

STAFF REPORT*CITY OF OCEANSIDE*

DATE: May 6, 2015

TO: Honorable Mayor and City Councilmembers

FROM: Water Utilities Department

SUBJECT: **PROFESSIONAL SERVICES AGREEMENT WITH CAROLLO ENGINEERS FOR UTILITIES FINANCIAL ADVISORY SERVICES**

SYNOPSIS

Staff recommends that the City Council approve a Professional Services Agreement with Carollo Engineers of Oceanside in an amount not to exceed \$100,000 for on-call water and wastewater financial advisory services for the Utilities Department; and authorize the City Manager to execute the agreement.

BACKGROUND

Carollo Engineers has provided on-call financial advisory services to the City's Water Utilities Department for several years. Carollo is uniquely qualified to assist the department due to their knowledge of the City's rate structure and Capital Improvement Program (CIP), their involvement in refining the City's Water, Sewer and Solid Waste Rate models, and their knowledge of the California regulatory environment.

ANALYSIS

The Water Utilities Department requested Carollo Engineers to submit a proposal that included assistance with:

- CIP Funding Analysis and Support;
- Current and future rate setting;
- Updated Revenue Requirement Analysis;
- Model Modifications;
- As-needed financial services.

These tasks are essential to the continued financial health of the Utility. Sound financial governance allows staff to make reasonable decisions and rate recommendations to Council and minimize rate increases to the maximum extent possible.

FISCAL IMPACT

The adopted FY 14/15 budgets for Water Admin 750010711 and Wastewater Admin 800010721 have available balances of \$15,748,475 and \$1,983,861 respectively. The total cost for financial advisory services is a not to exceed amount of \$100,000

therefore, sufficient funds are available. Water Sales and Water Meter Charges, deposited under account 1711.4471.0001 and 1711.4471.0003 respectively, are the funding sources for water. Sewer Service and Sewer Flow Fees, deposited under account 1721.4476.0001 and 1721.4476.0002 respectively, are the funding sources for sewer.

COMMISSION OR COMMITTEE REPORT

Does not apply.

CITY ATTORNEY'S ANALYSIS

The referenced documents have been reviewed by the City Attorney and approved as to form.

INSURANCE REQUIREMENTS

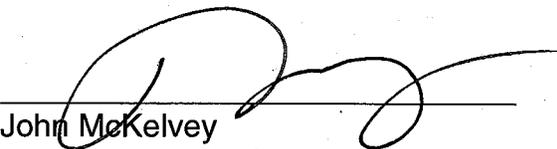
The City's standard insurance requirements will be met.

RECOMMENDATIONS

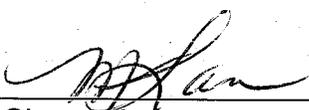
Staff recommends that the City Council approve a Professional Services Agreement with Carollo Engineers of Oceanside in an amount not to exceed \$100,000 for on-call water and wastewater financial advisory services for the Utilities Department; and authorize the City Manager to execute the agreement.

PREPARED BY:

SUBMITTED BY:

for 

John McKelvey
Management Analyst



Michelle Skaggs Lawrence
Interim City Manager

REVIEWED BY:

Peter Weiss, Assistant City Manager

Jason Dafforn, Interim Water Utilities Director

Jane M. McPherson, Interim Financial Services Director







Exhibit A – Professional Services Agreement

CITY OF OCEANSIDE

PROFESSIONAL SERVICES AGREEMENT

**PROJECT: ON-CALL WATER AND WASTEWATER FINANCIAL SERVICES –
[800010721 & 750010711]**

THIS AGREEMENT, dated _____, 2015 for identification purposes, is made and entered into by and between the CITY OF OCEANSIDE, a municipal corporation, hereinafter designated as "CITY", and CAROLLO ENGINEERS, hereinafter designated as "CONSULTANT."

