

AGREEMENT TO PROVIDE PROFESSIONAL SERVICES FOR
THE 2004 WATER AND WASTEWATER RATES AND CHARGES STUDY
INCLUDING THE UTILITIES ADVISORY COMMITTEE.

This Agreement is made and entered into this 6th day of July, 2004 by and between the City of Redlands, a municipal corporation (hereinafter "City") and Raftelis Financial Consultants, Inc. hereinafter ("Consultant").

In consideration of the mutual promises contained herein City and Consultant agree as follows:

ARTICLE 1 - ENGAGEMENT OF CONSULTANT

- 1.1 City hereby engages Consultant to perform professional services in connection with City's preparation of its 2004 Water and Wastewater Rates and Charges Study (the "Services").
- 1.2 The Services shall be performed by Consultant in a professional manner, and Consultant represents that it has the skill and the professional expertise necessary to provide the Services to City at a level of competency presently maintained by other practicing professional consultants in the industry providing like and similar types of services.

ARTICLE 2 - SERVICES OF CONSULTANT

- 2.1 The Services which Consultant shall perform are described in Consultant's Exhibit "A" entitled "Scope of Services" which is attached hereto and incorporated herein by this reference.
- 2.2 Consultant shall comply with all applicable Federal, State and local rules, laws and regulations in the performance of this Agreement including but not limited to all applicable Labor Code and prevailing wage laws commencing at California Labor Code section 1770 et seq. and non-discrimination laws including the Americans' with Disabilities Act.
- 2.3 Consultant further understands that if it violates the provisions of the California Labor Code relating to prevailing wage, that City may enforce the California Labor Code by notice of the withholding of contract payments to Consultant or Subcontractor pursuant to Labor Code sections 1726, 1727 and 1771.6.
- 2.4 If Consultant executes an agreement with a subcontractor to perform any portion of the Services, Consultant shall comply with California Labor Code section 1775 and 1777.7 including providing the subcontractor with copies of the provisions of Sections 1771, 1775, 1776, 1777.5, 1813 and 1815 of the Labor Code. Consultant acknowledges that the statutory provisions for penalties for failure to comply with state wage and hour laws and to pay

prevailing wages may be enforced by the City pursuant to Labor Code sections 1775 and 1813.

ARTICLE 3 - RESPONSIBILITIES OF CITY

- 3.1 City shall make available to Consultant information in its possession that is relevant to the performance of Consultant's Services.
- 3.2 City will provide access to City-owned property to perform the Services.
- 3.3 City designates Doug Headrick to act as its representative with respect to the Services to be performed under this Agreement.

ARTICLE 4 - PERIOD OF SERVICE

- 4.1 Consultant shall perform the Services in a prompt and diligent manner and shall complete the Services not later than six (6) months from the date of the issuance of the Notice to Proceed from City to Consultant.

ARTICLE 5 - PAYMENTS TO THE CONSULTANT

- 5.1 The total compensation for Consultant's performance of the Services shall not exceed the amount of \$54,000. City shall pay Consultant on a time and materials basis up to the not to exceed amount, in accordance with Exhibit "C" entitled "Consulting Fee," based upon the hourly rates shown in Exhibit "C."
- 5.2 Consultant shall bill City within ten days following the close of each month by submitting an invoice indicating the portion of the Services performed, who performed the Services, indirect costs, and the detailed cost of all Services including backup documentation. Payments by City to Consultant shall be made within 30 days after receipt and approval of Consultant's invoice.
- 5.3 All notices, bills and payments shall be made in writing and may be given by personal delivery or by mail. Notices, bills and payments sent by mail shall be addressed as follows:

City of Redlands
Doug Headrick, Chief of Water
Resources Municipal Utilities Dept.
PO Box 3005
Redlands, CA 92373

Sudhir Pardiwala
Raftelis Financial Consultants
201 S. Lake, Ste 803
Pasadena, CA 91101

When so addressed, such notices shall be deemed given upon deposit in the United States Mail.

Changes may be made in the names and addresses of the person to whom notices and payments are to be given by giving notice pursuant to this paragraph.

