

PROFESSIONAL SERVICES AGREEMENT FOR THE VALUATION OF THE CITY'S
WATER AND WASTEWATER ASSETS
WITH RAFTELIS FINANCIAL CONSULTANTS

This professional services agreement for the valuation of the City's water and wastewater assets ("Agreement") is made and entered into this 5th day of June, 2007 ("Effective Date"), by and between the City of Redlands, a municipal corporation ("City") and Raftelis Financial Consultants, Inc. ("Consultant"). City and Consultant are sometimes individually referred to herein as a "Party" and, together, as the "Parties."

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 asset valuation services for the City's water and wastewater systems. The specific Services which Consultant shall perform are more particularly described in Exhibit "A," entitled "Scope of Services," which is attached hereto and incorporated herein by this reference.
- 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.
- 1.3 Consultant shall comply with all applicable Federal, State and local laws and regulations in the performance of this Agreement including, but not limited to, the Americans with Disabilities Act and the Fair Employment and Housing Act.

ARTICLE 2 - RESPONSIBILITIES OF CITY

- 2.1 City shall make available to Consultant information in its possession that may assist Consultant in performing the Services.
- 2.2 City will make provision for Consultant to enter upon City-owned property, as reasonably required by Consultant, to perform the Services.
- 2.3 City designates Gary Phelps, the City's Municipal Utilities Director, as City's representative with respect to Consultant's performance of the Services. The Municipal Utilities Director shall have the authority to transmit instructions, receive information, interpret and define City's policies and decisions with respect to performance of the Services.

ARTICLE 3 - PERIOD OF SERVICE

- 3.1 Consultant shall perform the Services in a prompt and diligent manner and shall complete the Services by December 31, 2007.

ARTICLE 4 - PAYMENT AND NOTICE

- 4.1 The total compensation for Consultant's performance of the Services shall not exceed the amount of Fifty Two Thousand One Hundred Forty Dollars (\$52,140). City shall pay Consultant on a time and materials basis up to the not to exceed amount in accordance with Exhibit "B" entitled "Project Fee," and based upon the hourly rates shown in Exhibit "C," entitled Rate Schedule.
- 4.2 Payments by City to Consultant shall be made within thirty (30) days after receipt and approval by City of Consultant's invoice, by warrant payable to Consultant. Invoices shall be sent to City on a monthly basis.
- 4.3 All notices shall be given in writing by personal delivery or by mail. Notices, sent by mail should be addressed as follows:

City: Gary Phelps
Municipal Utilities Director
City of Redlands
PO Box 3005
Redlands, CA 92373

Consultant: 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 who notices and payments are to be given by giving notice pursuant to this section.

ARTICLE 5 - INSURANCE AND INDEMNIFICATION

- 5.1 All insurance required by this Agreement shall be maintained by Consultant for the duration of its performance of the Services. 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 the Services. All insurance policies shall include a provision prohibiting cancellation of the policy except upon thirty (30) days prior written notice to City.
- 5.2 A. Consultant shall secure and maintain Workers' Compensation and Employer's Liability insurance throughout the duration of this Agreement in an amount which meets the statutory requirement with an insurance carrier acceptable to City. The insurance policy shall include a provision prohibiting cancellation of said policy except upon thirty (30) days prior written notice to City.
- B. Consultant expressly waives all rights to subrogation against City, its elected officials, officers and employees 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 waiver 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 are valid and enforceable only to the extent of the negligence of Consultant, its officers, agents and employees.
- 5.3 Hold Harmless and Indemnification. Consultant shall indemnify, hold harmless and defend City and its elected officials, employees and agents from and against any and all claims, losses or liability, including attorneys' fees, arising from injury or death to persons or damage to property occasioned by any act, omission or failure to act by Consultant, its officers, employees and agents in performing the Services.
- 5.4 Assignment. Consultant is expressly prohibited from assigning any of the Services without the express written consent of City. In the event of mutual agreement between 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 the performance of any services by the assignee. Assignment does not include printing or other customary reimbursable expenses that may be provided in this Agreement.

- 5.5 Comprehensive General Liability Insurance. Consultant shall secure and maintain in force throughout the duration of the 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. City shall be named as an additional insured the insurance policy shall include a provision prohibiting cancellation of said policy except upon thirty (30) days prior written notice to City. Such insurance shall be primary and non-contributing to any insurance or self-insurance maintained by City. Certificates of insurance and endorsements shall be delivered to City prior to commencement of the Services.
- 5.6 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 claim made. Certificate of liability insurance and endorsement shall be delivered to City prior to commencement of the Services.
- 5.7 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 on the project, hired and non-owned vehicles, and employee non-ownership vehicles. Such insurance shall be primary and non-contributing to any insurance or self insurance maintained by City. City shall be named as an additional insured and a certificate of liability insurance and endorsement shall be delivered to City prior to commencement of the Services.

