

ADMINISTRATIVE REPORT

Date: July 26, 2011

Agenda Item No.: 12

Council Action Date: August 1, 2011

To: RICK COLE, CITY MANAGER

From: SHANA EPSTEIN, VENTURA WATER GENERAL MANAGER

Subject: WATER AND WASTEWATER COST OF SERVICE AND RATE DESIGN STUDY

RECOMMENDATION

- a. Authorize the City Manager or delegate to enter into an agreement with Raftelis Financial Consultants, Inc. (RFC) for professional services associated with a Cost of Service and Rate Design Study to evaluate water and wastewater revenues for an amount not to exceed \$165,000.
- b. As an option, direct staff to establish an Advisory Committee representing major customer groups to review the rate study and design process and make recommendations to Council at its conclusion.

PREVIOUS COUNCIL ACTION

July 26, 2010 – Workshop presentation updating Council on current issues impacting Ventura's water resources.

October 6, 2008 – Adopted ordinances increasing water and sewer customer rates for fiscal year 2008-09, effective November 6, 2008, and for fiscal year 2009-10, effective July 1, 2009. Overall, the monthly combined water and wastewater cost for a typical residential single-family household increased by approximately \$4 and then \$5 and commercial accounts by approximately \$9 and then an additional \$9.

SUMMARY

Ventura Water has consistently provided vital water and wastewater services that are central to the community's quality of life for over a century. The extraordinary fiscal, environmental, legal and regulatory challenges facing our water utilities demands long-term financial planning to protect its stability. To meet this critical task, a formal cost of service study will not only comprehensively evaluate the necessary financial requirements for the future, but also serve as a framework to engage the community on determining water and

wastewater rates moving forward. Following a competitive process, RFC has been selected to perform the study and if approved, will lead us through a stakeholder process to ensure that the rates are developed and designed to address community expectations. An established leader in rate study practices and models, RFC has performed hundreds of studies in California over the past 15 years and has considerable experience designing rates to meet evolving regulatory, legal and public outreach changes due to Proposition 218.

DISCUSSION

As a utility business function, all water and wastewater expenses and revenues are accounted for in proprietary Enterprise funds, which are separate from the City's General Fund. Both the Water and Wastewater Enterprise Funds are completely funded through monies generated through customer rates based on their usage, which must be set appropriately to self-sustain operations, maintenance and capital renewal programs.

The rate setting process starts with projecting expenses for multiple years and determining the revenue required to meet those expenses. A cost of service analysis then allocates the revenue requirements to defined customer classes, such as residential single-family, based on their proportional use of the water and/or wastewater system. Under California law, rates must be based on robust and legally defensible cost of service analyses so that customers pay a fair and equitable portion of the cost. The rate design analysis is the final step in calculating customer rates.

The last formal cost of service and rate design study was conducted in the early 1990s in response to the drought and established the current three-tiered rate system to promote water conservation. Rates have been adjusted since that time by projecting expenses and aligning revenues within this same rate structure. While there were no rate increases from 1995 through 2002, rates have increased steadily for water and wastewater services since 2003 in response to rising expenses, increasing regulations and maintenance and replacement of an aging infrastructure. The last rate increase on July 1, 2009 raised the combined water and wastewater bill for a typical residential household by about \$5 per month and commercial office accounts by about \$9 per month.

Selected Consultant

In the spring, we began a competitive process, which resulted in proposals from four top consultants. After extensive interviews and references, the selection panel consisting of the City's Chief Financial Officer and Ventura Water Managers chose RFC as the most qualified to meet our needs. An industry leader, RFC specializes in environmental finance, utility financial planning and pricing, strategic planning, resource conservation, and related areas. RFC's local office is located in Pasadena and they have performed similar services for the Cities of Redlands, Ontario, San Diego, Huntington Beach and Santa Monica. They were selected, in part, due to their extensive regulatory knowledge of Proposition 218 and proven ability to create financial solutions. In addition, it is expected that their sophisticated

and user-friendly rate model will greatly support the decision making process. This model is a tool that will allow us to examine different policy options and their financial/customer impacts in real time.

Project Scope

The project scope (Attachment A) is comprised of three phases and two optional tasks expected to be conducted over the next year. First, RFC will prepare long-term financial plans for the Water and Wastewater Enterprises to ensure financial sufficiency to cover operational and capital costs and provide prudent reserves. A key task will be a rate and charges workshop to engage stakeholders in prioritizing the objectives of collecting revenues for water and wastewater services that will provide parameters for a preferred rate structure. In the second phase, RFC will perform the cost of service analyses for both enterprises and will recommend changes to current rate structures to enhance equity, revenue stability and defensibility consistent with the policy decisions and pricing objectives determined earlier in the project. During the last phase, RFC will assist Ventura Water in the rate adoption process, which includes support for the Council presentation and a report summarizing the results of the study to address the requirements of Proposition 218.