ARTICLE 6 - INSURANCE AND INDEMNIFICATION

6.1 Consultant's Insurance to be Primary

All insurance required by this Agreement shall be maintained by Consultant for the duration of this Project and shall be primary with respect to City and non-contributing to any insurance or self-insurance maintained by City. Consultant shall not perform any Services pursuant to this Agreement unless and until all required insurance listed below is obtained by Consultant. Consultant shall provide City with Certificates of Insurance and endorsements evidencing such insurance prior to commencement of work. All insurance policies shall include a provision prohibiting cancellation of the policy except upon thirty (30) days prior written notice to City.

6.2 Workers' Compensation and Employer's Liability

A. Consultant shall secure and maintain Workers' Compensation and Employer's Liability insurance throughout the duration of this Agreement in amounts which meet statutory requirements with an insurance carrier acceptable to City.

B. Consultant expressly waives all rights to subrogation against City, its elected officials, employees and volunteers for losses arising from work performed by Consultant for City by expressly waiving Consultant's immunity for injuries to Consultant's employees and agrees that the obligation to indemnify, defend and hold harmless provided for in this Agreement extends to any claim brought by or on behalf of any employee of Consultant. This waiver is mutually negotiated by the parties. This shall not apply to any damage resulting from the sole negligence of City, its agents and employees. To the extent any of the damages referenced herein were caused by or resulted from the concurrent negligence of City, its agents or employees, the obligations provided herein to indemnify, defend and hold harmless is valid and enforceable only to the extent of the negligence of Consultant, its officers, agents and employees.

6.3 Comprehensive General Liability Insurance. Consultant shall secure and maintain in force throughout the duration of this Agreement comprehensive general liability insurance with carriers acceptable to City. Minimum coverage of one million dollars (\$1,000,000) per occurrence and two million dollars (\$2,000,000) aggregate for public liability, property damage and personal injury is required. Consultant shall obtain an endorsement that City shall be named as an additional insured.

6.4 Professional Liability Insurance. Consultant, shall secure and maintain professional liability insurance throughout the duration of this Agreement in the amount of one million dollars (\$1,000,000) per occurrence and two million dollars (\$2,000,000) annual aggregate.

6.5 Business Auto Liability Insurance. Consultant shall have business auto liability coverage, with minimum limits of one million dollars (\$1,000,000) per occurrence, combined single limit for bodily injury liability and property damage liability. This coverage shall include all Consultant-owned vehicles used in connection with the Services, hired and non-owned vehicles, and employee non-ownership vehicles. Consultant shall obtain an endorsement that City shall be named as an additional insured.

6.6 Assignment and Insurance Requirements. Consultant is expressly prohibited from assigning any of the Services without the express prior written consent of City. In the event of mutual agreement between the parties to assign a portion of the Services, Consultant shall add the assignee as an additional insured and provide City with the insurance endorsements prior to any Services being performed by the subcontractor. Assignment does not include printing or other customary reimbursable expenses that may be provided in this Agreement.

6.7 Hold Harmless and Indemnification. Consultant shall defend, indemnify and hold harmless City, its elected officials, officers, employees and agents, from and against any and all actions, claims, demands, lawsuits, losses and liability for damages to persons or property, including costs and attorney fees, that may be asserted or claimed by any person, firm, entity, corporation, political subdivision or other organization arising out of or in connection with Consultant's negligent and/or intentionally wrongful acts or omissions under this Agreement; but excluding such actions, claims, demands, lawsuits and liability for damages to persons or property arising from the sole negligence or intentionally wrongful acts of City, its officers, employees or agents.

ARTICLE 7 - GENERAL CONSIDERATIONS

- 7.1 In the event any action is commenced to enforce or interpret any of the terms or conditions of this Agreement the prevailing party shall, in addition to any costs and other relief, be entitled to the recovery of its reasonable attorneys' fees.
- 7.2 All documents, records, drawings, designs, cost estimates, electronic data files, databases, and other documents developed by Consultant pursuant to this Agreement and any copyright interest in said above described documents, shall become the property of City and shall be delivered to City upon completion of the Services, or upon the request of City. Any reuse of such documents and any use of incomplete documents will be at City's sole risk.
- 7.3 Consultant is for all purposes an independent contractor. Consultant shall supply all tools and instrumentalities required to perform the Services. All personnel employed by Consultant are for its account only, and in no event shall Consultant or any personnel retained by it be deemed to have been employed by City or engaged by City for the account of or on behalf of City.
- 7.4 Unless earlier terminated, as provided for below, this Agreement shall terminate upon completion and acceptance of the Services by City.

