

PROFESSIONAL SERVICES AGREEMENT
[Water and Sanitation Rate Study Services]

THIS PROFESSIONAL SERVICES AGREEMENT (the "Agreement") is made at Orange, California, on this ____ day of _____, 2021 (the "Effective Date") by and between the CITY OF ORANGE, a municipal corporation ("City"), and RAFTELIS FINANCIAL CONSULTANTS, INC., a North Carolina corporation ("Contractor"), who agree as follows:

1. Services. Subject to the terms and conditions set forth in this Agreement, Contractor shall provide to the reasonable satisfaction of City the services set forth in Exhibit "A," which is attached hereto and incorporated herein by reference. As a material inducement to City to enter into this Agreement, Contractor represents and warrants that it has thoroughly investigated and considered the scope of services and fully understands the difficulties and restrictions in performing the work. The services which are the subject of this Agreement are not in the usual course of City's business and City relies on Contractor's representation that it is independently engaged in the business of providing such services and is experienced in performing the work. Contractor shall perform all services in a manner reasonably satisfactory to City and in a manner in conformance with the standards of quality normally observed by an entity providing such services to a municipal agency. All services provided shall conform to all federal, state and local laws, rules and regulations and to the best professional standards and practices. The terms and conditions set forth in this Agreement shall control over any terms and conditions in Exhibit "A" to the contrary.

2. Compensation and Fees.

a. Contractor's total compensation for all services performed under this Agreement, shall not exceed EIGHTY-FIVE THOUSAND SIXTEEN DOLLARS and 00/100 (\$85,016.00) without the prior written authorization of City.

b. The above compensation shall include all costs, including, but not limited to, all clerical, administrative, overhead, insurance, reproduction, telephone, travel, auto rental, subsistence and all related expenses.

3. Payment.

a. As scheduled services are completed, Contractor shall submit to City an invoice for the services completed, authorized expenses and authorized extra work actually performed or incurred.

b. All such invoices shall state the basis for the amount invoiced, including services completed, the number of hours spent and any extra work performed.

c. City will pay Contractor the amount invoiced within thirty (30) days after the approval of the invoice.

d. Payment shall constitute payment in full for all services, authorized costs and authorized extra work covered by that invoice.

4. **Change Orders.** No payment for extra services caused by a change in the scope or complexity of work, or for any other reason, shall be made unless and until such extra services and a price therefor have been previously authorized in writing and approved by City as an amendment to this Agreement. City's Project Manager is authorized to approve a reduction in the services to be performed and compensation therefor. All amendments shall set forth the changes of work, extension of time, and/or adjustment of the compensation to be paid by City to Contractor and shall be signed by the City's Project Manager, City Manager or City Council, as applicable.

5. **Licenses.** Contractor represents that it and any subcontractors it may engage, possess any and all licenses which are required under state or federal law to perform the work contemplated by this Agreement and that Contractor and its subcontractors shall maintain all appropriate licenses, including a City of Orange business license, at its cost, during the performance of this Agreement.

6. **Independent Contractor.** At all times during the term of this Agreement, Contractor shall be an independent contractor and not an employee of City. City shall have the right to control Contractor only insofar as the result of Contractor's services rendered pursuant to this Agreement. City shall not have the right to control the means by which Contractor accomplishes services rendered pursuant to this Agreement. Contractor shall, at its sole cost and expense, furnish all facilities, materials and equipment which may be required for furnishing services pursuant to this Agreement. Contractor shall be solely responsible for, and shall indemnify, defend and save City harmless from all matters relating to the payment of its subcontractors, agents and employees, including compliance with social security withholding and all other wages, salaries, benefits, taxes, exactions, and regulations of any nature whatsoever. Contractor acknowledges that it and any subcontractors, agents or employees employed by Contractor shall not, under any circumstances, be considered employees of City, and that they shall not be entitled to any of the benefits or rights afforded employees of City, including, but not limited to, sick leave, vacation leave, holiday pay, Public Employees Retirement System benefits, or health, life, dental, long-term disability or workers' compensation insurance benefits.

7. **Contractor Not Agent.** Except as City may specify in writing, Contractor shall have no authority, express or implied, to act on behalf of City in any capacity whatsoever as an agent. Contractor shall have no authority, express or implied, to bind City to any obligation whatsoever.

8. **Designated Persons.** Only those qualified persons authorized by City's Project Manager, or as designated in Exhibit "A," shall perform work provided for under this Agreement. It is understood by the parties that clerical and other nonprofessional work may be performed by persons other than those designated.

9. **Assignment or Subcontracting.** No assignment or subcontracting by Contractor of any part of this Agreement or of funds to be received under this Agreement shall be of any force or effect unless the assignment has the prior written approval of City. City may terminate this

Agreement rather than accept any proposed assignment or subcontracting. Such assignment or subcontracting may be approved by the City Manager or his/her designee.