The agreement also includes two other tasks that will assist in evaluating future financial impacts. RFC will review capital and operating costs associated with providing additional treatment of groundwater to improve the taste and smell of these supplies and calculate possible rate increases. Using this information, Ventura Water intends to ask customers if they are willing to pay for this enhancement. In another task, RFC will train staff to use, update and maintain the completed rate model, giving us the ability to conduct rate analyses and adjustments independently in the future.

In addition, the scope includes four public outreach meetings, which may be directed towards general community meetings or a more formal stakeholder group. One of the optional tasks in the scope expands this process with two more meetings, in the event Council directs staff to establish a stakeholder advisory committee to involve representative customers during the entire rate study process. If so, this would be a valuable opportunity for community members from a variety of backgrounds – water professionals, environmentalists and anti-tax advocates – to learn about the complexity of rate structures and the revenue requirements that impact our rates. As a vision, this committee could be requested to return to Council in early 2012 with recommendations.

The final optional item is the development of an alternative rate design known as water allocation or budget rates. This rate model is gaining popularity across California through its ability to more efficiently address conservation and equity goals. If this rate structure is selected for implementation, this task provides the additional resources necessary for its initial design and calculation.

PUBLIC DECISION MAKING/COMMUNICATION

In January 2011, Ventura Water was created to focus on Ventura's increasingly complex water, wastewater and stormwater responsibilities. One of the goals of this new organization is to engage our customers more effectively and we are dedicated to expanding our communication avenues through the City website, E-newsletter and social media to invite more participation while the study is being developed.

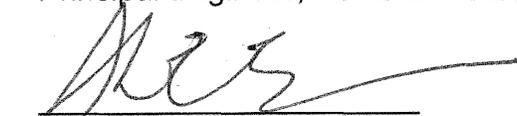
FISCAL IMPACTS

The total project cost is \$165,000, including two identified optional tasks, which may be activated as the project moves forward. Funds for this project are currently budgeted in Water Fund 52 and costs will be shared with Wastewater Fund 51. While this amount is a fraction of the overall \$40 million budget, it will provide important insight into the values of our community and how they want to pay for their water services and infrastructure.

ALTERNATIVES

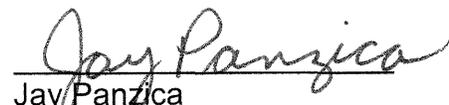
The Council could choose not to seek financial analysis at this time and not approve this agreement. Council could choose to postpone or delay this project until a later date and/or direct staff to reconsider the three other proposals submitted. However, today's challenges call for a fresh look at how we plan our financial resources so that we are able to support the long-term reliability of our important water and wastewater systems. Delays in evaluating our financial options will ultimately limit the amount of funds available to invest in maintenance and capital replacement projects.

Prepared by Susan Rungren,
Principal Engineer, Ventura Water For



Shana Epstein, General Manager
Ventura Water

Concurred and Reviewed as to fiscal impacts



Jay Panzica
Chief Financial Officer

FORWARDED TO THE CITY COUNCIL

Mabi Coronubius Plesky
Office of the City Manager

Attachment A – Raftelis PSA Scope of Work For Cost of Service and Rate Design Study

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Water and Wastewater Cost of Service and Rate Design Study Attachment A

EXHIBIT A STANDARD FORM PROFESSIONAL SERVICE AGREEMENT (City of San Buenaventura and Raftelis Financial Consultants, Inc.)

SCOPE OF WORK DESCRIPTION

The following sections outline the tasks to complete a three-phase comprehensive Cost of Service and Rate Design Study (Study) for Ventura Water.

The first phase is to prepare long-term financial plans for the water and wastewater enterprises that ensure financial sufficiency to cover the operations and capital costs and provide prudent reserves. Consultant will also conduct a rate and charges workshop with Ventura Water to engage the stakeholders in the rate structure design process and to prioritize pricing objectives, which will be used in the design and evaluation of different alternative rate structures.

In the second phase, the Consultant will review, evaluate and perform cost-of-service analyses for Ventura Water. As a result of the analyses, the Consultant will recommend changes to current water and wastewater rate structures to enhance equity, revenue stability, and defensibility consistent with the policy decisions and pricing objectives in Phase 1.