ARTICLE 6 - GENERAL CONSIDERATIONS

- 6.1 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, including fees for in-house counsel of the Parties.
- 6.2 Consultant shall not assign any of the Services to be performed under this Agreement, except with the prior written approval of City and in strict compliance with the terms, provisions and conditions of this Agreement.
- 6.3 Consultant's key person to perform the Services is Sudhir Pardiwala, Vice President. Consultant agrees that this key person shall be made available and assigned to perform the Services and that he shall not be replaced without concurrence from City.
- 6.4 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 such documents, shall become the property of City and shall be delivered to City

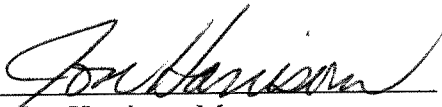
upon completion of the Services, or upon the request of City. Any reuse of such documents and any use of incomplete documents will be at City's sole risk.

- 6.5 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.
- 6.6 Unless earlier terminated, as provided for below, this Agreement shall terminate upon completion and acceptance of the Services by City.
- 6.7 This Agreement may be terminated by City, in its sole discretion and without cause, by providing five (5) business days' prior written notice to Consultant (delivered by certified mail, return receipt requested) of intent to terminate.
- 6.8 If this Agreement is terminated by City, an adjustment to Consultant's compensation shall be made, but (1) no amount shall be allowed for anticipated profit or unperformed services, and (2) 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.
- 6.9 Upon receipt of a termination notice, Consultant shall immediately discontinue all services affected, and within five (5) days of the date of the termination notice, 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 materials as may have been accumulated by Consultant in performing the Services required by this Agreement. Consultant shall be compensated on a pro-rata basis for work completed up until notice of termination.
- 6.10 Consultant shall maintain books and accounts of all payroll costs and expenses related to the Services. Such books shall be available at all reasonable times for examination by City at the office of Consultant.
- 6.11 This Agreement, including the Exhibits incorporated herein by reference, represents the entire agreement and understanding between the Parties as to the matters contained herein, and any prior negotiations, written proposals or verbal agreements relating to such matters are superseded by this Agreement. Any amendment to this Agreement shall be in writing, approved by City and signed by City and Consultant.
- 6.12 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 the City and Consultant have signed in confirmation of this Agreement.

CITY OF REDLANDS

RAFTELIS FINANCIAL CONSULTANTS,
INC.

By: 
Jon Harrison, Mayor

By:


Sudhir Pardiwala, Vice President

Attest:


City Clerk

ATTACHMENT A

SCOPE OF SERVICES

The California Public Utilities Code Sections 10061 authorizes municipalities to lease a water utility if the lease is approved by resolution of the City Council after an evaluation of proposals at a noticed public hearing.

The City of Redlands (City) is considering the option of leasing both the water and wastewater facilities, including a tertiary treatment facility within the wastewater treatment plant, operated by the Municipal Utilities Department (MUD), to a joint powers authority. Before leasing the facilities, the City needs to determine the value of the facilities in order to determine the annual lease payments as well as calculate the impact of the lease on rates charged to customers.

Based on our understanding and discussion with City staff, we propose the following tasks to address the City's needs.

FACILITIES VALUATION

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 between RFC staff and MUD 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, project documentation, and administer study control plan using RFC's project management tools.

Task 2 – Project Initiation and Data Collection

The purpose of this task is to initiate the project, finalize project guidelines, and ensure the RFC team has all data needed to complete the study. Specific subtasks are:

2.1 Data Collection. RFC will gather and review relevant information, documents, and analyses that will be required to conduct the valuation of the facilities. This information is necessary to understand the cost basis underlying the existing assets of the water and wastewater facilities, how the useful life was determined, and the method of depreciation as well as the existing water and wastewater rates and charges to determine the impact the proposed lease payments plan would have on ratepayers. As part of this task, a detailed data request list will be prepared and submitted to the MUD so all appropriate data can be forwarded to RFC prior to the start-up meeting.

Examples of the types of information included in the data request list are shown below:

- List of assets in the water and wastewater facilities such as pipes, pumps, distribution system, reservoirs, water rights, treatment plants, etc...;
- Historical costs and the time when those assets were constructed and installed; and
- Water and wastewater current rates and charges.

