# EXHIBIT A



## ATTACHMENT B: COVER SHEET

| | |
|---|---|
| **Name of Person, Business or Organization:** | HF&H Consultants, LLC |
| **Type of Entity:** (e.g. Sole-Proprietorship, Partnership, Corp., Non-Profit, Public Agency) | Limited Liability Company |
| **Federal Tax ID Number:** | 94-3097242 |
| **Contact Person – Name** | Richard J. Simonson, Vice President |
| **Contact Person – Address** | 201 N Civic Dr, Suite 230<br>Walnut Creek, CA 94596 |
| **Contact Person – Phone Number (s)** | (925) 977-6957 |
| **Contact Person – e-mail address** | rick@hfh-consultants.com |

By signing this ***Cover Sheet*** I hereby attest: that I have read and understood all the terms listed in the RFP; have read and understood all terms listed in this proposal; that I am authorized to bind the listed entity into this agreement; and that should this proposal be accepted, I am authorized and able to secure the resources required to deliver against all terms listed within the RFP as published by the County of Nevada, including any amendments or addenda thereto except as explicitly noted or revised in my submitted proposal.

Richard J. Simonson
Signature of Authorized Representative

Richard J. Simonson
Printed Name of Authorized Representative

August 21, 2019
Date

# COUNTY OF NEVADA
# SANITATION DISTRICT NO. 1

950 Maidu Avenue
Nevada City, CA 95959

# WASTEWATER FEE STUDY FOR ALL ZONES

## PROPOSAL

*August 22, 2019*

**HF&H CONSULTANTS, LLC**
201 North Civic Drive, Suite 230
Walnut Creek, CA 94596

HF&H CONSULTANTS, LLC
*Managing Tomorrow's Resources Today*

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Robert D. Hilton, Emeritus
John W. Farnkopf, PE
Laith B. Ezzet, CMC
Richard J. Simonson, CMC
Marva M. Sheehan, CPA
Rob C. Hilton, CMC

August 22, 2019

Nevada County Purchasing Division
County of Nevada
Eric Rood Administrative Center
950 Maidu Avenue
Nevada City, CA 95959

**Subject: Proposal – Sanitation District No. 1 Wastewater Fee Study for All Zones**

Nevada County Purchasing Division:

HF&H Consultants, LLC (HF&H) is pleased to submit this proposal in response to the County of Nevada's (County's) July 15, 2019 Request for Proposals. Our proposal is organized as requested and includes an appendix with additional information.

While there may be other consultants that also provide wastewater rate studies, none is as qualified as HF&H to assist the County. In light of the San Juan Capistrano decision and the long standing Proposition 218, it is crucial for utility rates to be cost-based, reasonable, and equitable for all customer classes. Our approach is uniquely tailored to each client based on actual wastewater needs and customer make up within each community. Our models are known for their simplicity and ease of use, which is essential in meeting the burden of proof. We have been hired to redo other rate consultants' models that were difficult to navigate and/or too sprawling to be printed – leaving the client with little confidence that the results were accurate.

In addition to describing our experience, approach, references, and corporate structure, we have included appendices with additional information about our consulting services and sample wastewater rate study reports.

**Our Consulting Team.** Our proposed team members have varied backgrounds: Engineering, Accounting, and Finance Management. We bring a unique and diverse perspective to our clients and we view our role as a rates consultant from different perspectives:

- From the public's perspective, we want to be viewed as an independent, objective outside party that is capable of explaining the impact of potential changes in clear, simple, meaningful terms that laypeople can understand.

- From the elected officials' perspective, we want to be viewed as an authoritative expert that can help them craft a solution that balances the community's interests and strengthens the community by building consensus.

- From the staff's perspective, we want to be viewed as a teammate who can help develop a preferred alternative that optimizes rate-making objectives.

- From a personal perspective, we want all parties involved to feel highly satisfied with our services from start to finish.

We perform our role as a consultant free of any conflict of interest. We are not a financial advisor that might show a preference toward debt financing because of potential compensation earned from the sale of bonds. We are not an engineering firm that would benefit from rate increases that could fund capital improvements from which compensation could be earned by providing design and construction management services.

The work for this project will be managed by two owners of HF&H, both of whom are located in our Walnut Creek, CA office located at the address provided on Page 1 of this transmittal letter.

We appreciate the opportunity to submit our proposal and look forward to discussing it with you.

Very truly yours,

HF&H CONSULTANTS, LLC

John W. Farnkopf

John W. Farnkopf, P.E.
Senior Vice President

Richard J. Simonson

Richard J. Simonson
Vice President

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# FIGURES AND TABLES

# County of Nevada
# Sanitation District No. 1

## Wastewater Fee Study For All Zones

PROPOSAL

HF&H

# TAB A. DESCRIPTION OF SERVICES

## LIST OF SERVICES

**Table A-1** itemizes the complete list of services to be provided. Opportunities for cost efficiencies or improved quality are briefly described below. Instances where services exceed or do not meet the scope of services requested in the RFP are noted. A detailed description of the approach of each task is described in **Tab D** of this proposal.