The last phase of the Study is Rate Adoption. Consultant will assist Ventura Water with presenting the results of the Study to the City Council, and the Consultant will prepare the report summarizing the results to address the requirements of Proposition 218.

The tasks in the three phases are shown below. While tasks are listed consecutively, elements of tasks may be conducted concurrently with other tasks.

Phase 1: Financial Plan for Water and Wastewater Enterprise Funds

Task 1: Project Initiation, Management and Data Collection

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

Task 1.1: Data Collection and Kick-off Meeting with City Staff

Prior to the kick-off meeting, the Consultant will submit a detailed data request list to Ventura Water so all appropriate data in the required format can be collected efficiently. This electronic data will include, at a minimum, several years of historical customer billing data and financial information such as approved budgets, financial statements, official statement for debt, and water and wastewater master plans.

The Consultant will conduct a kick-off meeting to provide a solid foundation for the project and serve as a forum for Ventura Water and other City staff to provide input on the project approach, work plan, schedule, and priorities. The meeting's focus is to ensure that project participants are in mutual agreement as to the project goals and expectations. Consultant shall prepare a kick-off meeting package that contains the meeting agenda and presentation materials to guide the discussion.

Meeting(s)/Conference(s): One (1) kick-off meeting

Deliverable(s): Data request list and meeting minutes

Task 1.2: Ongoing Project Management

Consultant shall provide consistent and competent project management to ensure project success and adherence to timelines and budgets. This task involves multiple interrelated work efforts that will require effective coordination between Ventura Water and City staff, Consultant project team, and City Council. Consultant will meet project objectives through effective communication, teamwork, objectivity, and accountability. Project management components will include adoption of procedures for regular and open communication between the project team members and City staff; preparation of regular progress reports to track schedule and budget and to identify potential problems, challenges, and solutions; and coordination of project activities between Consultant and City staff to develop and present project recommendations and deliverables.

Consultant will also be responsible for general administrative duties such as client correspondence, billing, project documentation and administration of the study control plan.

Meeting(s)/Conference(s): One (1) kick-off meeting

Deliverable(s): Data request list and meeting minutes

Task 2: Financial Plan Framework Development

This task involves performing bill frequency analysis to determine the usage patterns, usage block sizes and seasonal usage differentials for different customer groups, and evaluation of the City's financial situation. In addition, this task will include development of specifications for a customized financial planning and rate model for financial projections and policy issues associated with the implementation of the proposed water and wastewater rate structure and future rate adjustments.

Task 2.1: Perform Bill Frequency Analysis

To help the City gain a better understanding of the consumption trends, Consultant will examine the usage patterns of the different customer classes and the associated usage peaks. By analyzing billing consumption trends, the Consultant shall identify customer groups to allow better decision-making regarding rate design and analysis of customer impacts. Based on this historical usage analysis and planning data, the Project Team will develop projections of future water consumption.

Task 2.2: Review and Evaluate Current Financial Information and Recommend Financial Policies and Programs

As part of this task, Consultant shall evaluate the City's operating and capital reserve requirements, financial and rate policies and recommend appropriate changes to the existing policies that will allow the Water and Wastewater Enterprises to most effectively meet financial goals. These financial policy requirements will include identifying appropriate target reserve levels for each enterprise's operating and capital programs; when these reserves can be used; infrastructure replacement funding from operations; debt funding of Capital Improvement Program (CIP), if needed; and debt service coverage designed to allow the City to meet its financial objectives and goals while achieving improved rate stability and revenue sufficiency.

Task 2.3: Develop Model Specifications

Consultant shall develop a user-friendly, flexible Model that the City can use for future financial planning and rates development. The rate Model will include the following features:

- Ability to create, save and compare different financial scenarios for ease of understanding impacts.
- Modeling multiple rate structures for different customer classes;
- Providing flexibility to change various assumptions by year;
- Calculating rates for multiple years and updating rates annually with ease;
- Flagging errors and problematic results such as failure to meet debt coverage, reserves below target levels, etc.;
- Performing sensitivity analyses and running various scenarios so that impacts can be viewed in real-time with built-in screen graphics; and
- Providing forms for easy input, report printing, update, understanding, and administration.

Consultant shall customize the Model to fit the specific needs and unique characteristics of the City. The Model shall contain a variety of user-friendly features including report generation, scenario analysis and Dashboard functionality. The Dashboard is a custom-built analytical tool that allows the model users to make changes to critical variables and see the resulting impacts instantly on the various elements of the City's financial plan. The Dashboard is especially useful during the decision-making process so that Boards and Councils can evaluate the impacts of different rate scenarios instantly.