10. Time of Completion. Except as otherwise specified in Exhibit "A," Contractor shall commence the work provided for in this Agreement within five (5) days of the Effective Date of this Agreement and diligently prosecute completion of the work in accordance with the time period set forth in Exhibit "A" hereto or as otherwise agreed to by and between the representatives of the parties.

11. Time Is of the Essence. Time is of the essence in this Agreement. Contractor shall do all things necessary and incidental to the prosecution of Contractor's work.

12. Reserved.

13. Delays and Extensions of Time. Contractor's sole remedy for delays outside its control, other than those delays caused by City, shall be an extension of time. No matter what the cause of the delay, Contractor must document any delay and request an extension of time in writing at the time of the delay to the satisfaction of City. Any extensions granted shall be limited to the length of the delay outside Contractor's control. If Contractor believes that delays caused by City will cause it to incur additional costs, it must specify, in writing, why the delay has caused additional costs to be incurred and the exact amount of such cost at the time the delay occurs. No additional costs can be paid that exceed the not to exceed amount stated in Section 2.a, above, absent a written amendment to this Agreement.

14. Products of Contractor. The documents, studies, evaluations, assessments, reports, plans, citations, materials, manuals, technical data, logs, files, designs and other products produced or provided by Contractor for this Agreement shall become the property of City upon receipt. Contractor shall deliver all such products to City prior to payment for same. City may use, reuse or otherwise utilize such products without restriction.

15. Equal Employment Opportunity. During the performance of this Agreement, Contractor agrees as follows:

a. Contractor shall not discriminate against any employee or applicant for employment because of race, color, religion, sex, national origin, mental or physical disability, or any other basis prohibited by applicable law. Contractor shall ensure that applicants are employed, and that employees are treated during employment, without regard to their race, color, religion, sex, national origin, mental or physical disability, or any other basis prohibited by applicable law. Such actions shall include, but not be limited to the following: employment, upgrading, demotion or transfer, recruitment or recruitment advertising, layoff or termination, rates of pay or other forms of compensation and selection for training, including apprenticeship. Contractor agrees to post in conspicuous places, available to employees and applicants for employment, a notice setting forth provisions of this non-discrimination clause.

b. Contractor shall, in all solicitations and advertisements for employees placed by, or on behalf of Contractor, state that all qualified applicants will receive consideration

for employment without regard to race, color, religion, sex, national origin, mental or physical disability, or any other basis prohibited by applicable law.

c. Contractor shall cause the foregoing paragraphs (a) and (b) to be inserted in all subcontracts for any work covered by this Agreement, provided that the foregoing provisions shall not apply to subcontracts for standard commercial supplies or raw materials.

16. Conflicts of Interest. Contractor agrees that it shall not make, participate in the making, or in any way attempt to use its position as a consultant to influence any decision of City in which Contractor knows or has reason to know that Contractor, its officers, partners, or employees have a financial interest as defined in Section 87103 of the Government Code.

17. Indemnity.

a. To the fullest extent permitted by law, Contractor agrees to indemnify, defend and hold City, its City Council and each member thereof, and the officers, officials, agents and employees of City (collectively the "Indemnitees") entirely harmless from all liability arising out of:

(1) Any and all claims under workers' compensation acts and other employee benefit acts with respect to Contractor's employees or Contractor's subcontractor's employees arising out of Contractor's work under this Agreement, including any and all claims under any law pertaining to Contractor or its employees' status as an independent contractor and any and all claims under Labor Code section 1720 related to the payment of prevailing wages for public works projects; and

(2) Any claim, loss, injury to or death of persons or damage to property caused by any act, neglect, default, or omission other than a professional act or omission of Contractor, or person, firm or corporation employed by Contractor, either directly or by independent contract, including all damages due to loss or theft sustained by any person, firm or corporation including the Indemnitees, or any of them, arising out of, or in any way connected with the work or services which are the subject of this Agreement, including injury or damage either on or off City's property; but not for any loss, injury, death or damage caused by the active negligence or willful misconduct of City. Contractor, at its own expense, cost and risk, shall indemnify any and all claims, actions, suits or other proceedings that may be brought or instituted against the Indemnitees on any such claim or liability covered by this subparagraph, and shall pay or satisfy any judgment that may be rendered against the Indemnitees, or any of them, in any action, suit or other proceedings as a result of coverage under this subparagraph.

b. To the fullest extent permitted by law, and as limited by California Civil Code 2782.8, Contractor agrees to indemnify and hold Indemnitees harmless from all liability arising out of any claim, loss, injury to or death of persons or damage to property to the extent caused by its negligent professional act or omission in the performance of professional services pursuant to this Agreement.

c. Except for the Indemnitees, the indemnifications provided in this Agreement shall not be construed to extend any third party indemnification rights of any kind to any person or entity which is not a signatory to this Agreement.

d. The indemnities set forth in this section shall survive any closing, rescission, or termination of this Agreement, and shall continue to be binding and in full force and effect in perpetuity with respect to Contractor and its successors.