2.2 Start-up Meeting. After performing a preliminary review of the initial data, RFC Team members will visit the MUD offices for the start-up meeting with MUD staff. This meeting will ensure that the RFC Team has a thorough understanding of the City's plans to lease the water and wastewater facilities and the historical value of the underlying assets in these facilities. In addition, any other tasks, outstanding issues or details related to the project scope, work plan, schedule, and staffing will be discussed and finalized during the start-up meeting.

Task 3 – Valuation of Assets

This task involves the actual determination of the asset value according to the data provided. Based on the value of the assets, RFC will calculate the annual lease payments to be made to the City.

3.1 RFC will review the inventory of facilities to be valued from the City's property records and information provided. The facilities will be summarized and listed by type, kind and size. The assets list will include year of original installation, any replacements that may have been completed to refurbish or upgrade the asset, size and type of asset along with identifying characteristics.

Assets reviewed will include

- water lines, transmission, and distribution

- sewer collectors, mains, interceptors
- recycled water lines
- valves
- meters
- hydrants
- reducers
- blow offs
- back flow preventers
- pressure reducers
- reservoirs
- pump stations
- chlorinators and disinfection equipment
- water treatment plant
- wastewater treatment plant

In addition, RFC will also review the business facilities to support the water/wastewater systems which may include:

- service yard
- spare materials, parts, tools
- excavators and construction equipment
- service trucks
- power equipment
- radio equipment
- meter reading equipment
- meter records and books
- billing records
- office equipment
- small tools
- fencing

The inventory will include:

- Description
- Size and quantity
- Material of construction
- Work order number
- Year installed
- Original cost plus installation
- Depreciation
- Original cost less depreciation

When any data or records are missing or inadequate, RFC will conservatively estimate the values and characteristics of the facilities.

3.2 Additionally, because water rights are major assets of the water enterprise, RFC will conduct an appraisal of the value of these assets. First, RFC will quantify the water rights. The water rights quantification will involve an accumulation of historic water use for each source. This will include surface diversions, springs, and groundwater pumping. The status of water rights will be reviewed and summarized. This might involve restrictions and/or delivery requirements. Documented water rights appropriations will be reviewed and summarized.

The appraisal of the water rights will be considered and applied the three generally accepted methods listed below if appropriate:

- recent comparable sales
- capitalization of leased water rights at an appropriate interest rate
- the cost of alternative sources of water

3.3 From the information acquired, RFC will establish values for the assets based upon actual records. Original cost and original cost less depreciation will represent the low end of the value of the capacity whereas the reproduction or replacement cost new will represent the high-end value. Based on the year of installation and the expected lifetime of the asset, an appropriate depreciation will be calculated to determine:

- Original cost
- Original cost less depreciation (OCLD)
- Reproduction Cost
- Reproduction Cost Less Depreciation (RCLD)

Reproduction or replacement cost will be estimated from the original cost using an inflator such as the Engineering News-Record Construction Cost Index.

Task 4 - Reports and Presentations

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

4.1 RFC will make presentations to the City and MUD to present the calculations and results of the valuation study.

4.2 RFC will prepare and supply copies of the draft report summarizing the results including key assumptions, cost allocation methodologies, valuation of water and wastewater facilities, and recommendations. This draft will be discussed with MUD staff to identify any outstanding issues and provide staff a forum for comments; RFC will incorporate comments as appropriate.

4.3 Any comments received will be documented and, if appropriate, will be incorporated into the model and report so that the report can be finalized. Once the report is finalized, twelve (12) final copies will be provided to the MUD.

4.4 RFC, with assistance of MUD staff, will prepare a final presentation encompassing all calculations, input, and recommendations at the conclusion of the project. RFC will present findings at a meeting with City Council.

ATTACHMENT B

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 \$52,140 including direct costs.

Hours Requirements				
Raftelis Financial Consulting				
	SP	LH	HP	Admin
1. Project Management & Administration	12	12		8
- Project Management				
- QA/QC				
- Administrative tasks				
2. Project Initiation & Data Collection	10	2	40	
- Data Collection & Review				
- Start-up Meeting				
3. Valuation of Assets	24	12	84	
- Review assets including inventory and water rights				
- Establish values for assets				
- Meet with City/MUD staff				
4. Preparation of Report & Presentation	24	8	48	10
- Prepare draft report				
- Final Report Presentation to City Council				
Total estimated hours	70	34	172	18
Hourly rates	\$200	\$170	\$150	\$60
Professional Fees	\$14,000	\$5,780	\$25,800	\$1,080
Total fees				\$46,660
Estimated expenses				\$5,480
Total Fees and Expenses				\$52,140

ATTACHMENT C

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	\$200
Consultant	\$150-170
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.