Meeting(s)/Conference(s): At least one (1) phone conference and one (1) on-site meeting with City staff

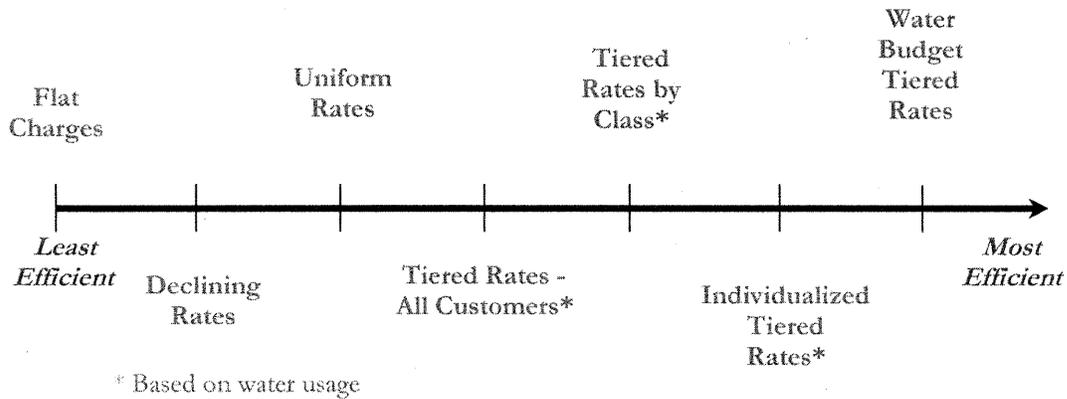
Deliverable(s): Bill Frequency Analysis and Model Specifications

Task 3: Conduct Pricing Objectives Workshop

Consultant will develop pricing objectives and assist City staff and/or stakeholders to prioritize pricing objectives so that the Consultant can efficiently evaluate and recommend rate structure alternatives. A partial list of pricing objectives may include:

- Revenue Sufficiency - Rates should generate revenues sufficient to meet revenue requirements despite fluctuations in flows, usage, variability in treatment costs, loadings, etc.
- Conservation - Rates should be designed to send a signal for conservation
- Defensibility - Rates should be designed according to standard industry practice and in accordance with applicable law such that rate disputes are avoided
- Simplicity and Ease of Implementation - Rates should be readily understandable by customers and be able to be implemented using existing staff and the existing billing and collection infrastructure with only minor modifications, and
- Rate Stability - Rate structure should minimize dramatic rate increases or decreases over the planning period.

Consultant will provide a comprehensive list of pricing objectives to be prioritized by staff. The first figure below shows the different rate structure alternatives that the City may evaluate.



The figure below shows a sample pricing objectives scorecard to be provided by the Consultant.

Classification	Rank Total	Objective	Current Rate Structure	Modified Structure
Most Important	1	Financial Sufficiency	A	A-
	2	Revenue Stability	A-	B+
	3	Rate Stability	B+	B
Very Important	4	Equitable Contrib from New Customers	A	A
	5	Defensibility	C+	A-
	6	Cost of Service Based Allocations	C	A-
Important	7	Conservation/Demand Management	C	A-
	8	Minimization of Customer Impacts	A	B
	9	Ease of Implementation	A	B+
	10	Simple to Understand and Update	A	B+
Least Important	11	Affordability to Disadvantaged Customers	C	B
	12	Economic Development	B	B
OVERALL SCORE			B+	A-

Meeting(s)/Conference(s): One (1) on-site meeting with City staff and City Council
Deliverable(s): Workshop materials and handouts

Task 4: Develop Long-Term Financial Plan

The objective of this task is to develop a forecast of revenue requirements for a ten -year planning horizon. This will include forecasting annual operating and maintenance (O&M) expenses, reserve contributions, review of the master plans to identify capital outlays, pay-as-you-go capital items, and annual debt service. Also, as part of this task, the Consultant will develop cash flow analysis including a profit and loss statement and recommend reserve levels.

Task 4.1: Develop Revenue Requirements

This task will include the projections of budget items, such as annual costs related to sources of water supply, labor, power, materials, capital expenditures, plant investment, operating and maintenance (O&M) expenses, reserve contributions, and debt service using assumptions based on

different economic factors and growth trends. Consultant shall review the City's existing three water sources as well as explore the potential to increase its portfolio of available water resources including recycled water. As part of this task, the Consultant will prepare a financial analysis for future alternative water resource strategies and their associated impacts.