18. Insurance.

a. Contractor shall carry workers' compensation insurance as required by law for the protection of its employees during the progress of the work. Contractor understands that it is an independent contractor and not entitled to any workers' compensation benefits under any City program.

b. Contractor shall maintain during the life of this Agreement the following minimum amount of comprehensive general liability insurance or commercial general liability insurance: the greater of (1) One Million Dollars (\$1,000,000) per occurrence; or (2) all the insurance coverage and/or limits carried by or available to Contractor. Said insurance shall cover bodily injury, death and property damage and be written on an occurrence basis.

c. Contractor shall maintain during the life of this Agreement, the following minimum amount of automotive liability insurance: the greater of (1) a combined single limit of One Million Dollars (\$1,000,000); or (2) all the insurance coverage and/or limits carried by or available to Contractor. Said insurance shall cover bodily injury, death and property damage for all owned, non-owned and hired vehicles and be written on an occurrence basis.

d. Any insurance proceeds in excess of or broader than the minimum required coverage and/or minimum required limits which are applicable to a given loss shall be available to City. No representation is made that the minimum insurance requirements of this Agreement are sufficient to cover the obligations of Contractor under this Agreement.

e. Each policy of general liability and automotive liability shall provide that City, its officers, officials, agents, and employees are declared to be additional insureds under the terms of the policy, but only with respect to the work performed by Contractor under this Agreement. A policy endorsement to that effect shall be provided to City along with the certificate of insurance. In lieu of an endorsement, City will accept a copy of the policy(ies) which evidences that City is an additional insured as a contracting party. The minimum coverage required by Subsection 18.b and c, above, shall apply to City as an additional insured. Any umbrella liability insurance that is provided as part of the general or automobile liability minimums set forth herein shall be maintained for the duration of the Agreement.

f. Contractor shall maintain during the life of this Agreement professional liability insurance covering errors and omissions arising out of the performance of this Agreement with a minimum limit of One Million Dollars (\$1,000,000) per claim. Contractor agrees to keep

such policy in force and effect for at least five (5) years from the date of completion of this Agreement.

g. The insurance policies maintained by Contractor shall be primary insurance and no insurance held or owned by City shall be called upon to cover any loss under the policy. Contractor will determine its own needs in procurement of insurance to cover liabilities other than as stated above.

h. Before Contractor performs any work or prepares or delivers any materials, Contractor shall furnish certificates of insurance and endorsements, as required by City, evidencing the aforementioned minimum insurance coverages on forms acceptable to City, which shall provide that the insurance in force will not be canceled or allowed to lapse without at least ten (10) days' prior written notice to City.

i. Except for professional liability insurance coverage that may be required by this Agreement, all insurance maintained by Contractor shall be issued by companies admitted to conduct the pertinent line of insurance business in California and having a rating of Grade A or better and Class VII or better by the latest edition of Best Key Rating Guide. In the case of professional liability insurance coverage, such coverage shall be issued by companies either licensed or admitted to conduct business in California so long as such insurer possesses the aforementioned Best rating.

j. Contractor shall immediately notify City if any required insurance lapses or is otherwise modified and cease performance of this Agreement unless otherwise directed by City. In such a case, City may procure insurance or self-insure the risk and charge Contractor for such costs and any and all damages resulting therefrom, by way of set-off from any sums owed Contractor.

k. Contractor agrees that in the event of loss due to any of the perils for which it has agreed to provide insurance, Contractor shall look solely to its insurance for recovery. Contractor hereby grants to City, on behalf of any insurer providing insurance to either Contractor or City with respect to the services of Contractor herein, a waiver of any right to subrogation which any such insurer may acquire against City by virtue of the payment of any loss under such insurance.

l. Contractor shall include all subcontractors, if any, as insureds under its policies or shall furnish separate certificates and endorsements for each subcontractor to City for review and approval. All coverages for subcontractors shall be subject to all of the requirements stated herein.

19. Termination. City may for any reason terminate this Agreement by giving Contractor not less than five (5) days' written notice of intent to terminate. Upon receipt of such notice, Contractor shall immediately cease work, unless the notice from City provides otherwise. Upon the termination of this Agreement, City shall pay Contractor for services satisfactorily provided and all allowable reimbursements incurred to the date of termination in compliance with

this Agreement, unless termination by City shall be for cause, in which event City may withhold any disputed compensation. City shall not be liable for any claim of lost profits.

