

**CITY OF SANTA ROSA  
PROFESSIONAL SERVICES AGREEMENT  
WITH HILDEBRAND CONSULTING, LLC.  
AGREEMENT NUMBER \_\_\_\_\_**

This "Agreement" is made as of this \_\_\_\_ day of \_\_\_\_\_, 2023, by and between the City of Santa Rosa, a municipal corporation ("City"), and Hildebrand Consulting, LLC, a California Limited Liability Company ("Consultant").

**R E C I T A L S**

- A. City desires retain a qualified local government financial consultant to perform a water and wastewater rate study and develop a proposed a five-year rate schedule.
- B. City desires to retain a qualified firm to conduct the services described above in accordance with the Scope of Services as more particularly set forth in Exhibit A to the Agreement.
- C. Consultant represents to City that it is a firm composed of highly trained professionals and is fully qualified to conduct the services described above and render advice to City in connection with said services.
- D. The parties have negotiated upon the terms pursuant to which Consultant will provide such services and have reduced such terms to writing.

**AGREEMENT**

**NOW, THEREFORE**, City and Consultant agree as follows:

**1. SCOPE OF SERVICES**

Consultant shall provide to City the services described in Exhibit A ("Scope of Services"). Consultant shall provide these services at the time, place, and in the manner specified in Exhibit A. Exhibit A is attached hereto for the purpose of defining the manner and scope of services to be provided by Consultant and is not intended to, and shall not be construed so as to, modify or expand the terms, conditions or provisions contained in this Agreement. In the event of any conflict between this Agreement and any terms or conditions of any document prepared or provided by Consultant and made a part of this Agreement, including without limitation any document relating to the scope of services or payment therefor, the terms of this Agreement shall control and prevail.

**2. COMPENSATION**

a. City shall pay Consultant for services rendered pursuant to this Agreement at the rates, times and in the manner set forth in Exhibit B. Consultant shall submit monthly statements to City which shall itemize the services performed as of the date of the statement and set forth a progress report, including work accomplished during the period, percent of each task completed, and planned effort for the next period. Invoices shall identify personnel who have worked on the services provided, the number

of hours each worked during the period covered by the invoice, the hourly rate for each person, and the percent of the total project completed, consistent with the rates and amounts shown in Exhibit B.

b. The payments prescribed herein shall constitute all compensation to Consultant for all costs of services, including, but not limited to, direct costs of labor of employees engaged by Consultant, travel expenses, telephone charges, copying and reproduction, computer time, and any and all other costs, expenses and charges of Consultant, its agents and employees. In no event shall City be obligated to pay late fees or interest, whether or not such requirements are contained in Consultant's invoice.

c. Notwithstanding any other provision in this Agreement to the contrary, the total maximum compensation to be paid for the satisfactory accomplishment and completion of all services to be performed hereunder shall in no event exceed the sum of one hundred and thirty-five thousand dollars and no cents (\$135,000.00). The City's Chief Financial Officer is authorized to pay all proper claims from Charge Numbers 130601 and 130701.

### **3. DOCUMENTATION; RETENTION OF MATERIALS**

a. Consultant shall maintain adequate documentation to substantiate all charges as required under Section 2 of this Agreement.

b. Consultant shall keep and maintain full and complete documentation and accounting records concerning all extra or special services performed by it that are compensable by other than an hourly or flat rate and shall make such documents and records available to authorized representatives of City for inspection at any reasonable time.

c. Consultant shall maintain the records and any other records related to the performance of this Agreement and shall allow City access to such records during the performance of this Agreement and for a period of four (4) years after completion of all services hereunder.

### **4. INDEMNITY**

a. Consultant shall, to the fullest extent permitted by law, indemnify, protect, defend and hold harmless City, and its employees, officials and agents ("Indemnified Parties") from all claims, demands, costs or liability (including liability for claims, suits, actions, arbitration proceedings, administrative proceedings, regulatory proceedings, losses, expenses or costs of any kind, interest, defense costs, and expert witness fees), that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of Consultant, its officers, employees, or agents, in said performance of professional services under this Agreement, excepting only liability arising from the sole negligence, active negligence or intentional misconduct of City.

b. The existence or acceptance by City of any of the insurance policies or coverages described in this Agreement shall not affect or limit any of City's rights under this Section 4, nor shall the limits of such insurance limit the liability of Consultant hereunder. This Section 4 shall not apply to any intellectual property claims, actions, lawsuits or other proceedings subject to the provisions of Section

17(b), below. The provisions of this Section 4 shall survive any expiration or termination of this Agreement.