**Table A-1. Itemized List of Services**

| |
|---|
| **Task 1 - Project Initiation** |
| Meet with County Staff/Gather Data |
| **Task 2 - Revenue Requirement Projections** |
| Develop Revenue Requirement Projections |
| Review Preliminary Analysis with County Staff |
| Revise Model |
| **Task 3 - Cost of Service Analysis** |
| Develop Cost of Service Analysis |
| Review Preliminary Analysis with County Staff |
| Revise Model |
| **Task 4 - Rate Design** |
| Develop Alternative Rate Structures |
| Bill Impact Analyses |
| Review Prelimary Results with County Staff |
| Revise Alternatives |
| **Task 5 - Connection/Other Fees** |
| Data Collection |
| Calculate Fees |
| Review Prelimary Results with District Staff |
| Revise Results Accordingly |
| **Task 6 - Communicate Results** |
| Advisory Committee Meeting |
| Prepare Draft Report |
| Review Draft Report with Staff |
| Revise Draft Report |
| Board of Supervisors Meeting |
| **Task 7 - Implementation** |
| Assist with Prep of Prop 218 Notice/Ord/Reso |
| Attend Prop 218 Protest Hearing |
| Prepare Final Report |
| **Task 8 - Project Management** |
| Manage Schedule/Budget, Prepare Invoices |

## COST EFFICIENCIES & IMPROVED QUALITY

### Effective Project Management

HF&H is committed to providing the County with a focused, attentive, and expert team of consultants. Part of that commitment to the County, and to all of our clients as well as our professional staff, is that we place relatively low demands on our Project Managers' workloads. While many of our competitors require 50+ hour work weeks and 80%-90% billable "utilization" of their staff, HF&H's professionals work an average of 42.5 hours per week with an average utilization of 62.5%. This leads to what clients have frequently reported to us: our staff are accessible, pleasant to work with, and willing to dig into nuances of the project.

We manage workloads carefully through our project management system, including bi-weekly planning updates and "all hands" meetings forecasting all current and proposed project work for each professional and over a six- to nine-month (or more for large projects) planning horizon. This process allows us to identify when the workload for an individual professional has reached capacity.

Prior to taking on any new work assignment, HF&H is considerate of the schedule and projected workload for each professional to be assigned. This is intended to ensure that the professional has the time to be focused on and attentive to the client's needs. The close working relationship between our management and staff ensures effective supervision and quality control.

### Meetings

The RFP calls for attendance at six meetings. Our proposal adequately budgets for attendance at all six meetings. It is our experience, however, that telephonic and/or screen share meetings are adequate for kickoff and review meetings with staff. Scheduling telephonic meetings rather than in-person meetings can reduce the number of hours needed or shift the hours to other tasks.

This project will be managed by two HF&H owners out of the firm's Walnut Creek office. This will allow for timeliness and flexibility to attend meetings on relatively short notice.

### Rate Model

Our rate models are exceptionally user friendly. They contain worksheets that organize the analysis into logical units. Each worksheet has a column that indicates the flow of calculations among worksheets and within each worksheet. Each worksheet also contains footnotes referring to source documents and key assumptions.

All of the modeling becomes available to the County at no additional cost or licensing fees. The models are designed for inclusion in the project report as part of the administrative record.

## Documentation

Our rate recommendations will be documented in a concise report written for the layperson. We are mindful of creating an administrative record that anticipates and addresses potential challenges. The effectiveness of our reports is one reason why we have managed to consistently gain rate approval.

# TAB B. BACKGROUND AND EXPERIENCE

## FIRM HISTORY

Founded in 1989, HF&H Consultants, LLC, provides consulting services to water, wastewater, and solid waste agencies. HF&H Consultants provides financial, economic and general consulting services to public officials in the following areas: rate-setting, cost of service studies, financial planning and budgeting, resource management, public policy development, litigation, and negotiations.

Today, HF&H Consultants has grown to a firm of twenty-seven professionals, which makes us one of the largest ratemaking firms on the West Coast. With offices located in northern and southern California, HF&H Consultants directs its practice to cities, counties, and special districts in the western United States. As such, HF&H Consultants provides clients with the breadth of experience of a national firm, and the responsiveness, accountability, and personal commitment of a local firm. Our consultants are seldom far away and, as a result, our clients always receive a quick, personal response to their needs.

The synergy resulting from our staff's engineering, accounting, economics, and public policy backgrounds provides substantial added value to clients, which can rarely be achieved by individual engineering, accounting, or management consulting firms.

HF&H Consultants has a low staff-to-executive ratio in order to allow the firm's most experienced members to participate actively in client projects, rather than only in practice development and project administration. Unlike firms that delegate critical tasks to junior staff, our senior employees are involved throughout our clients' projects. The close working relationship between our management and staff ensures effective supervision and quality control. The executives' national certifications (Mr. Simonson is a Certified Management Consultant) and licenses (Mr. Farnkopf is a Professional Engineer) assure our clients of compliance with the highest professional standards.

