



Agenda Item #: _____

Staff Report

City of Manhattan Beach

TO: Honorable Mayor Montgomery and Members of the City Council

THROUGH: Geoff Dolan, City Manager

FROM: Jim Arndt, Director of Public Works
Bruce Moe, Director of Finance

DATE: February 17, 2009

SUBJECT: Award of Professional Services Contract to FCS Group in the net amount of \$89,720 for the Water and Sewer Rate Analysis

RECOMMENDATION:

Staff requests that the City Council pass a motion to approve the award of a professional services contract to FCS Group in the net amount of \$89,720 for the Water and Sewer Rate Analysis.

FISCAL IMPLICATION:

The City had budgeted \$100,000 for the completion of the analysis in the City's 2008-2009 Capital Improvement Program.

DISCUSSION:

The City is responsible for reviewing and setting utility rates for both water and sewer operation and infrastructure replacement. In order to provide sustainability to the utility, it is essential that rates periodically be evaluated to ensure proper charges are assessed to various user classes and that all operations, infrastructure, and reserves are adequately funded (last rate review occurred in 1994).

The utility rates have several concurrent and significant issues that may potentially place demands on the rates and the sustainability of the system(s), including:

Utility Master Plan Study

The City is currently under contract with AKM Consulting Engineers for a Utility Master Plan Study. Included in the AKM Scope of Work (City Council agenda – August 5, 2008), is their calculation of both the water and sewer systems replacement values and condition. Given the age of the systems, it is crucial to determine the level of infrastructure construction required to maintain the system. The City currently expends up to \$850,000/year for replacement of water (\$500,000) and sewer (\$350,000) system infrastructure. Based on an estimated replacement value of \$200,000,000, an 80-year asset life, and provided the condition of the system is “adequate,” \$2,500,000/year of investment would be required to provide sustainability of the system. Results

of the AKM Master Plan Study will aid the City to determine what the actual condition the system is in, as well as the revenues needed to establish sustainability.

Revenue Levels and Policies

Currently, utility reserves serve the purpose of providing back up for increased operational costs, infrastructure funding, and reserves for unforeseen circumstances. Reserves are generated through utility rates and interest rates earned from utility cash assets. Although the Water Utility has had seemingly adequate reserves, the past year yielded a \$489,873 net operating loss to the water utility, thus reducing reserves. It is projected that given significant increased operational costs (wholesale water costs, etc.) no funding of capital infrastructure will be possible after 2009-2010 unless rates are raised to cover costs. Similarly, capital funding will not be available for wastewater infrastructure construction.

Review of reserves and the policies surrounding the utility will aid the City in the fundamental planning necessary to ensure sustainability.

Water Shortage Impacts

The City's prime source of water is the Metropolitan Water District (MWD). In preparation for the current water shortage and the increased costs of procuring water, MWD has alerted wholesale agencies that 2009-2010 water rates will increase by 21%, with subsequent increases likely to be in that range. Additionally, if water allocation reductions are adopted, the City could face severe penalties for not meeting allocation reductions established. Given the various permutations that may occur with consumer cutbacks, increased penalties to the City for non-compliance, wholesale costs could more than double from current costs. Added to the unpredictability of the rate revenue stream is the response by users in reducing their water use, thereby decreasing revenue. Wastewater revenue will also be impacted by reduced water consumption, as wastewater user fees are based on water use.

Finally, the City will review establishing a tiered rate approach to rates to incent water conservation. Impacts of such rate structure on water use and revenue generation adds to the vulnerability of water/sewer rates.

Consultant Selection

The city issued an RFP to consultants familiar with water and sewer rate analysis studies for the proposed Utility Rate Analysis. Nine proposals were received from which three consultants (FCS, HDR, and Kennedy/Jenks) were selected for an interview and further in depth analysis.

The general Scope of Work for the consultant's proposal included:

1. Policy Framework: Identify, analyze, and agree on key policy issues such as:
 - a. Financial management policies (reserves, capital funding strategies, etc.)
 - b. Rate policy issues (rate structure objectives and alternatives).
2. Long Range Fiscal (Revenue Requirement) Models: Develop long term forecasting models to ensure the fiscal health of the City's water and wastewater utilities:
 - a. Forecast of revenues and expenditures.

- b. Establish revenue requirement.
3. Documentation: Prepare a report summarizing findings and recommendations; develop a model user guide to facilitate use of work product by City Staff.
4. Summary of Rate Policy Recommendations: A key product of the analytical effort will be a set of policy recommendations that will facilitate informed and financially responsible decisions by City Staff and policy makers. Topics included in a series of issues papers shall include:
 - a. Repair and replacement funding.
 - b. Reserve funding.
 - c. Financial performance standards.
 - d. Capital funding strategies.
 - e. Utility overhead analysis.