## **5. INSURANCE**

a. Consultant shall maintain in full force and effect all of the insurance coverage described in, and in accordance with, Attachment One, "Insurance Requirements." Maintenance of the insurance coverage set forth in Attachment One is a material element of this Agreement and a material part of the consideration provided by Consultant in exchange for City's agreement to make the payments prescribed hereunder. Failure by Consultant to (i) maintain or renew coverage, (ii) provide City notice of any changes, modifications, or reductions in coverage, or (iii) provide evidence of renewal, may be treated by City as a material breach of this Agreement by Consultant, whereupon City shall be entitled to all rights and remedies at law or in equity, including but not limited to immediate termination of this Agreement. Notwithstanding the foregoing, any failure by Consultant to maintain required insurance coverage shall not excuse or alleviate Consultant from any of its other duties or obligations under this Agreement. In the event Consultant, with approval of City pursuant to Section 6 below, retains or utilizes any subcontractors or subconsultants in the provision of any services to City under this Agreement, Consultant shall assure that any such subcontractor has first obtained, and shall maintain, all of the insurance coverages set forth in the Insurance Requirements in Attachment One.

b. Consultant agrees that any available insurance proceeds broader than or in excess of the coverages set forth in the Insurance Requirements in Attachment One shall be available to the additional insureds identified therein.

c. Consultant agrees that the insurance coverages and limits provided under this Agreement are the greater of: (i) the coverages and limits specified in Attachment One, or (ii) the broader coverages and maximum limits of coverage of any insurance policy or proceeds available to the name insureds.

## **6. ASSIGNMENT**

Consultant shall not assign any rights or duties under this Agreement to a third party without the express prior written consent of City, in City's sole and absolute discretion. Consultant agrees that the City shall have the right to approve any and all subcontractors and subconsultants to be used by Consultant in the performance of this Agreement before Consultant contracts with or otherwise engages any such subcontractors or subconsultants.

## **7. NOTICES**

Except as otherwise provided in this Agreement, any notice, submittal or communication required or permitted to be served on a party, shall be in writing and may be served by personal delivery to the person or the office of the person identified below. Service may also be made by mail, by placing first-class postage, and addressed as indicated below, and depositing in the United States mail to:

City Representative:

Kimberly Harryman  
Deputy Director – Administration  
Water Department  
69 Stony Circle  
Santa Rosa, CA 95404  
KZunino@srcity.org

Consultant Representative:

Mark Hildebrand  
Owner, Hildebrand Consulting, LLC  
3378 Guido St.  
Oakland, CA 94602  
mhildebrand@hildco.com

## **8. INDEPENDENT CONTRACTOR**

a. It is understood and agreed that Consultant (including Consultant's employees) is an independent contractor and that no relationship of employer-employee exists between the parties hereto for any purpose whatsoever. Neither Consultant nor Consultant's assigned personnel shall be entitled to any benefits payable to employees of City. City is not required to make any deductions or withholdings from the compensation payable to Consultant under the provisions of this Agreement, and Consultant shall be issued a Form 1099 for its services hereunder. As an independent contractor, Consultant hereby agrees to indemnify and hold City harmless from any and all claims that may be made against City based upon any contention by any of Consultant's employees or by any third party, including but not limited to any state or federal agency, that an employer-employee relationship or a substitute therefor exists for any purpose whatsoever by reason of this Agreement or by reason of the nature and/or performance of any services under this Agreement.

b. It is further understood and agreed by the parties hereto that Consultant, in the performance of Consultant's obligations hereunder, is subject to the control and direction of City as to the designation of tasks to be performed and the results to be accomplished under this Agreement, but not as to the means, methods, or sequence used by Consultant for accomplishing such results. To the extent that Consultant obtains permission to, and does, use City facilities, space, equipment or support services in the performance of this Agreement, this use shall be at the Consultant's sole discretion based on the Consultant's determination that such use will promote Consultant's efficiency and effectiveness. Except as may be specifically provided elsewhere in this Agreement, the City does not require that Consultant use City facilities, equipment or support services or work in City locations in the performance of this Agreement.

c. If, in the performance of this Agreement, any third persons are employed by Consultant, such persons shall be entirely and exclusively under the direction, supervision, and control of Consultant. Except as may be specifically provided elsewhere in this Agreement, all terms of employment, including hours, wages, working conditions, discipline, hiring, and discharging, or any other terms of employment or requirements of law, shall be determined by Consultant. It is further understood and agreed that Consultant shall issue W-2 or 1099 Forms for income and employment tax purposes, for all of Consultant's assigned personnel and subcontractors.

d. The provisions of this Section 8 shall survive any expiration or termination of this Agreement. Nothing in this Agreement shall be construed to create an exclusive relationship between City and Consultant. Consultant may represent, perform services for, or be employed by such additional persons or companies as Consultant sees fit.

## **9. ADDITIONAL SERVICES**

Changes to the Scope of Services shall be by written amendment to this Agreement and shall be paid on an hourly basis at the rates set forth in Exhibit B, or paid as otherwise agreed upon by the parties in writing prior to the provision of any such additional services.

