

AGREEMENT FOR PROFESSIONAL SERVICES

THIS AGREEMENT is made and entered into this ____ day of _____, 2018, by and between the City of Merced, a California Charter Municipal Corporation, whose address of record is 678 West 18th Street, Merced, California 95340, (hereinafter referred to as "City") and R3 Consulting Group, Inc., a California Corporation, whose address of record is 1512 Eureka Road, Suite 200, Roseville, California 95661, (hereinafter referred to as "Consultant").

WHEREAS, City is undertaking a project to conduct a rate study for solid waste collection and related services; and,

WHEREAS, Consultant represents that it possesses the professional skills to provide all services in connection with said project.

NOW, THEREFORE, the parties hereto, in consideration of the mutual covenants hereinafter recited, hereby agree as follows:

1. **SCOPE OF SERVICES.** The Consultant shall furnish the following services: Consultant shall provide the services described in Exhibit "A" attached hereto.

No additional services shall be performed by Consultant unless approved in advance in writing by the City, stating the dollar value of the services, the method of payment, and any adjustment in contract time. All such services are to be coordinated with City and the results of the work shall be monitored by the Director of Public Works or his designee. However, the means by which the work is accomplished shall be the sole responsibility of the Consultant.

2. **TIME OF PERFORMANCE.** All of the work outlined in the Scope of Services shall be completed in accordance with the Schedule outlined in Exhibit "A" attached hereto and incorporated herein by reference. By mutual agreement and written addendum to this Agreement, the City and the Consultant may change the requirements in said Schedule.

3. **RESERVED.**

4. **COMPENSATION.** Payment by the City to the Consultant for actual services rendered under this Agreement shall be made upon presentation of an invoice detailing services performed under the Scope of Services, in accordance

with the fee schedule set forth in Exhibit "B" attached hereto and incorporated herein by reference. The Consultant agrees to provide all services required under the Scope of Services in Exhibit "A" within the compensation amount set forth in Exhibit "B". For Consultant's services rendered under this Agreement, City shall pay Consultant the not to exceed sum of Sixty-Four Thousand Eight Hundred Sixty Dollars (\$64,860.00).

5. **METHOD OF PAYMENT.** Compensation to Consultant shall be paid by the City after submission by Consultant of an invoice delineating the services performed.

6. **RECORDS.** It is understood and agreed that all plans, studies, specifications, data magnetically or otherwise recorded on computer or computer diskettes, records, files, reports, etc., in possession of the Consultant relating to the matters covered by this Agreement shall be the property of the City, and Consultant hereby agrees to deliver the same to the City upon termination of the Agreement. It is understood and agreed that the documents and other materials including but not limited to those set forth hereinabove, prepared pursuant to this Agreement are prepared specifically for the City and are not necessarily suitable for any future or other use.

7. **CONSULTANT'S BOOKS AND RECORDS.** Consultant shall maintain any and all ledgers, books of account, invoices, vouchers, canceled checks, and other records or documents evidencing or relating to charges for services or expenditures and disbursements charged to the City for a minimum of three (3) years, or for any longer period required by law, from the date of final payment to the Consultant to this Agreement. Any records or documents required to be maintained shall be made available for inspection, audit and/or copying at any time during regular business hours, upon oral or written request of the City.

8. **INDEPENDENT CONTRACTOR.** It is expressly understood that Consultant is an independent contractor and that its employees shall not be employees of or have any contractual relationship with the City. Consultant shall be responsible for the payment of all taxes, workers' compensation insurance and unemployment insurance. Should Consultant desire any insurance protection, the Consultant is to acquire same at its expense.

In the event Consultant or any employee, agent, or subcontractor of Consultant providing services under this Agreement is determined by a court of competent jurisdiction or the California Public Employees Retirement System

(PERS) to be eligible for enrollment in PERS as an employee of the City, Consultant shall indemnify, protect, defend, and hold harmless the City for the payment of any employee and/or employer contributions for PERS benefits on behalf of Consultant or its employees, agents, or subcontractors, as well as for the payment of any penalties and interest on such contributions, which would otherwise be the responsibility of City.

9. INDEMNITY. Consultant shall indemnify, protect, defend (with legal counsel selected by the City), save and hold City, its officers, employees, and agents, harmless from any and all claims or causes of action for death or injury to persons, or damage to property resulting from intentional or negligent acts, errors, or omissions of Consultant or Consultant's officers, employees, volunteers, and agents during performance of this Agreement, or from any violation of any federal, state, or municipal law or ordinance, to the extent caused, in whole or in part, by the willful misconduct, negligent acts, or omissions of Consultant or its employees, subcontractors, or agents, or by the quality or character of Consultant's work, or resulting from the negligence of the City, its officers, employees, volunteers and agents, except for loss caused by the sole negligence or willful misconduct of the City or its officers, employees, volunteers or agents. It is understood that the duty of Consultant to indemnify and hold harmless includes the duty to defend as set forth in Section 2778 of the California Civil Code. Acceptance by City of insurance certificates and endorsements required under this Agreement does not relieve Consultant from liability under this indemnification and hold harmless clause. This indemnification and hold harmless clause shall survive the termination of this Agreement and shall apply to any damages or claims for damages whether or not such insurance policies shall have been determined to apply. By execution of this Agreement, Consultant acknowledges and agrees to the provisions of this Section and that it is a material element of consideration.

10. INSURANCE. During the term of this Agreement, Consultant shall maintain in full force and effect at its own cost and expense, the following insurance coverage:

a. Workers' Compensation Insurance. Full workers' compensation insurance shall be provided with a limit of at least One Hundred Thousand Dollars (\$100,000) for any one person and as required by law, including Employer's Liability limits of \$1,000,000.00 per accident. The policy shall be endorsed to waive the insurer's subrogation rights against the City.

b. General Liability.

