Council Meeting of
March 16, 2009

Honorable Mayor and Members
of the City Council
City Hall
Torrance, California

**Members of the Council:**

**SUBJECT: Public Works – Approve Amendment to extend Consulting Services Agreement for provision of a comprehensive water rate study. Expenditure: Not Applicable**

## RECOMMENDATION

Recommendation of the Water Commission and the Public Works Director that City Council approve an Amendment to extend Consulting Services Agreement C2009-037 with Raftelis Financial Consultants through March 31, 2011 to provide for completion of a comprehensive water rate and capital funding study.

### Funding

No additional funding is required at this time.

## BACKGROUND AND ANALYSIS

At the City Council meeting of February 10, 2009, Your Honorable Body approved entering into an agreement (C2009-037) with Raftelis Financial Consultants (RFC) for the development of a comprehensive water and capital funding study. The major objectives of the study are to assess Torrance Municipal Water revenue and water rate requirements over the next ten years, evaluate conservation based rate structure(s), determine appropriate cost of service allocations, and develop a rate and funding plan to support local water resource diversification and finance system infrastructure needs.

The term of the agreement with RFC was for a one year period, however, the rate/funding study has been temporarily deferred. This will allow time to provide for further consideration of a number of complex issues related to Proposition 218, to incorporate recently revised projections for wholesale water costs by the Metropolitan Water District (MWD) and other agencies, and the inclusion of additional related information. The contract extension was delayed beyond the due date because the proposed original extension incorporated some additional services that were subsequently deferred.

**8E**

At this time, there are no changes proposed to terms and conditions in the original agreement with Raftelis Financial Consultants, with the exception of the extension through March 31, 2011. In order to facilitate the completion of the study, the City Attorneys' Office will retain limited outside legal services to assess the potential implications of Proposition 218 with regard to cost of service requirements, retail rate discounts and contractual rates. Upon completion of this legal review, the scope of the RFC agreement may be augmented to incorporate recalibration of revised financial/rate projections and related information. The Water Commission reviewed this matter at their February 18, 2010 meeting and took a position to conceptually approve a staff recommendation to extend the subject agreement with Raftelis Financial Consultants.

Respectfully submitted,

ROBERT J. BESTE
Public Works Director

Charles J Schaich

By: Charles J. Schaich
Senior Administrative Analyst

CONCUR:

Jack van der Linden
Deputy Public Works Director

Robert J. Beste
Public Works Director

LeRoy J. Jackson
City Manager

Attachments: A. First Amendment to RFC Agreement
B. Original RFC Agreement (C2009-037)

**ATTACHMENT A**

AMENDMENT TO AGREEMENT C2009-037

This Amendment to Agreement C2009-037 ("Amendment") is made and entered into as of _____ ("Effective Date"), by and between the CITY OF TORRANCE, a municipal corporation ("CITY") and Raftelis Financial Consultants, Inc. a North Carolina corporation ("CONSULTANT").

**RECITALS:**

A. The CITY and CONSULTANT entered into an Agreement on February 10, 2009 whereby the CONSULTANT agreed to perform a comprehensive water rate and capital funding study.

B. The CITY is satisfied with the work performed by the CONSULTANT.

C. Both the CITY and the CONSULTANT are agreeable to extending the term of the Agreement through March 31, 2011.

D. Both the CITY and the CONSULTANT are agreeable to continuing the the scope of work and fee schedule incorporated into the original agreement.

**AGREEMENT:**

1. Paragraph 2. TERM is amended in its entirety as follows:

   **"2. TERM**
   Unless earlier terminated in accordance with Paragraph 4 Below, this Agreement will continue in full force and effect from the Effective Date through March 31, 2011."

2. The person(s) executing this Agreement on behalf of the CONSULTANT warrant that (i) the CONSULTANT is duly organized and existing; (ii) they are duly authorized to execute this Agreement on behalf of the CONSULTANT; (iii) by so executing this Agreement, the CONSULTANT is formally bound to the provisions of this Agreement; and (iv) the entering into this Agreement does not violate any provision of any other Agreement to which the CONSULTANT is bound.

3. In all other respects, the Agreement dated February 10, 2009 between the CITY and CONSULTANT is ratified and reaffirmed and is full force and effect.

CITY OF TORRANCE
A Municipal Corporation

_____
Frank Scotto, Mayor

_____
Sue Herbers
City Clerk

APPROVED AS TO FORM:

JOHN L. FELLOWS III
City Attorney

By: _____

Raftelis Financial Consultants, Inc.
A North Carolina Corporation

_____
Sudhir Pardiwala
Vice President

**ATTACHMENT B**

# CONSULTING SERVICES AGREEMENT

This CONSULTING SERVICES AGREEMENT ("Agreement") is made and entered into as of February 10, 2009 (the "Effective Date"), by and between the CITY OF TORRANCE, a municipal corporation ("CITY"), and Raftelis Financial Consultants, a corporation ("CONSULTANT").

**RECITALS:**

A. CITY wishes to retain the services of an experienced and qualified CONSULTANT to perform a comprehensive water rate and capital project funding study.

B. CONSULTANT represents that it is qualified to perform those services.

**AGREEMENT:**

1. **SERVICES TO BE PERFORMED BY CONSULTANT**
CONSULTANT will provide the services listed in the Scope of Services attached as Exhibit A. CONSULTANT warrants that all work and services set forth in the Scope of Services will be performed in a competent, professional and satisfactory manner.

2. **TERM**
Unless earlier terminated in accordance with Paragraph 4 below, this Agreement will continue in full force and effect from the Effective Date through February 10, 2010.

3. **COMPENSATION**
A. CONSULTANT's Fee.

For services rendered pursuant to this Agreement, CONSULTANT will be paid in accordance with the Compensation Schedule attached as Exhibit B, provided, however, that in no event will the total amount of money paid the CONSULTANT, for services initially contemplated by this Agreement, exceed the sum of $ 84,000 ("Agreement Sum"), unless otherwise first approved in writing by CITY.

B. Schedule of Payment.

Provided that the CONSULTANT is not in default under the terms of this Agreement, upon presentation of an invoice, CONSULTANT will be paid monthly the fees described in Paragraph 3.A. above, according to the Compensation Schedule. Payment will be due within 30 days after the date of the monthly invoice.

4. **TERMINATION OF AGREEMENT**
A. Termination by CITY for Convenience.

1. CITY may, at any time, terminate the Agreement for CITY's convenience and without cause.

C2009-0037



ORIGINAL COPY

2. Upon receipt of written notice from CITY of such termination for CITY's convenience, CONSULTANT will:

   a. cease operations as directed by CITY in the notice;
   b. take actions necessary, or that CITY may direct, for the protection and preservation of the work; and
   c. except for work directed to be performed prior to the effective date of termination stated in the notice, terminate all existing subcontracts and purchase orders and enter into no further subcontracts and purchase orders.

3. In case of such termination for CITY's convenience, CONSULTANT will be entitled to receive payment for work executed; and costs incurred by reason of such termination, along with reasonable overhead and profit on the work not executed.

B. Termination for Cause.

1. If either party fails to perform any term, covenant or condition in this Agreement and that failure continues for 15 calendar days after the nondefaulting party gives the defaulting party written notice of the failure to perform, this Agreement may be terminated for cause; provided, however, that if during the notice period the defaulting party has promptly commenced and continues diligent efforts to remedy the default, the defaulting party will have such additional time as is reasonably necessary to remedy the default.

2. In the event this Agreement is terminated for cause by the default of the CONSULTANT, the CITY may, at the expense of the CONSULTANT and its surety, complete this Agreement or cause it to be completed. Any check or bond delivered to the CITY in connection with this Agreement, and the money payable thereon, will be forfeited to and remain the property of the CITY. All moneys due the CONSULTANT under the terms of this Agreement will be retained by the CITY, but the retention will not release the CONSULTANT and its surety from liability for the default. Under these circumstances, however, the CONSULTANT and its surety will be credited with the amount of money retained, toward any amount by which the cost of completion exceeds the Agreement Sum and any amount authorized for extra services.

3. Termination for cause will not affect or terminate any of the rights of the CITY as against the CONSULTANT or its surety then existing, or which may thereafter accrue because of the default; this provision is in addition to all other rights and remedies available to the CITY under law.

C. Termination for Breach of Law.

In the event the CONSULTANT or any of its officers, directors, shareholders, employees, agents, subsidiaries or affiliates is convicted (i) of a criminal offense as an incident to obtaining or attempting to obtain a public or private contract or subcontract, or in the performance of a contract or subcontract; (ii) under state or federal statutes of embezzlement, theft, forgery, bribery, falsification or destruction of records, receiving stolen property, or any other offense indicating a lack of business integrity or business honesty which currently, seriously, and directly affects responsibility as a public consultant or contractor; (iii) under state or federal antitrust statutes arising out of the submission of bids or proposals; or (iv) of violation of Paragraph 19 of this Agreement; or for any other cause the CITY determines to be so serious and compelling as to affect CONSULTANT's responsibility as a public consultant or contractor, including but not limited to, debarment by another governmental agency, then the CITY reserves the unilateral right to terminate this Agreement or to impose such other sanctions (which may include financial sanctions, temporary suspensions or any other condition deemed appropriate short of termination) as it deems proper. The CITY will not take action until CONSULTANT has been given notice and an opportunity to present evidence in mitigation.

5. **FORCE MAJEURE**

If any party fails to perform its obligations because of strikes, lockouts, labor disputes, embargoes, acts of God, inability to obtain labor or materials or reasonable substitutes for labor or materials, governmental restrictions, governmental regulations, governmental control, judicial orders, enemy or hostile governmental action, civil commotion, fire or other casualty, or other causes beyond the reasonable control of the party obligated to perform, then that party's performance shall be excused for a period equal to the period of such cause for failure to perform.

6. **RETENTION OF FUNDS**

CONSULTANT authorizes CITY to deduct from any amount payable to CONSULTANT (whether or not arising out of this Agreement) any amounts the payment of which may be in dispute or that are necessary to compensate CITY for any losses, costs, liabilities, or damages suffered by CITY, and all amounts for which CITY may be liable to third parties, by reason of CONSULTANT's negligent acts or omissions or willful misconduct in performing or failing to perform CONSULTANT's obligations under this Agreement. In the event that any claim is made by a third party, the amount or validity of which is disputed by CONSULTANT, or any indebtedness exists that appears to be the basis for a claim of lien, CITY may withhold from any payment due, without liability for interest because of the withholding, an amount sufficient to cover the claim. The failure of CITY to exercise the right to deduct or to withhold will not, however, affect the obligations of CONSULTANT to insure, indemnify, and protect CITY as elsewhere provided in this Agreement.

7. **CITY REPRESENTATIVE**
Robert Beste, Public Works Director is designated as the "City Representative," authorized to act in its behalf with respect to the work and services specified in this Agreement and to make all decisions in connection with this Agreement. Whenever approval, directions, or other actions are required by CITY under this Agreement, those actions will be taken by the City Representative, unless otherwise stated. The City Manager has the right to designate another City Representative at any time, by providing notice to CONSULTANT.