Each issue paper shall be dedicated to each of the above key issues and shall outline and analyze the key issues and offer recommendations.

5. Meetings To Attend: At a minimum, the Consultant shall attend the following meetings on-site:
 - Kick off meeting with City staff.
 - Review of rate policy recommendations with City Manager and key staff.
 - Review rate structure with staff, and environmental task force sub-committee.
 - Review preliminary recommendations with City Manager, staff, and Council sub-committee.
 - Presentation of rates and policy recommendations to the City Council.
 - Training for running rate model.

A selection committee consisting of Tim Lilligren (City Treasurer), Bruce Moe (Finance Director), and Jim Arndt (Public Works Director) held the consultant interviews. The proposals were evaluated based on the strength of the proposed project team with respect to the firms' experience with projects of this nature, the understanding of key issues involved, anticipated level of effort for the different tasks, and the overall project schedule. The selection committee is recommending awarding the contract to FCS Group for the following reasons:

1. Excellent experience on similar projects.
2. Identification and understanding of key project issues.
3. Appropriate level of staffing for the size and complexity of the project.
4. Scope of work was thoroughly outlined with a good understanding of the level of effort required to complete the project in a timely manner.
5. Exceptional communication skills necessary to present complex portions of Scope of Work to various committees and task forces that will review the product.

All work in the FCS contract is expected to be completed by July 1, 2009 and will assist the City in rate review/adjustment for the 2009/10 City budget.

As noted in the "Recommendation" section of the report, staff is recommending awarding the contract to FCS Group in the net amount of \$89,720. All fee proposals were submitted under

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separate cover and not used in the consultant selection. Proposal costs for the other finalists were \$72,200 for Kennedy/Jenks, and \$123,755 for HDR.

Attachment: Consultant Contract

AGREEMENT

THIS AGREEMENT is made this _____ day of February, 2009, by the CITY OF MANHATTAN BEACH, a municipal corporation, ("CITY"), and Financial Consulting Solutions Group, Inc. (dba FCS Group, Inc.), a corporation, ("CONTRACTOR").

RECITALS

The following recitals are a substantive part of this Agreement:

1. City is desirous of obtaining services necessary to provide a water and sewer rate analysis;
2. CONTRACTOR is qualified by virtue of experience, training, education, and expertise to accomplish these services.

AGREEMENT

THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. **Term of Agreement.** This Agreement shall terminate on July 1, 2009 unless earlier terminated as provided below.

1.1 **Termination.** CITY and CONTRACTOR shall have the right to terminate this Agreement, without cause, by giving thirty(30) days written notice. Upon receipt of a termination notice, CONTRACTOR shall:

- (1) promptly discontinue all services affected (unless the notice directs otherwise); and
- (2) promptly deliver all data, reports, estimates, summaries, and such other information and materials as may have been accumulated by CONTRACTOR in performing the Agreement to CITY, whether completed or in progress. CONTRACTOR shall be entitled to reasonable compensation for the services it performs up to the date of termination.

2. **Services to be Provided.** The services to be performed by CONTRACTOR shall be those set forth in Exhibit "A", Scope of Work, which is attached hereto and incorporated herein by this reference.

3. **Compensation.** CONTRACTOR shall be compensated as follows:

3.1 **Amount.** Compensation under this Agreement shall not exceed eighty-nine thousand, seven hundred and twenty dollars (\$89,720).

3.2 **Payment.** For work under this Agreement, payment shall be made per monthly invoice for direct time and expenses. For extra work not a part of this Agreement, written authorization by CITY will be required. Payment shall be based on hourly rates in Exhibit "B".

4. **Professional Standards.** CONTRACTOR shall maintain or exceed the level of competency presently maintained by other similar practitioners in the State of California, for professional and technical soundness, accuracy and adequacy of all work, advice, and materials furnished under this Agreement.

5. **Time of Performance.** CONTRACTOR shall complete all services required hereunder as and when directed by CITY according to the schedule as set forth in Exhibit "A". However, CITY in its sole discretion, may extend the time for performance of any service.

6. Insurance Requirements.

6.1 Commencement of Work. CONTRACTOR shall not commence work under this Agreement until it has obtained CITY approved insurance. Before beginning work hereunder, during the entire period of this Agreement, for any extensions hereto, and for periods after the end of this Agreement as indicated below, CONTRACTOR must have and maintain in place, all of the insurance coverages required in this Section 7. CONTRACTOR'S insurance shall comply with all items specified by this Agreement. Any subcontractors shall be subject to all of the requirements of this Section 7 and CONTRACTOR shall be responsible to obtain evidence of insurance from each subcontractor and provide it to CITY before the subcontractor commences work.

