and not having a fixed place of business, shall carry license or permit at all times while conducting the business for which the license or permit was issued.

**SEPARATE BUSINESS LOCATIONS**

In accordance with section 5.04.120 of the City's Municipal Code, a separate license must be obtained for each branch establishment or location of the business transacted and carried on and for each separate unrelated type of business at the same location, and each license shall authorize the licensee to transact and carry on only the business licensed thereby at the location or in the manner designated in such license; provided, that warehouses and distributing plants used in connection with and incidental to a business license under the provision of this chapter shall not be deemed to be separate places of business or branch establishment.

**LICENSE REQUIREMENT FOR CONTRACTORS THAT WORK FOR YOUR BUSINESS**

In accordance with section 5.04.270 of the City's Municipal Code, if you have anyone working for you in Morgan Hill that you are not claiming as an employee (for example a dance instructor or a cosmetologist at a salon), and you issue them a 1099 tax form, they must have their own business tax certificate in the City of Morgan Hill. Their tax certificate must be posted when they are doing business.

If you have any questions, please call the business license advisor at (408) 779-7237.

Thank you for letting us serve you!

---

**BUSINESS LICENSE CERTIFICATE**

**License # :** 002526

This certificate shall not authorize operation of a business within the City that is otherwise prohibited by ordinance. In conformity with provisions of the City's Municipal Code, this certificate is granted:

**BUSINESS LOCATION**

32605 TEMECULA PKWY  
100  
TEMECULA, CA 92592

**Date Paid:** 07/01/2014

**Expires:** 06/30/2015

**MAILING ADDRESS**

NBS  
32605 TEMECULA PKWY  
100  
TEMECULA, CA 92592



**2014 - 2015**