8. **CONSULTANT REPRESENTATIVE(S)**
The following principal(s) of CONSULTANT are designated as being the principal(s) and representative(s) of CONSULTANT authorized to act in its behalf with respect to the work specified in this Agreement and make all decisions in connection with this Agreement:

Sudhir Pardiwala, Vice President

9. **INDEPENDENT CONTRACTOR**
The CONSULTANT is, and at all times will remain as to CITY, a wholly independent contractor. Neither CITY nor any of its agents will have control over the conduct of the CONSULTANT or any of the CONSULTANT's employees, except as otherwise set forth in this Agreement. The CONSULTANT may not, at any time or in any manner, represent that it or any of its agents or employees are in any manner agents or employees of CITY.

10. **BUSINESS LICENSE**
The CONSULTANT must obtain a City business license prior to the start of work under this Agreement, unless CONSULTANT is qualified for an exemption.

11. **OTHER LICENSES AND PERMITS**
CONSULTANT warrants that it has all professional, contracting and other permits and licenses required to undertake the work contemplated by this Agreement.

12. **FAMILIARITY WITH WORK**
By executing this Agreement, CONSULTANT warrants that CONSULTANT (a) has thoroughly investigated and considered the scope of services to be performed, (b) has carefully considered how the services should be performed, and (c) fully understands the facilities, difficulties and restrictions attending performance of the services under this Agreement. If the services involve work upon any site, CONSULTANT warrants that CONSULTANT has or will investigate the site and is or will be fully acquainted with the conditions there existing, prior to commencement of services set forth in this Agreement. Should CONSULTANT discover any latent or unknown conditions that will materially affect the performance of the services set forth in this Agreement, CONSULTANT must immediately inform CITY of that fact and may not proceed except at CONSULTANT's risk until written instructions are received from CITY.

13. **CARE OF WORK**

CONSULTANT must adopt reasonable methods during the term of the Agreement to furnish continuous protection to the work, and the equipment, materials, papers, documents, plans, studies and other components to prevent losses or damages, and will be responsible for all damages, to persons or property, until acceptance of the work by CITY, except those losses or damages as may be caused by CITY's own negligence.

14. **CONSULTANT'S ACCOUNTING RECORDS; OTHER PROJECT RECORDS**

Records of the CONSULTANT's time pertaining to the project, and records of accounts between CITY and the CONSULTANT, will be kept on a generally recognized accounting basis. CONSULTANT will also maintain all other records, including without limitation specifications, drawings, progress reports and the like, relating to the project. All records will be available to CITY during normal working hours. CONSULTANT will maintain these records for three years after final payment.

15. **INDEMNIFICATION**

CONSULTANT will indemnify, pay for cost of defense, and hold harmless CITY, the City Council, each member thereof, present and future, its officers, agents and employees from and against any and all liability, expenses, including defense costs and legal fees, and claims for damages whatsoever, including, but not limited to, those arising from breach of contract, bodily injury, death, personal injury, property damage, loss of use, or property loss. The obligation to indemnify, pay for cost of defense, and hold harmless includes, but is not limited to, any liability or expense, including defense costs and legal fees, arising from the negligent acts or omissions, or willful misconduct of CONSULTANT, its officers, employees, agents, subconsultants or vendors. It is further agreed, CONSULTANT's obligations to indemnify, defend and hold harmless will apply, but only to the extent covered by CONSULTANT's negligence, even in the event of concurrent negligence on the part of CITY, the City Council, each member thereof, present and future, or its officers, agents and employees, except for liability resulting from the sole negligence or willful misconduct of CITY, its officers, employees or agents. Payment by CITY is not a condition precedent to enforcement of this indemnity.

16. **NON-LIABILITY OF CITY OFFICERS AND EMPLOYEES**

No officer or employee of CITY will be personally liable to CONSULTANT, in the event of any default or breach by the CITY or for any amount that may become due to CONSULTANT.

17. **INSURANCE**

A. CONSULTANT must maintain at its sole expense the following insurance, which will be full coverage not subject to self insurance provisions:

1. Automobile Liability, including owned, non-owned and hired vehicles, with at least the following limits of liability:

   a. Primary Bodily Injury with limits of at least $500,000 per person, $1,000,000 per occurrence; and

   b. Primary Property Damage of at least $250,000 per occurrence; or

   c. Combined single limits of $1,000,000 per occurrence.

2. General Liability including coverage for premises, products and completed operations, independent contractors/vendors, personal injury and contractual obligations with combined single limits of coverage of at least $1,000,000 per occurrence.

3. Professional liability insurance with limits of at least $1,000,000 per occurrence.

4. Workers' Compensation with limits as required by the State of California and Employers Liability with limits of at least $1,000,000.

B. The insurance provided by CONSULTANT will be primary and non-contributory

C. CITY ("City of Torrance"), the Redevelopment Agency of the City of Torrance, the City Council and each member thereof, members of boards and commissions, every officer, agent, official, employee and volunteer must be named as additional insured under the automobile and general liability policies.

D. CONSULTANT must provide certificates of insurance and/or endorsements to the City Clerk of the City of Torrance before the commencement of work.

E. Each insurance policy required by this Paragraph must contain a provision that no termination, cancellation or change of coverage can be made without thirty days notice to CITY.

18. **SUFFICIENCY OF INSURERS AND SURETIES**

Insurance or bonds required by this Agreement will be satisfactory only if issued by companies admitted to do business in California, rated "B+" or better in the most recent edition of Best's Key Rating Guide, and only if they are of a financial category Class VII or better, unless these requirements are waived by the Risk Manager of CITY ("Risk Manager") due to unique circumstances. In the event the Risk Manager determines that the work or services to be performed under this Agreement creates an increased or decreased risk of loss to CITY, the CONSULTANT agrees that the minimum limits of

any insurance policies or performance bonds required by this Agreement may be changed accordingly upon receipt of written notice from the Risk Manager; provided that CONSULTANT will have the right to appeal a determination of increased coverage by the Risk Manager to the City Council of CITY within 10 days of receipt of notice from the Risk Manager.

**19. CONFLICT OF INTEREST**

A. No officer or employee of the CITY may have any financial interest, direct or indirect, in this Agreement, nor may any officer or employee participate in any decision relating to the Agreement that effects the officer or employee's financial interest or the financial interest of any corporation, partnership or association in which the officer or employee is, directly or indirectly interested, in violation of any law, rule or regulation.

B. No person may offer, give, or agree to give any officer or employee or former officer or employee, nor may any officer or employee solicit, demand, accept, or agree to accept from another person, a gratuity or an offer of employment in connection with any decision, approval, disapproval, recommendation, preparation or any part of a program requirement or a purchase request, influencing the content of any specification or procurement standard, rendering of advice, investigation, auditing, or in any other advisory capacity in any way pertaining to any program requirement, contract or subcontract, or to any solicitation or proposal.

**20. NOTICE**

A. All notices, requests, demands, or other communications under this Agreement will be in writing. Notice will be sufficiently given for all purposes as follows:

1. Personal delivery. When personally delivered to the recipient: notice is effective on delivery.

2. First Class mail. When mailed first class to the last address of the recipient known to the party giving notice: notice is effective three mail delivery days after deposit in an United States Postal Service office or mailbox.

3. Certified mail. When mailed certified mail, return receipt requested: notice is effective on receipt, if delivery is confirmed by a return receipt.

4. Overnight delivery. When delivered by an overnight delivery service, charges prepaid or charged to the sender's account: notice is effective on delivery, if delivery is confirmed by the delivery service.

5. Facsimile transmission. When sent by fax to the last fax number of the recipient known to the party giving notice: notice is effective on receipt. Any notice given by fax will be deemed received on the next business day if it is received after 5:00 p.m. (recipient's time) or on a non-business day.

6. Addresses for purpose of giving notice are as follows:

| | |
|---|---|
| CONSULTANT: | Raftelis Financial Consultants, Inc.<br>Attn: Sudhir Pardiwala, Vice President<br>210 S. Lake Blvd. - Suite 803<br>Pasadena, CA 91101<br><br>Fax: (626) 583-1411 |
| CITY: | City Clerk<br>City of Torrance<br>3031 Torrance Boulevard<br>Torrance, CA 90509-2970<br>Fax: (310) 618-2931 |

B. Any correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission of the party to be notified, will be deemed effective as of the first date the notice was refused, unclaimed or deemed undeliverable by the postal authorities, messenger or overnight delivery service.

C. Either party may change its address or fax number by giving the other party notice of the change in any manner permitted by this Agreement.

21. **PROHIBITION AGAINST ASSIGNMENT AND SUBCONTRACTING**
This Agreement and all exhibits are binding on the heirs, successors, and assigns of the parties. The Agreement may not be assigned or subcontracted by either CITY or CONSULTANT without the prior written consent of the other.

22. **INTEGRATION; AMENDMENT**
This Agreement represents the entire understanding of CITY and CONSULTANT as to those matters contained in it. No prior oral or written understanding will be of any force or effect with respect to the terms of this Agreement. The Agreement may not be modified or altered except in writing signed by both parties.

23. **INTERPRETATION**
The terms of this Agreement should be construed in accordance with the meaning of the language used and should not be construed for or against either party by reason of the authorship of this Agreement or any other rule of construction that might otherwise apply.

24. **SEVERABILITY**
If any part of this Agreement is found to be in conflict with applicable laws, that part will be inoperative, null and void insofar as it is in conflict with any applicable laws, but the remainder of the Agreement will remain in full force and effect.

25. **TIME OF ESSENCE**
Time is of the essence in the performance of this Agreement.

26. **GOVERNING LAW; JURISDICTION**
This Agreement will be administered and interpreted under the laws of the State of California. Jurisdiction of any litigation arising from the Agreement will be in Los Angeles County, California.

27. **COMPLIANCE WITH STATUTES AND REGULATIONS**
CONSULTANT will be knowledgeable of and will comply with all applicable federal, state, county and city statutes, rules, regulations, ordinances and orders.

28. **WAIVER OF BREACH**
No delay or omission in the exercise of any right or remedy by a nondefaulting party on any default will impair the right or remedy or be construed as a waiver. A party's consent or approval of any act by the other party requiring the party's consent or approval will not be deemed to waive or render unnecessary the other party's consent to or approval of any subsequent act. Any waiver by either party of any default must be in writing and will not be a waiver of any other default concerning the same or any other provision of this Agreement.

29. **ATTORNEY'S FEES**
Except as provided for in Paragraph 15, in any dispute, litigation, arbitration, or other proceeding by which one party either seeks to enforce its rights under this Agreement (whether in contract, tort or both) or seeks a declaration of any rights or obligations under this Agreement, the prevailing party will be awarded reasonable attorney's fees, together with any costs and expenses, to resolve the dispute and to enforce any judgment.

30. **EXHIBITS**
All exhibits identified in this Agreement are incorporated into the Agreement by this reference.

31. **CONSULTANT'S AUTHORITY TO EXECUTE**
The person(s) executing this Agreement on behalf of the CONSULTANT warrant that (i) the CONSULTANT is duly organized and existing; (ii) they are duly authorized to execute this Agreement on behalf of the CONSULTANT; (iii) by so executing this Agreement, the CONSULTANT is formally bound to the provisions of this Agreement;

and (iv) the entering into this Agreement does not violate any provision of any other Agreement to which the CONSULTANT is bound.