20. Maintenance and Inspection of Records. In accordance with generally accepted accounting principles, Contractor and its subcontractors shall maintain reasonably full and complete books, documents, papers, accounting records, and other information (collectively, the “records”) pertaining to the costs of and completion of services performed under this Agreement. City and its authorized representatives shall have access to and the right to audit and reproduce any of Contractor's records regarding the services provided under this Agreement. Contractor shall maintain all such records for a period of at least three (3) years after termination or completion of this Agreement. Contractor agrees to make available all such records for inspection or audit at its offices during normal business hours and upon three (3) days’ notice from City, and copies thereof shall be furnished if requested.

21. Compliance with all Laws/Immigration Laws.

a. Contractor shall be knowledgeable of and comply with all local, state and federal laws which may apply to the performance of this Agreement.

b. If the work provided for in this Agreement constitutes a “public works,” as that term is defined in Section 1720 of the California Labor Code, for which prevailing wages must be paid, to the extent Contractor’s employees will perform any work that falls within any of the classifications for which the Department of Labor Relations of the State of California promulgates prevailing wage determinations, Contractor hereby agrees that it, and any subcontractor under it, shall pay not less than the specified prevailing rates of wages to all such workers. The general prevailing wage determinations for crafts can be located on the website of the Department of Industrial Relations (www.dir.ca.gov/DLSR). Additionally, to perform work under this Contract, Contractor must meet all State registration requirements and criteria, including project compliance monitoring.

c. Contractor represents and warrants that it:

(1) Has complied and shall at all times during the term of this Agreement comply, in all respects, with all immigration laws, regulations, statutes, rules, codes, and orders, including, without limitation, the Immigration Reform and Control Act of 1986 (IRCA); and

(2) Has not and will not knowingly employ any individual to perform services under this Agreement who is ineligible to work in the United States or under the terms of this Agreement; and

(3) Has properly maintained, and shall at all times during the term of this Agreement properly maintain, all related employment documentation records including, without limitation, the completion and maintenance of the Form I-9 for each of Contractor’s employees; and

(4) Has responded, and shall at all times during the term of this Agreement respond, in a timely fashion to any government inspection requests relating to immigration law compliance and/or Form I-9 compliance and/or worksite enforcement by the Department of Homeland Security, the Department of Labor, or the Social Security Administration.

d. Contractor shall require all subcontractors or subconsultants to make the same representations and warranties as set forth in Subsection 21.c.

e. Contractor shall, upon request of City, provide a list of all employees working under this Agreement and shall provide, to the reasonable satisfaction of City, verification that all such employees are eligible to work in the United States. All costs associated with such verification shall be borne by Contractor. Once such request has been made, Contractor may not change employees working under this Agreement without written notice to City, accompanied by the verification required herein for such employees.

f. Contractor shall require all subcontractors or sub-consultants to make the same verification as set forth in Subsection 21.e.

g. If Contractor or subcontractor knowingly employs an employee providing work under this Agreement who is not authorized to work in the United States, and/or fails to follow federal laws to determine the status of such employee, that shall constitute a material breach of this Agreement and may be cause for immediate termination of this Agreement by City.

h. Contractor agrees to indemnify and hold City, its officers, officials, agents and employees harmless for, of and from any loss, including but not limited to fines, penalties and corrective measures City may sustain by reason of Contractor's failure to comply with said laws, rules and regulations in connection with the performance of this Agreement.

22. Governing Law and Venue. This Agreement shall be construed in accordance with and governed by the laws of the State of California and Contractor agrees to submit to the jurisdiction of California courts. Venue for any dispute arising under this Agreement shall be in Orange County, California.

23. Integration. This Agreement constitutes the entire agreement of the parties. No other agreement, oral or written, pertaining to the work to be performed under this Agreement shall be of any force or effect unless it is in writing and signed by both parties. Any work performed which is inconsistent with or in violation of the provisions of this Agreement shall not be compensated.

24. Notice. Except as otherwise provided herein, all notices required under this Agreement shall be in writing and delivered personally, by e-mail, or by first class U.S. mail, postage prepaid, to each party at the address listed below. Either party may change the notice address by notifying the other party in writing. Notices shall be deemed received upon receipt of same or within three (3) days of deposit in the U.S. Mail, whichever is earlier. Notices sent by e-mail shall be deemed received on the date of the e-mail transmission.

“CONTRACTOR”

Raftelis Financial Consultants, Inc.
445 S. Figueroa Street, Suite 1925
Los Angeles, CA 90071
Attn.: Steve Gagnon

Telephone: 213-262-9308
E-Mail: sgagnon@raftelis.com

“CITY”

City of Orange
300 E. Chapman Avenue
Orange, CA 92866-1591
Attn.: Sonny Tran

Telephone: 714-288-2497
E-Mail: stran@cityoforange.org

25. Counterparts. This Agreement may be executed in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Signatures transmitted via facsimile and electronic mail shall have the same effect as original signatures.

IN WITNESS of this Agreement, the parties have entered into this Agreement as of the year and day first above written.

