



Council Meeting: January 8, 2008

SUBJECT: Award of Request for Proposals No. F0708-30 to Conduct a Solid Waste Utility Cost of Service Study and Approval of Budget Modification No. 28

REPORT IN BRIEF

Approval is requested for the award of a contract in the amount of \$77,580 to H F & H Consultants LLC of Walnut Creek to conduct Phase I of a comprehensive solid waste utility cost of service rate study for the Departments of Finance and Public Works. Approval is also requested for a \$5,000 project contingency and Budget Modification No. 28 in the amount of \$42,580 to provide additional funding for this project.

BACKGROUND

This project will provide a review of the City's solid waste utility, focusing on the changes that will be implemented as a result of the December 12, 2006, Study Issue titled "Changes to Residential Garbage Collection Rates, Containers, Policies, and Procedures (RTC #06-397)". At that time, Council approved changes to the residential solid waste collection system, shifting the City to a Pay as You Throw (PAYT) structure. Those changes include:

- Providing carts to customers who use 32-gallon cans as their primary waste container (includes Baseline, Unlimited Can, Commercial Can, and Apartment Can customers);
- Charging graduated "Pay as You Throw" rates, based on the size of the garbage cart, eliminating unlimited service, and establishing separate cost of service-based rates for
 - a. 32-gallon cart service
 - b. 64-gallon cart service
 - c. 96-gallon cart service
 - d. Each additional can, bag or box;
- Requiring customer pre-payment for collection of additional cans, bags, or boxes; and
- Providing on-call pickup services (two times per calendar year) for removal of extra waste and bulky goods on days chosen by customers instead of the current Spring and Fall clean-up programs.

Council also approved preceding the implementation of these service changes with a cost of service study to update solid waste collection rates and reflect the reduced costs resulting from the Council-directed service changes.

A cost of service update was last completed for the solid waste utility during FY 2001/2002. Best practices in utility rate-making include updating the cost of service methodology for a utility on a regular basis as a reliable way to ensure each utility continues to generate sufficient and stable revenues to pay for current and future services and related expenses. During the FY 2002/2003 project budget process, staff projected studies every five years in an effort to meet this goal. The study originally planned for FY 2006/2007 was delayed one year so that it could take into account Council's action as the result of the aforementioned study issue.

EXISTING POLICY

Solid Waste Sub-element

Policy 3.2A.1 - Provide convenient, competitively priced solid waste collection services.

Policy 3.2B.1 - Reduce generation of solid waste by providing source reduction programs and promoting source reduction behavior.

Action Statement 3.2B.1d - Continue to monitor the effectiveness of unlimited residential refuse collection.

Policy 3.2B.2 - Maximize diversion of solid waste from disposal by use of demand management techniques, providing and promoting recycling programs, and encouraging private sector recycling.

Fiscal Sub-element

Policy B.5.1 – User fees should be used to recover the cost of services that benefit specific segments of the community.

Policy 7.1I.1a.5 – The user fees established for each utility will be reviewed annually and set at a level that will support the total costs of the utility, including direct and indirect costs and contributions to reserves set by Council policy.

DISCUSSION

The scope of work for this project will be for the selected consultant to conduct a complete review of the utility's revenues, expenses and services and allocate the costs of the utility to the various customer classes in accordance with the City's cost of service rate setting policy. Included will be implementation of the Council's direction regarding the Changes to Residential Garbage Collection Rates, Containers, Policies, and Procedures Study Issue. The scope will also require consultant review of the solid waste revenue requirement and recommendations relative to the City's customer classification structure, if needed; whether fees should be instituted for customer-initiated changes in service, such as container size and frequency; the proper cost allocation for "free" debris boxes, front-load refuse, and recycling collection for neighborhoods, City facilities, and institutions; and whether changing to weight-based roll-off service is desirable. The final work product will include a new rate schedule necessary to generate the revenue required to operate the City's utility using the Pay as You Throw rate structure approved by Council.

Request for Proposals No. F0708-30 was developed by Finance and Public Works staff. The Request for Proposals (RFP) process was selected because, unlike an Invitation for Bids, it allows for consideration of factors in addition to cost during proposal evaluation. In this instance, staff determined that proposals would be evaluated, based upon the following criteria:

- Adherence to RFP requirements.
- Depth of project team's experience and its relevance to the project described in the RFP.
- Proposer's understanding of project requirements.
- Proposed methodology and management plan for the project.
- Total cost to the City.

The RFP was directly distributed to seventeen municipal consulting firms and broadcast to other potential proposers through the Onvia DemandStar public procurement network. Twenty-eight firms requested proposal documents.

The due date for receipt of sealed proposals was October 10, 2007. Only one responsive proposal was received. Staff contacted several of the firms who requested the RFP but did not submit proposals to inquire as to why they did not submit on the project. Responses were generally split between time constraints due to existing workloads and concerns about the complexity of the scope of work.

The sole proposal from H F & H Consultants, LLC, was evaluated, based upon the criteria set forth in the RFP. Staff determined that the proposer is well

qualified to perform the services and, in fact, has successfully performed a variety of similar services for the City in the past.

H F & H proposed an approach to the project that breaks the work into two distinct phases. Phase I deals only with issues related to the changes to residential services. Staff believes that these are the most time-critical as changes to rates must be identified before March 2008 to meet rate noticing timelines. Deliverables include a written report, including full documentation of rate setting methodology, findings and recommendations of the study. Additionally, a spreadsheet-based model used to evaluate revenue requirements and calculate rates and charges will be provided to the City in electronic format to be used in-house for future studies. Total cost for Phase I including contingency is \$82,580.