CITY OF TORRANCE
a Municipal Corporation

Frank Scotto, Mayor

ATTEST:

Sue Herbers
City Clerk

APPROVED AS TO FORM:
JOHN L. FELLOWS III
City Attorney

By:

Raftelis Financial Consultants, Inc.
A Corporation

By:

Sudhir Pardiwala
Vice President

Attachments: Exhibit A Scope of Services
Exhibit B Compensation Schedule

Revised: 10/29/2008

# EXHIBIT A

## SCOPE OF SERVICES

**Raftelis Financial Consultants (RFC) will provide the City of Torrance (City) with a comprehensive water rate and capital project funding study in acordance with the detailed scope of work and work plan incorporated as Attachment 1 to Exhibit A.**

# EXHIBIT B

## COMPENSATION SCHEDULE

**Payment for services rendered by Raftelis Financial Consultants (RFC) will be on a monthly basis based on the performance of tasks and work products as shown on the detailed work plan per Attachment 1 to Exhibit A. Payment will be made by the City within 30 days of submittal of a valid invoice from RFC. All invoices must reference supporting documentation for work performed. The total amount paid to RFC cannot exceed $ 84,000 unless first approved by the City in writing. Funding among individual tasks can be reallocated with the approval of the City's Public Works Director or his designated representative.**

# City of Torrance
## Proposal for Rate Study

## PROJECT UNDERSTANDING

The water services of the City of Torrance ("City") are mainly provided by the Torrance Municipal Water Department ("TMWD"), a municipally-owned water utility and a founding member of the Metropolitan Water District ("MWD"). TMWD's water service area is approximately 10,350 acres and comprises about 78 percent of the land within City limits. TMWD currently provides high quality water services to 105,000 residents and business customers, which represents approximately 74 percent of the City's population of 141,420[1].

TMWD's water supply consists of purchased potable water from the Metropolitan Water District, local groundwater supplies and purchased recycled water from the West Basin Municipal Water District ("WBMWD"). According to the City's Urban Water Management Plan 2005, approximately 65 percent of the TMWD's water supply is purchased water from MWD, 23 percent is purchased recycled water from WBMWD and 12 percent is pumped from local groundwater supplies (4 percent from groundwater and 8 percent from desalter).

The City's customers consist of residential, commercial, and industrial water users and around 30 accounts serving outside-city customers. ExxonMobil ("Mobil") is a large user in the City using about 25 percent of the total water sold by the City. In 1995, as recycled water became available, the City signed a 25-year agreement with Mobil for the use of recycled water from West Basin Municipal Water District (District). Mobil now uses approximately 6,250 ac-ft per year of recycled water and about 2,400 ac-ft of potable water. Mobil is paying for the infrastructure required to receive recycled water service through a loan from the District. The agreement allows Mobil to use recycled water at rates set by the District and the City is not able to recover some of its fixed costs. The City would like to have the agreements reviewed to ascertain if there is flexibility to more fairly recover costs from Mobil and to validate the current rates to Mobil.

The City passes through the costs of purchasing water to its retail customers. The City wants RFC to review the methodology to ensure that the pass through cost are being properly determined and propose additional cost elements that should be included in the pass through charges.

In 2005, the City had 26,030 service connections, comprised of 88 percent residential customers, 7 percent commercial,1 percent industrial and 4 percent unclassified customers with corresponding 52 percent, 14 percent, 16 percent and 17 percent of potable water use respectively. [2]

TMWD's current rate structure was established nearly 25 years ago and the rates have not been adjusted since 1995, with the exception of "automatic pass through adjustments" to compensate for higher wholesale water costs. The current rate structure was not set up to promote water conservation or to equitably recover costs from each customer class. The current rate structure is inadequate to

[1] As of July 2007, from http://www.city-data.com/city/Torrance-California.html
[2] From Urban Water Management Plan 2005

recover the City's increasing operating and capital costs or to promote conservation and to address drought conditions. TMWD is projecting a reduction in water demand in the next few years due to the passage of Conservation Ordinances, a long term water shortage situation and sustained conservation efforts by municipal customers. Currently approximately 90 percent of TMWD's revenues are recovered from volumetric charge (water sales) and approximately 10 percent from monthly service charges. Although, the City currently generates a small surplus from its operating and non-operating revenues, additional funding requirements from operating revenues will be required to support development of proposed local water resource diversification future capital improvement programs. Therefore, the City is interested in updating its water rate structure to better address the City's pricing objectives which include, but are not limited to, revenue sufficiency, rate stability, water conservation and equitable recovery from customer classes. Therefore, it is necessary that the City update its water rate structure to meet future challenges and to provide for needed revenues requirements.

In addition to retail water sales, TMWD also sells its potable water to California Water Services Company ("CWSC") at a wholesale price and recycled water to Mobil at a discount price specified in separate agreements. The CWSC serves approximately 20 percent of the City's geographic area with annual demand of approximately 5000 acre-feet per year, and Mobil currently consumes around 95 percent of TMWD's recycled water sales (approximately 6.600 AFY). TMWD estimates that recycled water sales will increase in the next few years to serve more landscape irrigation customers and Mobil's increased use of recycled water supplies at the refinery. Mobil's contract prices and CWSC's wholesale prices were established many years ago and very few adjustments were made to reflect the changes in operating and water costs. These pricing structures are outdated and substantially underpriced. A long-term financial plan and review of rates and charges are warranted to ensure that the City can successfully meet current and future needs.

In addition, as a result of the precedent setting Bighorn case, the City needs to adhere to the requirements of Proposition 218, which requires that rates be reasonable, recover costs of service and be fairly and equitability applied to customer classes. The City is also required to provide notification to meet the prescribed regulations.

The cost of service rate model, to be developed by Raftelis Financial Consultants, Inc. ("RFC") as part of the study, will allow the City to prepare financial plans for future years, conduct scenario analyses including mandatory drought management, model alternative rate structures, analyze customer and revenue impacts instantaneously, as well as prepare presentations for decision makers in an easy to understand graphical format. The rate study will also ensure Proposition 218 is appropriately addressed.

*Key Issues*

Based on a discussion with City staff and our knowledge of the City, we have identified several key issues which must be addressed in the study in order to meet the City's study objectives.

- **Revenue Sufficiency**. Rates should generate adequate revenues to meet the operating and capital costs and to ensure the financial stability of the water enterprise. The revenues should support the City's growth, capital needs and water resource programs. This information needs to be communicated to the users so that they understand the reasons for the change.
- **Fairness and Equity**. If rates are perceived to be fair and equitable, users are more likely to support changes in rates and rates structure. The new rates will be designed so that users pay in proportion to the cost of service and will consider cost of service differences for Outside-city customers.
- **Financial Planning.** The City must generate sufficient revenues to cover the costs of providing service to its customers and cost of implementing the proposed capital improvement program ("CIP") and water resource program. RFC will recommend financing plans that consider a combination of sources such as State Revolving Funds ("SRF") loans, grants, reserves, rates, and other feasible approaches to meet the requirements of the water utility as well as meet debt service requirements. We are sensitive to the political ramifications of large rate increases.
- **Reserves**. Cash reserves are used to meet working capital requirements, to provide the cash for rate stabilization, to meet emergency requirements and to help in running a sound financial system. Adequate reserves also provide better ratings for the issuance of debt. Reserve funding is an important financial planning element and our approach will be to recommend adequate levels of reserves to meet the City's current and future requirements.
- **Cost of Service**. The cost of service analysis will take into consideration the functional aspects of system operations and cost components such as average and peaking factors and other customer-related activities such as billing and collection. The RFC team is experienced in this area and will analyze the existing system and the relative load placed on the system by the different user classes to fairly allocate costs based on service received.
- **Conservation Oriented Rate Structure**. The City requires equitable recovery of costs from each class of customer. The rate structure should also comply with the requirements of Proposition 218. In addition, to address the water supply situation in Southern California, the rate structure needs to encourage conservation by including the consideration of tiered rate pricing structure.

## PROJECT APPROACH

The study objectives listed above are very fundamental issues that need to be handled with sensitivity. While fairness and equity are important, they should be tempered with consideration of the local situation to ensure that solutions are acceptable and supported by the majority. In an effort to address these important issues, RFC has assembled a team of senior professionals who have many years of experience in handling similar situations, are knowledgeable of regulatory requirements, and have the ability to develop innovative and defensible solutions. Our aim will be to develop alternative solutions, consider impacts of implementation, seek direction from the City and make recommendations.

Our approach is characterized by the following elements:

- Regular communication and working relationship with Department/City Staff to ensure that there are no surprises. Additionally, effective presentations to policy makers and the public will ensure successful implementation;
- Consistent and competent project management to control budget and schedule;
- Development of long-range financial plans so that the water utility can be financially stable and save costs in the long run;
- Development of capital financing plan to fund the implementation of the proposed CIP and water resource program;
- Determination of cost of service allocations to ensure fairness and equity and compliance with Proposition 218;
- Evaluation of alternative rate structures and implementation of the rate structure which best meets the City's individual needs; and,
- Development of a water cost of service rate model with a variety of user-friendly features including report generation, scenario analysis, and dashboard functionality for future use.

The scope of work and tasks below define our technical approach. Our scope of work has been designed to address each of the services identified during our discussion with the City and the tasks have been organized into three major phases including Project Initiation & Data Analysis, Development of Cost of Service and Rate Model and Rate implementation Process.

### PHASE 1 - PROJECT INITIATION & DATA ANALYSIS

Project initiation involves data collection and review, project organization, and project management and quality assurance efforts. In addition, the Study will include analysis of billing and consumption usage patterns, rate programs and policies such as affordability and conservation pricing programs and the rationale and appropriateness of assessing the outside-city rate differentials.

**Task 1: Project Initiation**

The Project Initiation task will begin the study so that it progresses in an efficient and deliberate manner. Task 1 will include the collection and review of all relevant data and documents, a kick-off meeting, project management, and our quality assurance/quality control ("QA/QC") process.

*Task 1.1 – Data Collection and Review*

The purpose of this task is to gather and review relevant information, documents, and analyses that will be required to conduct the water rate study. This information is necessary to understand the cost basis underlying the existing charges for water service, how they have been determined in the past, and how they may be assessed in the future in an equitable manner to reflect the cost of providing these services to different customers. As part of this task, a detailed data request list will be prepared and submitted to the City so all appropriate data can be forwarded to RFC prior to the kick-off meeting.

*Task 1.2 – Kick-off Meeting with City Staff*

The kick-off meeting provides a solid foundation for the project and serves as a forum in which City/Department staff can provide input on the project's objectives, approach, work plan, scheduling, and priorities. A successful meeting ensures that project participants are in mutual agreement as to the project goals and expectations. RFC will develop a kick-off meeting package that contains the meeting agenda, a broad list of questions related to the City's water system operations, and presentation materials to guide the discussion. This kick-off meeting will also serve as a forum for RFC to develop an understanding of the City's water pricing objectives, financial goals, and other important utility issues.

*Task 1.3 – Ongoing Project Management*

The proposed project approach entails several different, yet interrelated, work efforts that will require effective coordination between City/Department staff and the RFC Project Team. Our management approach stresses communication, teamwork, objectivity, and accountability for meeting project objectives and includes general administrative duties, including client correspondence, billing, project documentation, and administration of the study control plan. This task provides for consistent and competent project management to ensure that all deadlines and objectives are met in a timely and efficient manner. We believe in a no-surprises approach so that the client is aware of the status of the project at all times.