“CONTRACTOR”

RAFTELIS FINANCIAL CONSULTANTS,
INC., a North Carolina corporation

*By: _____
Printed Name: _____
Title: _____

*By: _____
Printed Name: _____
Title: _____

APPROVED AS TO FORM:

Mary E. Binning
Senior Assistant City Attorney

“CITY”

CITY OF ORANGE, a municipal corporation

By: _____
Mark A. Murphy, Mayor

ATTEST:

Pamela Coleman, City Clerk

***NOTE:** City requires the following signature(s) on behalf of the Contractor:

- (1) the Chairman of the Board, the President or a Vice-President, AND (2) the Secretary, the Chief Financial Officer, the Treasurer, an Assistant Secretary or an Assistant Treasurer. If only one corporate officer exists or one corporate officer holds more than one corporate office, please so indicate. OR
- The corporate officer named in a corporate resolution as authorized to enter into this Agreement. A copy of the corporate resolution, certified by the Secretary close in time to the execution of the Agreement, must be provided to City.

EXHIBIT “A”

SCOPE OF SERVICES

[Beneath this sheet.]

Description of Work

Please note, since our Project Manager is local, we assumed that he will attend staff and City Council meetings in person.

Task 1: Project Initiation, Management, and Quality Assurance/Quality Control

A kick-off meeting identifies the goals, concerns, and project schedule. The goals for the kick-off meeting include:

- Acquainting City staff with our project team
- Establishing goals and objectives
- Finalizing the work plan and schedule
- Discussing the pricing objectives, including equity, affordability, and revenue stability, among others
- Discussing the data request and any additional data requirements

Prior to the kick-off meeting, we will prepare a detailed data request that identifies the information needed. If possible, Raftelis will review the initial data before the kick-off meeting and will come prepared with our questions to get the most out of the meeting.

This task also includes hours for project management including client correspondence, progress updates, timely billing, and internal management of Raftelis staff.

Lastly, this task also includes time for quality assurance/quality control. To ensure robust quality control, the Project Manager and Assistant Project Manager will review the model and results to ensure they are based on sound rate-making principles.

PLANNED MEETINGS:

- One on-site kick-off meeting with City staff

DELIVERABLES:

- Kick-off meeting agenda materials
- Meeting minutes
- Data request list
- Results of the pricing objectives exercise



OPTIMIZING CAPITAL SPENDING

Revenue requirements are only as good as the operating and capital spending needs and assumptions that go into them. If there is uncertainty in operating or capital spending needs, then revenue requirements, cost of service, and the associated rates being requested may be too high or too low. If your utility is concerned with capital spending needs and would like a third-party review of your needs and/or assumptions, Raftelis' subject matter experts in capital project development and delivery are here to help. Likewise, if your utility is interested in opportunities to take advantage of the new Integrated Planning Law added to the Clean Water Act in 2019, Raftelis can help. Contact us to discuss these value-added services, which can be provided under an optional task or a separate scope of work.

Task 2: Water and Wastewater Financial Plan

We will develop a financial plan for the water and wastewater enterprise. We will use the prior models as a starting point and add or delete any desired or unused features to make them “clean” and easy to follow. Therefore, staff will already be familiar with the models. The financial plans will assess each enterprise’s current financial status and suggest revenue adjustments to ensure long-term fiscal sustainability. Raftelis will project expenses and revenue requirements over a 10-year planning horizon. Projecting revenue adjustments over a 10-year planning horizon illustrates future rate impacts and potential challenges to each enterprise’s financial health so the City can plan expenses, reserve balances, or capital project scheduling to smooth rate impacts. We will project revenue requirements based on the current budget, the City’s long-term capital funding strategy, and existing debt service (if applicable).

Raftelis understands the importance of developing a user-friendly, flexible model that the City can use for future financial planning such as inputting actual expenses and assessing the impact on rates. Raftelis builds each client’s model from the ground up, carefully tailored to individual needs and preferences. Once completed, the model will serve as a comprehensive, yet flexible, planning tool that will incorporate the City’s operating budget, forecasted demand projections, capital financing plan, revenue requirements, revenue projections, reserve balances, and customer impacts.

The dashboard is the graphical interface that displays the model’s results in an easily understandable format. As shown on the following page, the dashboard contains several features, including the ability to show or indicate:

- Revenue adjustments required for the study period to meet debt coverage and target reserve balance(s)
- Projected operating costs and revenue streams (shown in the Water Operating Financial Plan chart)
- Different capital funding sources (shown in the CIP and Funding Sources for Water Funds chart)
- Reserve balances and target levels according to City policies (shown in the Projected Ending Fund Balances) with flagging features when projected balances fall below target levels

It is an easy-to-understand format that shows the impacts of various assumptions so that decisions regarding revenue adjustments, capital financing through pay-go or debt, and reserve balances can be made quickly and efficiently.