NOW THEREFORE, THE PARTIES MUTUALLY AGREE AS FOLLOWS:

1. **SCOPE OF WORK.** The CONSULTANT desires to provide on-call water and wastewater financial services as is more particularly described in the CONSULTANT'S proposal dated March 6, 2015, attached hereto and incorporated herein as Exhibit A.
2. **INDEPENDENT CONTRACTOR.** CONSULTANT'S relationship to the CITY shall be that of an independent contractor. CONSULTANT shall have no authority, express or implied, to act on behalf of the CITY as an agent, or to bind the CITY to any obligation whatsoever, unless specifically authorized in writing by the City Engineer. The CONSULTANT shall not be authorized to communicate directly with, nor in any way direct the actions of, any bidder or the construction contractor for this project without the prior written authorization by the City Engineer. CONSULTANT shall be solely responsible for the performance of any of its employees, agents, or subcontractors under this Agreement. CONSULTANT shall report to the CITY any and all employees, agents, and consultants performing work in connection with this project, and all shall be subject to the approval of the CITY.
3. **WORKERS' COMPENSATION.** Pursuant to Labor Code section 1861, the CONSULTANT hereby certifies that the CONSULTANT is aware of the provisions of Section 3700 of the Labor Code which require every employer to be insured against liability for Workers' Compensation or to undertake self-insurance in accordance with the provisions of that Code, and the CONSULTANT will comply with such provisions, and provide certification of such compliance as a part of this Agreement.

4. **LIABILITY INSURANCE.**

4.1. CONSULTANT shall, throughout the duration of this Agreement maintain comprehensive general liability and property damage insurance, or commercial general liability insurance, covering all operations of CONSULTANT, its agents and employees, performed in connection with this Agreement including but not limited to premises and automobile.

4.2 CONSULTANT shall maintain liability insurance in the following minimum limits:

Comprehensive General Liability Insurance

(bodily injury and property damage)

Combined Single Limit Per Occurrence	\$ 1,000,000
General Aggregate	\$ 2,000,000*

Commercial General Liability Insurance

(bodily injury and property damage)

General limit per occurrence	\$ 1,000,000
General limit project specific aggregate	\$ 2,000,000

<u>Automobile Liability Insurance</u>	\$ 1,000,000
---------------------------------------	--------------

*General aggregate per year, or part thereof, with respect to losses or other acts or omissions of CONSULTANT under this Agreement.

4.3 If coverage is provided through a Commercial General Liability Insurance policy, a minimum of 50% of each of the aggregate limits shall remain available at all times. If over 50% of any aggregate limit has been paid or reserved, the CITY may require additional coverage to be purchased by the CONSULTANT to restore the required limits. The CONSULTANT shall also notify the CITY'S Project Manager promptly of all losses or claims over \$25,000 resulting from work performed under this contract, or any loss or claim against the CONSULTANT resulting from any of the CONSULTANT'S work.

4.4 All insurance companies affording coverage to the CONSULTANT for the purposes of this Section shall add the City of Oceanside as "additional insured" under the designated insurance policy for all work performed under this agreement. Insurance

coverage provided to the City as additional insured shall be primary insurance and other insurance maintained by the City of Oceanside, its officers, agents, and employees shall be excess only and not contributing with insurance provided pursuant to this Section.

- 4.5 All insurance companies affording coverage to the CONSULTANT pursuant to this agreement shall be insurance organizations admitted by the Insurance Commissioner of the State of California to transact business of insurance in the state or be rated as A-X or higher by A.M. Best.
- 4.6 CONSULTANT shall provide thirty (30) days written notice to the CITY should any policy required by this Agreement be cancelled before the expiration date. For the purposes of this notice requirement, any material change in the policy prior to the expiration shall be considered a cancellation.
- 4.7 CONSULTANT shall provide evidence of compliance with the insurance requirements listed above by providing, at minimum, a Certificate of Insurance and applicable endorsements, in a form satisfactory to the City Attorney, concurrently with the submittal of this Agreement.
- 4.8 CONSULTANT shall provide a substitute Certificate of Insurance no later than thirty (30) days prior to the policy expiration date. Failure by the CONSULTANT to provide such a substitution and extend the policy expiration date shall be considered a default by CONSULTANT and may subject the CONSULTANT to a suspension or termination of work under the Agreement.
- 4.9 Maintenance of insurance by the CONSULTANT as specified in this Agreement shall in no way be interpreted as relieving the CONSULTANT of any responsibility whatsoever and the CONSULTANT may carry, at its own expense, such additional insurance as it deems necessary.
5. **PROFESSIONAL ERRORS AND OMISSIONS INSURANCE.** Throughout the duration of this Agreement and four (4) years thereafter, the CONSULTANT shall maintain professional errors and omissions insurance for work performed in connection with this Agreement in the minimum amount of One Million Dollars (\$1,000,000.00).