All insurance policies used to satisfy the requirements imposed hereunder shall be issued by insurers authorized to do business in the State of California. Insurers shall have a current A.M. Best's rating of not less than A-VII unless otherwise approved by CITY.

6.2 Coverages, Limits and Policy Requirements. CONTRACTOR shall maintain the types of coverages and limits indicated below:

(1) **COMMERCIAL GENERAL LIABILITY INSURANCE** - a policy for occurrence coverage, including all coverages provided by and to the extent afforded by Insurance Services Office Form CG 0001 ed. 11/88 or 11/85, with no special limitations affecting CITY. The limit for all coverages under this policy shall be no less than one million dollars (\$1,000,000.00) per occurrence. CITY, its employees, officials and agents, shall be added as additional insureds by endorsement to the policy. The insurer shall agree to provide the City with thirty (30) days prior written notice of any cancellation, non-renewal or material change in coverage. The policy shall contain no provision that would make this policy excess over, contributory with, or invalidated by the existence of any insurance, self-insurance or other risk financing program maintained by CITY. In the event the policy contains such an "other insurance" clause, the policy shall be modified by endorsement to show that it is primary for any claim arising out of the work performed under this Agreement. The City of Manhattan Beach Insurance Endorsement Form No. 1 (General Liability) must be executed by the applicable insurance underwriters.

(2) COMMERCIAL AUTO LIABILITY INSURANCE - a policy including all coverages provided by and to the extent afforded by Insurance Services Office form CA 0001, ed. 12/93, including Symbol 1 (any auto) with no special limitations affecting the CITY. The limit for bodily injury and property damage liability shall be no less than one million dollars (\$1,000,000) per accident. CITY, its employees, officials and agents, shall be added as additional insureds by endorsement to the policy. The insurer shall agree to provide the City with thirty (30) days prior written notice of any cancellation, non-renewal or material change in coverage. The policy shall contain no provision that would make this policy excess over, contributory with, or invalidated by the existence of any insurance, self-insurance or other risk financing program maintained by CITY. In the event the policy contains such an "other insurance" clause, the policy shall be modified by endorsement to show that it is primary for any claim arising out of the work performed under this Agreement. The City of Manhattan Beach Insurance Endorsement Form No. 2 (Auto) must be executed by the applicable insurance underwriters.

(3) WORKERS' COMPENSATION INSURANCE - a policy which meets all statutory benefit requirements of the Labor Code, or other applicable law, of the State of California. The minimum coverage limits for said insurance shall be no less than one million dollars (\$1,000,000) per claim.

6.3 Additional Requirements. The procuring of such required policies of insurance shall not be construed to limit CONTRACTOR'S liability hereunder, nor to fulfill the indemnification provisions and requirements of this Agreement. There shall be no recourse against CITY for payment of premiums or other amounts with respect thereto. CITY shall notify CONTRACTOR in writing of changes in the insurance requirements. If CONTRACTOR does not deposit copies of acceptable insurance policies with CITY incorporating such changes within sixty (60) days of receipt of such notice, CONTRACTOR shall be deemed in default hereunder.

Any deductibles or self-insured retentions must be declared to and approved by CITY. Any deductible exceeding an amount acceptable to CITY shall be subject to the following changes:

- (1) either the insurer shall eliminate, or reduce, such deductibles or self-insured retentions with respect to CITY and its officials, employees and agents (with additional

premium, if any, to be paid by CONTRACTOR) ; or

- (2) CONTRACTOR shall provide satisfactory financial guarantee for payment of losses and related investigations, claim administration, and defense expenses.

6.4 Verification of Compliance. CONTRACTOR shall furnish CITY with original endorsements effecting coverage required by this Agreement. The endorsements are to be signed by a person authorized by the insurer to bind coverage on its behalf. All endorsements are to be received and approved by CITY before work commences. Not less than fifteen (15) days prior to the expiration date of any policy of insurance required by this Agreement, CONTRACTOR shall deliver to CITY a binder or certificate of insurance with respect to each renewal policy, bearing a notation evidencing payment of the premium therefor, or accompanied by other proof of payment satisfactory to CITY.

7. Non-Liability of Officials and Employees of the CITY. No official or employee of CITY shall be personally liable for any default or liability under this Agreement.

8. Non-Discrimination. CONTRACTOR covenants there shall be no discrimination based upon race, color, creed, religion, sex, marital status, age, handicap, national origin, or ancestry, in any activity pursuant to this Agreement.

9. Independent Contractor. It is agreed that CONTRACTOR shall act and be an independent contractor and not an agent or employee of CITY, and shall obtain no rights to any benefits which accrue to CITY'S employees.