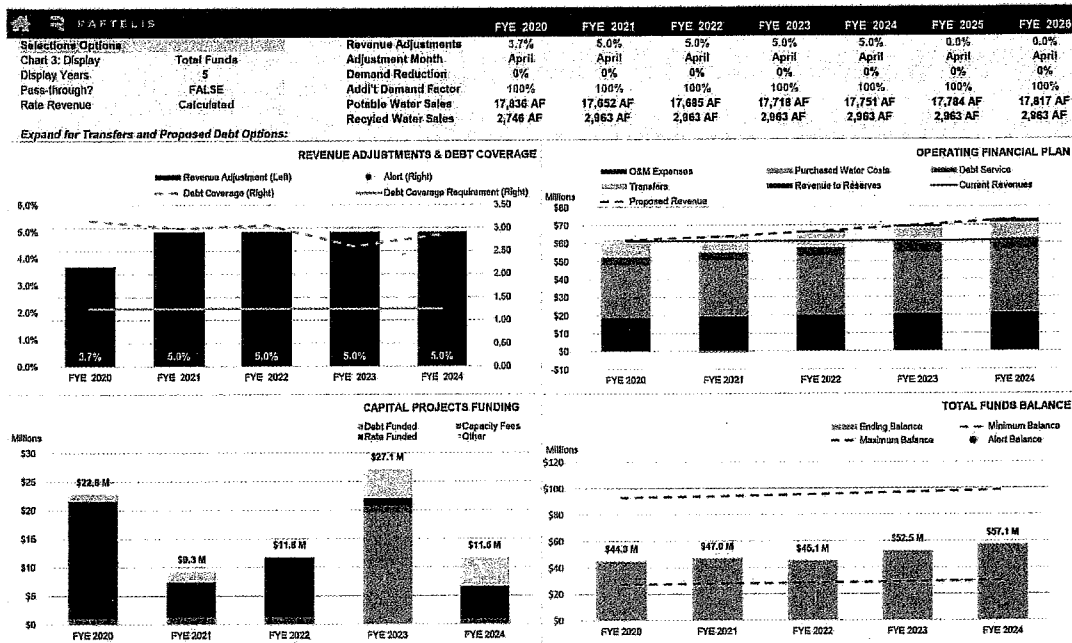
Upon the completion of the financial plan model, Raftelis will hold two web-based workshops with City staff to review the model and the assumptions for appropriateness and finalize the financial plans for the City’s water and wastewater enterprises to be used for the rate design model.

PLANNED MEETINGS:

- Two web-based meetings with City staff as needed to discuss the financial plan

DELIVERABLES:

- Presentation materials in PowerPoint
- Draft financial plan model in Excel



Raftelis will develop a customized financial model that incorporates a dashboard to allow you to easily run scenarios and see the impacts in real time. Shown here is a sample dashboard that we developed for another project.

Task 3: Water and Wastewater Cost-of-service Analysis

The cost-of-service study provides rate defensibility in light of Proposition 218 and determines the total cost to serve each customer class. For water, the cost-of-service analysis will follow industry standards provided in AWWA's *Manual M1, Principles of Water Rates, Fees and Charges, 7th Edition*. Our cost-of-service methodology includes three steps:

- **Step 1: Review Customer Class Usage Patterns and Determine Customer Classifications** – Raftelis will review historical water consumption to assess class water use patterns. Using this data, we will determine peaking characteristics for each customer class and tier and discern whether new classes may be warranted.
- **Step 2: Allocate Costs to Cost Components** – Raftelis will functionalize costs into water service functions such as supply, transmission and distribution, storage, and customer service. We will then allocate these functions to cost components such as water supply, base demand, capacity (demand), customer service, and more. From here, we will determine the unit cost for each cost component.
- **Step 3: Distribute Costs to Customer Classes** – Next, we will distribute costs to the customer classes using the unit costs developed in Step 2. This results in the cost to serve each class, which is based on how each class uses water.

Wastewater

For the wastewater rate study cost-of-service analysis, Raftelis will use methodologies set forth by WEF in their *Manual of Practice No. 27, Financing and Charges for Wastewater Systems*, which was co-authored by Sudhir Pardiwala. The City provides wastewater collection services and sends its wastewater to OCS D for treatment. Treatment costs are collected via property taxes.

PLANNED MEETINGS:

- None

DELIVERABLES:

- Cost-of-service analyses in Excel

Task 4: Water and Wastewater Rate Development and Customer Bill Impacts

Water

Raftelis performed the prior water (and sanitation) rate study. The City has a tiered rate for SFR and MFR customers and a uniform rate for all other classes. We will discuss if there is a desire for rate structure changes such as adjusting the tier breakpoints or adjusting the amount of fixed revenue collected, and we will update the current rates. We will review the bill impacts of different fixed/volumetric rate structures with City staff to select the appropriate structure.