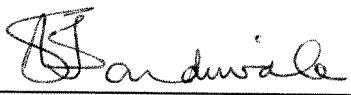
- 7.5 This Agreement may be terminated by either party, without cause, by providing seven (7) days prior written notice to the other party (delivered by certified mail, return receipt requested) of intent to terminate.
- 7.6 If this Agreement is terminated by City, an adjustment to Consultant's compensation shall be made, but no amount shall be allowed for anticipated profit or unperformed Services, and any payment due Consultant at the time of termination may be adjusted to the extent of any additional costs to City occasioned by any default by Consultant.
- 7.7 Upon receipt of a termination notice from City, Consultant shall discontinue all Services and deliver or otherwise make available to City, copies (in both hard copy and electronic form, where applicable) of any data, design calculations, drawings, specifications, reports, estimates, summaries and such other information and documents that may have been prepared or assembled by Consultant in performing the Services.
- 7.8 Consultant shall maintain books, payroll costs and all expenses associated with the Services. Such books shall be available at all reasonable times for examination by City at the office of Consultant.
- 7.9 This Agreement, including the attachments incorporated herein by reference, represents the entire agreement of the parties as to the matters contained herein, and any prior negotiations, written proposals or oral agreements relating to the subject matter hereof are superseded by this Agreement. Any amendment to this Agreement shall be in writing, approved by City Council of City and signed by City and Consultant.
- 7.10 This Agreement shall be governed by and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, duly authorized representatives of City and Consultant have signed in confirmation of this Agreement.

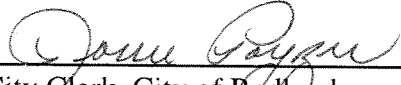
City of Redlands

Raftelis Financial Consultants, Inc.

By: 
Susan Pepler
Mayor

By: 

Attest:


City Clerk, City of Redlands

ATTACHMENT A

SCOPE OF SERVICES

Based on our understanding of the City's Request for Proposals (RFP) and discussion with City staff, we propose the following tasks to address the City's needs.

General and Administrative

Task 1 – Project Management

This project component includes general project coordination, staff direction, and administrative activities throughout the course of the project. Specific subtasks are:

- 1.1 Coordinate project activities among RFC staff and City staff. Provide direction to staff as required to meet project objectives and deadlines. Ensure adequate levels of staff and resources throughout the course of the project. Review all study-related work and provide overall quality assurance.
- 1.2 Perform general administrative duties, including client correspondence, billing, and project documentation.

Task 2 – Project Initiation Meeting and Data Collection

This project component will provide opportunity to establish lines of communication; review project missions, goals, and objectives; review project schedule and major milestones; collect pertinent data for the study, and discuss any relevant background information. The session will also facilitate discussions of the overall approach and strategies that will be used by the City and RFC during the course of the project. Specific subtasks are:

- 2.1 Prepare an initial request for billing, financial and operational data and other pertinent information needed prior to the first meeting with City staff. A list of typical data required for the study will be provided before the first meeting.
- 2.2 Obtain and review the data and determine completeness and accuracy.
- 2.3 Review the City's current practices and policy objectives, identify major interests and concerns, and review City billing information.
- 2.4 Conduct a kick-off meeting with City staff to establish goals and objectives, to identify major interest, concerns, and City's expectations. The session will also facilitate a review of the overall study approach, schedule, and deliverables.

Capital Improvement Program Assessment

Task 3 - Capital Facility Plan Assessment

RFC will update the CIP developed earlier including annual replacements, additions and improvements, and expansions to the water and wastewater systems. Alternative methods of financing the improvements, including grants, low interest loans, long-term debt, annual operating revenues, capital facility fees revenue, funds on hand, and direct contributions, would

be evaluated. Financing plans to meet the projected capital improvements throughout the study period would be developed.

