FIRST AMENDMENT
TO PROFESSIONAL SERVICES AGREEMENT NUMBER F001662
WITH THE REED GROUP, INC

This First Amendment to Agreement number F001662, dated February 6, 1018 ("Agreement") is made as of this _____ day of _____, 2018, by and between the City of Santa Rosa, a municipal corporation ("City"), and The Reed Group, Inc. ("Consultant").

RECITALS

A. City and Consultant entered into the Agreement for Consultant to assist with 2018/19 fiscal year budget development, develop a long range financial plan and an agricultural water usage rate.

B. City and Consultant now desire to amend the Agreement for the purpose of adding additional support and expertise for an extended agricultural water usage rate setting process to include meetings with users and ad hoc committees and additional analysis of current operating costs.

AMENDMENT

NOW, THEREFORE, the parties agree to amend the Agreement as follows:

1. Section 1. Scope of Services

Exhibit A to the Agreement is replaced by Exhibit A-1 to this Amendment.

2. Section 2. Compensation

Section 2(c) is amended to increase the compensation payable to Consultant under the Agreement by $35,400 to read as follows:

> "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 tasks set forth above shall in no event exceed the sum of One hundred thirty five thousand, two hundred and eighty dollars and no cents ($135,280.00). The City's Chief Financial Officer is authorized to pay all proper claims from Charge Numbers 130601 &130701.

3. Section 12. Time of Performance

The last sentence of Section 12 is amended to read as follows:

> "Consultant shall complete all the required services and tasks and complete and tender all deliverables to the reasonable satisfaction of City, not later than a four year period from the original agreement date of Feruary 6, 2018.

All other terms of the Agreement shall remain in full force and effect.

Executed as of the day and year first above stated.

CONSULTANT:

Name of Firm: The Reed Group, Inc.

TYPE OF BUSINESS ENTITY *(check one)*:

_____ Individual/Sole Proprietor
_____ Partnership
X Corporation
_____ Limited Liability Company
_____ Other (please specify: _____)

Signatures of Authorized Persons:

By: Robert Reed

Print Name: Robert Reed

Title: President

By: Rebecca Reed

Print Name: Rebecca Reed

Title: Vice President

CITY OF SANTA ROSA
a Municipal Corporation

By: _____

Print Name: _____

Director, _____ Department
Title: _____

APPROVED AS TO FORM:

Office of the City Attorney

ATTEST:

City of Santa Rosa Business Tax Cert. No.
1WAXD3WB

Attachment: Exhibit A-1 - Scope of Services
Exhibit B-1 - Compensation

EXHIBIT A-1 – AMENDED SCOPE OF SERVICES

The Reed Group, Inc., with Hildebrand Consulting, LLC serving as a subcontractor, shall perform the following scope of services for the City of Santa Rosa. This scope of service describes how the tasks will be performed. The tasks fall into three major task activities:

1. FY 18-19 Budget Development Assistance
2. Long-Range Financial Planning
3. Agricultural Water Rates

The additional tasks included in this amended scope of services are identified as Tasks 3.3 through 3.7, below.

Task 0 – Initiate Project and Review/Analyze Background Information

At the outset of the study, a data and information request will be submitted to Santa Rosa Water and a kick-off meeting scheduled. The kick-off meeting will be held with key staff involved with the project to discuss the study approach, key issues and project schedule. We will also discuss the requested data and information, including water utility's current budget, revenue projections, debt obligations, capital program needs, financial concerns, current water and wastewater rate structures and rate-setting objectives, utility billing data, and expectations for the study.

The kick-off meeting will also be used to review a detailed timeline for completing the study, including specific milestone dates, as well as the roles and responsibilities of both consultant and staff.

Throughout the project we will be available to meet with Santa Rosa Water staff in person or in conference calls, as required. This task will also include project management, client billing, and other administrative tasks.

Task 1 – FY 18-19 Budget Development Assistance

Task 1.1 – Review Current Financial Situation

The first substantive task of this project will be to review the financial impacts of the Tubbs fire on Santa Rosa Water. The fire reportedly resulted in a 5 percent reduction in Santa Rosa Water's customer base and an estimated 4 percent reduction in annual rate revenues. In this task, we will examine current revenues relative to operation and maintenance costs, debt service obligations (including coverage requirements), and capital program needs of the water, wastewater, and subregional systems. Consideration will be given to the availability of financial reserves, including catastrophic reserves, for meeting near-term financial obligations. The analysis will also consider the new and unexpected costs to the utilities associated with disaster response and recovery, including costs to replace/repair damaged facilities and infrastructure. An immediate increase in water and wastewater rates is not foreseen, and new rates may not be implemented until early 2019. The current situation makes for unique conditions as the City moves into a new budget year.