10. Compliance with Law. CONTRACTOR shall comply with all applicable laws, ordinances, codes, and regulations of the federal, state, and local government.

11. Ownership of Work Product. All documents or other information created, developed or received by CONTRACTOR shall, for purposes of copyright law, be deemed works made for hire for CITY by CONTRACTOR as CITY'S employee(s) for hire and shall be the sole property of CITY. CONTRACTOR shall provide CITY with copies of these items upon demand and in any event, upon termination or expiration of the term of this Agreement.

12. Conflict of Interest and Reporting. CONTRACTOR shall at all times avoid conflict of interest, or appearance of conflict of interest, in performance of this Agreement.

13. Notices. All notices shall be personally delivered or mailed to the below

listed addresses. These addresses shall be used for delivery of service of process.

a. Address of CONTRACTOR is as follows:

Financial Consulting Solutions Group, Inc.
7525 166th Ave NE, Suite D-215
Redmond, WA 98052
Attn: Edward Cebron

b. Address of CITY is as follows:

City of Manhattan Beach
1400 Highland Ave
Manhattan Beach, CA 90266

(with a copy to):

City Attorney
City of Manhattan Beach
1400 Highland Ave
Manhattan Beach, CA 90266

14. **Contractor's Proposal.** This Agreement shall include CONTRACTOR'S proposal or bid which is incorporated herein. In the event of any inconsistency between the terms of the proposal and this Agreement, this Agreement shall govern.

15. **Licenses, Permits, and Fees.** CONTRACTOR shall obtain a Manhattan Beach Business License, all permits, and licenses as may be required by this Agreement.

16. **Familiarity with Work.** By executing this Agreement, CONTRACTOR warrants that:

- (1) it has investigated the work to be performed;
- (2) it has investigated the site of the work and is aware of all conditions there; and
- (3) it understands the difficulties and restrictions of the work under this Agreement. Should CONTRACTOR discover any conditions materially differing from those inherent in the work or as represented by CITY, it shall immediately inform CITY and shall not proceed, except at CONTRACTOR's risk, until written

instructions are received from CITY.

17. **Time of Essence**. Time is of the essence in the performance of this Agreement.

18. **Limitations Upon Subcontracting and Assignment**. Neither this Agreement, or any portion, shall be assigned by CONTRACTOR without prior written consent of CITY.

19. **Authority to Execute**. The persons executing this Agreement on behalf of the parties warrant that they are duly authorized to execute this Agreement.

20. **Indemnification**. CONTRACTOR agrees to indemnify, defend, and hold harmless CITY and its elective or appointive boards, officers, agents, attorneys and employees from any and all claims, liabilities, expenses, or damages of any nature, including attorneys' fees arising out of, or in any way connected with performance of, the Agreement by CONTRACTOR, CONTRACTOR'S agents, officers, employees, subcontractors, or independent contractor(s) hired by CONTRACTOR. This indemnity shall apply to all claims and liability regardless of whether any insurance policies are applicable. The policy limits do not act as a limitation upon the amount of indemnification to be provided by CONTRACTOR.

21. **Modification**. This Agreement constitutes the entire agreement between the parties and supersedes any other agreements, oral or written. No promises, other than those included in this Agreement, shall be valid. This Agreement may be modified only by a written agreement executed by CITY and CONTRACTOR.

22. **California Law**. This Agreement shall be construed in accordance with the laws of the State of California. Any action commenced about this Agreement shall be filed in the appropriate branch of the Los Angeles County Municipal or Superior Court.

23. **Interpretation**. This Agreement shall be interpreted as though prepared by both parties.

24. **Preservation of Agreement**. Should any provision of this Agreement be found invalid or unenforceable, the decision shall affect only the provision interpreted, and all remaining provisions shall remain enforceable.

25. **Entire Agreement**. This Agreement supersedes any and all other

agreements, either oral or in writing, between the parties with respect to the subject matter herein. Each party to this Agreement acknowledges that representations by any party not embodied herein, and any other agreements, statements, or promises concerning the subject matter of this Agreement, not contained in this Agreement, shall not be valid and binding. Any modification of this Agreement will be effective only if it is in writing signed by the parties. Any issue with respect to the interpretation or construction of this Agreement are to be resolved without resorting to the presumption that ambiguities should be construed against the drafter.

26. **Attorneys' Fees.** In the event that legal action is necessary to enforce the provisions of the Agreement, or to declare the rights of the parties hereunder, the parties agree that the prevailing party in the legal action shall be entitled to recover attorneys' fees and court costs from the opposing party.

IN WITNESS THEREOF, the parties hereto have executed this Agreement on the day and year first shown above.