Consultant shall recommend a pass-through funding mechanism for water supply and power cost increases that are outside of the City's direct control. Consultant will also review the City's 2% Public Art requirement policy and right of way calculation.

Consultant will develop a forecast of water and wastewater revenue requirements over the 10-year planning horizon. This will include an estimate of revenues based on current rates, usage characteristics, and other non-operating revenues. Revenue requirements will be projected over the rate-setting period based on historical results, the current budget, capital improvement plans, existing debt service, other obligations and current economic trends. Capital cost financing from rates, debt, low interest SRF loans, grants, taxes, or infrastructure bank loans will be provided as options. Projecting revenue adjustments over a long planning horizon can illustrate future rate impacts and potential challenges to the City's financial situation. This will allow the City to make adjustments to expenses, reserve balances or schedule capital projects to smooth rate impacts and maintain financial stability.

Of particular concerns are the significant capital expenditures related to various options to remove effluent from the Santa Clara River Estuary, including an expansion of the reclaimed water system, which is expected to be in the tens of millions of dollars. Consultant will evaluate and analyze all possible options, related costs and funding mechanisms. Consultant will also review and make recommendations regarding the current relationship with Saticoy Country Club Water System.

Task 4.2: Develop 10-Year Cash Flow Analysis and Recommend Reserve Balances

Consultant will develop a multi-year cash flow analysis to determine the revenue adjustments needed to meet projected revenue requirements for the planning period, minimizing sharp rate fluctuations. The cash flow worksheet incorporates revenues generated from different sources, expenses needed to maintain the water and wastewater systems, any transfers in and out of the enterprise funds, as well as the coverage needed to meet current and proposed debt service requirements. A profit and loss statement will be included. Consultant will also review reserves policies to recommend appropriate reserves balances, such as operating, capital, rate stabilization, etc., consistent with industry standards and the City's risk management practice. The model will be capable of projecting beyond the ten-year planning period.

Meeting(s)/Conference(s): At least two (2) GoToMeeting web conferences and one (1) on-site meeting with City staff

Deliverable(s): 10-year Financial Plan Model and Proposed Revenue Adjustment Schedule

Phase 2: Cost of Service Analysis for Water and Wastewater Enterprises

Task 5: Cost of Service Analysis

Consultant shall conduct a cost of service study based on industry standards and methodologies approved by the AWWA M1 Rate Manual and the SWRCB and WEF. 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 models. Cost allocations among customer classes for the water enterprise will likely be based on the AWWA approved Base-Extra Capacity approach which focuses on the different usage patterns (or peaking factors) demonstrated by each customer class as well as Best Management Practices from the California Urban Water

Conservation Council (CUWCC). Wastewater rates will comply with the SWRCB guidelines to ensure that the City will qualify for potential grants and low interest loans.

Throughout the cost allocation process, the Consultant will comply with City policy considerations, procedures, and currently known federal, state, and local rules, regulations, and guidelines. Additionally, the Consultant will ensure that all proposed rates are in compliance with Proposition 218.

Task 5.1: Review Customer Class Usage Patterns and Recommend Customer Classifications

Consultant shall review and analyze historical water consumption, revenue records, and billing summaries to determine water usage and peaking characteristics by customer class or subclass. For the wastewater utility, the Consultant will examine items such as annual flow and strength and perform a mass balance comparing plant influent to the estimated wastewater generated by the City's users including infiltration and inflow. This analysis will allow the Consultant to appropriately identify loadings from each customer class. This analysis will be based on billing summary data, other locally available data which may be applicable, and the Consultant'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

During the next step, the Consultant will allocate the cost of service to the various cost components that constitute a functional classification of the different types of service the City provides. Functional cost components for water will include base commodity costs, extra capacity costs, private fire protection costs, customer service and other indirect costs. Functional cost components for wastewater include flow, chemical oxygen demand (COD) and suspended solids (SS). These will represent the revenue requirements from these cost components to be met from charges and fees over the study period.

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.

Meeting(s)/Conference(s): None

Deliverable(s): Cost of Service Analysis, Cost Allocation by Customer Class

Task 6: Calculate Water and Wastewater Rates

Task 6.1: Calculate Rates

After conducting the cost allocation analysis, the water and wastewater rates will be calculated for the current and proposed rate structures. During the design process, the Consultant will work within the broad industry guidelines and practices as well as federal, state, and local rules and regulations, particularly the consent decree and Proposition 218 requirements, in order to meet the strategic financial objectives of the City.