Task 1.2 – Assist with Development of FY 18-19 Budget

The development of the FY 18-19 budget for the water, wastewater, and subregional system will require consideration of the unique conditions that currently exist. This task may include

providing both analytical and strategic assistance, as requested by staff, in the development of the new budget, including.

- Evaluate transition in the capital improvement program with an emphasis on rehabilitation/replacement needs, rather than funding availability
- Review of financial reserve policies and reserve levels, and how reserves could be used to help bridge any financial gap in the post-fire environment
- Review of budgeting practices and policies, including comparison of historical budgeted vs. actual expenditures
- Technical assistance in developing adjustments to water and wastewater demand fee schedules to reflect legal and policy considerations relative to accessory dwelling units
- Develop strategy and materials that assist Santa Rosa Water staff with presenting budget and strategic information to the BPU and City Council
- Provide other assistance to Santa Rosa Water staff, as needed, during the budget development process.

Task 2 – Long-Term Financial Planning

Task 2.1 – Develop Financial Plans and Long-Term Financial Strategy

In parallel with assisting with the development of the FY 18-19 budget and addressing near-term needs, we will also director our attention to developing a long-term financial strategy for Santa Rosa Water. This effort will include development of new 10-year financial plan models. The financial plan is an annual cash-flow model. This differs from standard accounting income statements and budget documents. The financial plan will span up to a 10-year planning period. It will be based on the detailed account structure used in the City's budget and financial accounting system. Separate funds and reserves within the water, wastewater, and subregional utilities will be modeled.

The financial plans will be presented in an easy-to-understand format on an interactive dashboard. The dashboard will allow users to vary certain assumptions (CIP funding, debt, water use, revenue adjustments) so that the model user can appreciate the effects of revenue adjustments, capital financing through rates or debt, and reserve targets. Several features of the model's dashboard include the ability to show or indicate:

1. Projected revenue streams and adjustments for the next five years in order to meet debt coverage, fund capital projects, and fund reserves
2. Reserve balances and reserve targets as well as debt service coverage ratios
3. Operating plan break down (O&M, debt service, reserve funding)
4. Different capital funding sources such as rate funded (pay-as-you-go), debt financing (including the City's debt capacity), or grant funding
5. Impact of differing assumptions regarding changes in the customer base and/or water demands.

As adjustments are made to different variables, the model can save adjustments as separate scenarios. A scenario manager allows multiple distinct scenarios to be saved and revisited for a comparative analysis between different financial plans and rate options. Santa Rosa Water staff can review and determine the most appropriate financial plan and rate design.

The models are designed to be easy to understand and show the impacts of various assumptions allowing staff, the BPU, and the City Council to make informed decisions.

The financial plan models will be used to develop a long-term financial strategy for providing adequate funding for ongoing operations and maintenance, debt service obligations, and the capital improvement program. Specific consideration will be given to developing a strategy for supporting the long-term rehabilitation and replacement needs of infrastructure. Because the rehabilitation/replacement of infrastructure is necessarily an ongoing, year-in and year-out, endeavor it is most cost-effectively conducted on a pay-as-you-go basis. However, a concentration of projects, or very large individual projects, can necessitate the issuance of new debt to fund improvements. The financial plan models will be used to develop a financial strategy for each utility that balances these approaches to maximal benefit.

This task will also include a review of Santa Rosa Water's financial policies with consideration of lessons learned from the recent Tubbs fire, funding of the capital improvement program based on long-term needs rehabilitation/replacement needs, and other factors. The proposed long-term financial strategy may include changes to existing reserve policies.

Task 2.2 – Determine Annual Water, Wastewater, and Subregional Rate Revenue Requirements

One of the outputs from the financial plan models is the determination of annual rate revenue requirements for each of the utilities. Annual water and wastewater rate revenue requirements are determined through development of the financial plan models. The revenue requirements are based on annual operating and maintenance expenses, debt service obligations, and contributions towards capital program activities with consideration of non-rate revenues, financial reserves and reserve policies. The financial plan will consider:

- Current and estimated future operating and maintenance costs
- Estimated customer growth and changes in water demands, including the effects of water conservation
- Assumptions for inflation and interest rates
- Need to fund long-term capital improvements and replacement of infrastructure
- Existing and potential future debt service obligations, including debt service coverage
- Estimated non-rate revenues including demand fee revenues and other sources.