## **10. SUCCESSORS AND ASSIGNS**

City and Consultant each binds itself, its partners, successors, legal representatives and assigns to the other party to this Agreement and to the partners, successors, legal representatives and assigns of such other party in respect of all promises and agreements contained herein.

## **11. TERM, SUSPENSION, TERMINATION**

a. This Agreement shall become effective on the date that it is made, set forth on the first page of the Agreement, and shall continue in effect until both parties have fully performed their respective obligations under this Agreement, unless sooner terminated as provided herein.

b. City shall have the right at any time to temporarily suspend Consultant's performance hereunder, in whole or in part, by giving a written notice of suspension to Consultant. If City gives such notice of suspension, Consultant shall immediately suspend its activities under this Agreement, as specified in such notice.

c. City shall have the right to terminate this Agreement for convenience at any time by giving a written notice of termination to Consultant. Upon such termination, Consultant shall submit to City an itemized statement of services performed as of the date of termination in accordance with Section 2 of this Agreement. These services may include both completed work and work in progress at the time of termination. City shall pay Consultant for any services for which compensation is owed; provided, however, City shall not in any manner be liable for lost profits that might have been made by Consultant had the Agreement not been terminated or had Consultant completed the services required by this Agreement. Consultant shall promptly deliver to City all documents related to the performance of this Agreement in its possession or control. All such documents shall be the property of City without additional compensation to Consultant.

## **12. TIME OF PERFORMANCE**

The services described herein shall be provided during the period, or in accordance with the schedule, set forth in Exhibit A. Consultant shall complete all the required services and tasks and complete and tender all deliverables to the reasonable satisfaction of City, not later than July 1, 2025.

## **13. STANDARD OF PERFORMANCE**

Consultant shall perform all services performed under this Agreement in the manner and according to the standards currently observed by a competent practitioner of Consultant's profession in California. All products of whatsoever nature that Consultant delivers to City shall be prepared in a professional manner and conform to the standards of quality normally observed by a person currently practicing in Consultant's profession, and shall be provided in accordance with any schedule of

performance. Consultant shall assign only competent personnel to perform services under this Agreement. Consultant shall notify City in writing of any changes in Consultant's staff assigned to perform the services under this Agreement prior to any such performance. In the event that City, at any time, desires the removal of any person assigned by Consultant to perform services under this Agreement, because City, in its sole discretion, determines that such person is not performing in accordance with the standards required herein, Consultant shall remove such person immediately upon receiving notice from City of the desire of City for the removal of such person.

#### 14. CONFLICTS OF INTEREST

Consultant covenants that neither it, nor any officer or principal of its firm, has or shall acquire any interest, directly or indirectly, that would conflict in any manner with the interests of City or that would in any way hinder Consultant's performance of services under this Agreement. Consultant further covenants that in the performance of this Agreement, no person having any such interest shall be employed by it as an officer, employee, agent or subcontractor, without the written consent of City. Consultant agrees to avoid conflicts of interest or the appearance of any conflicts of interest with the interests of City at all times during the performance of this Agreement.

#### 15. CONFLICT OF INTEREST REQUIREMENTS

a. **Generally.** The City's Conflict of Interest Code requires that individuals who qualify as "consultants" under the Political Reform Act, California Government Code sections 87200 *et seq.*, comply with the conflict of interest provisions of the Political Reform Act and the City's Conflict of Interest Code, which generally prohibit individuals from making or participating in the making of decisions that will have a material financial effect on their economic interests. The term "consultant" generally includes individuals who make governmental decisions or who serve in a staff capacity.

b. **Conflict of Interest Statements.** The individual(s) who will provide services or perform work pursuant to this Agreement are "consultants" within the meaning of the Political Reform Act and the City's Conflict of Interest Code:

yes  no.

If "yes" is checked by the City, Consultant shall cause the following to occur within 30 days after execution of this Agreement:

- (1) Identify the individuals who will provide services or perform work under this Agreement as "consultants"; and
- (2) Cause these individuals to file with the City Clerk the assuming office statements of economic interests required by the City's Conflict of Interest Code.

Thereafter, throughout the term of the Agreement, Consultant shall cause these individuals to file with the City Clerk annual statements of economic interests, and "leaving office" statements of economic interests, as required by the City's Conflict of Interest Code.

The above statements of economic interests are public records subject to public disclosure under the California Public Records Act. The City may withhold all or a portion of any payment due under this Agreement until all required statements are filed.