- (i) Consultant shall obtain and keep in full force and effect general liability coverage at least as broad as ISO commercial general liability coverage occurrence Form CG 0001.
- (ii) Consultant shall maintain limits of no less than One Million Dollars (\$1,000,000) per occurrence for bodily injury, personal injury and property damage.
- (iii) The City, its officers, employees, volunteers and agents are to be named as additional insureds under the policy, as respects liability arising out of work or operations performed by or on behalf of the Consultant.
- (iv) The policy shall stipulate that this insurance will operate as primary insurance for work performed by Consultant and its sub-contractors, and that any other insurance or self insurance maintained by City or other named insureds shall be excess and non-contributory.
- (v) Consultant shall maintain its commercial general liability coverage for three (3) years after completion of the work and shall add an additional insured endorsement form acceptable to the City naming the City of Merced, its officers, employees, agents and volunteers for each year thereafter for at least three (3) years after completion of the work. Copies of the annual renewal and additional insured endorsement form shall be sent to the City within thirty (30) days of the annual renewal.

c. Automobile Insurance.

- (i) Consultant shall obtain and keep in full force and effect an automobile policy of at least One Million Dollars (\$1,000,000) per accident for bodily injury and property damage.
- (ii) The City, its officers, employees, volunteers and agents are to be named as additional insureds under the policy, as respects automobiles owned, leased, hired or borrowed by the Consultant.

- (iii) The policy shall stipulate that this insurance will operate as primary insurance for work performed by Consultant and its sub-contractors, and that any other insurance or self insurance maintained by City or other named insureds shall be excess and non-contributory.

d. Professional Liability Insurance. Consultant shall carry professional liability insurance appropriate to Consultant's profession in the minimum amount of One Million Dollars (\$1,000,000). Architects and engineers' coverage is to be endorsed to include contractual liability.

e. Qualifications of Insurer. The insurance shall be provided by an acceptable insurance provider, as determined by City, which satisfies all of the following minimum requirements:

- (i) An insurance carrier admitted to do business in California and maintaining an agent for service of process within this State; and,
- (ii) An insurance carrier with a current A.M. Best Rating of A:VII or better (except for workers' compensation provided through the California State Compensation Fund).

f. Certificate of Insurance. Consultant shall complete and file with the City prior to engaging in any operation or activity set forth in this Agreement, certificates of insurance evidencing coverage as set forth above and which shall provide that no cancellation or expiration by the insurance company will be made during the term of this Agreement, without thirty (30) days written notice to City prior to the effective date of such cancellation—including cancellation for nonpayment of premium.

g. Notwithstanding any language in this Agreement to the contrary, Consultant shall be entitled to be paid pursuant to the terms of this Agreement until Consultant has obtained the insurance required by this Section 10 and provided documentation of said insurance to the City. In addition to any other remedies City may have, City reserves the right to withhold payment if Consultant's insurance policies are not current.

11. ASSIGNABILITY OF AGREEMENT. It is understood and agreed that this Agreement contemplates personal performance by the Consultant and is

based upon a determination of its unique personal competence and experience and upon its specialized personal knowledge. Assignments of any or all rights, duties or obligations of the Consultant under this Agreement will be permitted only with the express written consent of the City.

12. **TERMINATION FOR CONVENIENCE OF CITY.** The City may terminate this Agreement any time by mailing a notice in writing to Consultant that the Agreement is terminated. Said Agreement shall then be deemed terminated, and no further work shall be performed by Consultant. If the Agreement is so terminated, the Consultant shall be paid for that percentage of the phase of work actually completed, based on a pro rata portion of the compensation for said phase satisfactorily completed at the time the notice of termination is received.

13. **CONFORMANCE TO APPLICABLE LAWS.** Consultant shall comply with its standard of care regarding all applicable Federal, State, and municipal laws, rules and ordinances. No discrimination shall be made by Consultant in the employment of persons to work under this contract because of race, color, national origin, ancestry, disability, sex or religion of such person.

Consultant hereby promises and agrees to comply with all of the provisions of the Federal Immigration and Nationality Act (8 U.S.C.A. 1101 *et seq.*), as amended; and in connection therewith, shall not employ unauthorized aliens as defined therein. Should Consultant so employ such unauthorized aliens for the performance of work and/or services covered by this Agreement, and should any agency or instrumentality of the federal or state government, including the courts, impose sanctions against the City for such use of unauthorized aliens, Consultant hereby agrees to, and shall, reimburse City for the cost of all such sanctions imposed, together with any and all costs, including attorneys' fees, incurred by the City in connection therewith.

14. **WAIVER.** In the event that either City or Consultant shall at any time or times waive any breach of this Agreement by the other, such waiver shall not constitute a waiver of any other or succeeding breach of this Agreement, whether of the same or any other covenant, condition or obligation. Waiver shall not be deemed effective until and unless signed by the waiving party.

15. **INCONSISTENT OR CONFLICTING TERMS IN AGREEMENT AND EXHIBITS.** In the event of any contradiction or inconsistency between any attached document(s) or exhibit(s) incorporated by reference herein and the provisions of the Agreement itself, the terms of the Agreement shall control.

Any exhibit that is attached and incorporated by reference shall be limited to the purposes for which it is attached, as specified in this Agreement. Any contractual terms or conditions contained in such exhibit imposing additional obligations on the City are not binding upon the City unless specifically agreed to in writing, and initialed by the authorized City representative, as to each additional contractual term or condition.

16. **AMBIGUITIES.** This Agreement has been negotiated at arms' length between persons knowledgeable in the matters dealt with herein. Accordingly, any rule of law, including, but not limited to, Section 1654 of the Civil Code of California, or any other statutes, legal decisions, or common-law principles of similar effect, that would require interpretation of any ambiguities in this Agreement against the party that drafted this Agreement is of no application and is hereby expressly waived.