## FIRM CAPABILITIES

When local agencies have problems or needs related to recycling, solid waste, water, and wastewater services, they hire HF&H for a few key reasons:

- Our team of **recognized leaders** in our consulting field.
- Our **customized approach**, analytical models, and solutions address each client uniquely.
- Our reputation for **objective, fact-based solutions.**

- Our commitment to conducting **professional, thorough, and detailed analysis** to support our findings and recommendations.
- Our **pledge to deliver high-quality services** responding quickly and personally to clients, meeting timelines, and delivering work products that exceed expectations.

## FIRM QUALIFICATIONS

Over the past 30 years, HF&H has conducted more than 1,000 rate, capacity fee, and related studies for more than 400 water, wastewater, stormwater, and solid waste clients. This body of work is the basis for the sterling reputation that HF&H enjoys.

The following is a link to our firm website which includes summaries of recent studies. http://hfh-consultants.com/services/. In addition, the following table lists the recent wastewater rate studies conducted by HF&H over the past five years. Brief descriptions of some of the recent projects we conducted, which are similar to those requested in the County's RFP, are provided below.

**Table B-1. Recent Wastewater Rate Studies**

| Client | Date |
|---|---|
| City of Galt | 2014 |
| City of Pacifica | 2014 |
| Natural Resources Defense Council | 2010-2014 |
| Ross Valley Sanitary District | 2011-2015 |
| Union Sanitary District | 2015-2016 |
| City of Newport Beach | 2017 |
| City of West Sacramento | 2017 |
| San Mateo County (2 service areas) | 2017 |
| Town of Hillsborough | 2014-2017 |
| City of Beverly Hills | 2015-2017 |
| City of Crescent City | 2018 |
| County of San Mateo | 2017-2018 |
| Oakwood Lake Water District | 2017-2018 |
| Sausalito-Marin City SD | 2002-2019 |
| City of Daly City | 2019 |
| West Bay Sanitary District | 2011-2019 |
| Castro Valley Sanitary District | 2018-2019 |
| | |

## EASY-TO-USE RATE MODELS AND CAPITAL PLANNING TOOLS

Our methodology will be integrated into a spreadsheet model for current use in setting rates as well as for the County's future use in each year's update. Our rate models are exceptionally user friendly. They contain worksheets that organize the analysis into logical units. Each worksheet has a column that indicates the flow of calculations among worksheets and within each worksheet. Each worksheet also contains footnotes referring to source documents and key assumptions.

All of the modeling becomes available to the County at no additional cost or licensing fees. The models are designed for inclusion in the project report as part of the administrative record.

We recently built a long-term financial planning models for the South Coast Water District and the Union Sanitary District which allows staff to annually update the model with actual results and revised capital expenditure projections to ensure adequate funding for major capital improvements. The models allow users to select various sources of funding, interest rates on debt, and duration of debt issuances. We build our models so that staff can revise various assumptions and the rate and reserve balance impacts can be seen immediately. This is most helpful when meeting with elected officials, as staff can respond in real time to requested changes in assumptions (e.g., alternative funding mechanisms, delays in rate increases, etc.).

This past year, the model helped the South Coast Water District determine that a combination of SRF loans and bond issuances were necessary to fund over $300 million in capital improvements over the next ten years.

## HF&H PROJECT EXPERIENCE

HF&H has selected the following recent projects to demonstrate our wastewater rate-making experience. The SOQ in the appendix has a complete list of our services and the clients for which we have provided them.

### West Bay Sanitary District – Sewer Rate Studies

HF&H has performed a variety of studies for the District (population 70,000) including wastewater rate and connection fee updates and related economic analyses. We have assisted the District in developing sound reserves (e.g., operating, capital, rate stabilization, and emergency replacement) while avoiding double-digit rate increases. We have also conducted studies of the difference between single family and multi-family wastewater discharge to determine if there should be a difference in their respective charges per equivalent dwelling unit.

Contact: Phil Scott, District Manager
500 Laurel Street
Menlo Park, CA 94025
pscott@westbaysanitary.org
(650) 321-0384

### Union Sanitary District – Sewer Rate Study

HF&H was retained to conduct a peer review of the sewer rate model recently completed by another consultant. Because of the model's shortcomings, HF&H was directed to create a new model that was user friendly and could be printed out as part of the administrative record. Working closely with the District's attorneys, John Farnkopf also wrote a new project report documenting the analysis, including a copy of the rate model. A critical requirement of the rate model called for by the District's attorneys was that the flow of the calculations could be followed without the need to check cells in the spreadsheet model.

Since then, John Farnkopf, Rick Simonson, and Geoff Michalczyk have continued to assist the District with its capital planning. This work has led to the development of a fairly sophisticated model. Such is the sophistication of the model that we have been provided support as needed.