CONTRACTOR

By

CITY OF MANHATTAN BEACH

By

ATTEST:

City Clerk

APPROVED AS TO FORM:

City Attorney

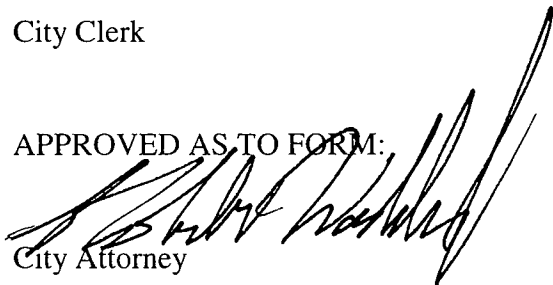
A large, stylized handwritten signature in black ink, written over the printed text 'APPROVED AS TO FORM:' and 'City Attorney'.

EXHIBIT A

SCOPE OF WORK AND TASK PLAN

The following task plan defines the effort for undertaking the data review, policy review, analysis, review and documentation of the rate study process. Within this task plan, specific work products have been defined.

Task 1 - Project Management and Communication

FCS GROUP will keep an open line of communication with the City through meetings and a project management and control plan. This plan will establish the protocols for communication and data transfer. The plan will help to minimize the time impacts on staff, while enhancing data transfer from staff.

1.1 Kick-off Meeting & Data Collection – FCS GROUP will hold an on-site project kick-off meeting with City staff to review the scope of work, background information, initial data needs, and to establish appropriate lines of communication for any arising concerns. The history and context of existing fees will be reviewed and discussed as well as management preferences related to the project. FCS GROUP will develop a preliminary written data request that will precede the project kick-off meeting, so that readily available materials can be assembled and remaining data needs can be reviewed and discussed. The data request will address current fiscal policies and practices, historical and projected operational and maintenance expenditures, operating transfers, non-operating revenues, debt service requirements, replacement funding, capital improvement needs and customer data.

1.2 Communication Plan – Following the kick-off meeting, FCS GROUP will develop a project management and control plan to facilitate communication with the City regarding progress, technical issues and planned activities. This plan will establish the protocols for communication and data transfer. The plan will help to minimize the time impacts on staff while enhancing data transfer. Our project manager will be the primary client contact for data collection and analysis, with direct and targeted interaction with the managing principal-in-charge, technical advisor, and analyst. We will thoroughly review the data received for adequacy and completeness and assess the need for additional data. As necessary, FCS GROUP will work with the City to develop a plan to fill in any data gaps when there are omissions or deficiencies in the data.

Task 2 - Prepare Budget Projections and Assess Revenue Requirements

FCS GROUP will perform a financial analysis which evaluates utility revenue requirements that account for all costs associated with operating and maintaining the water and wastewater utilities. These analyses will rely on historic expenditures; projected operating, non-operating, debt-related and capital expenditures; increased demands; and, projected revenues.

The analyses will be captured in financial planning models. The models will be structured to project revenue needs related to a 30-year planning horizon. The model will allow the user to evaluate both short- and long-term rate strategies in a comprehensive manner and will calculate rate revenue requirements based on cash flow, bond coverage, and fiscal policy requirements.

2.1 Policy Framework / Fiscal Policies Review – FCS GROUP will work with the City to identify, analyze, and agree on financial management policies and rate policy issues. In developing the financial

models, we will review and evaluate each utility's current guiding fiscal policies as they relate to capital funding, and appropriate operating, capital, rate stabilization and connection charge reserves/funds. As requested by the City, we will develop fiscal policy issue papers that address repair and replacement funding, reserve funding, financial performance standards, capital funding strategies, and utility overhead. We also propose to add an issue paper addressing the role of capital facilities charges in a mature utility. Each issue paper will be dedicated to the key issue identified above and will provide recommendations. For instance, the reserve policy paper will include a description of the recommended reserve, metrics for an appropriate reserve level, and potential policies on replenishing and liquidating the reserve.

After the issue papers have been developed, FCS GROUP will hold a meeting with the City Manager and key management to review the rate policy recommendations. Based on the results of this review, we will incorporate the fiscal policies into our models by tracking fund balances, interest earnings, use of capacity fees, deposits and withdrawals to rate stabilization and capital reserves, and tracking the operating reserve as a way to assess the impacts on adjustments to water and sewer rates.