17. **VENUE.** This Agreement and all matters relating to it shall be governed by the laws of the State of California and any action brought relating to this agreement shall be held exclusively in a state court in the County of Merced.

18. **AMENDMENT.** This Agreement shall not be amended, modified, or otherwise changed unless in writing and signed by both parties hereto.

19. **INTEGRATION.** This Agreement constitutes the entire understanding and agreement of the parties and supersedes all previous and/or contemporaneous understanding or agreement between the parties with respect to all or any part of the subject matter hereof.

20. **AUTHORITY TO EXECUTE.** The person or persons executing this Agreement on behalf of the parties hereto warrants and represents that he/she/they has/have the authority to execute this Agreement on behalf of their entity and has/have the authority to bind their party to the performance of its obligations hereunder.

21. **COUNTERPARTS.** This Agreement may be executed in one or more counterparts with each counterpart being deemed an original. No counterpart shall be deemed to be an original or presumed delivered unless and until the counterparts executed by the other parties hereto are in the physical possession of the party or parties seeking enforcement thereof.

IN WITNESS WHEREOF, the parties have caused this Agreement to be executed on the date first above written.

CITY OF MERCED
A California Charter Municipal
Corporation

BY: _____
City Manager

ATTEST:
STEVE CARRIGAN, CITY CLERK

BY: _____
Assistant/Deputy City Clerk

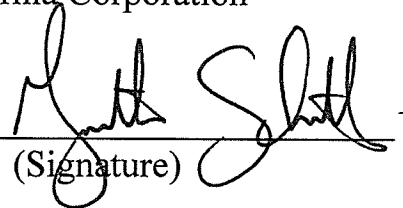
APPROVED AS TO FORM:

BY: K. Flores 4.24.18
City Attorney Date

ACCOUNT DATA:

BY: _____
Verified by Finance Officer

CONSULTANT
R3 CONSULTING GROUP, INC.,
A California Corporation

BY: 
(Signature)

GARTH SCHULTZ
(Typed Name)

Its: Secretary
(Title)

BY: _____
(Signature)

(Typed Name)

Its: _____
(Title)

Taxpayer I.D. No. 33-1030017

ADDRESS: 1512 Eureka Rd., Ste. 200
Roseville, CA 95661

TELEPHONE: (916) 782-7821

FAX: (916) 782-7824

E-MAIL: gschultz@R3CGI.COM

Section 2

Methodology
and Scope of
Work

Methodology and Scope of Work

Our approach to this project, and all of our rate study engagements, is to develop a rate model that is based on sound, documented operational and financial projections. Key to that is an effective accounting of current revenues and expenses that can serve as the basis for the projections. New programs, opportunities for operational efficiencies, State legislative requirements under AB 1826 and SB 1383, and other factors also need to be considered.

As a starting point for the project, we will review the prior rate model developed by R3 for the City and determine the characteristics of that model which the City would like to include in the updated rate model, as well as potential new characteristics and capabilities that it wishes to incorporate. As part of the development of the rate model, R3 will work with the City to assure that the rate model incorporates the capabilities and characteristics needed to address the range of issues facing the City's solid waste collection operations, including but not limited to:

- Required capital reserves to replace existing vehicles and equipment on an appropriate schedule and purchase new collection vehicles, carts, containers and other equipment to handle potential future growth;
- Current diversion levels, the potential for increased diversion through multi-family, commercial and industrial programs and the impact of any such increased diversion on both revenues and expenses;
- Current system capacity to incorporate additional accounts (e.g., expanded commercial recycling; account growth) and the points at which additional collection routes will be required; and
- The reasonableness and appropriateness of the methods used to allocate revenues and operating and non-operating expenses among the various lines of business (residential, commercial and roll-off service), including street sweeping and storm drain maintenance activities that are funded through the rates.

To accomplish this objective requires a collaborative effort between the City and R3. Throughout the engagement, we will provide the City with drafts of our work products that clearly document the supporting bases for all assumptions, projections and other relevant data inputs. This allows all parties to review and comment on the data and assure that it accurately reflects current and anticipated future conditions. Our overriding objective is to provide the City with a thorough and clear analysis of rates over the five-year planning period and a documented rate model that will provide the City with an easy-to-use tool for ongoing rate analysis and rate setting needs.

Work Scope

Task 1 Request for Information and Project Kick-off

Objectives

Kick off the project with City staff, confirm project deliverables, schedules and processes and request data needed for subsequent analysis.

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Methodology

Task 1.1 Request for Information

Upon authorization to proceed, R3 will provide the City with a preliminary list of information and documents anticipated to be necessary to complete this rate study. Requested documents may include, but will not necessarily be limited to, the following:

- Current utility policies, procedures and regulatory requirements;
- List of all services and service levels for City solid waste customers;
- Customer subscription levels by customer rate class;
- List of all weekly routes and available productivity data (i.e., total weekly accounts serviced and accounts per route per day if available);
- Financial and budgetary reports;
- Historical revenue and expense line item data;
- Current fiscal year line item budget and year-to-date expenditures;
- Capital projects expense projections;
- Vehicle and equipment list;
- Equipment replacement schedules;
- Projected annual customer growth and/or City projections for business, development and population growth for the next five years;
- Current reserve accounts and balances;
- Current solid waste development fee amounts;
- Organizational chart for City solid waste operations;
- Current fiscal year revenue and expense line item budget:
 - Any one-time or periodic revenues and non-customer rate revenues should be clearly identified; and
 - Any one-time or periodic expenses that are not normal ongoing expenses should be clearly identified.
- List of all reserve accounts, with intended uses noted, and most recent Fiscal Year End (FYE) balances;
- Current and projected capital projects expenses and schedules;
- Vehicle and equipment list with type of vehicle, model year and age indicated;
- Equipment replacement schedule;
- Example financial system reports from the City's financial system to facilitate incorporation into the five-year financial plan and rate model; and
- Any other relevant data.