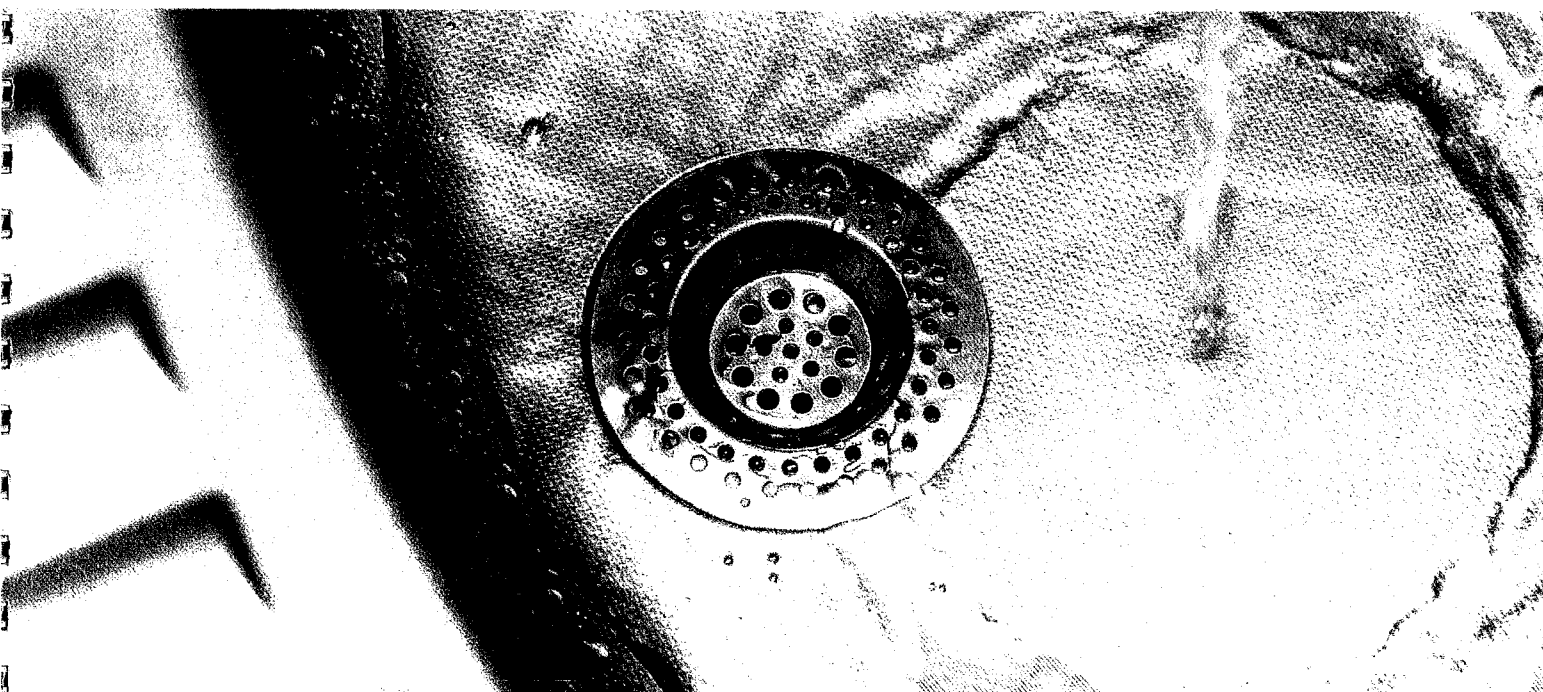
Our model has the flexibility to instantaneously change tier widths and evaluate different fixed/variable revenue structures to enhance revenue stability. To communicate the cost nexus for tiered rates, the water rates have several cost components for each tier, as shown in the table below, including, but not limited to, water supply costs, delivery costs, peaking costs, conservation costs, and revenue offsets, which lower the rates.

Derivation of Volumetric Rates by Cost Components

Residential	Water Supply	Delivery	Peaking	Conservation	Pass-Thru	Proposed FY 2017
Tier I	\$3.11	\$0.83	\$0.16	\$0.03	\$0.11	\$4.22
Tier II	\$3.11	\$0.83	\$0.47	\$0.03	\$0.11	\$4.51
Tier III	\$3.11	\$0.83	\$0.86	\$0.03	\$0.11	\$4.81

Wastewater

The City operates a sewage collection system and sends sewage to OCSD for treatment. It currently has a fixed charge for operations and maintenance for SFR and MFR customers. It also has a fixed capital charge for SFR and MFR customers. Commercial customers are charged a volumetric rate. We will calculate the cost to serve each class, which is a function of the winter water use of each class as winter water use is more reflective of water discharged to the sewer system.