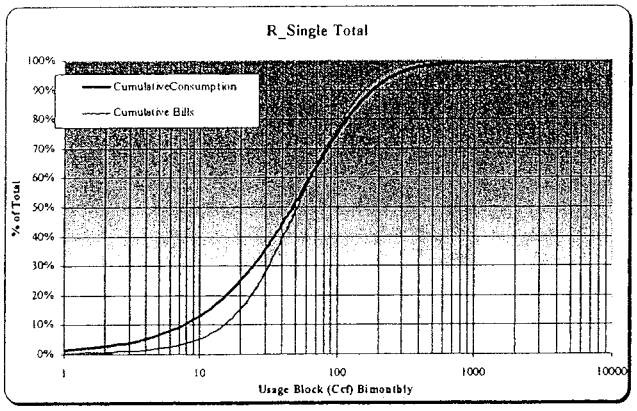
*Task: 1.4 – Initiation of the Quality Assurance/Quality Control Process*

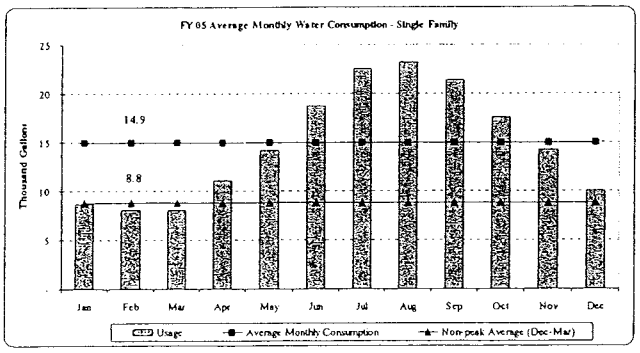
The QA/QC process ensures that all work performed by RFC on this project will be accurate and of the highest quality. The QA/QC process begins at the outset of the project when the Project Manager assigns a senior member of RFC's staff as the project QA/QC reviewer. This person is present at all internal project meetings and works closely with both the Project Manager and the lead consultant during the course of the project. The QA/QC reviewer's primary responsibility is to review the work effort for consistency, accuracy, and validity and ensure that the water cost of service and rate model ("Model") is functioning properly and is based on sound rate making principles and standard industry practice. The reviewer also ensures that the report produced is comprehensive, consistent with the results, and meets the high quality standards of RFC. The QA/QC process is accomplished through periodic reviews of the Model throughout the course of its development.

**Task 2: Data Analysis and Policy, Program, and Procedure Evaluation**

This task involves performing bill frequency analysis to determine the usage patterns, usage block sizes, and seasonal usage differentials for different customer groups, and an evaluation of certain rate policies, ordinances, and programs the City may want to consider adjusting or implementing. In addition, this task will initiate the process of determining the appropriate procedures necessary for implementing the proposed water rate structure and future rate adjustments.

*Task 2.1 – Perform Bill Frequency Analysis*




To help the City gain a better understanding of consumption trends, RFC will examine usage patterns as they relate to customer demands, population growth, and usage peaks. Even though the City is essentially built-out, a small growth rate for redevelopment may be used to project growth of the service area population. Moreover, using a bill frequency analysis, we will study available historical water consumption of the City's different customer types in order to better understand the consumption patterns for each type of customer. A sample "S" curve is shown above. This kind of analysis allows for better decision making regarding block cut offs when setting tiered rates and analyzing customer impacts. Analysis of seasonal and off-season usage allows the design of optimal

seasonal rates, if desired. Based on this historical analysis, and planning data, the Project Team will develop projections of water consumption.

*Task 2.2 – Evaluate and Recommend Rate & Financial Policies and Programs*

The City has also requested an evaluation of its operating and capital reserve requirements, a review of its current water rate ordinance, and a review of low-income and water conservation programs provided by other local water agencies. RFC will review the existing financial and rate policies and recommend appropriate changes to the existing policies that will allow the water utility to most effectively meet its financial goals. These financial policy requirements will include identifying appropriate target reserve levels for the water utility's operating and capital programs, when these reserves can be used, infrastructure replacement funding from operations, debt financing of CIP, and debt service coverage designed to allow the City to meet its financial objectives and goals while achieving improved rate stability and revenue sufficiency.

RFC will also review low-income/affordability and water conservation rate programs provided by other local agencies and recommend policies and procedures the water utility may want to consider for implementation. It should be noted that affordability programs funded by revenues other than general fund revenues may be susceptible to Proposition 218 challenges. Affordability rate programs may include lifeline rates, zonal rates, bill caps, commodity rate discounts, fixed rate discounts, payment plans, and average demand billing.

RFC will also perform a high level evaluation of the current cost to provide water service to customers located outside the City's corporate boundaries, and either confirm the current rationale and approach, or recommend potential adjustments to the rate of return on rate base.

*Task 2.3 – Recommend Notification Process and Procedures for Adjusting Water Rates*

As part of this task, RFC will work with City/Department staff to determine the appropriate notification process and procedures to ensure that the proposed rates and rate design are in compliance with Proposition 218. This will include consideration of the annual costs of service, reserve level targets, and debt coverage that ensure the rates will not be considered excessive in terms of the requirements of Proposition 218. Although not a law firm, RFC is very familiar with the Bighorn court decision and its implications on water rates. RFC has many years of experience in developing cost of service based rates that are in compliance with Proposition 218 prior to and since the Bighorn case.

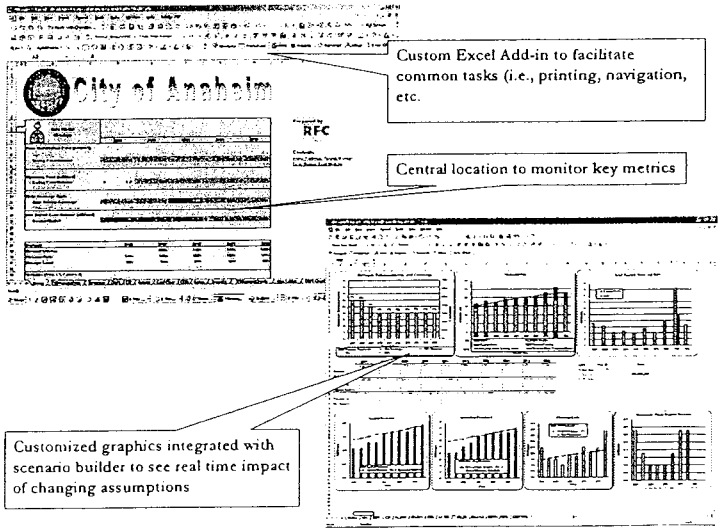
## PHASE 2 - DEVELOP COST OF SERVICE AND RATE MODEL

RFC will develop the Cost of Service and Rate Model that will project revenue requirements over the planning period and incorporates both direct and indirect operational costs, capital costs (including pay-as-you-go capital and debt service), as well as rate revenues and revenues from miscellaneous sources (or offsets). Projection of revenue requirements, offsets, and water consumption allows a utility to calculate overall revenue adjustments or rate adjustments over the planning period.

*Task 3.1 – Development of Model Specifications*

RFC understands the importance of developing a user-friendly, flexible Model that the City can use in the future for financial planning and developing rates. Some of the features of the Model include:

- Adherence to industry standard and Proposition 218 rate-setting practices and procedures;
- Ability to model multiple rate structures simultaneously;
- Incorporation of financial planning over an appropriate planning horizon with ability to change certain standard assumptions by year;
- Ability to calculate rates for multiple years and update rates annually with ease;
- Ability to flag errors and problematic results such as failure to meet debt coverage, reserves below target levels, etc.;
- Ability to perform sensitivity analyses and see the changes in real time on built-in screen graphics; and
- Ease of input, report printing, update, understanding, administration, and legal defensibility and compliance.




In order to best design the Model, RFC proposes to begin the modeling process by developing Model specifications. The Model specification process will identify precise functionality, techniques, and structures and will serve as the blueprint for Model design. Our Project Team will work closely with City/Department staff to determine the appropriate specifications to ensure that all parties agree on the format and

functionality of the Model. During the Model specification subtask, City/Department staff and the Project Team will agree upon such things as the proposed water rate structure(s) to be modeled, the degree of model automation, and the structure of user interfaces.

**Task 4: Develop Forecast of Annual Water Revenue Requirements**

The objective of this task is to develop a forecast of water revenue requirements for the five-to-ten year planning horizon. This will include forecasting annual operating and maintenance ("O&M") expenses, reserve contributions, capital outlays, pay-as-you-go capital items, and annual debt service. Also as part of this task, RFC will classify expenses into functional operating activities performed, classify the functional expenses into functional and indirect cost components, and allocate costs into fixed and variable cost components.

*Task 4.1 – Develop Revenue Requirements*

The Model is used to develop and project revenue requirements over the planning period and incorporates both direct and indirect operational costs, capital costs (including pay-as-you-go capital and debt service), as well as rate revenues and revenues from miscellaneous sources (offsets). Projection of revenue requirements, offsets, and water consumption allows a utility to calculate overall revenue adjustments or rate adjustments over the 10-year planning period. Projecting revenue adjustments over a long planning horizon can illustrate future rate impacts and potential threats to the City's financial situation, allowing the City to make adjustments to some expenses, reserve balances, or capital project timing to smooth impacts and maintain financial stability.

The important step in conducting a comprehensive rate study is to develop a comprehensive long-range financial plan for the City's water utility. In preparing the plans, we will analyze the City's current policies and practices for funding its operations, CIP and other development program, non-potable water supplies, and debt service requirements. As appropriate, we will consider various financing options, or combination of options, such as operating revenue, long-term debt, SRF loans, grants and other feasible approaches, including possible emerging infrastructure development programs proposed by the federal government. We will consider the revenue impacts associated with connection or water impact fees for new connections. We will assist the City in achieving a suitable balance among the financing options when developing the proposed financial plan which will accomplish the following:

- Meet the City's system service policies and objectives.
- Fairly distribute financing responsibility to appropriate users.
- Result in an appropriate capital structure so that the City obtains a high rating with bond rating agencies.

Financial planning allows utilities to test how future events such as capital construction or changes in regulatory requirements may impact future rates and overall financial strength of the utility. RFC will utilize past expense performance updated for current conditions, capital improvement planning, and projections of consumption to construct a five- to ten-year Model.

Revenue requirements will be projected over the rate-setting period based on historical results, the current budget, the City's capital improvement plan, and the utilities' existing debt service and other obligations. The Project Team will project items in the City's budget such as O&M, labor, power, materials, payments in lieu of taxes, etc. with flexibility to adjust the escalation factors annually and individually for different types of costs and override escalation with manual entries. Furthermore, debt and rate funding of the CIP, rate stabilization, and other reserves will be considered where appropriate according to City staff. In addition, RFC will review potential capital expenditures to be recovered using impact fees. Ultimately, RFC will project revenues that need to be collected through user rates, including miscellaneous water charges and surcharges, in order to meet expenses in each year of the forecast period.