R3 will review the data and identify any additional requirements or issues to be discussed at the Task 1.2 Kick-Off Meeting.

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Task 1.2 Kick-off Meeting

R3 believes that all successful projects begin with a mutual understanding and confirmation of key project objectives, schedules, client interests and expectations. To that end, though we have a clear understanding of all necessary tasks and requirements for this project, we suggest a kick-off meeting with City staff at the start of the project to:

- Review the scope of work, deliverables and schedule;
- Confirm City staff expectations and desires regarding project communications between R3 and the City;
- Confirm a schedule for regular biweekly updates via conference call or email to City staff;
- Confirm City's understanding of the Task 1.1 Request for Information, and discuss items for clarification;
- Discuss current rate policies and historical rate issues;
- Current and historical revenue and expenses;
- Cost-of-service expense allocations;
- Growth projections;
- Reserve funds;
- Anticipated new programs and/or changes in operations or service levels; and
- Discuss other questions and comments related to the successful completion of the project.

R3 will work with City staff to schedule the kick-off meeting, which will include key R3 project staff and should include key City staff at the City's discretion. R3 will prepare and distribute the meeting agenda and will lead the meeting in coordination with City staff.

We also anticipate reviewing the City's current rate model (previously prepared for the City by R3) and discussing the required characteristics and attributes of an updated and amended rate model. These discussions will help ensure a successful project by clarifying the objectives and expectations of the City.

Task 1 Deliverables

- Detailed request for information and documentation submitted to City staff via email one week prior to the kick-off meeting;
- Initial review of requested information, with follow-up as needed;
- Development of the kick-off meeting agenda; and
- Facilitation of the kick-off meeting.

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Task 2 Review Current Utility Policies/Procedures and Regulatory Requirements

Objectives

Review current utility policies and procedures and regulatory requirements as they affect operations, capital projects, revenue program requirements, and rate structures.

Methodology

Task 2.1 Review Current Utility Policies / Procedures and Regulatory Requirements

Understanding the City's current utility policies, procedures and regulatory requirements is a critical first step to developing a five-year financial plan, rate model and five-year rates for the City. Via this task, R3 will refresh our understanding of the City's policies, procedures and requirements. One benefit of choosing R3 for this work is that we, as a firm, already have historical context for the City's policies, procedures and requirements. As such, our efforts under this task can be cost-effectively directed to updating our understanding to account for changes in policies, procedures and requirements since the completion of our last rate study for the City in 2014.

For this task, R3 will review the City's current utility policies, procedures and regulatory requirements as they relate to the City's solid waste collection operations, capital projects, revenue program requirements and the rate modeling that is to be performed as part of this engagement. We will also review the City's Municipal Code as it relates to the collection of solid waste and recyclables within the City.

Task 2 Deliverable

- Written summary of the City's current utility policies, procedures and regulatory requirements as they pertain to the five-year financial plan, rate model and five-year rates included in Task 6 (Reports, Presentations and Training).

Task 3 Develop Five-Year Financial Plan

Objectives

Review operating costs as a result of future growth of the City and potential expansion of collection programs, such as commercial recycling and organics. Identify and summarize the City's current rate structure, operating expenses, capital costs, revenue streams, reserve funds, and billing program.

Methodology

The objective of this task is to develop a five-year financial plan that provides for the projection of the City's revenues and expenses for solid waste operations over a five-year planning period, accounting for the factors listed below. R3's vision for this task is to keep it cost-effective for the City by updating and/or amending the prior financial plan and rate model developed for the City by R3 and/or to use/incorporate other more recent five-year financial plans/rate models developed by R3.

The financial plan will include the City's current services and may include costs of additional services that may be recommended, and will be structured such that the impact of various rate

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adjustment options on the City's finances over the planning period can be effectively evaluated. Factors to be reviewed and evaluated in the development of the five-year financial plan include:

- Current operating expenses;
- Projected future operating costs resulting from residential, commercial and/or development growth;
- Projected future operating costs resulting in new, changed and/or expanded collection programs such as commercial recycling and organics services;
- Vehicle and equipment replacement;
- Transfer, processing and disposal costs;
- Staffing needs;
- Capital needs including trucks, containers, facilities, and other capital expenses;
- Emergency operating reserve funds;
- The City's current rate structure, revenue streams and billing program; and
- Other elements as identified by the City and R3.

Specific methods for reviewing and evaluating the needed expenses and revenues that will be projected in the five-year financial plan are provided in the following subtasks.

Task 3.1 Review Current and Projected Operational Requirements

As part of the development of the five-year financial plan, R3 will work with City staff to document current and projected operational requirements. This will include documenting the current number of accounts and the associated workloads, routes, staffing levels and other operational factors. Estimates of future operational requirements and costs to address future growth and potential expansion of collection programs, such as commercial recycling and organics (for example in response to AB 1826 and SB 1383), will also be developed. It is assumed that as part of this task the City's existing equipment replacement schedule will be reviewed and updated as appropriate to be consistent with the projected operational requirements.

As part of this task, R3 will conduct a high-level productivity review to determine the productivity of collection operations and the level of capacity that exists within the current routes to incorporate additional accounts due to expanded programs (e.g., commercial recycling) and/or growth. This information will be used to help model the timing of new equipment requirements over the five-year planning horizon, and in particular, to help refine assumptions and estimates relating to projected growth in the City.

Task 3.2 Document Current Financial Baselines

This task involves documenting current financial baselines, including all applicable revenue and expense line items, fund reserves, capital cost estimates and any other relevant data. It is anticipated that this information will, with any appropriate adjustments, form the basis for projections over the five-year planning period. To the extent feasible, R3 will evaluate and incorporate historical information from prior rate study projects for the City to allow for review and analysis of historical trends. Any available year-to-date information will also be reviewed.