## **16. CONFIDENTIALITY OF CITY INFORMATION**

During performance of this Agreement, Consultant may gain access to and use City information regarding inventions, machinery, products, prices, apparatus, costs, discounts, future plans, business affairs, governmental affairs, processes, trade secrets, technical matters, systems, facilities, customer lists, product design, copyright, data, and other vital information (hereafter collectively referred to as "City Information") that are valuable, special and unique assets of the City. Consultant agrees to protect all City Information and treat it as strictly confidential, and further agrees that Consultant shall not at any time, either directly or indirectly, divulge, disclose or communicate in any manner any City Information to any third party without the prior written consent of City. In addition, Consultant shall comply with all City policies governing the use of the City network and technology systems. A violation by Consultant of this Section 16 shall be a material violation of this Agreement and shall justify legal and/or equitable relief.

## **17. CONSULTANT INFORMATION**

a. City shall have full ownership and control, including ownership of any copyrights, of all information prepared, produced, or provided by Consultant pursuant to this Agreement. In this Agreement, the term "information" shall be construed to mean and include: any and all work product, submittals, reports, plans, specifications, and other deliverables consisting of documents, writings, handwritings, typewriting, printing, photostatting, photographing, computer models, and any other computerized data and every other means of recording any form of information, communications, or representation, including letters, works, pictures, drawings, sounds, or symbols, or any combination thereof. Consultant shall not be responsible for any unauthorized modification or use of such information for other than its intended purpose by City.

b. Consultant shall fully defend, indemnify and hold harmless City, its officers and employees, and each and every one of them, from and against any and all claims, actions, lawsuits or other proceedings alleging that all or any part of the information prepared, produced, or provided by Consultant pursuant to this Agreement infringes upon any third party's trademark, trade name, copyright, patent or other intellectual property rights. City shall make reasonable efforts to notify Consultant not later than ten (10) days after City is served with any such claim, action, lawsuit or other proceeding, provided that City's failure to provide such notice within such time period shall not relieve Consultant of its obligations hereunder, which shall survive any termination or expiration of this Agreement.

c. All proprietary and other information received from Consultant by City, whether received in connection with Consultant's proposal, will be disclosed upon receipt of a request for disclosure, pursuant to the California Public Records Act; provided, however, that, if any information is set apart and clearly marked "trade secret" when it is provided to City, City shall give notice to Consultant of any request for the disclosure of such information. Consultant shall then have five (5) days from the date it receives such notice to enter into an agreement with the City, satisfactory to the City Attorney, providing for the defense of, and complete indemnification and reimbursement for all costs (including plaintiff's attorneys' fees) incurred by City in any legal action to compel the disclosure of such information under the California Public Records Act. Consultant shall have sole responsibility for defense of the actual "trade secret" designation of such information.

d. The parties understand and agree that any failure by Consultant to respond to the

notice provided by City and/or to enter into an agreement with City, in accordance with the provisions of subsection c, above, shall constitute a complete waiver by Consultant of any rights regarding the information designated "trade secret" by Consultant, and such information shall be disclosed by City pursuant to applicable procedures required by the Public Records Act.

## **18. MISCELLANEOUS**

a. Entire Agreement. This Agreement contains the entire agreement between the parties. Any and all verbal or written agreements made prior to the date of this Agreement are superseded by this Agreement and shall have no further effect.

b. Modification. No modification or change to the terms of this Agreement will be binding on a party unless in writing and signed by an authorized representative of that party.

c. Compliance with Laws. Consultant shall perform all services described herein in compliance with all applicable federal, state and local laws, rules, regulations, and ordinances, including but not limited to, (i) the Americans with Disabilities Act of 1990 (42 U.S.C. 12101, et seq.) ("ADA"), and any regulations and guidelines issued pursuant to the ADA; and (ii) Labor Code sections 1720, et seq., which require prevailing wages (in accordance with DIR determinations at [www.dir.ca.gov](http://www.dir.ca.gov)) be paid to any employee performing work covered by Labor Code sections 1720 et seq. Consultant shall pay to the City when due all business taxes payable by Consultant under the provisions of Chapter 6-04 of the Santa Rosa City Code. The City may deduct any delinquent business taxes, and any penalties and interest added to the delinquent taxes, from its payments to Consultant.

d. Discrimination Prohibited. With respect to the provision of services under this Agreement, Consultant agrees not to discriminate against any person because of the race, religious creed, color, national origin, ancestry, physical disability, mental disability, medical condition, genetic information, marital status, sex, gender, gender identity, gender expression, age, sexual orientation, or military and veteran status of that person.

e. Governing Law; Venue. This Agreement shall be governed, construed and enforced in accordance with the laws of the State of California. Venue of any litigation arising out of or connected with this Agreement shall lie exclusively in the state trial court in Sonoma County in the State of California, and the parties consent to jurisdiction over their persons and over the subject matter of any such litigation in such court, and consent to service of process issued by such court.

f. Waiver of Rights. Neither City acceptance of, or payment for, any service or performed by Consultant, nor any waiver by either party of any default, breach or condition precedent, shall be construed as a waiver of any provision of this Agreement, nor as a waiver of any other default, breach or condition precedent or any other right hereunder.

g. Incorporation of Attachments and Exhibits. The attachments and exhibits to this Agreement are incorporated and made part of this Agreement, subject to terms and provisions herein contained.