CONSULTANT shall provide evidence of compliance with these insurance requirements by providing a Certificate of Insurance.

6. **CONSULTANT'S INDEMNIFICATION OF CITY.** To the greatest extent allowed by law, CONSULTANT shall indemnify and hold harmless the CITY and its officers, agents and employees against all claims for damages to persons or property arising out of CONSULTANT'S work, including the negligent acts, errors or omissions or wrongful acts or conduct of the CONSULTANT, or its employees, agents, subcontractors, or others in connection with the execution of the work covered by this Agreement, except for those claims arising from the willful misconduct, sole negligence or active negligence of the CITY, its officers, agents, or employees. CONSULTANT'S indemnification shall include any and all costs, expenses, attorneys' fees, expert fees and liability assessed against or incurred by the CITY, its officers, agents, or employees in defending against such claims or lawsuits, whether the same proceed to judgment or not. Further, CONSULTANT at its own expense shall, upon written request by the CITY, defend any such suit or action brought against the CITY, its officers, agents, or employees founded upon, resulting or arising from the conduct, tortious acts or omissions of the CONSULTANT.

CONSULTANT'S indemnification of CITY shall not be limited by any prior or subsequent declaration by the CONSULTANT.

7. **OWNERSHIP OF DOCUMENTS.** All plans and specifications, including details, computations and other documents, prepared or provided by the CONSULTANT under this Agreement shall be the property of the CITY. The CITY agrees to hold the CONSULTANT free and harmless from any claim arising from any use, other than the purpose intended, of the plans and specifications and all preliminary sketches, schematics, preliminary plans, architectural perspective renderings, working drawings, including details, computation and other documents, prepared or provided by the CONSULTANT. CONSULTANT may retain a copy of all material produced under this Agreement for the purpose of documenting their participation in this project.
8. **COMPENSATION.** CONSULTANT'S compensation for all work performed in accordance with this Agreement, shall not exceed the total contract price of \$100,000.

No work shall be performed by CONSULTANT in excess of the total contract price without prior written approval of the City. CONSULTANT shall obtain approval by the City prior to performing any work that results in incidental expenses to CITY.

9. **TIMING REQUIREMENTS.** Time is of the essence in the performance of work under this Agreement and the timing requirements shall be strictly adhered to unless otherwise modified in writing. All work shall be completed in every detail to the satisfaction of the City and contract shall remain in force for the duration of funding availability, until such time as purchase order is exhausted or this agreement is amended.
10. **ENTIRE AGREEMENT.** This Agreement comprises the entire integrated understanding between CITY and CONSULTANT concerning the work to be performed for this project and supersedes all prior negotiations, representations, or agreements.
11. **INTERPRETATION OF THE AGREEMENT.** The interpretation, validity and enforcement of the Agreement shall be governed by and construed under the laws of the State of California. The Agreement does not limit any other rights or remedies available to CITY.

The CONSULTANT shall be responsible for complying with all local, state, and federal laws whether or not said laws are expressly stated or referred to herein.

Should any provision herein be found or deemed to be invalid, the Agreement shall be construed as not containing such provision, and all other provisions, which are otherwise lawful, shall remain in full force and effect, and to this end the provisions of this Agreement are severable.

12. **AGREEMENT MODIFICATION.** This Agreement may not be modified orally or in any manner other than by an agreement in writing signed by the parties hereto.
13. **TERMINATION OF AGREEMENT.** Either party may terminate this Agreement by providing thirty (30) days written notice to the other party. If any portion of the work is terminated or abandoned by the CITY, then the CITY shall pay CONSULTANT for any work completed up to and including the date of termination or abandonment of this Agreement. The CITY shall be required to compensate CONSULTANT only for work performed in accordance with the Agreement up to and including the date of termination.