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Task 3.3 Prepare Revenue Projections

Revenue projections will be prepared for the five-year planning period. These projections will account for both rate related revenue and non-rate related revenue (e.g., interest income, bond proceeds, grants, sale of assets, development fees, etc.), and the impact of growth and any other relevant factors. Rate revenue projections will be based on current rates, which will then be adjusted as part of the rate modeling that will be performed in a subsequent task.

Task 3.4 Prepare Expense Projections

The purpose of this task will be to prepare projections of the City's solid waste operation expenditures over the five-year planning period. This task will build upon the basis for projections that is established as part of Task 3.3. In developing these projections, we will coordinate with appropriate City staff, as necessary, to review the historical expenditures and discuss the assumptions, conditions and trends affecting the projections. The format for these projections will correspond to the City's existing accounting records, but will also incorporate any modifications discussed in the kick-off meeting. R3 will assume that a cash-basis accounting system is used, whereby expenditures will be included in the fiscal year in which they occur.

The expense projections that are prepared will account for anticipated inflation adjustments, and other financial planning elements for the City's solid waste operation:

- Current revenue and expenses;
- Growth projections;
- Transfer, processing and disposal costs;
- Staffing needs;
- Vehicle and equipment replacement schedules, corporation yard repairs and improvements; and
- Operating reserves.

As an element of the expense projections, R3 will prepare a cost-of-service analysis, which is a key aspect of compliance with Proposition 218 requirements. The cost-of-service analysis can be conducted on two levels:

1. Line-of-Business Cost-of-Service Analysis – The analysis of revenues and expenses among lines of business (e.g., residential, commercial, industrial) with the intent of balancing revenues and expenses to eliminate any subsidies that may exist across lines of business (e.g., commercial rates subsidizing residential rates); and
2. Individual Rate Cost-of-Service Analysis – The analysis of rates and the relationships between rates within a given rate structure to determine the extent to which an individual rate reflects the cost of the associated service level (e.g., the cost to service a 4-yard container one time per week compared to the cost to service a 1-yard container four times per week).

The purpose of this task is to evaluate the reasonableness of any cost-of-service allocations that the City has developed among the various lines of business. If the City has not allocated costs to the various lines of business, we will work with the City as part of this task to develop such projections. One specific focus of this task will be to quantify the cost of commercial recycling services and the impact of potential expansion of those services in response to the State's mandatory commercial organics recycling requirements under AB 1826. This will

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support the determination of a specific cost-of-service rate for commercial organics recycling and various other commercial recycling rate options.

Task 3.5 Prepare Capital Project Expense Projections

To the extent that the City's solid waste operation is projecting capital project expenses, we will review available capital project expense projections and, as appropriate, make any suggestions for updating or otherwise modifying those projections based on available data, including the operational projections developed in a prior task. Any such capital project expenses will be incorporated into the rate model and five-year rates.

Task 3.6 Review Operating Reserve Funds and Uses

R3 will review the City's reserve accounts to determine if the balance of each reserve with respect to the intended purposes are sufficient to fund the necessary expenses. This review will specifically include identifying the funding necessary to replace vehicles and equipment according to an established replacement schedule, and fund any projected capital costs (e.g., growth, AB 1826 and SB 1383 programs, etc.). The rate model developed will be constructed so that rates are sufficient to generate the necessary reserve funds over the planning period, and account for the utilization of those reserves as needed to fund the associated expenses as they are expected to incur.

Task 3.7 Prepare Financial Plan Model

The various revenue and expense projections developed in the prior tasks will be used to construct a simple, easy-to-use, easy-to-modify and easy-to-update Excel-based five-year financial plan (upon which the rate model and five-year rates will also be built). As noted in the beginning of this Task 3, this five-year financial plan will be cost-effectively developed for the City based on the prior plan(s) developed for the City by R3 and/or incorporating other more recent financial plans developed by R3.

This Excel model will include results of all Task 3 subtasks as well as capabilities and components (e.g., reserve fund balances and funding requirements) identified by the City and R3 during implementation of this Task. One important component of developing such an easy-to-use five-year financial plan is that it will provide a means to evaluating various expense, revenue and rate adjustment scenarios. This financial plan will also include the City's current rate structure, operating expenses, capital costs, revenue streams and reserve funds, and projected financial performance over the five-year planning period.

Task 3 Deliverables

- Identification of current and projected operational requirements;
- Documentation of current financial baselines;
- Projections of five-year revenues and expenses;
- Projections of five-year capital needs and expenses; and
- An Excel-based five-year financial plan that is easy-to-use and update and will be the basis of the rate model and five-year rates developed in Task 4.

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Task 4 Develop Rate Model and Five-Year Rate Options

Objectives

Determine the sufficiency of the current rate structure to meet ongoing needs, including a projection of how long this may be the case. Review impact of projected new development on rates. Determine solid waste service charges. Prepare a user-friendly computer rate model and manual for City use. The model should be capable of being used by the City to plan its capital improvements program and determine impact fees and rates. Models should also provide flexibility to integrate City's financial system and to compute rates. Include a one-day training seminar for City staff.

Methodology

Task 4.1 Prepare Rate Model

Using the five-year financial plan developed in Task 3, and in conjunction with City staff, R3 will analyze various rate adjustment scenarios that are sufficient to fund the City's annual operating costs over the five-year planning horizon, and provide necessary funding for vehicle replacement, residential and commercial/development growth, operating reserves, and other expense and revenue drivers identified in completing Task 2. The resultant rate model will:

- Use best industry practices to determine the ability of the current rates and current rate structure to meet the City's ongoing solid waste operational needs, and over what time frame;
- Identify the specific impact that growth and new development will have on the rates as projected;
- Use the five-year financial findings and projections to recommend solid waste rates and services charges that are cost-based, equitable and legally defensible; and
- Provide rates which meet the legal requirements of Proposition 218.