*Task 4.2 – Classify Revenue Requirements*

Once the water revenue requirements are forecast over the planning period, RFC will work with Department staff to classify the O&M expenses and capital costs into the appropriate functional categories. These categories will include the major functional activities performed by Department staff, such as treatment services, well maintenance, transmission main maintenance, pump station maintenance, billing & collection, customer service, fire service, pressure zones, etc. In addition, the O&M expenses will be further classified into costs that typically vary with demand and would require annual adjustments, such as electricity, pumping and distribution costs, purchased water, and costs associated with meeting water quality standards. Plant investment will be classified by major cost category including treatment plant, reservoirs, pumping stations, mainlines, pipelines, meters, etc. Finally, those costs that do not fluctuate with demand, such as reserve contributions, pay-as-you-go capital items, debt service, billing and collection, and customer services, will be identified as fixed costs components.

**Task 5: Cost of Service Allocations**

As part of this Task, RFC will review existing water customer classifications for appropriateness, review and analyze historical customer class usage characteristics and peaking characteristics of different classes, and allocate costs to customer classifications. The cost of service allocations will be based on either the Base-Extra Demand approach or the Commodity-Demand approach consistent with American Water Works Association standards.

*Task 5.1 – Review Customer Class Usage Patterns and Determine Customer Classifications*

RFC will review and analyze historical water consumption, revenue records, and billing summaries to determine water usage and peaking characteristics by customer class or subclass. We will then estimate the relative responsibility of each customer class for each of the functional cost elements. This allocation 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. It will provide the basis for equitable cost allocations to each customer class or subclass.

*Task 5.2 – Allocate Costs to Functional Cost Categories*

Once the classifications are determined RFC will allocate costs 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 capacity related costs, commodity costs, private fire protection costs, customer and other indirect costs. These will represent the revenue requirements to be met from water charges and fees over the study period.

The water cost of service study will be performed based on industry standards and methodologies approved by the American Water Works Association ("AWWA") M-1 Rate manual. The cost of service allocations will focus on appropriate service functions, allocating the cost of service (revenue requirements) to the service functions, determining how those services are used by each customer class, and developing the cost allocation components of the Model. Cost allocations among customer classes will likely be based on either the Base-Extra Capacity approach which focuses on the different usage patterns (or peaking factors) demonstrated by each customer class, or the Commodity-Demand approach which categorizes costs as either commodity-related or demand-related and is generally more suitable for very large customers.

*Task 5.3 – Allocate Functional Costs to Customer Classes*

Next, the costs associated with the functional components will be allocated to the various customer classifications on the basis of the relative responsibility of each classification for service provided. Costs will be allocated based on the determination of units of service for each customer classification and the application of unit costs of service to the respective units. Marginal unit costs will also be determined based on peak demand for various customer classes.

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 service. Additionally, RFC will ensure that proposed rates are in compliance with Proposition 218.

**Task 6: Calculate Potable Water and Recycled Water Rates**

Following the cost of service allocations, RFC will calculate water rates and charges based on the preferred water rate structures. The Model will incorporate the flexibility to address potential customer impacts that may result from new customer classifications or the change to a new rate structure.

*Task 6.1 – Calculate Water and Recycled Water Rates*

After evaluating the existing cost allocation basis and assessing the impact of any proposed adjustments to the cost allocations, the water rates will be calculated according to the proposed rate design. We recognize that rate-making is an art, so we will work within the broad industry guidelines to meet the strategic financial objectives of the City. We will explore alternate rate designs and calculate water rates under the most appropriate rate structure based on our understanding of the City's primary pricing objectives and water conservation goals, and consistent with industry accepted guidelines and practices. The rate calculation module will incorporate the appropriate level of flexibility to adjust or modify the rate calculations to address and mitigate any negative customer impacts. Furthermore, the rate calculation module will be developed to incorporate and evaluate alternative rate structures.

Rates will be calculated for each year in the forecast period and adjusted, where possible, to provide for a smooth forecast of rate adjustments. For example, changes in the timing of capital expenditures and the use of reserve funds to mitigate short-term rate impacts are two ways that rate smoothing could be addressed. The objective is to minimize the magnitude of customer impacts while still achieving long-term revenue objectives. RFC will present the preliminary rate calculations at a workshop with City/Department staff.

Drought rates will be derived from the underlying existing rate structure. In order to simulate drought conditions, the rate Model will reduce revenue associated with a drop in consumption, but at the same time it will reduce any variable costs related to water production. Based on the usage analysis, we can identify where drought rates need to be set in order to ensure all revenue requirements are met during a period of reduced consumption. Drought rates can also be set for multiple years and will be ready to implement as soon as conditions warrant, so that valuable time is not lost. MWD penalties for exceeding allocations will be considered in developing drought rates.

The full cost of service for recycled water will be identified as a point of reference. Then, the Model will be used to conduct various scenarios to determine the impact on potable rates at specific recycled rates. The financial impact of these scenarios will also be determined.

*Task 6.2 –Calculate Outside-City Water Rates*

Outside-City rates will be developed considering the utility basis which includes determination of an appropriate rate of return considering risks. In addition, any differential costs involved in serving Outside-City customers will be considered along with any contributions from the general fund that are not accounted for in the water enterprise fund. Return on rate base and depreciation will also be considered in establishing a rate differential.

*Task 6.3 – Analyze Customer Rate Impacts*

The rate recommendations will address as many of the City's objectives as possible. In particular, we will focus on water conservation goals and the equitable recovery of costs from different customer classes, including customers located outside the City's corporate boundaries. Again, the potential financial impacts on typical customers that may result due to any adjustments in the rate structure will be considered. The Model will include a series of schedules or tables that show projected cost impacts on different types of customers and different levels of usage or generation. These schedules provide an invaluable tool for evaluating whether the rate recommendations are impacting targeted customer groups and/or levels of usage to ensure that conservation and other pricing objectives are being addressed effectively.

**Task 7: Calculate Contract Rates**

Following the cost of service allocations for retail customers, RFC will revise the contract water rates for Mobil and the CWSC (wholesale) to determine if there is flexibility to more fairly recover costs.

*Task 7.1 – Review Agreements*

RFC will review the City's agreement with Mobil and CWSC to understand the flexibility that the City may have to charge for costs that are not currently being recovered through the agreement. This includes costs for both potable and recycled water. RFC will make recommendations, consistent with industry practice and our experience, with respect to potential changes that can be made to the agreement to increase the fairness of the charges to Mobil and CWSC, which comply with the terms of the agreement.

*Task 7.2 – Review City Costs*

RFC will perform a high level review of the costs to determine any revenue requirements that could be included in charges to Mobil and the CWSC. This analysis will include identification of the fixed and variable costs and analysis of the City's current readiness-to-serve (meter) charges. This analysis will

consider pricing options that can be justified on an economic and equity basis even if they do not adhere to current agreements.

*Task 7.3 – Review Pass-through Charges*

RFC will examine the City's current methodology for recovering costs related to changes in purchased water costs that are passed through to customers. RFC will suggest changes and propose modifications so that costs over which the TMWD has little control can be passed through appropriately.

## PHASE 3 - RATE IMPLEMENTATION PROCESS

During the implementation process of the proposed rate structure, RFC will make recommendations related to financial and rate policies, and provide optional training sessions on the Model. As part of implementing the proposed rate structure, RFC will finalize the Model and prepare a Water Cost of Service and Rate Report ("Report") summarizing the proposed rate structure, describing the cost of service process, and documenting our findings and recommendations. In addition, RFC will participate in presentations to City policy makers and the notification process and procedures to ensure that the proposed rates are in compliance with Proposition 218.

### Task 8: Finalize Model and Prepare Water Cost of Service & Rate Report

The goal of this task is to work with City/Department staff to finalize the Model, to ensure all the appropriate specifications are included in the Model, and to prepare a Report detailing the results of the study. A survey and benchmark of historical and existing utility rates for the City and other local agencies will also be conducted and incorporated into the Report as part of this task.

*Task 8.1 – Finalize Model and Develop Report*

The process for developing the financial plan and proposed rate structures along with preliminary rate recommendations will be described in a draft report of findings and recommendations. This draft report will be submitted at the time the preliminary Model is presented to City/Department staff and will include an executive summary highlighting the major issues and decisions and the results of the study. A comprehensive section on the rate design assumptions and methodologies used to develop the user rate calculations and financial planning will be included. A preliminary version of the Model will also be provided to the City for comment. Where appropriate, comments from the City/Department staff will be incorporated into the final report and the Model will be refined to reflect appropriate issues or concerns raised by stakeholders. Hard copies of the draft and final report will be provided and electronic versions of the Report and Model will also be forwarded to the City. The report will be submitted to the City and will include appropriate supporting data from the Model to

address the requirements of Proposition 218.

*Task 8.2 – Conduct Rate Survey*

RFC will conduct a survey of the current and historical water rates for the City and other neighboring communities and agencies of comparable size and cost of service characteristics within Southern California.

**Task 9: Presentation of Results**

This task involves presenting the findings and recommendations of the study to City Council, participating in the Proposition 218 hearing, and demonstrating the Model to relevant City staff.

*Task 9.1 – Present Final Findings and Recommendations to City Council*

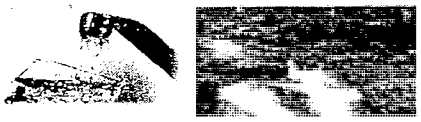
RFC will meet with City/Department staff and the City Council and present our findings and recommendations. We will also participate in the notification process and procedures to ensure that the proposed rates are in compliance with Proposition 218. RFC will participate and present the results of our study during a work session with City Council prior to providing public notification of the water rate increases. The presentation will highlight the collaborative process used to identify and prioritize the important issues facing the City and its water utility as well as the financial policies that will serve as a framework for the financial plan. The proposed water rate structure and the results of the financial plan will also be presented. Following the 45 day notice period, RFC will participate in the public hearing and majority-protest proceeding.

*Task 9.2 - Attend Public Meetings.*

RFC will attend up to two public meetings to explain the new rate structure and the impacts on customers. The meetings will include graphical presentations in EXCEL and POWERPOINT.

*Task 9.3 – Demonstrate Model and Provide Training*

As part of this task, RFC will demonstrate the Model to relevant City/Department staff and provide one day of training to internal City/Department staff in the use of the Model. The training session will include working through realistic sample scenarios to fully prepare the staff to independently use the model for future analyses. Additionally, the session will provide training to allow periodic updates to the cost of service allocations and annual updates to the operating and financial forecasts and adjustments to the rates in compliance with Proposition 218. RFC will continue to provide assistance beyond this training session to City staff to answer questions and clarifications on model updates.



# City of Torrance
## Proposal for Rate Study

## FEES

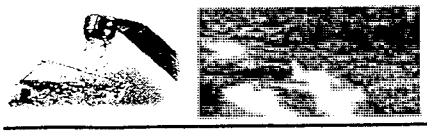
RFC proposes to complete the tasks shown in our scope on time and materials basis as shown below.