Contact: Paul Eldredge, General Manager
5072 Benson Road
Union City, CA 94587
paule@unionsanitary.ca.gov
(510) 477-7502

### Castro Valley Sanitary District – Sewer Rate Study

HF&H completed a wastewater rate study for the Castro Valley Sanitary District by providing a financial plan for adequate revenue and by adjusting the cost-of-service for its customer classes. We analyzed the option of moving commercial customers to flow-based rates rather fixed charges. Inadequate water consumption data from EBMUD showed that charging customers based on flow would be administratively difficult so HF&H recommended maintaining a fixed charge for all customer classes. Since the cost of service analysis necessitated large rate adjustments for high strength customers, a phase-in approach was recommended to avoid rate shocks.

Appendix A includes our final report for this Sewer Rate Study

Contact: Roland Williams, General Manager
21040 Marshall Street
Castro Valley, CA 94546
roland@cvsan.org
(510) 537-0757

### City of Daly City - Water, Sewer, and Storm Sewer Rate Studies

John Farnkopf, Rick Simonson, and Geoff Michalczyk have been working with the City since 2017 on various water, sewer, and solid waste projects. HF&H recently completed a water rate study for the five-year planning period of FY 2018-19 through FY 2022-23. The study, and subsequent rate adjustments, realigned the tiered water rates to the cost of service and allowed the City to increase capital project spending from less than $1 million per year (which was less than annual depreciation expense) to $1.9 million per year.

We are currently conducting sewer rate and stormwater fee studies for the City. These studies are interrelated because the sewer rates provide funding for appropriate portions of the stormwater program.

Contact: Tom Piccolotti, Director of Water and Wastewater Resources
333 90th Street
Daly City, CA 94015
tpiccolotti@dalycity.org
(650) 991-8200 ext. 8201

### South Coast Water District – Long-Term Capital Financing Model

John Farnkopf and Geoff Michalczyk originally assisted the District in creating a long-term financial planning model to ensure adequate funding for more major capital improvements. The model allows users to select various sources of funding, interest rates on debt, and duration of debt issuances. The model helped the District determine that a combination of SRF loans and bond issuances were necessary to fund over $300 million in capital improvements over the next ten years.

Furthermore, the District hired HF&H to provide financial consulting services as they submitted a proposal to annex the City of San Juan Capistrano's water and wastewater utilities. HF&H analyzed projections for each agency's financial operations as well as potential savings and increases in costs due to consolidation. This analysis helped the District determine potential utility rates both before and after annexation.

Contact: Pamela Arends-King, Chief Financial Officer
31592 West Street
Laguna Beach, CA 92651-6907
parendsking@scwd.org
(949) 499-4555; Ext. 3153

### Sausalito-Marin City Sanitary District - Sewer Service Charge Studies

HF&H has assisted the District since 2002 with a variety of rate-related issues. Most recently, John Farnkopf and Rick Simonson have assisted the District with its latest rate update. Prior to that, we assisted the District in converting its single flat residential rate to a set of flat rates for single family, multi family, and floating home customers. We have also assisted this District with its annual tax rolls for billing by the County of Marin.

Contact: Jeffrey Kingston, General Manager
1 East Road

Sausalito, California 94965
jeffrey@smcsd.net
(415) 332-0244

## LITIGATION

HF&H Consultants is not currently, been, or expected to be a party to any current, pending or past litigation (within the last 10 years).

# TAB C. STAFFING

## KEY EMPLOYEES

The project team comprises four HF&H consultants. The following team has worked together closely on numerous water, wastewater, and stormwater rate studies. They all work together in the firm's Walnut Creek, CA office. Detailed résumés for each of our key personnel assigned to this project are included at the end of our Statement of Qualifications in the appendix.

### John Farnkopf, Project Director

John Farnkopf directs HF&H's water, wastewater, and stormwater rate consulting practice. He has over 40 years of rate-making experience with wholesale water agencies. John's experience includes 13 years of experience as a water resources consulting engineer and Big 8 management consultant before co-founding HF&H in 1989. Since that time, he has focused on setting water, wastewater, and stormwater rates and development impact fees. John was the Project Director or technical advisor for all of the projects listed in our SOQ.

### Rick Simonson, Project Manager

Rick Simonson's experience includes six years of audit experience prior to joining HF&H. Over his nearly 19 years at HF&H, Rick has managed numerous rate studies for water, wastewater, and solid waste agencies. Over the past six years Rick's focus has been on cost-of-service studies for water and wastewater clients. He has also conducted cost allocation studies to determine the amount that enterprises should reimburse the general fund for public safety services, governmental facilities, and rights-of-way maintenance. Rick will act as the Project Manager for all portions of this project scope.

### Geoffrey Michalczyk, Project Analyst

Geoffrey Michalczyk provides water and wastewater consulting services to cities, counties, and special districts throughout California. He has assisted in creating utility rate structures and connection fees in compliance with state law and industry standards. Additionally, he has developed long-term financial plans for the operations of water and wastewater systems. Geoffrey specializes in municipal finance and is knowledgeable in developing rates and fees that provide adequate funding for the long-term needs of his clients. His recent project experience includes sewer rate models for the West Bay Sanitary District, Union Sanitary District, the City of Daly City, and Castro Valley Sanitary District.