Consultant shall develop rate calculation modules to incorporate and evaluate alternative rate structures. The water rate model will have the flexibility to change the tier widths based on customer class and/or meter size. Changes to tiers and rates, as well as changes to water demand, can be done through the scenario analysis options readily to view impacts. The Model will determine the required rate for each tier to collect the required revenue.

In addition, Consultant will review the existing wastewater rate structure and propose alternatives to simplify and provide equity amongst user classes. The industrial users' rates will also be calculated based upon their flow, COD, and SS, as well as all administrative costs related to providing service. All residential and non-residential rates, including parks and/or community gardens rates, will be calculated based on cost of service and will comply with all regulatory requirements, especially Proposition 218. Consultant will also review and evaluate the relationship between existing fixed fire line charges and connection fees.

Task 6.2: Calculate Outside City Rates

The City currently provides water service to County or outside City customers as well as wastewater service to McGrath State Beach Park and the North Coast Communities (Ventura County Service Area 29). Consultant will review and calculate the outside City rates consistent with cost of service principles. Some factors to consider in developing outside City rates include, but are not limited to, the following:

1. Utility approach
2. General Fund provided services
3. Incremental costs of providing service
4. Risk factors such as liabilities, switching to other providers, etc.

Additionally, the Consultant will review the current agreements with McGrath and Area 29 and make recommendations to revise those agreements to ensure full cost recovery to the City. Additionally, the Consultant will review the costs of serving Saticoy Country Club Water System.

Task 6.3: Calculate Customer Impacts

Consultant shall determine the potential financial impacts on customers that may result from the proposed rates. The model will include a series of tables and figures that show projected rate impacts on different types of customers at different level of usage.

Task 6.4: Conduct Rate Survey

Consultant shall conduct a rate survey comparing the recommended rates for all customer classes with those of five (5) neighboring and comparable agencies. Comparing rates with other representative agencies can provide insights into a utility's pricing policies related to service. However, based on the Consultant's experience, the Consultant shall also identify community-specific factors that affect the cost of providing services to provide a wider perspective on pricing differences. Some of these factors may include geographic location, demand, customer constituency, level of treatment, level of grant funding, age of system, level of general fund subsidization, and rate-setting methodology.

Task 6.5: Review and Calculate Miscellaneous Fees

As part of this task, the Consultant will review the City's current miscellaneous fees schedule and calculate the cost of providing those additional services to its customers, such as turn on, turn off fees, late charges, cross connections administrative fees, meter and service installation fees, etc. Consultant shall utilize the City's fully burdened hourly rate schedule and work with the City in estimating the time it takes to complete these tasks. Consultant will seek to identify all of the costs associated with a service provided to ensure that all costs are recovered from those benefiting from the services. The updated fee schedule will be provided to the City as part of this task.

Meeting(s)/Conference(s): At least two (2) web conferences with City staff

Deliverable(s): Draft copy of Water and Wastewater Rate Model in Microsoft Excel® 2007, Rate Survey, and Miscellaneous Fees schedule

Phase 3: Rate Adoption

The goal of this task is to present final recommendations to City staff and City Council and prepare reports detailing the results of the study. Consultant shall present at the Public Hearing and also discuss guidelines for staff training and customer service issues related to implementation.

Task 7: Report Preparation

Task 7.1: Draft Report

The process for developing the financial plan and proposed rate structures along with preliminary rate recommendations will be described by the Consultant in a preliminary report of findings and recommendations. This preliminary report will include an executive summary highlighting the major issues, results, and recommendations of the study. A comprehensive section will include all key assumptions used in the study and methodologies used to develop the user rate calculations and financial planning.

Task 7.2: Final Report

Comments and changes from City staff will be incorporated by the Consultant into the Final Report, which will be refined to reflect appropriate issues or concerns raised by staff. The final report will be submitted to the City and will include appropriate supporting data from the Model to address the requirements of Proposition 218.

Meeting(s)/Conference(s): At least one (1) phone conference with City staff

Deliverable(s): 10 bound copies, 1 unbound copy, and 1 electronic copy of the Final Report

Task 8: Rate Adoption

Task 8.1: Proposition 218 Notice Requirement

Consultant shall work with City Counsel to assist the City in preparing appropriate language for the City's Municipal Code and policy documents to reflect any proposed changes to the rates and/or rate structures as well as reviewing the Proposition 218 notice. The notice is required to be sent out to property owners/customers at least 45 days prior to public hearings. Proposition 218 dictates that an agency cannot collect revenue beyond what is necessary to provide service and that the amount of fee may not exceed the proportional cost of service to the parcel.