FCS GROUP will also meet with utility management and the environmental task force sub-committee to review and evaluate potential rate structure alternatives. Based on our experience, we will advise the City on key features which help promote policy objectives while retaining equitable cost recovery. From this session, multiple rate structure alternatives will be identified for analysis and development. In developing water rates, FCS GROUP will examine fixed and variable costs that the City incurs. This cost split can be used to allocate and recover these costs equitably through a fixed service charge and a variable commodity charge. Finally, this policy review will address potential drought rate structures, the City's objectives in achieving water usage curtailments, and the effect of these curtailments on the City's wastewater utility. As part of this process, FCS GROUP will review any City policies or ordinances that address drought structures, and make any recommendations as necessary.

2.2 Revenue Requirement – At the foundation of any utility rate study is a revenue requirement, which uses projected cash flows and debt service requirements to project revenue shortfalls. Using historical records, FCS GROUP will project future operating and maintenance expenditures. Ongoing expenditures will be escalated annually on a line-item basis using a range of escalation factors. For example, variable costs, such as power, will increase not only by general cost inflation, but also with increases in utility demands. Additionally, debt and non-operating revenues and expenditures will also be evaluated.

FCS GROUP will incorporate the City's capital improvement program within its analysis, including all future capital improvement projects identified through AKM Consulting Engineers' Utility Master Plan Study. It is our understanding that the Master Plan Study will include a rating and prioritization of improvements to the system. This prioritization will be used in our review of capital funding scenarios. FCS GROUP will recommend a capital funding strategy based on debt ratios, replacement and expansion needs, funding sources, and rate impacts. To the extent necessary, the model will also utilize cost "S"-curves that take into account the timing, duration and costs of specific projects. This feature will allow staff to review potential projects from a fiscal perspective and assess the feasibility of such projects before spending too much time and money evaluating potential projects from an engineering standpoint.

Using these projections, FCS GROUP will develop financial models for each utility that incorporate the preceding tasks and assess the forecasted revenues through a cash flow sufficiency test and debt service coverage test. The result of the analyses will be a projection of revenue required to service total service operations and debt. The model will consist of a functional set of methods and data and will allow the City to update revenues and expenses, and calculate costs associated with the purchase, distribution, and treatment of water and wastewater.

Task 3 - Develop Proposed Utility Rates Based on Cost of Service

The rate design analysis determines, using system planning and statistical data, and a cost allocation analysis defines an equitable cost-based rate burden. Since restructuring rates will almost inevitably shift cost burdens, a valid cost allocation analysis is essential to ensuring this equitable allocation and recovery of costs. Our proposal therefore begins with a management review of general rate options, is then supported by a cost analysis process, and returns to a review of specific rate proposals.

3.1 Customer Data Analysis – FCS GROUP will evaluate historical billing information. Due to the variable nature of utility rates, it is important to evaluate a multi-year trend and determine the potential revenue lulls during low-usage years. We will thoroughly examine the usage data, calibrating billing records against actual rate revenues to prevent over or under estimation of the City's customer base. We will also identify City specific price elasticity factors by customer class as patterns are discernable within the customer data. This is a critical step in setting appropriate and sufficient rates.

3.2 Develop Proposed Rates – This task involves three separate components – 1) allocating costs by function, 2) allocating costs by customer class, and 3) calculating water, drought and wastewater rates. As a part of this process and due to the reliance on MWD as a source of water, we will review available information on the MWD's projected rate increases and evaluate the effect on the City, including evaluating allocation and demand projections. Based on the rate evaluation performed under the previous tasks, FCS GROUP will develop rates for each utility based on the preferred rate structures. These rates will be based on "cost-of-service" principles that incorporate the work performed in all previous tasks and will adhere to Proposition 218 requirements. We will develop rates using a financial model that we will develop tailored to the City's data and needs.

3.2.1 Potential Drought Rates – As a part of our development of potential rate structures, FCS GROUP will also review the potential for establishing drought rates for the City. In this review, we will consider the extent that the City already maximizes its use of wells when determining the net impact of any future curtailment requirements. The review will also include an analysis of price elasticity factors for the City's customers. Based on our experience and research, we know that price elasticity factors differ not only by customer class (where commercial customers are more price sensitive than residential customers), but these factors will also vary *within* a customer class. We will account for this interclass variation based on the City's customer usage distribution, which can have a significant impact on a utility's water rate pricing strategy. The financial model will utilize multiple price elasticity factors that vary not only between user classes, but also within user classes between tiers. This detail-oriented approach addresses several nuances that must be accounted for when developing defensible, revenue neutral drought rates.

3.2.2 Capital Facilities Charges – Although not requested in the RFP, the development of capacity charges provides both a revenue and equity opportunity for the City. FCS GROUP will use the information gathered in the infrastructure studies by AKM Consulting Engineers, and through the rate study, to develop a limited analysis of potential capital facilities charges. Specifically, the charges will be developed by identifying and analyzing the system's replacement cost in relation to the customer base. In the context of the cost-of-service rate study, this analysis can also provide a valuable tool for potentially sizing block rates and other rate design features.