Customer Bill Impacts

We will analyze the bill impacts as a result of the new rates. If the rate structure is identical, then this task is straight forward. If we revise the rate structure, then we will clearly show who will be impacted and by how much. The model will include a summary of customer bill impacts resulting from the proposed rate structure. Using water as an example, the figures to the right show SFR bill impacts at various use levels. The model will have the ability to select a particular meter size to see how bills are affected at different usage levels.

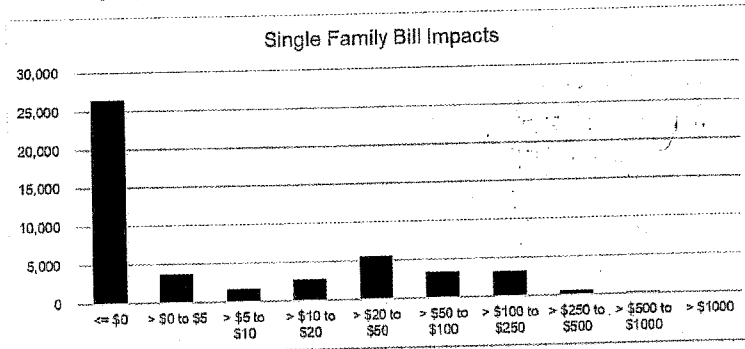
PLANNED MEETINGS:

- One in-person meeting with City Staff to discuss draft results

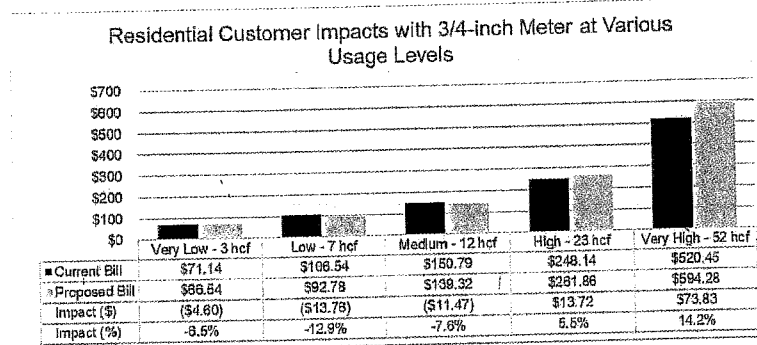
DELIVERABLES:

- Draft water and wastewater rate models in Excel

Example Single-Family Bill Impacts:
Illustrating impacts on customers resulting from the adoption of the proposed rates



Example Single-Family Residential Customer Bills:
Illustrating customer impacts of typical residential customers at different usage levels



Task 5: City Council Presentation

From our prior experience with the City, we understand that it is preferred that City staff present to the City Council. Raftelis will attend the meeting in support of City staff and to answer questions as needed. We can also present if desired. We can prepare a draft presentation for City staff and incorporate staff suggestions.

The presentations usually discuss the recommended reserve and fund levels, proposed long-term financial plan, and the proposed rate structure and rates along with the resulting customer impact analysis, if necessary. The goal of this first City Council meeting is to get approval to proceed with the Proposition 218 public hearing and notice.

PLANNED MEETINGS:

- One on-site City Council presentation

DELIVERABLES:

- PowerPoint presentation

Task 6: Draft and Final Report Development

The process for developing the proposed rates will be described in a draft water and wastewater rate study report. It is imperative that the report clearly show the nexus between the proposed charges for service and the cost to provide said service. This draft report will include an executive summary highlighting the major issues and decisions and an overview of operations, the capital improvement plan, the financial plan, and the final rates. We will fully derive the rates from the revenue requirement to the final fixed and volumetric rates by tier and class.

Comments from City staff will be incorporated into the final report. The final report will be submitted to the City and will include appropriate supporting data from the model to address the requirements of Proposition 218.

PLANNED MEETINGS:

- One webinar with City staff to discuss reports

DELIVERABLES:

- Draft report in Word format
- Final report in Word and PDF format

Task 7: Proposition 218 Public Hearing

Raftelis will prepare a Proposition 218 Public Hearing presentation, and support staff will present the rate studies at a Proposition 218 Public Hearing. We can also present the results if desired. Raftelis has presented at hundreds of public hearings and, therefore, has experience with typical concerns raised by the public. We have cost-of-service experts that can explain the rate derivation that is needed in this post-San Juan Capistrano rate-setting environment. We will incorporate feedback from the City Council presentation in Task 5. The presentation will tell our rate-setting basis and justify the need for rate adjustments. Prior to the Public Hearing, Raftelis will conduct one webinar with City staff to review the presentation materials.

PLANNED MEETINGS:

- One webinar to discuss the presentation materials with City staff
- One in-person Proposition 218 Public Hearing

DELIVERABLES:

- PowerPoint presentation for Proposition 218 Public Hearing