- 3.1 Investigate alternative financing methods for the capital improvement projects. RFC will recommend financing options that would provide the maximum value at the lowest cost to the City. The financing options may include but not be limited to:

- local resources such as reserves and rates,
- low-interest loans – State Revolving Fund (SRF),
- long term debt such as revenue bonds, general bonds, or Certificate of Participation (COP),
- California Infrastructure and Economic Development Bank Program,
- Department of Water Resources' Water Conservation Bond Law,
- Water Reuse Authority Loans.

Determination of Revenue Requirements

Task 4 - Revenue Requirement Projections

The objective of this task is to project the City's revenue needs for the study period. This major task requires: an assessment of revenues based on the existing rates and fee schedules; an estimation of future revenue requirements; the City's ability to meet projected revenue requirements; and the determination of the level of revenue adjustments and additional financing requirements. The following subtasks will be completed:

- 4.1 Estimate water, wastewater, and recycled water revenues based on current rates, source acquisition charges and impact fee levels, incorporating the projected number of customers and service requirements. Historical growth trends, quantity of service provided, and patterns in customer service characteristics will be evaluated. Recent studies of population trends and growth will be reviewed and used in making projections of customers and associated usage.
- 4.2 Review and project revenues from miscellaneous sources such as interest earnings, miscellaneous service fees, fire line revenues, or other sources.
- 4.3 Develop annual revenue requirements for the water and wastewater operations of the City taking into consideration the following factors:
 - Historical data and current year's budgets,
 - Current Operation and Maintenance expenses,
 - Impact of recycled water supplies on water consumption and revenues,
 - Historical water acquisition expenses,
 - Routine and major capital expenditures,
 - Future system service requirements and system growth,
 - Expected operational changes and inflation,

- Debt service on existing and any proposed new financing methods including appropriate reserves,
 - Other cash obligations.
 - Cost to provide service to outside City customers.
- 4.4 Develop future cash flow analyses for the water and wastewater operations for an eight-year study period (or as desired by the City) showing application of revenue under existing rate levels. On the basis of the cash flow analyses, develop revenue level adjustments needed to meet projected revenue requirements. Consider reprioritizing and rescheduling capital projects and consider application of available reserves to minimize borrowing for capital improvement projects. These results will be presented in an easy to understand graphical format. For example, the graphic below shows how the proposed rates would meet revenue requirements.
- 4.5 Evaluate and recommend operating reserve balances that need to be maintained in the City's water and wastewater funds.

Cost of Service and Rate Design

We will update the cost of service allocations previously developed in the rate model to reflect cost-causative concepts in accordance with generally accepted utility practices and generate unit costs and develop rates.

Task 5 – Cost of Service Analysis

RFC will allocate cost of service to current customer classifications. Specific subtasks include the following:

- 5.1 Based on current rates, we will estimate the relative responsibility of each customer class for each of the functional cost elements. Elements will be based on billing summary data, other locally available data which may be applicable, and RFC's experience with other utilities exhibiting similar usage characteristics and patterns.
- 5.2 Allocate the cost of service to the various cost components which constitute a functional classification of the different types of service the City provides. Functional cost components for water will include base or volume related costs, extra capacity costs, fire protection costs, and customer costs. Functional cost components for wastewater will include volume, strength (BOD and TSS), infiltration and Inflow (I&I), and customer costs. These will represent the revenue requirements to be met from water and wastewater charges and fees over the study period.
- 5.3 Distribute the costs by functional components to the various customer classifications, identified above, on the basis of the relative responsibility of each classification for service provided. Costs will be allocated based on the

- determination of unit of service for each customer classification and the application of unit costs of service to the respective units.
- 5.4 Compare existing revenue under existing rates by each customer class with the allocated cost of service to determine:
- the adequacy of present revenue levels for each class
 - the indicated adjustment in rates required to equitably distribute costs to the respective classes of customers
- 5.5 Throughout the cost allocation process, RFC will comply with City policy considerations, procedures, and all currently known federal, state, and local rules, regulations, and guidelines applicable to charges for water and wastewater services.