3.3 Internal Review – FCS GROUP will conduct an independent and objective review of the proposed rates for each utility. This review will be performed by a senior project manager with extensive experience developing utility rates. This proposed task is additive to the City's original project scope. However, we believe this proposed QA/QC process is vital to delivering tested and defensible recommendations. We believe the level of this review is unique and reflects the depth of our resources.

Task 4 - Project Review Meetings, and Draft and Final Reports

Based on the findings and recommendations of this study, FCS GROUP will develop a draft and final report, attend meetings with staff, and present to City Council. In total, six onsite sessions of various types are contemplated: a kick-off meeting (Task 1); two management review meetings; two Council/committee sessions; and a training session.

4.1 Project Review Meetings – FCS GROUP will participate in progress meetings with City staff, the environmental task force sub-committee, and the City Manager. We have scoped two (2) on-site project review meetings. These meetings include a review of rate policy recommendations with the City Manager and key staff, a review of rate structures with staff and the environmental task force sub-committee, and a review of the preliminary recommendations with key City staff and the City Manager. As described elsewhere, we will also be on-site for a project kick-off meeting, training of the rate model, and two presentations to City Council. The technical manager will attend all on-site meetings, trainings and presentations while the managing principal-in-charge will attend the project kick-off meeting, one of the two project review meetings, and the two presentations to City Council. Further, the managing principal-in-charge and technical manager will also be available via teleconference for additional project review meetings and updates, as necessary.

4.2 Prepare Draft Report – After all analyses have been performed, FCS GROUP will develop a draft report. The report will contain an executive summary that provides a clear and concise overview of the study and its recommendations. The main body of the report will provide additional detail and supporting charts and graphs. FCS GROUP will provide an electronic version of the draft report for staff review and comment.

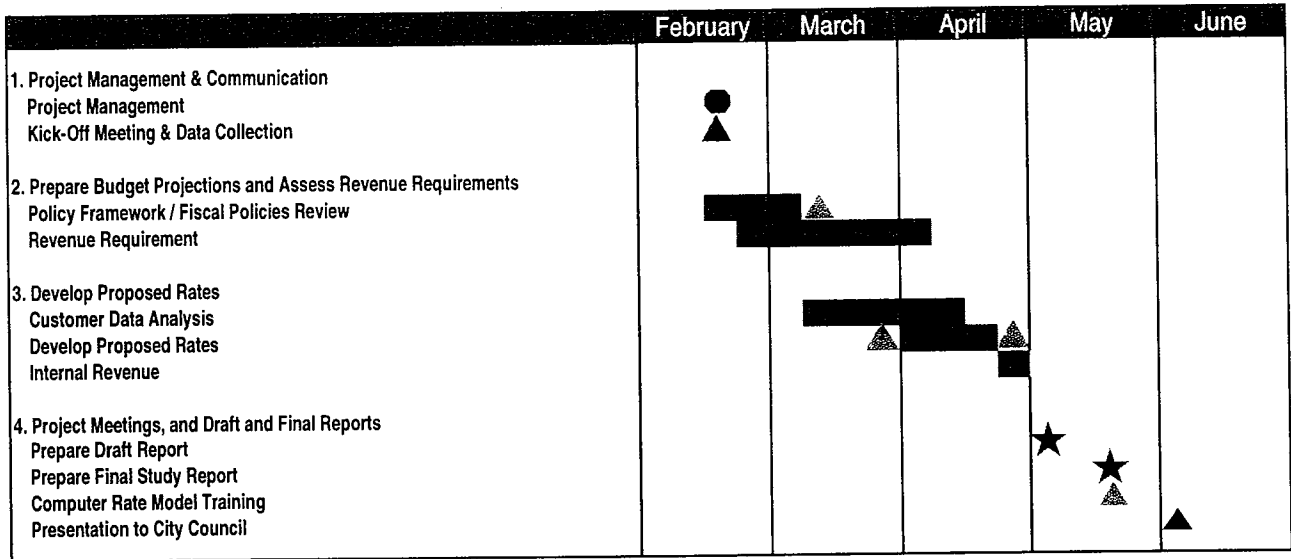
4.3 Prepare Final Study Report – Based on staff review and comment, FCS GROUP will finalize the report and submit an electronic version of the final report to the City.

4.4 Computer Rate Model Training and Documentation –As noted in the project meetings (above), FCS GROUP will hold a one-day training session with staff on the functionality of the financial models. We will also develop a model user guide to facilitate use of the work product by City staff. We believe that having a usable financial planning tool is a critical project deliverable. The models will allow City staff to run “what-if” scenarios as necessary, often times eliminating no-go projects before spending significant time or money investigating their feasibility. The model will also be designed to be transparent, allowing staff to quickly respond to questions regarding specific impacts to rates. As a part of this effort, training tasks will be provided after the first session to generate added participation and insight into model use.