14. **SIGNATURES.** The individuals executing this Agreement represent and warrant that they have the right, power, legal capacity and authority to enter into and to execute this Agreement on behalf of the respective legal entities of the CONSULTANT and the CITY.

IN WITNESS WHEREOF, the parties hereto for themselves, their heirs, executors, administrators, successors, and assigns do hereby agree to the full performance of the covenants herein contained and have caused this Professional Services Agreement to be executed by setting hereunto their signatures on the dates set forth below.

CAROLLO ENGINEERS

CITY OF OCEANSIDE

By: Robert Good / VP
Name/Title

By: _____
Michelle Skaggs Lawrence,
Interim City Manager

Date: 3/9/15

Date: _____

By: [Signature] / VP
Name/Title

APPROVED AS TO FORM:

Date: 3/9/15

[Signature]
City Attorney

Employer ID No.

NOTARY ACKNOWLEDGMENTS OF CONSULTANT MUST BE ATTACHED.

CALIFORNIA ALL-PURPOSE ACKNOWLEDGMENT

CIVIL CODE § 1189



A notary public or other officer completing this certificate verifies only the identity of the individual who signed the document to which this certificate is attached, and not the truthfulness, accuracy, or validity of that document.

State of California)
County of CONTRA COSTA)

On MARCH 9, 2015 before me, SUSAN LYNN WELSH, NOTARY PUBLIC
Date Here Insert Name and Title of the Officer

personally appeared ROBB GRANTHAM AND JAMSHID DORAFSHA
Name(s) of Signer(s)

who proved to me on the basis of satisfactory evidence to be the person(s) whose name(s) ~~is~~ are subscribed to the within instrument and acknowledged to me that ~~he~~ ~~she~~ they executed the same in ~~his~~ ~~her~~ their authorized capacity(ies), and that by ~~his~~ ~~her~~ their signature(s) on the instrument the person(s), or the entity upon behalf of which the person(s) acted, executed the instrument.



I certify under PENALTY OF PERJURY under the laws of the State of California that the foregoing paragraph is true and correct.

WITNESS my hand and official seal.

Signature Susan Lynn Welsh
Signature of Notary Public

Place Notary Seal Above

OPTIONAL

Though this section is optional, completing this information can deter alteration of the document or fraudulent reattachment of this form to an unintended document.

Description of Attached Document

Title or Type of Document: _____ Document Date: _____
Number of Pages: _____ Signer(s) Other Than Named Above: _____

Capacity(ies) Claimed by Signer(s)

Signer's Name: _____
 Corporate Officer — Title(s): _____
 Partner — Limited General
 Individual Attorney in Fact
 Trustee Guardian or Conservator
 Other: _____
Signer Is Representing: _____

Signer's Name: _____
 Corporate Officer — Title(s): _____
 Partner — Limited General
 Individual Attorney in Fact
 Trustee Guardian or Conservator
 Other: _____
Signer Is Representing: _____



March 6, 2015

Mr. Jason Dafforn, Water Utilities Division Manager
City of Oceanside
Department of Water Utilities
300 North Coast Highway
Oceanside, CA 92054

Subject: *Continuing Financial Services*

Dear Mr. Dafforn:

The City of Oceanside (City) Water Utilities Department (Department) has made great strides in achieving financial stability for water and wastewater utilities and has implemented forward-looking fiscal policies. With the completion of the master plans, the Department is now beginning a significant capital improvement program to maintain the long-term reliability of the water and wastewater infrastructure and diversify its water portfolio. Carollo is pleased to support the City in its continued effort to maintain the financial strength of the Department and finance this capital program.

The Department will be developing a funding strategy for the Capital Improvement Plan that will be integrated into the greater financial plan. We are pleased to continue to support the Department by extending the On-Call Financial Services contract. The proposed scope of work elements are attached.

We value the long-standing relationship we have with the City and view this study as a partnership with the Department and community at large. Please let me know if I can provide any additional information.

Sincerely,

CAROLLO ENGINEERS, INC.