## **19. AUTHORITY; SIGNATURES REQUIRED FOR CORPORATIONS**

Consultant hereby represents and warrants to City that it is (a) a duly organized and validly existing limited liability company formed and in good standing under the laws of the State of California,

(b) has the power and authority and the legal right to conduct the business in which it is currently engaged, and (c) has all requisite power and authority and the legal right to consummate the transactions contemplated in this Agreement. Consultant hereby further represents and warrants that this Agreement has been duly authorized, and when executed by the signatory or signatories listed below, shall constitute a valid agreement binding on Consultant in accordance with the terms hereof.

If this Agreement is entered into by a corporation, it shall be signed by two corporate officers, one from each of the following two groups: a) the chairman of the board, president or any vice-president; b) the secretary, any assistant secretary, chief financial officer, or any assistant treasurer. The title of the corporate officer shall be listed under the signature.

Executed as of the day and year first above stated.

**CONSULTANT:**  
Hildebrand Consulting, LLC

**CITY OF SANTA ROSA**  
a Municipal Corporation

TYPE OF BUSINESS ENTITY (*check one*):

- Individual/Sole Proprietor
- Partnership
- Corporation
- Limited Liability Company
- Other (please specify: \_\_\_\_\_)

By: \_\_\_\_\_

Print  
Name: \_\_\_\_\_

Title: \_\_\_\_\_

*Signatures of Authorized Persons:*

APPROVED AS TO FORM:

By: *Mark Hildebrand*  
/mark.hildebrand/ (04-13-2023 13:26 PDT)

*Jim*  
Jeff (Oct 15, 2023 14:30 PDT)

Print Name: Mark Hildebrand

Office of the City Attorney

Title: President

City of Santa Rosa Business Tax Cert. No.

06528526

- Attachments:
- Attachment One - Insurance Requirements
  - Exhibit A - Scope of Services
  - Exhibit B - Compensation

## EXHIBIT A - SCOPE OF WORK

The following proposes a detailed scope of work, based on our understanding of Santa Rosa's needs and our scope of services for similar studies. The following scope of work includes detailed task descriptions which demonstrate that Hildebrand Consulting has considered all aspects of the study as described by the City, as well as other considerations based on our years of experience with the City and our decades of experience in the industry.

### Task 1. Project Kickoff and Data Collection

To initiate the Study, we will conduct a Project Kickoff Meeting with City staff to:

- ✓ Discuss key issues, roles, and responsibilities
- ✓ Confirm study objectives, priorities, and further explore project drivers
- ✓ Discuss initial data requirements and availability
- ✓ Finalize the project schedule, including key milestone dates and deliverables

Following the Kickoff Meeting, we will submit a data request to the City. The required data will include (but is not limited to) historical financial statements, capital spending history and forecast, historical and budgeted revenues and expenses, detailed utility billing data, customer counts and classes, water usage data, and debt repayment schedules. We will use this time to build on our existing understanding of Santa Rosa's current financial requirements (such as bond covenants) and operational/capital improvement drivers.

Follow-up calls with staff will be made to ensure full understanding of all data received.

**Task 1 Meeting:** Kickoff Meeting (video conference) and conference calls as needed

**Task 1 Deliverable:** Data request list

### Task 2. 10-Year Financial Plans

In this task, our team will use a revenue sufficiency and financial planning model to update Santa Rosa's 10-year Financial Plans for both water and wastewater and recommend a 5-year schedule of rate adjustments. Our financial planning models have already been tailored to directly load Santa Rosa's budget (for seamless updates) and project annual revenue and fee adjustments requirements. The financial plans will consider projected changes to operating expenses, alternative spending levels, operating reserves targets, debt service coverage ratios and other financial policies/goals that affect the revenue requirements of the funds. It will also consider historical operating expenses, growth projections and other trends that paint a complete financial picture and allow for informed decision-making. Our model's dashboard clearly displays key scenarios and assumptions in a format that is easy to understand. This

function, coupled with our ability to make real-time changes to the model, is particularly useful when engaging in interactive planning meetings.

The financial plans will address the funding strategy for both operating costs as well as capital improvements (PayGo versus debt) while meeting reserve levels that are consistent with standard AWWA and credit rating guidelines.