Task 8.2: Public Hearing

Consultant shall attend and assist staff to present at one (1) public hearing meeting with City Council on the adoption of the new rate structure.

Task 8.3: Update City Codes

Consultant shall assist City to update the Ventura Municipal Code and other City policy documents to reflect all financial, policy or rate modifications, as needed to be in compliance with new findings.

Meeting(s)/Conference(s): One (1) public hearing meeting

Deliverable(s): Presentation materials for public hearing meeting

Task 9: Implementation Assistance

As part of this task, the Consultant will assist the City in addressing different implementation issues and strategies for successfully adopting the proposed rate structures.

Task 9.1: Public Outreach Meetings

Due to the sensitivity of utilities rates, the Consultant shall support the City as it engages the community in a collaborative process. The Consultant will attend up to four (4) community meetings, including the City Council and possibly the Finance, Audit, and Budget Committee or Advisory Committee, to both share and receive information regarding the purpose and need for the rate adjustments and potentially new rate structures for water and wastewater services.

Consultant will provide information, both verbally and in written forms, to educate the public about the study, its purpose and need, desired outcome, and timeline in an easy-to-understand format for distribution at community meetings. Any formal presentations will be facilitated by the Consultant to provide technical assistance, answer questions regarding the study, and make presentations about the rates and the associated impacts.

Meeting(s)/Conference(s): Up to four (4) on-site public outreach meetings

Deliverable(s): Presentation materials and hand-outs

Task 9.2: Model Training and Manual

At the end of the study, the Consultant will provide training and assistance to City staff on the use, update, and maintenance of the model, especially on the use of the pass-through water costs. 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.

Consultant will also provide an operating manual to City staff detailing the required data inputs, a description of the overall functions of each major component of the model, and a description of the procedures necessary to successfully operate the model, conduct “what-if” analysis, and adjust the model annually to account for changes in users, revenue requirements and other financial parameters. As part of this task, the Consultant will spend half a day with City staff to address any questions and comments that may arise out of the training session. The model will be turned over to the City at the conclusion of the study.

Meeting(s)/Conference(s): One (1) meeting to train City staff on the use of the model

Deliverable(s): Model and Training Manual

Task 10 – Economic Impact of Groundwater Enhancement Facilities

The City is required by the California Department of Public Health (DPH) to reduce the total dissolved solids (TDS) in potable water to meet secondary standards. CDPH will allow the City to continue delivering water with levels of TDS exceeding secondary standards, if it is determined that customers are not willing to pay higher rates to fund additional treatment costs. The City desires to calculate the financial impacts to customers resulting from the capital and operating costs of additional groundwater treatment processes and/or facilities. Consultant shall review the existing reports related to construction and operational costs of the treatment facilities and determine possible rate increases to customers. The City intends to poll customers to determine their willingness to fund the higher costs. The Consultant will incorporate the resultant costs, if any, into the cost of service analysis.

Optional Task(s)

Task 11: Stakeholder Meetings

Consultant shall conduct up to six stakeholder meetings with a representative group of customers. Stakeholders will be provided input on the rate study process from beginning to end. The purpose of these meetings is to ensure that stakeholder viewpoints are evaluated and responded to as revenue programs are crafted. The Consultant will prepare presentations for each meeting and provide presentation to staff before each meeting for comment and incorporation into presentations. The Consultant will assist in preparing the final presentation by the stakeholders to City Council. This task incorporates two incremental meetings along with four from Task 9.1.

Meeting(s)/Conference(s): Total of Six stakeholder meetings (Task 9.1 4 meetings + 2 additional meetings)

Deliverable(s): Presentations for each meeting

Task 12: Water Budget Rates

Development and implementation of a successful water budget rate structure requires buy-in from policy makers. Since water budgets are developed for each individual customer, there is extensive data compilation and analysis. If the City determines that a water budget rate structure is the best option for implementation, Consultant shall perform the following additional tasks:

Task 12.1: Policy Workshop

Consultant shall present several policy options and the objectives associated with each policy to the City Council or stakeholders.

Shown below is an example of the objectives associated with different options for estimating landscape areas: measured by GIS, 30 percent of lot size, or varying percentage of lot size by lot size bins. The objectives associated with estimating landscape areas include low administrative

OPTIONS FOR ESTIMATING LANDSCAPE AREAS

Options	Less Cost to Administer	Based on Individual Needs	Scientific Method	Rewards Past Outdoor Conservation
GIS	★	★★★★	★★★★	★
30% of Lot Size	★★★★ / ★	★	★	★★★★
% by Lot Size Bin	★	★★★	★★★	★★★★

cost, individualized needs, scientific method, and rewarding past outdoor conservation. If administrative cost and rewarding past outdoor conservation are considered the most important, then 30 percent of lot size option should be recommended. Similar exercises will be completed

for all of the policy options. Consultant shall work closely with the City to identify the policy options that need Council/stakeholder buy-in. This approach will facilitate informed decision making and ensure early buy-in.