**City of Torrance, California**
**Water Cost of Service & Rate Study**
**Proposed Hours and Work Plan**

| | | Hours Requirements | | | | | |
|---|---|---|---|---|---|---|---|
| | Meetings | SP | GR | EV | Fin Cons | Admin | Total |
| **Task 1 - Project Initiation** | | | | | | | |
| 1.1 Data Document and Review | | 4 | | 2 | 4 | | $1,915 |
| 1.2 Kick-off Meeting | 1 | 6 | | | 6 | | $2,370 |
| 1.3 On-going Project Management | | 5 | | | | 8 | $1,678 |
| 1.4 Quality Control Process | | 4 | 8 | | | | $970 |
| **Task 2 - Data Analysis and Evaluation** | | | | | | | |
| 2.1 Perform Bill Frequency Analysis | | 1 | | | 16 | | $2,908 |
| 2.2 Evaluate and Recommend Rate & Financial Policies | | 6 | | | 12 | | $3,375 |
| 2.3 Recommend Notification Process (Prop 218) | | 4 | | | | | $910 |
| **Task 3 - Develop Water COS & Rate Model** | | | | | | | |
| 3.1 Develop Model Specifications | | | | | 4 | | $670 |
| **Task 4 - Develop Revenue Requirements** | | | | | | | |
| 4.1 Develop Revenue Requirements | | 6 | | 2 | 16 | | $4,380 |
| 4.2 Classify Revenue Requirements | | 2 | | | 4 | | $1,125 |
| **Task 5 - Cost of Service Allocations** | | | | | | | |
| 5.1 Review & Determine Customer Classes | | 2 | | | 8 | | $1,795 |
| 5.2 Allocate Costs to Functional Cost Categories | | 2 | | | 4 | | $1,125 |
| 5.3 Allocate Functional Costs to Customer Classes | | 2 | | | 10 | | $2,130 |
| **Task 6 - Calculate Water and Recycled Water Rates** | | | | | | | |
| 6.1 Calculate Water and Recycled Water Rates | 1 | 4 | | 14 | 16 | | $5,935 |
| 6.2 Calculate Outside-City Water Rates | | 4 | | 8 | | | $2,250 |
| 6.3 Analyze Customer Rate Impacts | | 4 | | | 8 | | $2,250 |
| **Task 7 - Calculate Contract Rates for Exxon-Mobil and Cal Water** | | | | | | | |
| 7.1 Review agreements | | 8 | | | | 4 | $2,090 |
| 7.2 Review City Costs | | 8 | | | 12 | | $3,830 |
| 7.3 Review Pass-through Charges | | 4 | | | 4 | | $1,580 |
| **Task 8 - Finalize Model and Prepare Report** | | | | | | | |
| 8.1 Finalize Model and Prepare Report | | 20 | 4 | 4 | 40 | 8 | $12,490 |
| 8.2 Conduct Rate and Cost of Service Survey | | | | | 6 | | $1,005 |
| **Task 9 - Presentation of Results** | | | | | | | |
| 9.1 Present Final Findings to City Council | 2 | 16 | | | 24 | 4 | $7,930 |
| 9.2 Attend Public Meetings | 3 | 28 | | | 30 | | $11,395 |
| 9.2 Demonstrate Model and Provide Training (optional) | | 4 | | | 20 | | $4,260 |
| **Total estimated hours** | | **144** | **12** | **30** | **244** | **24** | |
| Hourly rates | | $220 | | $160 | $160 | $60 | |
| Consultant Fees | | $31,680 | $0 | $4,800 | $39,040 | $1,440 | $80,365 |
| Total Professional Fees | | | | | | $76,960 | |
| Estimated expenses | | | | | | $6,208 | $2,803 |
| **Total Fees and Expenses** | | | | | | **$83,168** | $83,168 |

GR = George Raftelis
SP = Sudhir Pardiwala
EV = Elaine Vastis
Fin Cons = Steve Vuoso, Khanh Phan, Rebecca Sou

* It is assumed that the public meeting to achieve public acceptance will be conducted during the same trip as the City Council to serve notice of rate increases There will be a RFC participation in a final City Council meeting when the rates are adobted





## PROJECT TEAM

**It is important to underscore two points regarding RFC's qualifications:**
RFC is a highly experienced financial and management consulting firm with extensive credentials and technical skills in the areas of water and wastewater.

RFC is a national leader in the development of water and wastewater rates that satisfy local government objectives. In addition, we have a strong track record of gaining consensus among clients, the public and elected officials.

To effectively meet the project objectives of the City we have organized a Project Team with extensive experience in providing similar assistance to other public utilities and local governments. We believe that this senior level commitment is particularly important on a project of this nature in that it will provide the City with a greater level of confidence in RFC's recommendations.

**Sudhir Pardiwala, PE, Vice President - Project Manager**

Mr. Pardiwala is a nationally recognized expert in water and wastewater finance, management and pricing. Mr. Pardiwala has over 30 years of experience in financial studies and engineering including extensive expertise in utility cost accounting, budgeting and valuation, financial and revenue planning and assessment engineering. He has conducted nearly 200 water, wastewater, reclaimed water and storm water rate studies as well as connection fees including fire, park, traffic, library, and planning impact studies. Mr. Pardiwala is very knowledgeable about TMWD having performed previous financial studies for the City. He has assisted numerous utilities in California and elsewhere including the cities of San Diego, Redlands, Sacramento, Cloverdale, Windsor, San Jose, Carlsbad and Henderson, and Goleta West Sanitary District, Beaumont Cherry Valley Water District and El Toro Water District. He has assisted public agencies in reviewing and obtaining alternate sources of funding for capital improvements, including low interest state and federal loans and grants. Mr. Pardiwala is chairman of the Financial Management Committee of the California Nevada Section American Water Works Association's ("AWWA"), a member of the AWWA Financial Accounting and Management Controls Committee, and authored a chapter in the Manual of Practice *Financing and Charges for Wastewater Systems* recently published by the Water Environment Federation ("WEF").

**Elaine Vastis – Lead Consultant**

Ms. Vastis has served as Lead Consultant on a variety of engagements related to cost of service rate studies, economic feasibility studies, bond feasibility studies, valuation analyses, and regionalization studies for numerous studies. She is currently serving as the lead consultant for the rate and financial planning studies for the City of Beverly Hills. She has also served as the lead consultant for numerous other projects such as the City of Brea, City of Corona and the City of Redlands, California; Mobile Area Water and Sewer System, Alabama; the Spartanburg Water System, South Carolina; the City of Wilson, North Carolina; the City of Auburndale, Florida; the Town of Cary, North Carolina; and the San Antonio Water System, Texas. Ms. Vastis holds a BA in Business Administration from the University of North Carolina and an MBA from Wake Forest University.

**Steve Vuoso - Senior Consultant**

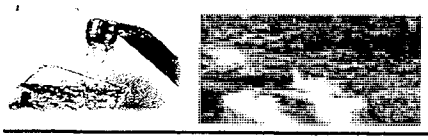
Mr. Vuoso has served on several rate studies including Beaumont-Cherry Valley Water District, California; Santa Fe Irrigation District, California; and the cities of San Diego and Ontario, California and a wheeling charges study for the Los Angeles Department of Water and Power. Mr. Vuoso has extensive experience in financial modeling, financial accounting, and application development.

**Khanh Phan – Consultant**

Ms. Phan has served as a consultant on several water and wastewater cost of service rate studies, connection fees and reserve policy studies. Specific experience includes projects for the following utilities for the cities of Banning and Livingston, California; and for the Goleta West Sanitary District, California and Palmdale Water District. Ms. Phan has an MBA in Finance and BS in Chemical Engineering. She possesses strong analytical and managing skills acquired from her background, education and experience. Combined with her advanced computer skills, Ms. Phan performs an excellent job as a modeler.

**Rebecca Sou - Consultant**

Ms. Sou holds a Masters degree in Business Administration. She has experience providing high level financial research, modeling and reporting. She possesses advanced computer skills, excellent analytical and organizing abilities. Rebecca is currently assisting with the cities of Redlands and Livingston, and special districts at the County of San Bernardino.





PRIMARY AREAS OF ACTIVITY AND SPECIALIZATION
Our experience in the water and wastewater utility industry spans a broad spectrum of financial, pricing, management, and accounting services. Specifically, our services include:

ECONOMIC ANALYSIS
Cost of Service and Rate Analysis
Conservation Rates
Economic Feasibility
Analysis and Forecasting
System Development Fee Studies
Capital Financial Planning
Consolidation Analysis
Extension Policy Review

MANAGEMENT AND ORGANIZATIONAL STUDIES
Organizational Structure Review
Management Audits
Policies and Procedures Review
Personnel and Compensation Analyses
Operating Practices Review

SPECIAL ENVIRONMENTAL ASSISTANCE
Litigation Support
Industrial Pretreatment Studies
Meter Reading Productivity Studies
Automated Meter Reading Implementation
Rate Filing and Reporting
Commercial Consulting

UTILITY ACQUISITIONS
Valuation
Acquisition Bond Feasibility
Economic Rate Impact Analysis
Expert Testimony
Acquisition Strategy Development
Public Dissemination of Information

PROCUREMENT ASSISTANCE
Feasibility Analysis
Request for Proposals Preparation
Financial Planning
Privatization Procurements
Contract Negotiations

## FIRM EXPERIENCE

Raftelis Financial Consultants, Inc. ("RFC") was established in 1993 by George A. Raftelis to provide national financial and management consulting services of the highest quality to public and private sector clients. Specifically, we focus our services in the areas of environmental finance, utility financial planning and pricing, strategic planning, resource conservation, and related areas. We believe that we bring a unique combination of leadership skills and experience to help our clients address their most important issues.

## LOCATION AND SIZE OF FIRM

RFC is currently comprised of 22 consultants and 4 administrative support positions. RFC places a high priority on being responsive to our clients and, therefore, actively manages each consultant's project schedule to ensure appropriate availability for addressing client needs. On average, each staff consultant is involved with four to five projects at any one time in an effort to balance workload while maintaining responsiveness.

**Pasadena Office**
201 S. Lake Avenue, Suite 803
Pasadena, CA 91101
Phone: 626-583-1894
Fax: 626-583-1411

**Charlotte Office**
511 East Boulevard
Charlotte, NC 28203
Phone: 704-373-1199
Fax: 704-373-1113

**Kansas City Office**
3013 Main Street
Kansas City, MO 6410
Phone: 816-285-9020
Fax: 816-285-9021

## CONSULTING PHILOSOPHY, VALUES AND MISSION STATEMENT

As a consulting philosophy, RFC maintains the practice of providing senior level assistance to our clients. While, as necessary, we utilize staff support for specific data gathering and analysis functions, it is not our practice to leverage our senior people with large teams of junior level consultants. Instead, we provide skills, experience, and maturity gained through many years of consulting experience to best meet our clients' needs.

RFC's values include quality, teamwork, integrity, client responsiveness, innovation, knowledge and flexibility. As such, our mission is to be the most highly regarded innovative leader in providing financial, economic and management consulting to environmental utilities.

## PROJECT EXPERIENCE

The RFC Project Team has extensive experience in serving clients on engagements related to cost of service and rate studies across the country. Presented below is a relevant sample of projects in which RFC team members have participated in recent years. We have provided references for each and urge you to contact them to better understand our capabilities and the level of effort we provide

### City of Beverly Hills, California

**PROJECT DETAILS**
Cost of Service Study
Financial Planning
Rate Study

**REFERENCE**
Ms. Shana Epstein
Assistant Utility Services Manager
345 Foothill Road
Beverly Hills, CA 90210
Phone: (310) 285-2570

The City of Beverly Hills ("City") wished to conduct a comprehensive water rate study that included a review of revenue requirements, user classifications, costs of service, and the design of a system of user charges for the City's water service that would promote water conservation. The City engaged RFC to develop a rate and financial planning model that would be used to evaluate alternative rate structures and to provide more detailed forecasts to assist in the preparation of updating rates in future years.