Task 6 – Review and Development of Rate Structures

The water and wastewater revenue requirements from each customer class will be recovered through a rate structure designed to stand alone as a separate revenue source. We will design rate structures that bring in a greater level of standardization, equitability, and ease of implementation. The following subtasks will be performed:

- 6.1 We will develop alternative water rate structures as appropriate for the City and determine the best alternative for the City. Possible structures may include, but not necessarily be limited to, the following:
- Inverted-block rate structure by class;
 - Block thresholds;
 - Effects of water conservation as it relates to water alternatives;
 - Pricing policies for commercial users;
 - Lifeline rates;
 - Non-potable water rates.

and the following for the wastewater rate structure:

- Residential flat rates;
 - Uniform volume rate;
 - Strength of pollutant discharged-based rate for non-residential customers.
- 6.2 RFC will compare the proposed water and wastewater rates developed for the City with neighboring agencies of comparable service characteristics.
- 6.3 Rates for outside City customers will be based on general fund subsidy, depreciation, and return on rate base.

Task 7 – Rate Design

Based on Task 6 above, water and wastewater rates for inside-City customers will be developed so as to take effect on the date selected by the City. The rates will be determined taking into

consideration total annual revenue requirements, allocated cost of service, water conservation, City policy considerations and compliance with state requirements. The specific subtasks include:

- 7.1 Design schedule of water and wastewater rates to equitably recover total revenue requirements from classes of customers. The rates will be designed in accordance with the results of the cost of service analysis and will be developed for inside and outside City customers.
- 7.2 Prepare comparisons of typical water and wastewater bi-monthly bills for each customer class under existing and proposed rates for typical levels of usage/contribution.

Task 8 – Citizen’s Review Committee Involvement

Throughout the course of the study, RFC will work with the Citizen’s Review Committee (CRC) to explain the project, identify goals and issues for the water and wastewater utilities, determine issues of concern and develop an understanding of the need to replace and refurbish the water and wastewater systems and how the revenue plan will be developed to minimize the impact on the City’s constituents.

- 8.1 During the course of the study, RFC will conduct eight meetings with members of the CRC to discuss the status of the study, resolve issues of concern and discuss the direction of the study. We will present proposed rates and rate structures and obtain feedback from the citizens. We will discuss the elements that are integrated into the revenue plan and how it impacts the rates.

Task 9 – Meetings and Deliverables

Throughout the course of the studies, RFC will participate in meetings, presentations and prepare project reports as follows:

- 9.1 RFC will attend up to three additional meetings to review background information and rate study issues, review rate proposals and participate in public meetings to review issues related to the rate studies. Additional meetings can be provided on a time and materials basis.
- 9.2 Prepare five copies of the water and wastewater draft report which will include findings and recommendations along with various graphics and tables for the City’s review.
- 9.3 Deliver to the City an update EXCEL based rate model used to develop the proposed rates and rate schedules. The model will be provided on an electronic formatted disk.

Task 10 –Final Report

RFC, with assistance of City Staff, will prepare a final report encompassing all study findings, input, and recommendations at the conclusion of the project and present findings to City staff and at public meetings. Specific subtasks include:

- 10.1 Incorporate the City's comments of the draft report into the final report and submit twenty (20) copies to the City.
- 10.2 Present the final report and recommendations to the City.

ATTACHMENT B

PROJECT SCHEDULE

All services described in Attachment A will be completed by Dec 31, 2004.

ATTACHMENT C

PROJECT FEE

Services will be provided on a salary cost basis. Tasks in this scope of work will be completed for a not to exceed amount of \$54,000 including direct costs.

ATTACHMENT D

RATE SCHEDULE

Hourly Rates

RFC proposes to provide the tasks identified in our Scope of Services at the hourly billing rates shown in the table below.

	Hourly Billing Rate
Project Manager	\$175
Consultant	\$175
Financial Analysts	\$125
Clerical	\$60

Reimbursement of Direct Expenses

Direct expenses are costs incurred in providing the services outlined in the proposed Scope of Services. Such expenses include items such as travel, technology charges, postage, long distance telephone, reproduction, etc.