Rate adjustment scenarios may include:

- A single rate adjustment that will set rates and satisfy the revenue requirement over a set planning period without need for additional adjustment (i.e., no additional annual indexed adjustments);
- A single rate adjustment that will set rates and satisfy the revenue requirement over the set planning period, with additional planned annual CPI indexed adjustments;
- Consistent annual rate adjustments over a set amount of time to more gradually introduce the rate structure changes; and/or
- Periodic rate adjustments (e.g., rate adjustments every two or three years).

As with prior tasks, R3 will seek to utilize and build upon the prior rate model developed by R3 for the City via prior rate studies and/or use/include new rate models developed by R3 to ensure that efforts under this task are as cost-effective as possible. The model will be developed using Excel and will include the following:

- Imbedded footnotes in cells to identify the sources of data and methodologies used to develop the new data;
- Color-coding to indicate the budget items that should be modified/updated annually;

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- Overall annual required rate adjustments needed to meet revenue needs; and
- Other components as requested by the City.

R3 will work with the City to establish how the resultant rate model can provide the flexibility to integrate information from the City's financial system into the model and thus compute rates over time. This will start with the Task 1 information request during which we will request examples of reports from the City's financial system in order to ensure that reports from the City's system can be integrated into the five-year financial plan and thus into the rate model.

Task 4.2 Review Rate Structure

As part of the development of the rate model, the City's current rate structures will be reviewed to determine if the current rate structure can meet the ongoing needs of the City. To the extent that the current rate structure appears not to be able to meet the ongoing needs of the City, alternative rate structure options will be identified and presented to City staff. A key focus of this analysis is a review of the current commercial account distribution and an assessment of that distribution in light of the associated rate structure and the rate relationships between the various service levels. Ideally, from an operational efficiency standpoint, each account would be provided with appropriate storage volume so that service frequency could be limited to one time per week. This would allow the City to meet the weekly service volume requirements with the least amount of resources at the lowest possible cost to the system users.

Task 4.3 Update Rate Model and Provide Training to City Staff

R3 will prepare (or update if feasible) a rate manual which clearly details procedures for City staff to update the five-year financial plan and rate model. The rate manual will provide City staff with the specific information necessary to effectively update and analyze various rate adjustment options and will include:

- A description of the format of the rate model, including key in-feed data points, calculations, formulas and assumptions;
- A discussion of the rate model's rate adjustment capabilities;
- A description of each of the five-year financial plan and rate model worksheets; and
- Specific steps to take for annually updating the rate model, evaluating rate adjustment scenarios, and developing specific rate adjustment recommendations.

As part of this task, R3 project staff will conduct a one-day training seminar for City staff. In addition, R3 proposes to work with City staff in advance of that training session to familiarize staff with the rate model and provide hands-on experience using the rate model to analyze various rate adjustment options and develop the recommended rate adjustments.

Task 4 Deliverables

- Excel-based rate model meeting the descriptions noted above;
- Development of up to five (5) alternative scenarios for adjusting rates to meet expense and revenue requirements over the planning period;
- Recommended rate adjustments corresponding to each of the five (5) alternative scenarios;
- Charts, tables, and graphics showing the proposed rates for each FY;

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- Updated rate manual for City use; and
- One (1) day training seminar on the five-year financial plan, rate model, and rate manual.

Task 5 Conduct Rates and Services Survey

Objectives

Survey at least five other local government agencies that provide municipal solid waste and recycling services to establish service/rate benchmarks. The list of agencies will be conducted in collaboration with the City. The survey will include a review of cans or carts, bin and drop boxes for residential, multi-family and commercial customers.

The survey will include an analysis, or any information, on how the jurisdictions are setting rates and allocating revenues and expenses based on Proposition 218. The survey will also include other questions the City identifies as valuable in comparing the refuse rate such as community size, special pick-up charges, disposal fees, governmental and regulatory fees, and other services (such as street sweeping) included in the rates.

Methodology

Task 5.1 Conduct Rates and Services Survey

To assist the City in placing current and potential services in the context of neighboring communities, R3 will conduct a survey of comparable service and rates for at least five other municipally operated solid waste operations. R3 regularly works to review rates and services for municipal operations, and also regularly conducts surveys of rates and services throughout the State. As such, we are well positioned to provide a cost-effective survey for the City.

R3 has a list of all the municipal solid waste operations in the State, and prior to conducting this task, we suggest that R3 and the City establish which specific cities' rates and services are most appropriate for comparison. Careful selection of comparable agencies is important – variances in rate setting methodology, potential subsidies between residential and commercial sectors, local interpretations of Proposition 218, post-collection agreement terms, disposal and processing fees, government and regulatory fees, provision of services to schools, distribution of container sizes in the community, and many other factors can make a seemingly “apples-to-apples” comparison very complex, with results that may not be representative for the purposes of this comparison and benchmarking exercise.

It is important to note that the survey will include more than a simple “rate comparison.” It will also include disposal and organics processing fees, franchise fees, AB 939 Fees, Vehicle Impact Fees, services provided at “no cost” to the communities (street sweeping, collection from public schools, public buildings and facilities, etc.), diversion requirements, frequency of recycling and organic collection, methods for collecting bulky waste, fuel types used for collection vehicles, and provisions for dedicated “sustainability coordinators.”

In order to select appropriate comparisons prior to conducting the survey, R3 will prepare a list of known municipal solid waste operations along with currently retained information about the rates, services, location and other conditions that will facilitate selection of appropriate comparable communities. We will provide this information to City staff and then solicit the City's input on the top 7-10 communities for inclusion in the survey.