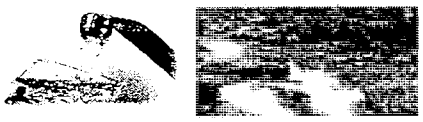
The City's current rate structure consisted of a three-tiered increasing block water rate structure with no differentiation among customer types. RFC modeled numerous alternative rate structures and reviewed customer and revenue impacts before recommending that the City modify its current three tiered rate structure to include a fourth tier that targets large irrigation usage. In addition, RFC recommended that separate tiers be established for multi-family customers to reflect their usage characteristics. For commercial, industrial, and municipal customers, RFC recommended that the City implement a uniform commodity rate, since these customers have lower peaking factors than residential customers. RFC continues to provide updates to the model so that rates may be projected in future years.

### City of San Diego, California

**PROJECT DETAILS**
Water & Wastewater Rate Study
Recycled Water Rate Study
Rate Structure
Capacity Charges
Capital Improvement
Public Outreach
Proposition 218

**REFERENCES**
Ms. Darlene Morrow-Truver
Deputy Director Services and Contract Division
Metro Wastewater Department
9192 Topaz Way
San Diego, CA 92123
Phone: (858) 292-6384

The City of San Diego engaged RFC to perform a water and wastewater cost-of-service and rate design study for the City of San Diego. The study was conducted with extensive stakeholder group involvement. The selected stakeholders represented a variety of commercial businesses and residential communities in the City. Metropolitan Wastewater Department ("Metro") provides wastewater services to the City and 14 other participating agencies that are part of a regional wastewater system. The study included a comprehensive review of the City's revenue requirements and allocation methodology, review of the City's user classification, an analysis of cost-of-service and rate design for City users. COD was added to the existing parameters of Flow and TSS. User classification review included an analysis of the assignment of TSS/COD strengths to the different commercial customer classes. Rate design included an evaluation of rate structure alternatives with emphasis on incorporating a uniform





Ms. Marsi Steirer
Deputy Water Department Director
City of San Diego
Phone: (619) 533-4112

monthly base fee in conjunction with volume rates. The study also included a review of the City's capacity charges.

In addition, a water rate study, including development of capacity charges and update of the sewer study were completed. The water rate study involved evaluation of billing data, extensive analysis of the capital improvement program, allocation of CIP capacity between expansion and replacement, and financial modeling to demonstrate City compliance with regulatory requirements. Capacity charge calculations were incorporated into the rate model to determine the effects on the City and ensure adequate revenue collection. Cost of service rates have been developed based on American Water Works Association methodologies using the base-extra capacity method, as well as transition rates, to provide smooth transition to cost-of-service rates. Rates for this engagement were implemented in July 2004.

RFC conducted the most recent water rate study for San Diego from September 2006 to February 2007.

**City of Ontario, California**

PROJECT DETAILS
Water & Wastewater Rate Study
Solid Waste Study
Revenue and Cost Allocation Analysis

REFERENCE
Mr. Mohamed El-Amamy
Utilities Director
City of Ontario
1425 South Bon View Avenue
Ontario, CA 91761
Phone: (909) 395-2681

RFC conducted a water, wastewater and solid waste study for the City of Ontario ("City"). The City has a total of 33,000 accounts including 5,000 non-residential accounts and sells approximately 43,000 ac-ft of water annually. The study included a comprehensive review of the City's revenue requirements and allocation methodology, a review of City's user classification, a cost of service analysis, and rate design for City users. Several recommendations were provided to improve the equity of water and wastewater charges including reclassification of customers, modifying the tiers, etc. The resultant rates were fair and equitable and met the fiscal needs of the City's utilities in the context of the City's overall policy objectives and were designed for simplicity of administration, cost effective implementation and ease of communication to customers.

## APPENDIX

Resumes

## SUDHIR PARDIWALA – Vice President

TECHNICAL SPECIALTIES
Financial Studies and Engineering
Water and Wastewater Utility Cost Accounting
Budgeting and Valuation
Financial and Revenue Planning
Assessment Engineering
Reviewing/Obtaining Capital Improvement Funding
Computer Modeling

PROFESSIONAL HISTORY
**Raftelis Financial Consultants**
Vice President, 2004 – present
**Black & Veatch**
1997-2004
**MWH**
1985-1997
**CF Braun**
1979-1985
**PFR Engineering Systems**
1977-1979

EDUCATION
**Bachelor of Science, Chemical Engineering**
Indian Institute of Technology, Bombay, 1974
**Master of Science, Chemical Engineering**
Arizona State University, 1976
**Master of Business Administration**
University of California, Los Angeles, 1982

PROFESSIONAL REGISTRATIONS
Registered Professional Engineer
(Chemical and Civil) California

PROFESSIONAL MEMBERSHIPS
American Water Works Association
Water Environment Federation
California Municipal Finance Officers Association
Association of California Water Agencies

Mr. Pardiwala has over 28 years of experience in financial studies and engineering. He has extensive expertise in water and wastewater utility cost accounting, budgeting and valuation, financial and revenue planning and assessment engineering. He has conducted numerous water, storm water, reclaimed water and wastewater rate studies as well as system development fee studies and has developed computerized models for these financial evaluations. Mr. Pardiwala has assisted public agencies in reviewing and obtaining alternate sources of funding for capital improvements, including low interest state and federal loans and grants. His engineering education and background provides him with an excellent basis for studies of public and municipal utilities. He authored the chapter on reclaimed water rates in the Manual of Practice on *Financing and Charges for Wastewater Systems* recently published by the WEF.

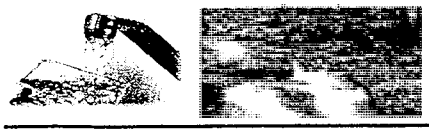
### RELEVANT PROJECT EXPERIENCE

**City of San Diego, California**

Mr. Pardiwala has conducted numerous studies for the City of San Diego ("City"), including a water, wastewater connection fee and rate study. The entire study was conducted with extensive stakeholder group involvement because of the changes required in the wastewater rate structure to meet regulatory requirements. In addition, Mr. Pardiwala was project manager for the City's reclaimed water rate study, impact fee studies for both water and wastewater and a transportation charges study for agencies contributing to the City's regional wastewater facility. Mr. Pardiwala also managed a water demand study which involved statistical analysis of historical water consumption to model projections based on weather, economic activity, population, inflation, etc.

**City of Redlands, California**

Mr. Pardiwala has managed several financial projects including water, wastewater and reclaimed water projects. The studies were conducted with extensive stakeholder input. The first rate studies involved significant rate adjustments as well as rate structure adjustments to ensure financial stability, meet debt coverage requirements and regulatory requirements. The analysis included calculation of outside-City charges and connection fees. The City received user-friendly working rate models for future updates. Mr. Pardiwala assisted the City with State Revolving Fund loans for reclaimed and potable water. He also assisted in seeking grants for the reclaimed water project.





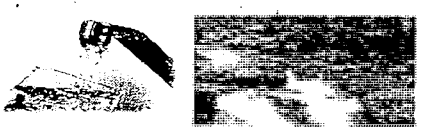
**Portland Water Bureau, Oregon**

Mr. Pardiwala was project manager for the recently completed retail and wholesale financial plan (revenue requirements) and rate model conducted for the Portland Water Bureau. The study involved integration of financial and asset data from the City's mainframe. RFC reviewed the agreements with the various wholesale customers and modeled the nuances into the rate model so that rates for the various wholesale customers could be readily determined. Similarly, RFC provided the Bureau the retail rates model with the option of using several alternative rate structures in case they decided to change the rate structure in the future.

**Other recent projects**

- City of Torrance – Water Rate Study
- San Dieguito Water District – Water Rate Study
- City of Sacramento, California –Wastewater Rates Study
- City of Brea, California – Water Connection Fees and Related Fees and Charges
- Santa Fe Irrigation District, California – Water Connection Fees and Rate Study
- City of San Francisco, California - Water and Wastewater Rate Study
- City of Cloverdale, California – Water and Wastewater Connection Fees and Rate Study
- City of Beverly Hills, California – Water Rate Study, Connection Fees, Valuation and Development of Replacement Program and Asset Inventory
- Beaumont Cherry Valley Water District, California – Water Rate and Connection Fee Study
- City of San Jose, California - Sewer Service Related Fees and Charges
- City of Ontario, California – Water, Wastewater and Reclaimed Water Rate Study
- City of Madera, California – Water and Wastewater Rate Study
- Town of Windsor - Water and Wastewater Connection Fees and Rates, Water and Water Reclamation Rate Studies, Impact Fee Review, and SRF Loan Application Assistance
- City of San Diego, California – Water, Wastewater Connection Fee and Rate Study
- City of Redlands, California – Water and Wastewater Rate Study, Reclaimed Water Funding, Water and Wastewater Connection Fees
- Goleta West Sanitary District, California - Asset Management, Water Rate Study, Connection Fees, Financing Plan
- City of Encinitas, California - Wastewater Rate Study
- City of Rialto, Rialto, California - Water and Wastewater Rate Study
- City of Burbank, California - Water, Wastewater, Bond Feasibility Study and Reclaimed Water Study

- County of San Bernardino, California - Water and Wastewater Rate Study
- City of Carlsbad, California - Water, Wastewater, and Reclaimed Water Revenue Program
- San Gorgonio Pass Water Agency, California - Financing Plan
- City of San Luis Obispo, California - Stormwater Financial Feasibility Study





## ELAINE VASTIS – Lead Consultant

TECHNICAL SPECIALTIES
Rate Structure Studies
Bond Forecasts and Feasibility Studies
Economic Feasibility Studies
Financial Valuation and Appraisal
Privatization Feasibility Studies and Implementation Analysis

PROFESSIONAL HISTORY
**Raftelis Financial Consultants, Inc.**
Senior Consultant, 2000-Present
**Wachovia Bank, NA**
Assistant Vice President, 1995-2000

EDUCATION
**Masters in Business Administration**
Wake Forest University, 2004
**Bachelor of Science in Business Administration**
University of North Carolina at Chapel Hill, 1995

PRESENTATIONS
"Cost Effective Regional Planning"
Joint Management Conference (Dallas, TX); February 2003

Ms. Vastis has served as a consultant on numerous water rate studies and cost of service studies. Specific experience includes projects for the following utilities: the Town of Cary, North Carolina; the Spartanburg Water System, South Carolina; the Spartanburg Sanitary Sewer District, South Carolina; the City of Concord, North Carolina; the Metropolitan Government of Nashville and Davidson County, Tennessee; and the San Antonio Water System, Texas. Ms. Vastis holds a BSBA from the University of North Carolina at Chapel Hill and an MBA from Wake Forest University.

### RELEVANT PROJECT EXPERIENCE

**City of Beverly Hills, California**

Ms. Vastis has served as project consultant for the rate study conducted for the City of Beverly Hills. In order to promote conservation, the City wanted to modify its rate structure to include an increasing block rate structure. RFC developed a rate model for the City that was used to evaluate alternate rate structures and to conduct a comprehensive water cost of service study. A new water rate structure was recommended based on a four-tiered residential rate to encourage water conservation. Uniform rates for commercial and industrial users were also determined based on the cost of service study. RFC has subsequently used the rate model to determine annual rate adjustments based on the City's updated capital improvement plan and operating budget. The rate model has also been used to calculated debt service coverage ratios for recent bond issues.