Consultant shall summarize the outcome of the Workshop and the recommended water budget framework that best fits the City's needs. A concise memo will be provided that contains an explanation of all of the components of the proposed allocation factors for the associated tiers.

Meetings/Conferences: One (1) on-site meeting with City Council/Stakeholders

Deliverables: Workshop materials, handouts, and Rate Structure Framework Memo

Task 12.2: Develop Water Budget Rates Model and Rates

Based on the conservation framework developed, Consultant shall develop a Conservation Rate Model (Model) that will calculate rates and conduct revenue and customer impact analyses. The Model will utilize representative consumption data provided by the City and the associated landscape area for each account.

The water budget rate model (Model) will have the following standard features:

- **Parameters for Water Budget.** The ability to change the default values for the water budget parameters, such as gallons per capita per day or ET adjustment factors.
- **Methodology to Estimate Landscape Area.** The ability to choose different methodologies of estimating irrigable landscape area including percentage of lot size, or percentage of lot size less building footprint or landscape area with ability to apply landscape area caps for large residential lots to preclude mega water budgets. City will provide RFC the lot size and/or landscape area for residential and irrigation properties to be charged under this rate structure.
- **Rates and Tiers.** The Model calculates the commodity rates based on the required revenue requirement components and projected usage in each tier. The usual components include water supply cost, City's unrecovered fixed cost, conservation program costs, and any other water program costs such as desalinated water, recycled water, etc. The Model will provide the flexibility to evaluate different policy options regarding the recovery of the City's unrecovered fixed costs and conservation program costs. In addition, the Model will be able to easily update tiered rates based on the required future revenue requirements.

Deliverable: Water Budget Rate Model

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SCHEDULE

PROJECT SCHEDULE

Phase	Task No.	Task Description	No. of Meetings	Aug-11	Sep-11	Oct-11	Nov-11	Dec-11	Jan-12	Feb-12	Mar-12	Apr-12	May-12
1	1	Project Initiation, Management and Data Collection	1										
	2	Financial Plan Framework Development	1										
	3	Pricing Objectives Workshop	1										
	4	Develop Long-Term Financial Plan	1										
2	5	Cost of Service Analysis											
	6	Calculate Water and Wastewater Rates											
3	7	Report Preparation											
	8	Rate Adoption	1										
	9	Implementation Assistance	5										
	10	Economic Impact of Desalination Facilities											
	11	Stakeholder Meetings (Task 9 or 10)											
	12	Water Budget Rates (optional)											

-  Represents Web Conference with City Staff via GoToMeeting™
-  Represents Kick-Off Meeting
-  Represents Meetings with City Staff
-  Represents Presentation to City Council at Workshop
-  Represents Council Meetings & Public Outreach Efforts

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EXHIBIT B
STANDARD FORM PROFESSIONAL SERVICE AGREEMENT
(City of San Buenaventura and Raffelis Financial Consultants)
SCHEDULE OF COMPENSATION

MAXIMUM COMPENSATION

Consultant shall complete all the work and tasks described in Exhibit A (Task 1 through 12) for a total amount of compensation, including out-of-pocket expenses, that does not exceed \$165,000.

TASKS	Cost
1: Project Initiation, Management and Data Collection	17,520
2: Financial Plan Framework Development	6,420
3: Pricing Objectives Workshop	4,940
4: Develop Long-Term Financial Plan	21,020
5: Cost of Service Analysis	13,880
6: Calculate Water and Wastewater Rates	17,100
7: Report Preparation	21,500
8: Rate Adoption	6,180
9.1: Public Outreach	19,260
9.2: Model Training and Manual	6,640
10: Economic Impact of Groundwater Treatment	7,440
11: Stakeholder Meetings (optional)	13,100
12: Water Budget Rates (optional)	10,000
CONTRACT NOT-TO-EXCEED	\$165,000

BILLING

Consultant will invoice City based on the percent complete of each task, not more than once monthly to following address:

City of Ventura
Attn: Accounts Payable
P.O. Box 99
Ventura, CA 93002-0099
Fax (805) 648-1809

TIME OF PAYMENT

Payment to Consultant shall be made within thirty (30) days after submittal of Consultant's invoice and approval by City.