It is anticipated that the City will choose to re-adopt the procedures for automatically adjusting water rates for changes in SCWA water costs for another five years. The financial plan will include estimates for revenue adjustments consistent with these automatic rate adjustments.

We recognize that the revenue needs of the utilities may be impacted by Santa Rosa Water's proposed budget for FY 18-19. While the initial financial plans will be developed based on the FY 17-18 budget, we will allow for an update to the financial models prior to preparing formal study recommendations.

Task 2.3 – Perform Water and Wastewater Cost of Service Analysis

Water and wastewater rates must meet the cost of service requirements embodied in Proposition 218 (Article XIII D of the California Constitution). This task will include cost of service analyses and preparation of water and wastewater rate schedules. We will follow the requirements of Proposition 218, including guidance provided by the 2015 *San Juan Capistrano* appellate court decision, as well as industry standards, in determining water and wastewater rates and in allocating costs to each customer.

Based on the revenue requirements identified in the financial plans, we will functionalize costs into water service functions such as supply, transmission and distribution, storage, and customer service. Functional costs are then allocated to cost components, including capacity-related costs, commodity costs, customer costs, conservation costs, and other direct and indirect costs consistent with industry standards. From here, we will determine the unit cost for each cost component.

Next, we will distribute costs to the customer classes using unit costs. This results in the cost to serve each customer class, which is based on how each class uses water. Wastewater rate calculations will also consider the allocation of wastewater treatment costs in proportion to the strength characteristics of each customer class. Throughout the cost allocation process, we will incorporate policy considerations, as well as current legal requirements. Recent court decisions have raised the bar for justifying water and wastewater rates, but also have reinforced the notion that local agencies have broad flexibility in determining how costs are to be apportioned, and rates to be justified.

Task 2.4 – Prepare 5-Year Water and Wastewater Rate Schedules

In 2015, the City Council adopted rate plans that included annual adjustments to water and wastewater rates each July through 2020. Any additional rate adjustments determined necessary from the proposed study will be layered onto the previously approved rates.

Rate schedules will be developed for up to a 5-year period based on annual revenue requirements and the cost of service analysis. Santa Rosa Water's urban recycled water distribution and use is now part of the water utility's operation, and urban recycled water rates are tied to potable water rates. Urban recycled water rates will also be updated as part of this task. Because a number of rate structure issues were addressed with the 2015 rate study, this scope of services assumes that major rate restructuring is not contemplated at this time. Using the financial plan models, our intention will be to develop rate plans that attempt to minimize and smooth any required rate adjustments, while still meeting financial objectives.

It is anticipated that the City will re-adopt the procedures for annually automatically water usage rates to reflect changes in SCWA water supply costs. This task will include the necessary information and procedures for this re-adoption.

Task 2.5 – Prepare Water and Wastewater Financial Plan and Rate Study Report

This task, will involve preparing the Water and Wastewater Financial Plan and Rate Study report. The report will fully document all work performed in a transparent and understandable manner. It will include (1) the financial plan analyses, (2) cost of service analyses, (3) water and wastewater rate recommendations, (4) recommendations for agricultural water pricing policy and rates, and (5) other issues addressed during the study.

The report will describe any need for increased annual water and wastewater rate revenues, the basis for the rates, and the reasons for recommending any rate structure refinements. The study report will be an important part of the administrative record necessary to justify proposed water and wastewater rates.

An Administrative Draft Report will be provided to the City for staff review. After receiving comments on the administrative draft, and complete Draft Report will be prepared and submitted for presentation to the BPU in a study session. After receiving comments from the BPU and staff following the BPU study session, a Final Report will be prepared and presented in subsequent meetings. The Final Report will provide the support and basis for proceeding with the

Proposition 218 public notice process and public hearing to adopt new water and wastewater rates, as well as any other required changes (e.g., SCWA pass-through rates).

Task 2.6 – Present Report and Study Recommendations

Study recommendations will be presented in the following meetings:

- Board of Public Utilities in study session
- Board of Public Utilities in formal session
- City Council in study session

This City Council presentation may be more abbreviated than the presentation to the BPU, and would be geared more toward summarizing recommendations for the benefit of the general public. The presentation will focus primarily on water and wastewater rate recommendations, the benefits to the City and customers, and the potential bill impacts recommendations will have on various "typical" customers.

A PowerPoint presentation will be prepared for each presentation and submitted to the City prior to each meeting.