### Gabe Sasser, P.E., Project Analyst

Gabe brings more than 4 years of consulting experience managing natural gas pipeline assessment and regulator station re-build projects. In addition, he has previous engineering experience supporting design and developing entitlement documents, improvement plans and specifications for a civil engineering land development firm. Gabe joined HF&H on March 1, 2019.and focuses on rate studies and customer impact analyses. His recent project experience includes developing a sewer model for the Sausalito-Marin City Sanitary District, a connection fee model for the North Coast County Water District, a water rates and a connection fee model for Foresthill Public Utility District, and a cost allocation model for the United Water Conservation District.

## STAFFING PLAN

**Figure C-1** depicts the organization chart for the project. Below, responsibilities of each staff member has been outlined.

**Figure C-1. Organization Chart**

John Farnkopf will act as Project Director. He has been allocated 48 hours of the projected 385 hours needed to complete the project. As Project Director, he will be responsible for the following functions:

- Coordinate the project team's interaction with the County to ensure that all work is completed properly.
- Manage the project team's progress against the schedule and budget.
- Prepare draft and final reports with support from the project team.
- Perform QA/QC on all deliverables.

Rick Simonson will act as Project Manager. He has been allocated 137 hours of the projected 385 hours needed to complete the project. As Project Manager, he will be responsible for the following functions:

- Lead all project meetings and presentations.
- Work closely with the Project Director to manage progress against the schedule and budget.
- Supervise HF&H staff.
- Perform QA/QC on all models and deliverables.

Geoffrey Michalczyk and Gabe Sasser will act as Project Analysts. They have been allocated 194 hours of the projected 385 hours needed to complete the project. They will work closely with John and Rick in developing a water model which will allow for on-the-spot scenarios and sensitivity analyses. They will be responsible for the following assignments:

- Develop rate models and analysis.
- Assist in preparing the project report.
- Attend meetings and assist with presentations, as necessary.

## OTHER RELEVANT INFORMATION

HF&H utilizes a project and resource planning system that integrates with our accounting, timekeeping, and invoicing systems to ensure accurate, real-time information. This tool helps HF&H make sure the right people are on the right projects at the right time. Automated project scheduling, real-time resource allocation, budgeting, and forecasting help HF&H project managers ensure that appropriate staff are available and allocated effectively and that projects come in on time and within budget. Timesheet entries and expense reports feed actual costs back into the project plan for an accurate rolling forecast that HF&H project managers use to make faster, more informed decisions, which ensures projects stay on track.

Having entered the detailed project plan in our system and reported against it on a daily basis, the engagement manager can monitor progress on a basis that is timely for the current condition of the particular engagement (rather than on a predetermined bi-weekly or monthly schedule). Similarly, work papers are reviewed on a basis that is timely for the specific engagement (and not waiting until the preparation of the final report or, worse yet, after completion of the engagement). The project manager can identify and address delays or analytical problems on a real time basis.

A quality work product is a team effort involving all parties throughout our data gathering, analysis, and reporting phases: HF&H directors and managers; HF&H analysts, and client staff and management. Consultants assigned to the project shall: be qualified to perform the work; have a clear work plan that meets professional standards; and, execute their assignments effectively. The engagement manager is responsible for the day-to-day monitoring of work, review of work products, and anticipation of problems or concerns. In addition to reviewing the processes and progress of consultants, client staff reviews the work products prepared by the project team. This helps the HF&H team ensure the accuracy and relevance of findings, the appropriateness of recommendations, and the clarity of work products.

The engagement director and manager are responsible for: adjusting our work plan as the engagement progresses; ensuring that our consultants/analysts are adequately supported; assuring consistency among approaches and methods; and, scheduling work to ensure the efficiency of efforts. Additionally, the engagement manager reviews work in progress, attends key interviews and meetings, reviews the results of the analyses, and evaluates the conclusions and checks the clarity of written materials.

The engagement director and manager are responsible for reporting progress to client staff and management as frequently as appropriate for the project. In doing so, they are supported by our project reporting system that tracks hours and progress against plan by subtask and consultant. As part of this progress reporting, they will identify any areas of concern and recommend alternative approaches to addressing the concern.

# TAB D. PROJECT APPROACH

## WORK PLAN

### Task 1. Project Initiation

Project initiation begins with a kickoff meeting attended by key County and consulting staff. The purpose of the meeting is to establish the roles of County staff in providing data and reviewing deliverables. The participants will also be familiarized with the work plan, schedule, and roles of HF&H's staff. The kickoff meeting is also the first opportunity to discuss policy issues for eventual presentation to the Board.

Alternatives will be identified for analysis along with the required data. As part of defining these alternatives, we will discuss the feasibility of implementation, particularly in acquiring the necessary data. We will discuss the County's preferred approach to modeling. Potential modifications and improvements that meet the County's needs going forward can be discussed at this time, although it is expected that refinements will be made at any time during the study.