The models will include capital spending data from the respective master plans. Our financial planning model provides a valuable capital planning tool which we will use to review Santa Rosa's capital improvement program and evaluate the impacts of alternative projects, costs, timing, and funding sources. We will examine Santa Rosa's historical use of debt financing and assess the viability and appropriateness of issuing new debt. All financial scenarios will ensure that the City will maintain a proper balance of debt coverage and reserves over the study period. The capital funding evaluation will also consider the availability of Demand Fee revenue (from developers) to fund growth-related capital projects. While Demand Fees are intended to pay for growth projects, sometimes utility rates have to "front" the cost of growth-related capital projects if development occurs more slowly than anticipated.

Our team will work directly with City staff to understand cost drivers for the Financial Plans and consider cost uncertainties, such as future regulatory mandates and water supply/demand trends. We will review how operating costs may change as a result of future upgrades and expansions of the water system and wastewater treatment plant. Water supply costs are the water enterprise's single largest operational expense and unexpected changes to that water supply expense can be financially significant. For this reason, we will explore the (re)implementation of a pass-through clause in the water rates to account for changes in Sonoma Water wholesale water rates (as detailed in Task 3).

Importantly, the wastewater financial plan will include functionality that shows how expenses (operating, debt, and capital) will be split among the Member Agencies of the Subregional system. Different types of expenses are specifically allocated among the Member Agencies based on existing agreements.

Cash reserve policies are fundamental to achieving financial stability and avoiding sudden fee adjustments in the face of changes to operating or capital needs. We will work with the City to review any existing reserve policies and we will make recommendations to ensure that both utilities are maintaining adequate reserves to protect the enterprises and their ratepayers. We will forecast Santa Rosa's fund balances and incorporate these balances and alternative reserve policies into the interactive planning discussions regarding financial sustainability.

**Task 2 Meeting:** Financial Planning Workshop (video conference) with staff and conference calls as needed

**Task 2 Deliverable:** Presentation materials

### **Task 3. Cost of Service and Rate Design**

The financial models in Task 2 will determine each enterprise's total annual rate revenue requirement during the 10-year planning period. In Task 3 we will determine how those revenues will be recovered from ratepayers.

#### **Cost of Service Analysis**

The cost-of-service analyses serve as the foundation for complying with Proposition 218 by allocating utility costs to cost categories and then to customer classes based on demand characteristics. Our cost of service and rate design study process is consistent with industry practice in the State of California, conforms to all State and Federal laws. Under California's Proposition 218 utility rates must reflect a proportionate distribution of costs to each customer and customer class. We will review the basis of the cost-of-service analysis from the previous study and Santa Rosa's current rate structure to determine if they continue to serve Santa Rosa's objectives relating to revenue stability, conservation, and affordability, while ensuring a fair and equitable distribution of costs and conformance to accepted industry practice and legal requirements, including Proposition 218, Proposition 26, and other regulations.

#### **Rate Structure**

The rate structure determines how the cost of providing service to each customer class is actually recovered through water and sewer rates. The design of the rate structures will reflect rate-setting objectives that will be identified and articulated in meetings with staff, the BPU, and City Council. Factors to be considered in identifying and selecting potential rate structures will include:

Based on our previous experience, we understand that the City values rates that promote conservation, affordability, and revenue stability.

- Legal defensibility
- Revenue stability
- Equitability amount utility customers
- Water conservation
- Affordability
- Additional views and opinions expressed by staff, BPU and Council members regarding rate setting objectives and rate structure options
- Any constraints presented by the utility billing system and/or data limitations

The specific rate structure elements include (but are not limited to) tiered rates, water allocations (including water budgets), variable versus fixed revenue, and

Sometimes changes to rate structure can be complex and the impact to customers is not immediately clear. In order to make the impact of the proposed changes as clear as possible, we will take a "cross section" of customers (residential, non-residential, large & low water

users, high & low sewer strength, large & small meters) to demonstrate exactly how the proposed rates will specifically impact different types of customers (i.e., a bill impact analysis).

### **Pass-Through Provision**

California law allows retail utilities to “pass-through” increases in wholesale water costs to its customers. Santa Rosa Water previously had a pass-through provision for Sonoma Water rates, but that provision was not renewed as part of the 2021 water rate study because it was thought that Sonoma Water had committed to more transparent, long-term financial planning. Recent unexpected increases in Sonoma Water rates have demonstrated that it is still in Santa Rosa Water’s best interest to have some form of pass-through provision that can protect Santa Rosa Water from expected increases to its single most expensive expenditure. We will work with staff to develop a pass-through provision that both protects the utility while also minimizing the administrative burden of updating rates every year.

**Task 3 Meeting:** Rate Structure Workshop with staff and conference calls as needed

**Task 3 Deliverable:** Presentation materials

### **Task 4. Water Shortage Charge Policy Update**

Water Shortage Charge policies are an important tool to mitigate against the negative impact of drought conditions on the financial health of the water utility. Santa Rosa’s current water shortage charge policy was most recently updated as part of the 2021 water rate study. The current policy is made up of 8 (eight) stages which are built around the water shortage stages defined by the state of California (and part of Santa Rosa’s existing Water Shortage Contingency Plan).