Task 2.7 – Assist in Drafting Proposition 218 Notice

We will assist staff and legal counsel in drafting the required Notice of Public Hearing in compliance with Proposition 218 for the adoption of new water and wastewater rates. This notice must be mailed to all affected customers/property owners at least 45 days prior to the rate hearing. As required by Proposition 218, the notice will include the complete rate schedules, as well as the basis and reasons for the rate changes. If applicable, the notice will also describe proposed extension of the automatic pass-through rate adjustments related to increased SCWA water supply costs.

Task 2.8 – Present Study Recommendations at Rate Hearing

We will present water and wastewater rate recommendations during a City Council meeting and public hearing to adopt new rates. At the direction of the Mayor, we will also be available to answer questions regarding the completed study and rate recommendations.

A PowerPoint presentation will be prepared for the rate hearing and submitted to the City prior to the meeting.

Task 2.9 – Submit Water/Wastewater Rate Model to City Staff

At the completion of the study an easy to use financial plan and rate calculation model (Excel file) will be submitted to City staff for future use. The model will allow staff to update financial plans and calculate future water and wastewater rates, based on the recommended rate structures. Up to 4 hours of training will be provided on the use of the model.

Task 3 – Agricultural Water Rates

Task 3.1 – Evaluate Agricultural Water Reuse Operations

Santa Rosa Water currently has more than 60 individual contracts with agricultural water users that total nearly 4,700 irrigated acres. This task will involve evaluating the agricultural customer base, as well as agricultural recycled water operations and costs. Information developed in this task will be helpful in understanding the relationship between recycled water deliver costs and

potential revenues from agricultural water sales. It will also help in characterizing operational decisions related to directing water to the range of beneficial uses available.

The subregional system has the ability to direct recycled water to multiple beneficial uses including power generation at the Geysers Geothermal Power Station, agricultural reuse, urban reuse, and creek discharge. Striking an optimal balance between the different beneficial uses requires an understanding of the relative relationship and trade-offs regarding contractual constraints, regulatory requirements, costs, and other factors influencing operational decisions. The agricultural rate analysis will include identifying the relevant operational criteria that influence disposal decisions. This will include considering the terms of the contract with Calpine related to water reuse at the Geysers project, relative magnitude of water demands (including minimums and maximums), seasonal aspects of operational decisions (including the roll of storage), relative costs (and offsetting revenues), current and potential policies, and other factors. This task may lead to a clear definition of and justification for an "optimal" operational paradigm. This, in turn, will provide guidance for the development of an agricultural water pricing strategy.

Task 3.2 – Develop Agricultural Recycled Water Pricing Policy and User Rates

At a minimum, revenues from the sale of recycled water to agricultural customers should recover the incremental costs of water deliveries. While a precise calculation is not necessary, this task will include developing reasonable estimates for the operation, maintenance, and replacement/rehabilitation of the agricultural water delivery system, including water storage. These service delivery costs will exclude any costs associated with treatment, but may include costs associated with maintaining and managing infrastructure associated with recycled water for irrigation systems on customers' property.

The objective of this task is to develop agricultural water pricing policies that will maintain diverse beneficial uses of water, support an "optimal" disposal strategy, and enhance subregional system revenues (to offset costs borne by wastewater customers). While the price charged for recycled water to agricultural customers does not need to meet cost of service requirements, policies should reflect consideration of costs and the balancing of multiple objectives, including the willingness to pay – and to a lesser extent ability to pay – for recycled water by different types of agricultural customers. In addition, different pricing structures might be developed and made available to agricultural customers, based on their specific needs and interests. Potential agricultural recycled water rate approach may include:

- *Interruptible supply* – In interruptible supply commitment would enable the subregional system to reduce water deliveries when conditions warrant it. A lower water rate may be appropriate for an interruptible water supply contract, which offers greater flexibility for subregional operations.
- *Firm supply commitment* – An Agricultural customer could contract for a fixed water supply commitment (with a specified seasonal delivery pattern) based on acreage and crop water requirements. Pricing might be on a take-or-pay basis for the fixed and pre-determined quantity of water.
- *Flexible water supply commitment* – Allows customer to modify water demands, based on changing or undefined needs. Providing this flexibility to agricultural customers could warrant a higher rate for recycled water.
- *Discounted rate(s) for accepting biosolids* – Agricultural customers might be encouraged to accept biosolids for land application through a reduced rate for recycled water.

This task will result in proposed policy changes regarding agricultural recycled water pricing, as well as the basis and approach calculating new agricultural recycled water rates. Agricultural water rate recommendations will be incorporated into the Water and Wastewater Financial Plan and Rate Study report prepared under Task 2.5.