Project initiation also involves data collection. A data request will be submitted in advance of the kickoff meeting. As part of documenting the kickoff meeting, notes will be prepared and distributed, including a data request that reflects the alternatives that are identified in the meeting.

### Task 2. Revenue Requirement Projections

We will prepare a five-year financial planning model projecting O&M and capital expenses, operating and non-operating revenue, and reserve fund balances. Expenses are based on the County's budget and capital improvement program.

Using the financial planning model, we will evaluate the impacts of funding capital projects from a combination of sources including rate revenue, capacity fees, reserves, and the potential issuance of additional long-term debt.

> Establishing prudent reserve targets is an extremely important component of a rate study

The revenue requirement projections will indicate the future revenue increases that will be needed to fund the annual revenue requirements, including reserves. We will review the current reserves to determine the types of reserves (e.g., operating, capital, stabilization) and recommend minimum and target balances for each. Our approach is very methodical. We will establish rules for modeling the rate increases, which will either reflect current policies or that can be adopted as either informal or formal policies where none currently exist. Any changes in expenses will flow through the model as across-the-board, equal percentage rate increases on the existing rate structure over the five-year planning period. However, the model will also preserve the ability to adjust loadings to determine the impact of changes in the cost of service on rates. In this way, revenue increases may be different for each class if their loadings are changed.

It goes without saying that the County will become capable of using the rate model by the time the project is complete. The model that is produced in this study will be a collaborative effort with the County's staff to ensure that it provides the functionality that is needed for setting new rates now and for the County's subsequent use. Our models are provided as work products without additional licensing costs or other proprietary restrictions.

Overall, the intention will be to maintain a simple, intuitive flow of numbers without "black box" formulae or macros that are difficult to check or prone to making unintended adjustments. We will avoid introducing unnecessary complexity. During the model development, we will work closely with staff in reviewing interim work products to ensure that we provide the functionality that is needed for setting new rates now and for the County's subsequent use.

### Task 3. Cost-of-Service Analysis

The cost-of-service analysis builds on the first year of the revenue requirement projections. We are particularly mindful of the administrative record that is called for in today's litigious rate-making environment. The County is aware that its rates must be cost based. Court cases in recent years provide additional guidance.

The cost-of-service analysis will allocate the revenue requirements between the fixed and variable costs and among the various zones. We will work closely with County staff to develop allocation factors based on usage and loading data for each zone. The result will be compared with the revenue from current charges to determine the difference and the transitional strategy that may be needed to align the updated rates with the cost of service without causing rate shock or hardships for any zone.

The cost-of-service analysis is dependent on the rate structure for which rates are designed based on the results of the cost-of-service analysis. Prior to preparing the cost-of-service analysis, we will present alternatives for the County's consideration. In presenting these alternatives, we will determine whether the County's customer billing system has the ability to charge the rates. We do not want to pursue alternative rate structures before we know that they can be implemented by the County.

The cost-of-service analysis will clearly indicate how the revenue requirement is apportioned among the customer classes, which is a requirement under Proposition 218 in meeting the burden of proof.

### Task 4. Rate Design

The rate design will be integral with the cost-of-service analysis. We will carefully show each link in the analysis in meeting the burden of proof to demonstrate that the rates are clearly proportionate to the cost of providing service, as required under Proposition 218.

The process of designing rates is one in which the County's current rates are compared with the proposed alternatives that are identified during the cost-of-service analysis. Again, our approach is very methodical to ensure that the proposed alternatives meet all of the County's rate-making objectives.

There may be other issues facing the County, such as hardship subsidies for low-income customers. We will assist the County in understanding the legal requirements and current industry standards.

Our rate designs are presented so that impacts are easily understood by staff, elected officials, and rate payers. We compare rate structure alternatives with the current rate structure and with comparable agencies' rate structures. We also compare the customer bills produced by those rate structures. We use tabular and graphical techniques to clearly communicate the differences. These techniques allow us to make refinements during meetings to achieve the optimal result.

### Task 5. Connection/Other Fees

We will collect capital asset records and inventories of facilities from the County to serve as the basis for estimating the cost of existing facilities. Reasonable assumptions will be made if needed to compensate for missing data (e.g., original costs or acquisition dates) with the assistance of County staff. The cost estimates will include construction cost plus an allowance for County costs associated with design and construction management. We will review with the County the methodology that we recommend based on the County's circumstances.

A simple spreadsheet model will be prepared, consolidating the inventory, cost, and acquisition date information for the wastewater system's existing facilities, respectively. The models will also reflect any adjustments that are warranted.

Connection Fee Charges will be derived that equitably allocate the cost of capacity between current rate payers and growth. The fees can include a buy-in component for existing capacity as well as a component for additional capacity required by growth.

We will review the preliminary results with County staff to refine the methodology. In particular, we will confirm how depreciation and, if applicable, how developer contributions will be handled. For example, significant developer contributions may be excluded because they do not constitute costs borne by rate payers for which reimbursement is required. The nature of any adjustments will be discussed with County staff prior to including them in the model.