4.5 Presentations to City Council – FCS GROUP will provide a policy review presentation to the City Council or designated committee once the draft fiscal policies have been formulated and documented. FCS Group will provide a final presentation of the rates and policy recommendations to City Council. This presentation will allow us articulate the methodology behind our analysis and promote our recommendations. If requested, FCS GROUP is available to make additional presentations.

PROJECT SCHEDULE

Based on the scope of service delineated in the task plan above, we have developed the following project schedule.



LEGEND:

- Notice to proceed
- ▲ Kick-off and data validation meeting with City staff
- ▲ Review meetings City staff, City Manager, and/or environmental task force sub-committee
- ▲ City Council Presentation (TBD)
- ★ Report Deliverables

FCS GROUP will hold an initial kick-off meeting in order to collect the initial study material and discuss policy objectives and requirements. FCS GROUP will be in continual communication with City staff throughout the course of the study. Interim meetings will be held via conference call and the use of GoToMeeting™ or in person at the City’s offices. Following the study final review, FCS GROUP will deliver the draft study report and hold a one day financial model training seminar with City staff. The final financial model will be delivered at this training session. FCS GROUP will finalize the report, incorporating any comments from the City, and submit the report.

EXHIBIT B
FCS GROUP, INC.
LABOR AND EXPENSE FEE SCHEDULE

LABOR

<u>Title/Name</u>		<u>Billing Rate</u>
Edward Cebron	Principal	\$225
Nicholas Almeida	Technical Manager	\$165
Michael Kazanjy	Senior Analyst	\$135
---	Analyst	\$125
<u>Administrative and Technical Support</u>		
Administrative Support		\$ 70

DIRECT EXPENSES

Major direct expenses, such as air travel and lodging, will be charged at cost plus 5%. Other expenses will not be directly charged. For any client-requested extraordinary expenses, specific terms will be established prior to expenditure and billing.

**Manhattan Beach, CA
Water and Sewer Rate Analysis
FCS Group Proposed Project Budget**

FCS GROUP Proposed Project Budget	Workload by Consultant			
	<i>Cebron</i>	<i>Almeida</i>	<i>Grantham</i>	<i>Kazanly</i>
	Managing Principal	Technical Manager	Technical Advisor	Analyst
Labor Effort & Expense by Task	\$225.00	\$165.00	\$195.00	\$135.00
1. Project Management & Communication				
Project Management	2.0	8.0	0.0	0.0
Kick-Off Meeting & Data Collection	10.0	10.0	0.0	6.0
2. Prepare Budget Projections and Assess Revenue Requirements				
Policy Framework / Fiscal Policy Review	4.0	8.0	2.0	12.0
Revenue Requirement	4.0	24.0	0.0	120.0
3. Develop Proposed Rates				
Customer Data Analysis	0.0	8.0	0.0	60.0
Develop Proposed Rates	4.0	16.0	0.0	66.0
Internal Review	1.0	0.0	8.0	0.0
4. Project Review Meetings, and Draft and Final Reports				
Project Review Meetings (2)	14.0	20.0	0.0	8.0
Prepare Draft Report	4.0	10.0	2.0	24.0
Prepare Final Study Report	1.0	6.0	0.0	12.0
Computer Rate Model Training	0.0	10.0	0.0	10.0
Presentation to City Council (2)	20.0	20.0	0.0	0.0
Total Study Hours	64.0	140.0	12.0	318.0

Admin Support \$70.00	Total Labor Expenses	Direct Expenses	Total Expenses
4.0	\$ 2,050	\$ -	\$ 2,050
0.0	\$ 4,710	\$ 900	\$ 5,610
0.0	\$ 4,230	\$ -	\$ 4,230
0.0	\$ 21,060	\$ -	\$ 21,060
0.0	\$ 9,420	\$ -	\$ 9,420
0.0	\$ 12,450	\$ -	\$ 12,450
0.0	\$ 1,785	\$ -	\$ 1,785
2.0	\$ 7,670	\$ 1,800	\$ 9,470
4.0	\$ 6,460	\$ 50	\$ 6,510
4.0	\$ 3,115	\$ 100	\$ 3,215
0.0	\$ 3,000	\$ 900	\$ 3,900
6.0	\$ 8,220	\$ 1,800	\$ 10,020
20.0	\$ 84,170	\$ 5,550	\$ 89,720

simplify COS; customer class analysis

reduce to 2 plus kick-off

add early Council workshop; policies