The existing shortage changes have been calculated based on anticipated changes to both revenues and expenses during drought events. Changes in operating and maintenance costs and revenues can include:

- Decrease in wholesale water purchases (decreased expense)
- Decrease in water sales (loss of revenue)
- Decrease in water treatment and pumping (decrease in chemical and energy costs)
- Increased water conservation education and assistance costs.

The net effect of these impacts usually creates a financial deficit during periods of water shortage (i.e., revenue will decline more than the decline in expenses). We will leverage the water shortage charge model that was developed in 2021 as well as the updated financial planning model (see Task 1) to update the appropriate charge needed during the respective

water shortage stages. The current charge policy is expressed as percentages; therefore, it is possible that the analysis will confirm that the existing policy remains valid.

**Task 4 Meetings:** See Task 2 and 3

**Task 4 Deliverable:** Presentation materials, as needed. Findings will be included in the final report and Prop 218 notification (see Task 7)

### **Task 5. Miscellaneous Charges**

As part of this study, we will consider any additional miscellaneous charges or funding programs that Santa Rosa Water may want to consider. By way of example, we may be asked to evaluate:

- An elevation surcharge for accounts located in higher elevations
- Low-income program, to be funded by alternative sources
- Fixed monthly charges for inactive (but connected) service lines
- Private fire line services charges

**Task 5 Meetings:** See Tasks 2 and 3

**Task 5 Deliverables:** Any findings will be documented in the final report

### **Task 6. Benchmarking**

As requested by the City's RFP, this study will include a benchmarking comparison of Santa Rosa's current water and wastewater system costs (such as specific operating costs, annual capital spending, debt service) against appropriate industry benchmarks. It should be understood that comparing performance benchmarks between utilities is complicated by the fact that every utility has very unique circumstances created by factors such as water source, water quality, infrastructure age/condition, utility size (efficiencies of scale), receiving water bodies, local regulations, topography, soil type, climate, demographics, governing body, and many other factors. As such, a "proper" benchmarking exercise of utility costs needs to be comprehensive in order to be valuable. Alternatively, the industry gold standard for benchmarking is "process" benchmarking whereby operations and governance processes are audited and measured against industry best practices.

We proposed to work with City staff during the Kickoff Meeting to discuss the nature and scale of the benchmarking exercise. At a minimum, we will benchmark Santa Rosa Water's water and wastewater rates to other regional utilities (up to 20 utilities). Additional comparisons can be made with other California cities of comparable size to Santa Rosa, which operate both water and wastewater utilities, at the City's discretion. Given the wide range of effort that this scope of work may entail, we suggest developing the scope in collaboration with City staff.

The results from this task will be communicated through presentations and not as part of the main water and wastewater rate study report (which essentially becomes a legal document for Proposition 218 and should not include superfluous information).

<p><b>Task 6 Meetings:</b> Staff meetings as needed, results will be presented to BPU and City Council along with other study results.</p> <p><b>Task 6 Deliverables:</b> Presentation materials</p>
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**Task 7. Reports and Prop 218 Notification**

**Administrative Draft, Draft, and Final Report**

We will deliver an administrative draft report for staff review (and committee review if appropriate). Following acceptance of the draft report by the City, a final report will be submitted.

The report will include all elements of the study (financial plan, cost of service / rate design, water shortage charges, and miscellaneous charges). The report will include:

- a. A brief physical description of the systems
- b. Overview of financial operations for the last five years
- c. A forecast of capital improvement program needs for the next ten years
- d. The proposed 10-year financial plans
- e. A transparent explanation of the basis for cost allocation to customer classes
- f. A clear explanation of the cost-basis for the respective rate structures
- g. 5-year schedules of proposed rates
- h. A complete description of the proposed water shortage charge policy
- i. A list of all assumptions and data supporting the study’s recommendations

We will provide guidance and advice to staff to ensure compliance with the rate adoption process required by Proposition 218. We will work with City staff to draft the contents of the required Proposition 218 notice, which will need to be mailed to property owners at least 45 days prior to a public hearing. We assume that Santa Rosa will work with a printing service to finalize the formatting and mail the Proposition 218 notification.

<p><b>Task 7 Deliverables:</b> Administrative Draft, Draft, and Final Study Report</p> <p><b>Task 7 Meeting:</b> NA</p>
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**Task 8. Workshops, Presentations & Communication Strategies**

Tasks 1, 2 and 3 describe meetings with City staff (a Kickoff Meeting, a Financial Planning workshop, and a Rate Structure Workshop) as well as conference calls, as needed.