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R3 will then communicate with staff at the selected cities to gather information including:

- Community population, and total number of accounts for residential, commercial and industrial customers;
- Number of accounts at each service level option for residential, commercial and industrial customers (which is critical to an “apples-to-apples” comparison and not generally evaluated by others who conduct such surveys);
- Services rates for all container sizes, waste streams, and other services;
- Detailed list of services that are provided via any “bundled” service rates, and the specific service offerings for those services (e.g. bulky item pickups, extra service charges, street sweeping services, City services, services to schools, HHW service, etc.)
- Types, sizes and frequency of collection of containers provided for residential, commercial and industrial customers;
- Specific information regarding how rates are allocated with respect to the requirements of Proposition 218;
- Specific information regarding post-collection costs including disposal, organics processing, and recyclables processing fees, as applicable;
- Governmental and regulatory fees, as applicable; and
- Other information discussed and confirmed in consultation between R3 and the City.

R3 will seek this information voluntarily from the 7-10 communities selected in consultation with the City via phone, email, and written request. If we are unable to acquire complete survey information for five (5) comparable communities based on the voluntary request we may suggest that the City issue a formal Public Records Act request for the necessary information; however, we would like to avoid that being necessary because of the time, effort, and relationship impacts that can arise from making such requests.

Task 5 Deliverables

- Survey results for a minimum of five (5) comparable communities; and
- Incorporation of findings, tables, charts and overall survey results into our Task 6 reports.

Task 6 Reports and Presentations

Objectives

Prepare a draft report for City review. Incorporate City comments in final report. Prepare and deliver presentations designed to facilitate an understanding for the financing. Presentations will be addressed to the public-at-large, developers, landowners, City staff, and City Council.

Methodology

Task 6.1 Draft and Final Report

R3's findings and recommendations will be organized in an electronic Draft Rate Report that explains the financial plan and rate study. The Draft Report will be submitted to City staff for

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review and comment, and an electronic Final Report will be prepared based on comments received from the City.

The Draft and Final Rate Reports will include recommended rate adjustments over the five-year planning period and will summarize the findings and recommendations from Tasks 1 through 5 above, including charts showing the proposed rates, and detailed calculations of the expected solid waste expenditure budget for each year, and the expected solid waste revenue based on rates proposed via the rate study.

Task 6.2 Presentations

Our proposed cost estimate for the Tasks and deliverables proposed herein includes two (2) presentations to the City Council, with additional presentations to the public-at-large, developers, landowners, City staff and the City at an additional cost not included in the overall proposed cost estimate.

Within our proposed cost estimate, we have included the development of a PowerPoint presentation summarizing our work and based on the contents of our Draft and Final Reports. We will provide a draft copy of the presentation to City staff for review and comment, with the draft being revised into a final presentation. Our proposed cost estimate includes presenting our work, findings and recommendations to the City Council for a rate hearing and rate adoption.

R3 understands that additional presentations may be desired by the City, and R3 stands ready to provide additional presentations with the City's approval, and at additional cost above our base cost estimate and at the per presentation rates listed in the cost estimate provided separately.

Task 6 Deliverables

- One (1) electronic Draft Report and one (1) electronic copy of the Final Report, all of which will include:
 - Explanations of the Financial Plan and Rate Model, and Rate Study;
 - Charts, tables, and graphics clearly showing the proposed rates;
 - A detailed calculation of the expected solid waste expenditure budget for each year; and
 - A detailed calculation of the expected solid waste revenue based on rates proposed in the rate study.
- Two (2) presentations to the City Council:
 - One (1) City Council hearing regarding the financial plan, rate model, and five-year rates; and
 - One (1) City Council rate adoption meeting.

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Methodology and Scope of Work

Schedule

R3 has thoroughly reviewed the City's request for proposals and desired scope of work in preparing this proposal. We have similarly reviewed project commitments and staff availability; we are confident that staff assigned to this engagement have sufficient time available to complete the requested tasks and present our deliverables within the expected project timeline. Additional detail on our current and planned projects and staff utilization can be provided upon request.

Compliance with Timeline Established by City

We have also noted the City's desires for:

- A complete draft report submitted to the City within 90-days after award of contract;
- A final report submitted to City within 30-days of receipt of City comments; and
- Target adoption date of new amended rate and revenue program by September 1, 2018.

As shown in the **Table 2-1** on the following page, the City would need to select R3 for award of contract by April 2, 2018 in order to fulfill each of these expectations. R3 is prepared to meet this schedule, which includes complete draft report submitted to the City within 70-days of contract award, a final report submitted to the City within 14-days of days of receipt of complete written City comments, and adoption of the new rate and revenue program prior to September 1, 2018.

Ability to Meet City's Schedule

R3's ability to meet this schedule will be dependent on award of contract by April 2, 2018, timeliness and completeness of City's responses to requests for information necessary to completion of our scope of work, the City's ability to complete City reviews as noted in the schedule, and the City's ability to schedule the two (2) provided City Council meetings in August. Any and all changes from the above noted conditions will create unavoidable delays in what is a tight-fitting schedule requested by the City.

While R3 remains positioned to meet the City's schedule, we also understand that schedules may slide due to unforeseen circumstances experienced by our clients. Should the City wish to revise and relax the schedule for completion of project tasks, this does not pose an issue to R3. Additionally, we should note that R3 will be available as needed to match schedules to be most compatible with City staff needs for the duration of the project; however, we do request that meetings be scheduled two-weeks in advance whenever possible for best availability.

Should the City elect to revise its schedule to consider final presentation and adoption of five-year financial plan, rate model and study to occur after August, then the City may wish to consider adoption after the beginning of November. Please also note that additional presentations above the two (2) provided for in the proposal are not accounted for in this schedule.