We will also examine the County's permit and inspection fees for new wastewater connections. At the kickoff meeting, we will discuss the County's current methodology of calculating fees. If an updated structure is deemed necessary, we will discuss the preferred methodology with staff.

Once the modeling analysis is completed to staff's satisfaction a preliminary draft report will be prepared describing the derivation of the connection and other fees. The report will contain an appendix of the assets that are included in the calculation and any other support documents. The report text and appendix will document the current fees as well as provide a solid basis for future updates. The wastewater rates will be documented in the same report.

## Task 6. Communicate Results

The purpose of this task is to present the results of the analysis to the County and the public. We will begin by documenting the results of the analysis in a draft report, which we will review with County staff and revise according to their comments.

> Our reports and presentations are geared towards helping the public and Board understand, and ultimately support, the rate changes.

We will present the results to the Board members for their feedback. Based on that feedback, further revisions will be made to the analysis and the report.

The revised draft report will be presented to the Board of Directors for their approval and their authorization for County staff to mail notices to rate payers, initiating the Proposition 218 protest process.

## Task 7. Implementation

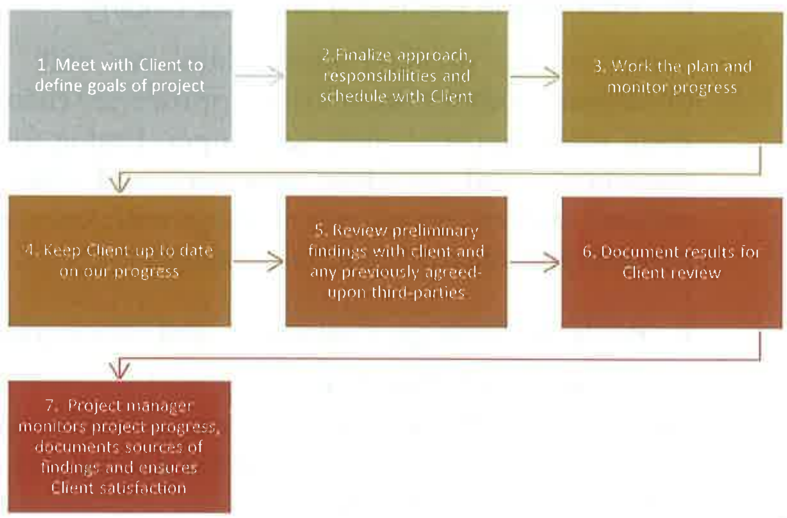
The purpose of this final task is to conclude the project with successful implementation of the preferred alternative. We will assist in preparing the notice to rate payers required under Proposition 218 in Task 5. We will also assist in updating Ordinance #31.39. We will attend the protest hearing at the end of the 45-day protest period to answer questions. A final report will be prepared reflecting any comments received from the Board, if necessary.

### Task 8. Project Management

An allowance is required for monitoring schedules and budgets, periodic status calls with County staff regarding the progress of the project and other issues, as well as, for quality control checks to review each other's analyses and work products.

## QUALITY CONTROL

HF&H utilizes a highly client-interactive management consulting methodology that logically leads to the successful performance of our engagements and that it tailors for each client's specific engagement and task. This methodology is intended to ensure alignment of the project objectives to the organizations goals, agreement on existing conditions and consensus around the chosen solution, and clear communication of the recommendations. It is based on interaction of client and HF&H team staff, assignment of qualified staff, direction of staff by managers using clear work plans, and systems and procedures to support the team and the project. The seven steps that comprise HF&H's project management and approach are summarized above.




This methodology is comprised of the following seven steps.

### A. Definition and Quantification of the Client's Goals and Objectives

We meet with client management and, as appropriate, other parties (e.g., elected officials, the public, executive management, etc.) to define the client's broad overall organizational goals (e.g., commitment to cost-effective public services, commitment to environmental goals, etc.) and specific objectives (such as lower customer rates or adequate reserves) for the engagement, as well as process objectives (such as schedule and budget).

### B. Specification of Approach, Assignment of Responsibilities, and Schedule

We meet with client staff to develop the best strategy for optimizing the objectives of the engagement; assigning responsibilities between the client and HF&H staff; and, discussing reasonable deadlines for the completion of those responsibilities.

## C. Detailed Work Plans, Work Products, Budgets & Work Paper Organization

Having defined responsibilities, HF&H prepares detailed work plans by task and subtask assigning specific staff, budgeting specific time, laying out the organization of the work papers that document the performance of the work and the basis for the findings. The work plan includes, by subtask, the data and document requirements, interview and other field work plans, and analytical techniques to be used. The staff assignments, scheduled performance dates, and estimated hours are entered into our project management system and progress is reported by our staff on a daily basis.

## D. Information Gathering and Fact Finding

Based on our detailed work plans, we will: prepare requests for information and documents; submit them to the appropriate client staff (identified during Step B); review them with the client staff; agree upon timing for the submission of the information and documents; and, schedule interviews and other field work. At the completion of each subtask, we will review our findings with knowledgeable client staff to ensure we do not misinterpret the information obtained.