Robert S. Grantham
Vice President

Scope of Work

This scope of work highlights work to be performed under Carollo's On-Call Financial Services contract. Carollo will continue to provide ongoing support for other tasks as dictated by City staff.

Task 1: CIP Funding Analysis and Support

The City has developed Capital Improvement Programs (CIPs) for the City's Water and Wastewater systems as a component of the Integrated Master Plan (separate project). The City has entered a period of increased capital spending funded by use of available reserves, user rate revenues, and possible bond issuances. Under the On-Call Services agreement, Carollo will continue to perform financial support to develop funding strategies for the CIPs.

Task 1.1 – CIP Funding Strategy: Carollo will continue to work collaboratively with City Staff to develop funding strategies for the Water and Wastewater CIPs. Each funding strategy (Water and Wastewater) will be developed with the goal of minimizing user rate increases while continuing to provide a high level of service and supporting system reinvestment, supply independence, environmental compliance, and other initiatives. The capital funding strategy will be developed in conjunction with the updated revenue requirements analysis and integrated into the City's Water and Wastewater financial models. It is expected that funding of capital projects will become a significant driver of revenue requirements.

The analysis will consider multiple sources of funding for each utility's CIP, integrating all sources to determine the optimal plan. Sources of funding for the CIPs will include:

- **User Rate Revenues** – Commonly referred to as Pay-As-You-Go or PAYGO financing, this funding source includes money that is collected through user rates explicitly for funding capital projects.
- **Use of Reserve Funds** – Each utility maintains two reserve funds to fund capital expenditures. They are the Fixed Asset Replacement Funds (Water Fund 712 and Wastewater Fund 722), and the Expansion Funds (Water Fund 715 and Wastewater Fund 725)
 - **Fixed Asset Replacement (FAR) Funds** – The FAR funds are intended to fund rehabilitation and replacement capital projects. Each year, the City sets aside FAR funding for each utility equal to the annual depreciation of each utility's assets.
 - **Expansion Funds** – The Expansion funds are intended to pay for capital projects that add capacity to the system that will be needed to serve new development. Revenues from development fees are deposited into the expansion funds.
- **Debt Issuances** – A preliminary funding analysis has suggested that new debt issuances will be required in order to fund the CIP. The funding strategy will develop bond sizing and timing to provide a balance between capital funding needs, annual debt service requirements, and long-term borrowing costs. Where applicable we will review the possible use of SRF loans to fund Wastewater projects.
- **Grant Funding** – The funding analysis will assess the impact of any capital grants that the City expects to receive. However, the proposed funding strategy will only include grants that have been classified as definite sources of funding.

Task 1.2 – Bond Issuance Assistance: Carollo will provide support to City Staff for the issuance of any revenue bonds or other debts that will be incurred in order to fund the Water and/or Wastewater CIPs. As discussed above, Carollo will provide assistance in the sizing and timing of debt issuances in the development of the funding strategy. Secondly, we will assist in the preparation and review of bond documents. Carollo will also be available to attend rating agency presentations if needed.

Task 2: Updated Revenue Requirements Analysis

Carollo will continue to update revenue requirement forecasts for the water and wastewater utilities. The analysis will incorporate potential revenue changes resulting from the adopted changes to the City's rate structures. Carollo will also revisit the fiscal policies for each utility based on necessary cash-on-hand and capital replacement needs.

Task 2.1 – Policy Review: The determination of fiscal policies is an essential building block for any effective utility financial plan and rate study. Moreover, in presenting any proposed rate plan to the Utilities Commission, it will be critical to provide context for rate increases based on sound fiscal policies. We will discuss policy objectives and potential rate impacts. These policies will include, but will not be limited to appropriate reserve requirements to be maintained for operations (working capital), capital projects, emergencies, and rate stabilization. We will provide a comparison of these policies and strategies to industry standards in order to provide context as the City considers how possible policy enhancements or changes will impact the long-term health of the water enterprise fund. Additionally, Carollo will evaluate the annual Fixed Asset Replacement contributions.