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Section 2

Methodology
and Scope of
WorkTable 2-1
Project Timeline

Task		Work Starting Week Of:	Work Completion Week Of:
1 Request for Information and Project Kick-off			
1.1	Request for Information	2-Apr	2-Apr
1.2	Kick-off Meeting	9-Apr	9-Apr
2 Review Current Utility Policies, Procedures and Regulatory Requirements			
2.1	Review Current Utility Policies, Procedures and Regulatory Requirements	16-Apr	30-Apr
3 Develop Five-Year Financial Plan			
3.1	Review Current and Projected Operational Requirements	30-Apr	11-Jun
3.2	Document Current Financial Baselines	30-Apr	11-Jun
3.3	Prepare Revenue Projections	30-Apr	11-Jun
3.4	Prepare Expense Projections	30-Apr	11-Jun
3.5	Prepare Capital Project Expense Projections	30-Apr	11-Jun
3.6	Review Operating Reserve Funds and Uses	30-Apr	11-Jun
3.7	Prepare Financial Plan Model	14-May	11-Jun
4 Develop Rate Model and Five-Year Rate Options			
4.1	Prepare Rate Model	28-May	11-Jun
4.2	Review Rate Structure	28-May	11-Jun
4.3	Update Rate Manual and Provide Training to City Staff	25-Jun	6-Aug
5 Conduct Rates and Services Survey			
5.1	Conduct Rates and Services Survey	30-Apr	11-Jun
6 Reports and Presentations			
6.1	Draft Report	11-Jun	25-Jun
	City Comments Provided to R3	25-Jun	9-Jul
	Final Report	9-Jul	23-Jul
6.2	Presentations (2)	6-Aug	20-Aug
Additional Presentations May Be Scheduled at the Direction of City Staff and At Additional Cost			

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Cost Estimates of Consulting Fee

R3 has carefully considered the requirements of this project and we have developed a cost estimate that we feel best meets the needs of the City. We propose to complete the proposed Scope of Work on a time-and-materials basis for a not-to-exceed sum of **\$64,860**, including project expenses, approximately biweekly conference calls with City staff as necessary to provide project updates, and up to three (3) in-person project meetings (with one of those being scheduled in conjunction with the training seminar and with one to occur in conjunction with on-site document review needs, if applicable). Please note that this not-to-exceed sum only includes two (2) presentations to the City Council. Additional presentations as requested by the City will be at an additional \$2,250 per presentation, and assuming that the presentation contents are based on work products developed via the main Scope of Work.

**Table 6-1
Project Budget**

Task	R3 Consulting Group					Cost	Hours	
	William Schoen (Principal and Project Director)	Garth Schultz (Principal, Project Manager and Lead Analyst)	Emily Ginsburg (Project Analyst)	Rose Radford (Project Analyst)	Ryan Calkins (Project Analyst)			
	\$ 205	\$ 205	\$ 145	\$ 145	\$ 145			
1 Request for Information and Project Kick-off								
1.1 Request for Information	1	1	4	0	0	\$ 990	6	
1.2 Kick-off Meeting	4	4	4	0	0	\$ 2,220	12	
2 Review Current Utility Policies, Procedures and Regulatory Requirements								
2.1 Review Current Utility Policies, Procedures and Regulatory	2	8	8	2	2	\$ 3,790	22	
3 Develop Five-Year Financial Plan								
3.1 Review Current and Projected Operational Requirements	4	8	8	2	16	\$ 6,230	38	
3.2 Document Current Financial Baselines	2	8	40	2	0	\$ 8,140	52	
3.3 Prepare Revenue Projections	2	4	4	2	0	\$ 2,100	12	
3.4 Prepare Expense Projections	2	2	8	2	0	\$ 2,270	14	
3.5 Prepare Capital Project Expense Projections	1	6	2	0	5	\$ 2,450	14	
3.6 Review Operating Reserve Funds and Uses	1	6	2	0	0	\$ 1,725	9	
3.7 Prepare Financial Plan Model	2	8	8	4	0	\$ 3,790	22	
4 Develop Rate Model and Five-Year Rate Options								
4.1 Prepare Rate Model	1	8	8	0	0	\$ 3,005	17	
4.2 Review Rate Structure	1	2	2	2	0	\$ 1,195	7	
4.3 Update Rate Manual and Provide Training to City Staff	1	16	20	2	0	\$ 6,675	39	
5 Conduct Rates and Services Survey								
5.1 Conduct Rates and Services Survey	2	4	8	24	0	\$ 5,870	38	
6 Reports and Presentations								
6.1 Draft and Final Report	6	12	24	6	2	\$ 8,330	50	
6.2 Presentations (2)	8	16	6	2	0	\$ 6,080	32	
	Total Hours	40	113	156	50	25		384
	Total Cost	\$ 8,200	\$ 23,165	\$ 22,620	\$ 7,250	\$ 3,625	\$ 64,860	

Section 6

Cost Estimates of Consulting Fee

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Cost Estimates
of Consulting
Fee**Billing Rates**

In Table 6-2 below, we have provided the hourly billing rates for R3 Consulting Group, Inc.

**Table 6 -2
Billing Rates**

Category	Hourly Rate
Principal / Project Director	\$205 per hour
Senior Project Manager	\$185 per hour
Project Manager	\$160 per hour
Senior Project Analyst	\$145 per hour
Project Analyst	\$135 per hour
Associate Analyst	\$120 per hour
Administrative Support	\$100 per hour
Reimbursable Costs (Included in Hourly Rates)	
Consultants/Subcontractors	Cost plus 10%
Lodging and meals	Direct cost
Travel — Private or company car	\$0.535 per mile
Travel — Other	Direct cost
Delivery and other expenses	Direct cost

Payments

Unless otherwise agreed in writing, fees will be billed monthly at the first of each month for the preceding month and will be payable within 30 days of the date of the invoice.

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