## E. Analysis, Findings, Evaluation, and Recommendations

The HF&H consulting team will develop working outlines of the background, findings, and preliminary recommendations for each task. At this point, the HF&H consulting team will meet with knowledgeable client staff in an interactive and iterative dialogue of fact verification and validations. We will discuss alternative approaches to the solution of problems, as well as the ability to capitalize upon timely opportunities. If relevant information has been overlooked or misinterpreted in earlier steps, it will emerge through this process. Once a consensus has been developed with client staff, HF&H will present those approaches to client management for review, verification, validation and discussion. Once consensus has been reached with client management, the HF&H team will move to the reporting phase.

## F. Reporting

This step in the consulting process is comprised of: preliminary report preparation; presentation of preliminary findings and recommendations for discussion and modification; preparation of the final report (including presentation materials); and presentation of the final report to the appropriate internal (e.g., departmental staff, executive management, briefings of individual elected officials) as well as external (e.g., public workshops and public hearing before the Board of Supervisors) audiences.

## G. Monitoring, Quality Assurance, Management, and Progress Reporting

HF&H utilizes a project and resource planning system that integrates with our accounting, timekeeping, and invoicing systems to ensure accurate, real-time information. This tool helps HF&H make sure the right people are on the right projects at the right time. Automated project scheduling, real-time resource allocation, budgeting, and forecasting help HF&H project managers ensure that appropriate staff are available and allocated effectively and that projects come in on time and within budget. Timesheet entries and expense reports feed actual costs back into the project plan for an accurate rolling forecast that HF&H project managers use to make faster, more informed decisions, which ensures projects stay on track.

Having entered the detailed project plan in our system and reported against it on a daily basis, the engagement manager can monitor progress on a basis that is timely for the current condition of the particular engagement (rather than on a predetermined bi-weekly or monthly schedule). Similarly, work papers are reviewed on a basis that is timely for the specific engagement (and not waiting until the preparation of the final report or, worse yet, after completion of the engagement). The project manager can identify and address delays or analytical problems on a real time basis.

A quality work product is a team effort involving three parties throughout our data gathering, analysis, and reporting phases: HF&H engagement directors and managers, HF&H analysts, and client staff and management. Consultants assigned to the project shall be qualified to perform the work, have a clear work plan that meets professional standards, and execute their assignments effectively. The engagement manager is responsible for the day-to-day monitoring of work, review of work products, and anticipation of problems or concerns. In addition to reviewing the processes and progress of consultants, client staff reviews the work products prepared by the project team. This helps the HF&H team ensure the accuracy and relevance of findings, the appropriateness of recommendations, and the clarity of work products.

The engagement director and manager are responsible for: adjusting our work plan as the engagement progresses; ensuring that our consultants/analysts are adequately supported; assuring consistency among approaches and methods; and, scheduling work to ensure the efficiency of efforts. Additionally, the engagement manager reviews work in progress, attends key interviews and meetings, reviews the results of the analyses, and evaluates the conclusions and checks the clarity of written materials.

The engagement director and manager are responsible for reporting progress to client staff and management as frequently as appropriate for the project. In doing so, they are supported by our project reporting system that tracks hours and progress against plan by subtask and consultant. As part of this progress reporting, they will identify any areas of concern and recommend alternative approaches to addressing the concern.

## ISSUES AND SOLUTIONS

During the course of this proposed study, there are several potential issues that could be encountered. The following details these potential issues and our approach to resolving each:

- **Incomplete or inaccurate financial data.** Our team seeks to give the County an accurate representation of its current and future financial statuses. To this extent, we will thoroughly review all data provided by the County to ensure budgetary and debt services data tie to audited information and to verify reserves and existing revenues align.

- **Long lead time to obtain response from County staff.** Our team strives to provide a timely and cost-effective service to the County. It is understandable that County staff may require additional time to respond to our requests. We will work with staff to minimize request iterations and follow-up with County staff to answer questions and avoid any delays due to the processing of data.

- **Public reaction to rate adjustments.** It is likely that current rates will require an increase in order to properly mitigate associated rising costs of service and future capital improvement plans the County has. Our team will provide a straight-forward explanation of the reasoning behind the rate increase which demonstrates the rates were set in a fair and equitable manner.

- **Rate shock due to overhaul of existing rates.** In past situations, we have calculated large increases in rate requirements to build reserves, satisfy future capital improvement planning or to keep pace with the cost of service. In these instances, we have worked with the municipality to develop a rate schedule that more gradually introduces these increases. If we find this during our review, we will evaluate with County staff and work to implement a more gradual rate increase schedule to minimize rate shock potential.

# TAB E. EXCEPTIONS

We have reviewed the RFP including the Sample Personal Services Contract (Attachment A of the RFP) and do not take any exceptions. We will enter such an agreement if selected for the proposed project.

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