Task 2.3 – Updated Financial Needs Forecast: The revenue requirement analysis uses projected cash flows and debt service requirements to anticipate potential revenue shortfalls. We will incorporate data elements collected throughout the study process to develop a long-range financial forecast that projects operating expenditures; repair, replacement, and other capital needs; and offsetting revenues. The analysis will focus primarily on revenue sufficiency over the next 5 and 10 years based on the City's projected operating, capital, policy, regulatory, and asset management needs.

The water and wastewater financial forecasts will consider the overall funding strategy including near- and long-term capital and operational needs, as well as potential impacts on customer usage due to calls for increased conservation and the recently adopted modifications of the rate structures. The results of the revenue requirement will define the levels of rate increases necessary to fund ongoing expenditures and to meet the City's policy goals.

Task 3: Continued Monitoring of Usage and Revenues

Working closely with City staff, Carollo will monitor water and wastewater usage and revenues on a monthly basis. Close monitoring of monthly data will help the City to identify possible changes in usage trends or revenues in a timely manner, and provide a basis for any proactive corrective actions.

Carollo will develop a Microsoft Excel based tool that will allow monthly consumption data to be quickly summarized and analyzed and output of key performance parameters. Key performance parameters for each month, as well as year to date summaries, will then be compared to historical and projected values. The comparisons will be displayed as easy to read summary tables and charts. The key parameters that will be analyzed in the tool are:

Consumption by Rate Category and Meter Size – Analyzing consumption on a rate category and meter size basis will allow the City to discern how consumption patterns vary

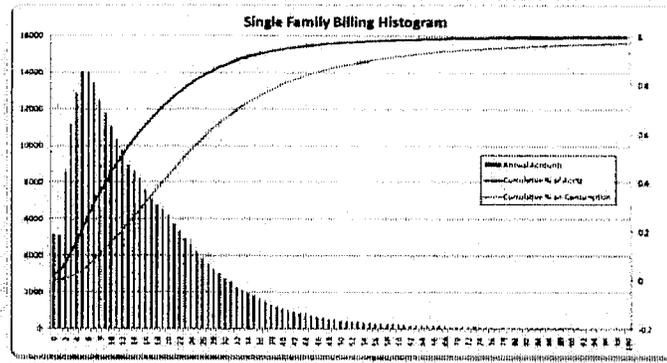
among the customer classes. This information can also be used to affirm the validity of the rate structure.

Consumption per Tier for Single Family Residential, Multi Family, and Master Metered Single Family Customers – Monthly water consumption per tier will be calculated based on the input monthly consumption data. This calculation will be dynamic so that the impact of changes to the tier structure can be analyzed.

Usage Histograms for Each Customer Class – Usage histograms provide a convenient means of determining consumption patterns and potential shifts.

Calculated Monthly Revenues – Projected monthly revenues will be calculated and compared to projected and actual revenues.

Illustration of Usage Histogram



This histogram visually communicates usage patterns and potential conservation reductions due to changes in rate structure. Usage thresholds can be overlaid to illustrate how pricing and demands converge

Task 4: Model Modifications

The City's water, wastewater, and solid waste models were constructed in close collaboration with City staff. The models dynamically allow staff to project cash flow needs, evaluate capital alternatives, and present a summary of findings. A "what-if" scenario-builder was later incorporated into the model and allows staff to test up to six side-by-side financial and capital planning scenarios. As discussed with staff, Carollo will update the model as necessary to meet the needs of staff and as required due to changes, such as wholesale contract agreements.

Task 5: Technical Memorandums

Draft and final versions of technical memorandums (TMs) will be prepared to present the methodology, process, and findings and recommendations of the CIP Funding, Updated Revenue Requirements, and other financial analyses as the Department requires. Comments on the draft TMs will be incorporated into final versions. Carollo can provide additional TMs for other tasks as directed by City staff.

Task 6: Meetings and Presentations

Carollo will hold structured reviews with City staff during the course of the project. Carollo will also present relevant findings to the Utilities Commission and City Council as required.

Project Budget

The proposed project budget is \$100,000. All work will be performed based on time and materials. Due to the on-call nature of this project, Carollo will only work against the budget as directed by City staff and will provide ongoing and regular updates of work performed.