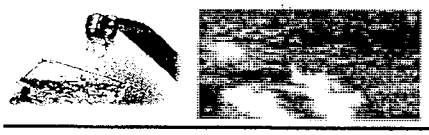
**City of Brea, California**

Ms. Vastis served as lead consultant on a water rate study for the City of Brea, California. The City's last water rate study was completed in 1995. Although the rate structure implemented at that time served the City well financially for almost a decade, the City faced increases in capital improvement program expenditures and concerns over substantial escalation in water supply prices. As such, the City engaged RFC to perform a rate study including the calculation of updated connection and fire protection fees. RFC recommended that the City change their existing uniform rate structure for all customer classes to a two-tiered rate structure for residential customers and a uniform rate for all non-residential customers.

**Other recent projects:**

- City of Pompano Beach, Florida – Water, Sewer and Stormwater Rate Study
- City of Cary, North Carolina - Bond Feasibility Study
- City of Concord/City of Albemarle - Economic Feasibility and Valuation Assessment
- City of Concord, North Carolina - Bond Feasibility Study, Wholesale Rate Study, and Water and Wastewater Rate Study
- Lexington-Fayette Urban County Government - Financial Valuation and Economic Impact Analysis

- Metropolitan Government of Nashville and Davidson County, Tennessee – Cost of Service Study, Bond Feasibility Study, Budget Review, Treatment Analysis, and Operations, Management and Replacement Analysis
- Pekin, Illinois - Financial Valuation and Economic Impact Analysis
- Piedmont Triad Regional Water Authority, North Carolina - Feasibility Study
- San Antonio Water System - Water and Wastewater Rate Study
- Scottsdale, Arizona - Water and Wastewater Rate Study
- Spartanburg Water System, South Carolina - Water Rate Study
- Spartanburg Sanitary Sewer District, South Carolina - Wastewater Rate Study
- Town of Wake Forest - Economic Feasibility Study
- United States Navy - Privatization Procurement
- Wilson, North Carolina - Bond Feasibility Study and Water and Wastewater Rate Study
- York County, South Carolina - Countywide Water and Sewer Study
- City of Auburndale, Florida – Water and Wastewater Rate Study and Bond Feasibility Study
- City of Avon Park, Florida – State Revolving Fund Loan Assistance
- Birmingham Water Works Board, Alabama – Bond Feasibility Study





PROFESSIONAL HISTORY

**Raftelis Financial Consultants, Inc.**
Staff Consultant, 2005-Present

**Showtime Networks Inc.**
Business Analyst 2004

**San Diego Convention and Visitors Bureau**
Project Manager - Internship 2004

**Kirkland and Ellis**
Legal Case Assistant, 200-2002

EDUCATION

**Master of Business Administration (Concentration in Finance)**
San Diego State University, 2004

**Bachelor of Arts (Concentration in Philosophy)**
Loyola Marymount University, 1998

PROFESSIONAL CERTIFICATIONS

Microsoft Office 2000 Specialist – Excel

## STEVE VUOSO – Senior Consultant

Steve Vuoso has served as consultant on several California rate studies including San Dieguito Water District, Beaumont-Cherry Valley; San Diego; and a wheeling charges study for the Los Angeles Department of Water and Power. He has extensive experience in financial modeling, financial accounting, and is proficient in VBA programming and application development in Microsoft's Access and Excel.

### RELEVANT PROJECT EXPERIENCE

**City of Los Angeles, California**

Mr. Vuoso served as staff consultant on a wheeling charges study for the Los Angeles Department of Water and Power. The City was interested in determining the appropriate charges to be levied on various customers that may wish to use the extra capacity in the City's system—from the Los Angeles Aqueduct to the distribution network—to transfer water. Mr. Vuoso conducted the analysis unbundling the various costs so that users could be charged based up on the parts of the system they used.

**Beaumont-Cherry Valley Water District, California**

Mr. Vuoso served as staff consultant on a cost of service water rate study for the Beaumont-Cherry Valley Water District. The region was experiencing rapid growth, as much as 20-30%, and the District wished to ensure that its rate structure allowed them to recover all appropriate costs, support the rapid growth, and provide fair and equitable rates. Mr. Vuoso conducted a cost of service analysis to calculate rates for different classes of customers.

**City of San Diego, California**

Mr. Vuoso supported the reclaimed water rate study conducted for the City of San Diego ("City") by developing a user friendly interface for the rate model that was developed. The model interface assisted users in various printing capabilities, scenario analyses, and contained a feature that logged any changes to the model.

**City of Ontario, California**

Mr. Vuoso served as staff consultant on a water, wastewater and solid waste rate study. The study included a comprehensive review of the City of Ontario's revenue requirements and allocation methodology, review of user classifications, a cost of service analysis, and rate design for City users. Mr. Vuoso served as lead modeler and developed the water and wastewater rate models to help determine the appropriate rates and rate structure that would allow the City to recover the true cost of service in a fair and equitable manner.

**Santa Fe Irrigation District**

Mr. Vuoso completed a cost of service water rate study for the Santa Fe Irrigation District ("District"). The District's local water supply was unreliable due to drought and hydrological conditions, which led to volatile water purchase costs. As a result, the District had been running a deficit in recent years and was in danger of failing to meet its bond coverage requirements. Mr. Vuoso developed a financial plan and rate model to ensure the District would recover all costs of providing services and meet its coverage requirements.

**Portland Water Bureau, Oregon**

RFC recently completed a retail and wholesale financial plan (revenue requirements) and rate model conducted for the Portland Water Bureau ("Bureau"). The study involved integration of financial and asset data from the City's mainframe. RFC reviewed the agreements with the various wholesale customers and modeled the nuances into the rate model so that rates for the various wholesale customers could be readily determined. Similarly, RFC provided the Bureau the retail rates model with the option of using several alternative rate structures in case they decided to change the rate structure in the future.

**City of Henderson, Nevada**

Mr. Vuoso is serving as staff consultant on a water and wastewater study for the City of Henderson ("City"). The study focused on the City's financial vision and the objective of water and wastewater rates to include revenue sufficiency and stability, along with demand management and conservation.

## KHANH PHAN - Consultant

TECHNICAL SPECIALTIES
Utility Cost of Service and Rate Structure Studies
Economic Feasibility Studies

Ms. Phan has served as a consultant on several water rate studies and cost of service studies. Specific experience includes projects for the following utilities for the cities of Banning and Livingston, California, the Goleta West Sanitary District, California, and Palmdale Water District, California.

PROFESSIONAL HISTORY
**Raftelis Financial Consultants, Inc.**
Senior Consultant, 2008-Present

**Avery Dennison**
Research Chemist, 2004-2008

EDUCATION
**Master of Business Administration - Finance**
California State University, Los Angeles
Graduation March 2007

**Bachelor of Science, Chemical Engineering**
University of California, Berkeley
Graduation May 2003

### RELEVANT PROJECT EXPERIENCE

**City of Banning, California**

RFC performed a connection fees study for the City of Banning, California ("City"). Ms Phan assisted in developing a model to calculate the connection fees involving infrastructure as well as water supplies which are crucial to the approval of new development. She investigated the price of water purchased from State Water Project to meet increasing water demand of the City.

**Goleta West Sanitary District, California**

Goleta West Sanitary District ("District") is in the process of designing new reserve policy to cover its share of replacement and refurbishment cost for the upgraded full secondary wastewater treatment plant in Goleta Sanitary District (GSD) in 2014. As a consultant, Ms Phan reviewed the necessary capital improvement projects of the District over the next 50 years, including replacement and refurbishments (R&R) of the collection system as well as improvements that may be needed to refurbish the treatment plant. She developed a model of the long-term financial plan that incorporates the assumptions on operations, capital and reserves requirements and recommended a policy identifying target amounts for the different reserves for the District's consideration.

**City of Livingston, California**

RFC performed a Water Rate Study for the City of Livingston ("City"). As a consultant, Ms. Phan is responsible for the development of a rate structure for the City based on analysis of revenue, O&M costs, and cash flow. The City has one of the lowest rates in the Central Valley and will experience significant increases in rates to make up for past revenue shortfalls and for capital improvements needed because of regulatory concerns.

**Palmdale Water District, California**

RFC is currently working on a Water Rate Study for Palmdale Water District ("District"). Ms. Phan is responsible for developing a rate model to examine new rate structures for the District. The model and structure will establish allocations for residential usage and irrigation requirements for residential and non-residential

customers. The study involves prioritizing pricing objectives, analysis of projected revenue, budgeted O&M costs, allocation of cost of services and cash flows and impacts.

## REBECCA SOU - Consultant

TECHNICAL SPECIALTIES
Utility Cost of Service and Rate Structure Studies
Economic Feasibility Studies
State Revolving Fund Assistance

PROFESSIONAL HISTORY
**Raftelis Financial Consultants, Inc.**
Staff Consultant, 2008-Present

**Sony Supply Chain Solutions, Inc.**
Business System Liaison, 2007-2008

California State University, Department of Finance
Research Assistant, 2006-2007

O.K. Container Logistics, Inc.
Senior Import Operations Specialist, 2004-2006

EDUCATION
**Master of Business Administration**
California State University, Fullerton, 2007

**Bachelor of Science, Management Science**
University of California, San Diego
2004

Ms. Sou has served as a consultant on several water rate studies and cost of service studies. Specific experience includes projects for the following utilities for the cities of Redlands, Livingston, San Francisco, Beaumont and San Diego.

### RELEVANT PROJECT EXPERIENCE

**City of Redlands, California**

Ms. Sou served as a consultant for a water and wastewater rate study for the City of Redlands ("City") The goal of the study was to develop rates that are more responsive to cost of service and pay for necessary capital improvements. The study included a comprehensive review of the City's revenue requirements and allocation methodology, review of the City's user classification, a cost of service analysis, and rate design for City users. RFC recently updated the water and wastewater rates for the City with input from the Utility Advisory Committee and surveyed neighboring utilities to benchmark rates. Ms. Sou also helped the City to establish a suitable development impact fee program. She has successfully adopted the equity buy-in approach to estimate fair recovering costs. The charges reflected reasonable costs of making resource available to service new users.

**City of Livingston, California**

RFC performed a Solid Waste Rate Study for the City of Livingston ("City"). As a consultant, Ms. Sou was responsible for the development of a rate structure for the City based on analysis of revenue, O&M costs, and cash flow.

**City of San Francisco, California**

The City of San Francisco engaged RFC to conduct water and wastewater rate studies. Ms. Sou has assisted with the development of the financial planning. She has helped to define and examine user classes and usage by class, set up revenue and CIP models and determine revenue required from rates.

**City of Beaumont, California**

Ms. Sou performed bill tabulation for the City of Beaumont to analyze the annual water billing by class and by consumption. She also developed a summary to show the total number of bills and usage for all classes.

**City of San Diego, California**

RFC has conducted a recycled water ("RW") rate study to evaluate the costs of producing RW and the rate to charge customers. Ms. Sou has assisted in preparing various scenarios to finalize the report.