Task 3.3 – Participate in Two Meetings with Agricultural Reuse Ad Hoc Committee

Attend up to two meetings with the recycled water Ad Hoc Committee of the BPU. The first meeting was to discuss recycled water pricing issues and the proposed approach and process for engaging an agricultural user working group as part of the pricing development process. The second meeting will occur after the meetings with the working group have been completed, and a preliminary draft report of pricing recommendations prepared.

Task 3.4 – Conduct Three Workshops with Agricultural User Working Group

Conduct up to three workshops with a working group of agricultural users, to be organized by Santa Rosa Water staff. These workshops would (1) provide background information and analyses to provide the appropriate context for a pricing policy and framework; (2) identify and present pricing strategy options, including advantages, disadvantages, and implementation issues; and (3) allow for refinement of options based on comments and input provided by the working group, as well as present a plan and schedule for the consideration of policy recommendations to the BPU and City Council.

Task 3.5 – Prepare Agricultural Recycled Water Pricing Policy Report

Originally, agricultural recycled water pricing recommendations were to be included in the water/wastewater rate study report (Task 2). However, it now appears appropriate to include agricultural pricing policy recommendations is a separate report. Following the workshops with the working group, The Reed Group will prepare a preliminary report on an agricultural recycled water pricing policy. That preliminary report, and its recommendations will be presented to the Ad Hoc Committee for discussion and further input. After which, the report will be revised to reflect comments from the Committee and Santa Rosa Water staff.

A draft report, reflecting input from the Ad Hoc Committee and staff, will then be presented to the BPU in a study session. Based on direction during this meeting, revisions would be made to the report and a final report prepared.

Task 3.6 – Participate in Meetings with the BPU and City Council

The final report with the recommended recycled water pricing policy for agricultural users will then be presented in a BPU regular meeting, in a City Council study session, and then again in a City Council regular meeting at the time the Council is asked to approve and adopt the policy.

Task 3.7 – Provide Additional As-Needed Technical Assistance

Additional, as-needed, technical and analytical assistance in the areas of demand fees and accessory dwelling units, sewer rate and cost comparisons for the Blue Ribbon Panel, and other issues that may arise for a not-to-exceed 24 hours.

Exhibit B-1
FY 18-19 Budget Development Assistance, Comprehensive Water and Wastewater Financial Planning, and Agricultural Rate Study

Estimated Project Cost

	Task	Consultant Hours B Reed	Consultant Hours M Hildebrand	Prof. Fees
	Hourly billing rates -->	$ 285	$ 200	
0	Initiate Project and Review/Analyze Background Information	24	24	$ 11,640
Task 1 - FY 18-19 Budget Development Assistance				
1.1	Review Current Financial Situation	8		$ 2,280
1.2	Assist with Development of FY 18-19 Budget	8		$ 2,280
Task 2 - Long-Term Financial Planning				
2.1	Develop Financial Plans and Long-Term Financial Strategy	12	44	$ 12,220
2.2	Determine Annual Water, Wastewater, and Subregional Rate Revenue Requirements	4	10	$ 3,140
2.3	Perform Water and Wastewater Cost of Service Analyses	16	32	$ 10,960
2.4	Prepare 5-Year Water and Wastewater Rate Schedules	4	6	$ 2,340
2.5	Prepare Water and Wastewater Financial Plan and Rate Study Report	32	48	$ 18,720
2.6	Present Report and Study Recommendations	24	24	$ 11,640
2.7	Assist in Drafting Proposition 218 Notice	2	6	$ 1,770
2.8	Present Study Recommendations at Rate Hearing	8		$ 2,280
2.9	Submit Financial/Rate Model to City Staff		6	$ 1,200
Task 3 - Agricultural Water Rates				
3.1	Evaluate Agricultural Water Reuse Operations	20		$ 5,700
3.2	Develop Agricultural Recycled Water Pricing Policy and User Rates	40		$ 11,400
3.3*	Participate in Two Meetings with Agricultural Reuse Ad Hoc Committee	12		$ 3,420
3.4*	Conduct Three Workshops with Agricultural User Working Group	32		$ 9,120
3.5*	Prepare Agricultural Recycled Water Pricing Policy Report	36		$ 10,260
3.6*	Participate in Meetings with BPU and City Council	18		$ 5,130
3.7*	Provide Additional As-Needed Technical Assistance	24		$ 6,840
Total Hours and Professional Fees		**324**	**200**	**$ 132,340**
	Estimate Expenses	$ 2,240	$ 700	$ 2,940
Total Project Cost				**$ 135,280**

* New tasks added with Amendment 1.