The Board of Public Utilities (BPU) is a seven-member appointed board designated by the City Charter as having general policy authority and direction over the management and operation of the City's water and sewer utilities. We understand that the Board will evaluate any rate recommendations from the rate study and make recommendations to the City Council. The City Council will have the final vote for any changes to rates.

In addition to staff meetings, we will present rate study findings and recommendations to the BPU Budget Subcommittee, the BPU, the City Council, and community outreach meetings as needed. We will work closely with City staff over the course of the entire project to engage and inform the BPU, subcommittees, and City Council. Based on our understanding of Santa Rosa's needs, we have proposed the following list of meetings and presentations with elected officials. Additional meetings can and should be added if warranted. We intend to engage staff during the Kickoff meeting to better understand the communication approach that would be most appropriate for this particular project.

- Meeting 1: In this first meeting with the BPU Budget Subcommittee, we would provide an overview of rate study approach including project objectives; we will present the preliminary financial strategy and present capital spending scenarios; we will discuss any proposed changes to the existing rate structures; and we will review a rate survey of other regional utilities as compared to Santa Rosa Water. During this meeting we will solicit early feedback to ensure that our general recommendations are aligned with expectations.
- Meeting 2: In this second meeting with the Budget Subcommittee, we will present the draft study recommendations and seek the Subcommittee's final comments and direction prior to presenting our recommendations to the full BPU panel.
- Meeting 3: In our presentation to the full BPU panel, we will present the draft final study recommendations and seek BPU's approval to schedule a similar presentation to the City Council. We will present the proposed rate structure changes and the rate schedules for a five-year period. Discussions will include bill impacts, sensitivity analysis, and we will discuss public outreach efforts (as applicable) during the rate approval process.
- Meeting 4: During this first presentation to the City Council, we will present the study's final recommendations and seek the Council's direction to send Proposition 218 notifications to customers. We will present the proposed rate structure changes and the rate schedules for a five-year period. Discussions will include bill impacts, sensitivity analysis, and we will discuss public outreach efforts (as applicable) during the rate approval process.
- Meeting 5: This final meeting is the Proposition 218 Public Hearing with the City Council to adopt the final study recommendations and five-year rate plans.

Meeting materials will be prepared for each meeting. The meetings will include a formal presentation and an opportunity for questions, comments, and discussion. We are available to hold the meeting via video conference or in-person. Video conference meetings require less budget and in-person meetings (see price proposal for costs).

In addition to the above, Hildebrand Consulting is available to conduct community engagement meetings. We are experienced in conducting outreach meetings to educate interested stakeholders in our rate study approach including project objectives; financial strategies; legal requirements; regulatory drivers; and capital spending scenarios. During these meetings we educate stakeholders by responding to questions and concerns and we seek to garner support and feedback.

Over the course of the project, we will work with both Staff as well as elected officials to identify communication strategies that will help the public understand the value of the utility services being provided by Santa Rosa Water. By way of example, the water and sewer rates should be expressed in terms of dollars per gallon rather than dollars per HCF (hundred cubic feet) since a gallon is a much more understandable volume of water from most rate payers.

<b>Task 8 Meetings:</b>	Five (5) elected official meetings
<b>Task 8 Deliverables:</b>	Presentations as needed, including rate survey results

## EXHIBIT B – COST OF SERVICES

We propose a not-to-exceed price of **\$135,000** for the scope of services described in this proposal. It is our practice to bill clients monthly for actual time and expenses incurred during the prior month. We will not charge for any out-of-pocket or travel expenses. Current (2023) hourly billing rates are \$250 for Mark Hildebrand and will remain valid through 2024. Hourly rates are subject to change after January 1, 2025.

	<b>Hildebrand Consulting</b>	<b>Cost by Task</b>
	Hourly Rate: \$250	
Task 1 Project Kickoff and Data Collection	14	\$3,500
Task 2 10-Year Financial Plans	120	\$30,000
Task 3 Cost of Service and Rate Design	120	\$30,000
Task 4 Water Shortage Charge Policy	24	\$6,000
Task 5 Miscellaneous Charges	24	\$6,000
Task 6 Benchmarking *	10	\$2,500
Task 7 Reports and Prop 218 Notification	82	\$20,500
Task 8 Workshops and Presentations	50	\$12,500
	<b>Total Hours: 444</b>	
	Direct expenses **: \$0	
	<b>Proposed Fee: \$111,000</b>	
Additional costs per on-site meeting (includes prep time)		\$3,000
	<b>Total Not to Exceed Budget***: \$135,000</b>	

\*The benchmarking budget assumes only a rate survey. Additional scope and budget, if applicable, are proposed to be developed in collaboration with City staff.

\*\*Hildebrand Consulting does not charge for direct travel expenses such as gas, hotels and meals.

\*\*\* Assumes up to 8 on-site meetings.

# Hildebrand Consulting PSA

Final Audit Report

2023-10-16

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