Subsequent work, as detailed in Phase II, will consist of additional items and potential new services and fees as follows:

- Services Change Fee
- Rate Impact of Allowing Independent Debris Box Companies to Recycle
- C&D Services
- Roll-off Recycling Service
- Front Load Recycling Service to Multifamily Customers
- Solid Waste "Connection Fee"
- Commercial Composting Programs
- Residential Electronic Waste Collection

It is estimated that Phase II will cost \$38,260. Evaluation of the need for this work will be revisited during preparation of the FY 2008/2009 budget.

FISCAL IMPACT

The total contract amount for Phase I will be \$77,580, plus \$5,000 for contingency. The current budget of \$40,000 is the estimated cost of a routine update to the rate model. Because the actual cost of this more complex study could not be known prior to the RFP process, staff left the \$40,000 figure in the budget as a placeholder until the true cost was known. Given the detailed analysis that is required and the potential financial impact of incorrectly costing rates, the price appears appropriate. Evaluation of services to be provided in Phase II, currently estimated to be \$38,260, will be considered in the FY 2008/2009 budget process. The ongoing budget for these studies will

remain as previously planned as staff anticipates that only minor updates and review of the cost allocations will be required in the future. If both phases are to be completed, its estimated cost is approximately \$121,000.

Staff recommends approval of Budget Modification No. 28 to appropriate money from the Solid Waste Fund Rate Stabilization Reserve to fund Phase I of this project.

**BUDGET MODIFICATION NO. 28
FISCAL YEAR 2007/2008**

	Current	Increase (Decrease)	Revised
Solid Waste Management Fund			
<u>Expenditures:</u>			
Project 824261 – Solid Waste Cost of Service Study	\$40,000	\$42,580	\$82,580
<u>Reserves:</u>			
Rate Stabilization Reserve	\$1,905,848	(\$42,580)	\$1,863,268

PUBLIC CONTACT

Public contact was made by posting the Council agenda on the City’s official notice bulletin board, the Senior Center and Community Center; posting the agenda and report on the City’s Web site; and making the report available at the Library and the Office of the City Clerk.

RECOMMENDATION

It is recommended that Council:

1. Award a contract, in substantially the same form as the attached draft and in the amount of \$77,580, to H F & H Consultants, LLC, to conduct a solid waste utility rate cost of service study; and
2. Approve a project contingency in the amount of \$5,000; and
3. Approve Budget Modification No. 28.

Prepared by:

Timothy J. Kirby
Revenue Systems Supervisor

Reviewed by:

Marvin Rose
Director, Public Works

Reviewed by:

Mary J. Bradley
Director, Finance

Approved by:

Amy Chan
City Manager

Attachment
Draft Consultant Services Agreement

DRAFT
CONSULTANT SERVICES AGREEMENT
BETWEEN THE CITY OF SUNNYVALE AND H F & H CONSULTANTS, LLC
TO CONDUCT A SOLID WASTE UTILITY COST OF SERVICE STUDY

THIS AGREEMENT dated _____ is by and between the CITY OF SUNNYVALE, a municipal corporation ("CITY"), and H F & H CONSULTANTS, LLC, a California partnership ("CONSULTANT").

WHEREAS, CITY is in need of specialized services in relation to conducting a comprehensive solid waste utility cost of service rate study; and

WHEREAS, CONSULTANT possesses the skill and expertise to provide the required services;

NOW, THEREFORE, THE PARTIES ENTER INTO THIS AGREEMENT.

1. Services by CONSULTANT

CONSULTANT shall provide services in accordance with Exhibit "A" attached and incorporated by reference. CONSULTANT shall determine the method, details and means of performing the services.

2. Time for Performance

The term of this Agreement shall be from contract execution to December 31, 2008, unless otherwise terminated. CONSULTANT shall deliver the agreed upon services to CITY as specified in Exhibit "A". Extensions of time may be granted by the City Manager upon a showing of good cause.

3. Duties of CITY

CITY shall supply any documents or information available to City required by CONSULTANT for performance of its duties. Any materials provided shall be returned to CITY upon completion of the work.

4. Compensation

CITY agrees to pay CONSULTANT at the rates shown in Exhibit "B". Total compensation shall not exceed Seventy-Seven Thousand Five Hundred Eighty and NO/100 Dollars (\$77,580). CONSULTANT shall submit invoices to CITY to be paid in accord with the procedures set forth in Exhibit "B" attached and incorporated by reference.

5. Ownership of Documents

CITY shall have full and complete access to CONSULTANT's working papers, drawings and other documents during progress of the work. All documents of any description prepared by CONSULTANT shall become the property of the CITY at the completion of the project and upon payment in full to the CONSULTANT. CONSULTANT may retain a copy of all materials produced pursuant to this Agreement.

6. Conflict of Interest

No officer or employee of CITY shall have any interest, direct or indirect, in this Agreement or in the proceeds thereof. During the term of this Agreement CONSULTANT shall not accept employment or an obligation which is inconsistent or incompatible with CONSULTANT's obligations under this Agreement.

7. Confidential Information

CONSULTANT shall maintain in confidence and at no time use, except to the extent required to perform its obligations hereunder, any and all proprietary or confidential information of CITY of which CONSULTANT may become aware in the performance of its services.

8. Compliance with Laws

- (a) CONSULTANT shall not discriminate against, or engage in the harassment of, any City employee or volunteer or any employee of CONSULTANT or applicant for employment because of an individual's race, religion, color, sex, gender identity, sexual orientation (including heterosexuality, homosexuality and bisexuality), ethnic or national origin, ancestry, citizenship status, uniformed service member status, marital status, family relationship, pregnancy, age, cancer or HIV/AIDS-related medical condition, genetic characteristics, and physical or mental disability (whether perceived or actual). This prohibition shall apply to all of CONSULTANT's employment practices and to all of CONSULTANT's activities as a provider of services to the City.
- (b) CONSULTANT shall comply with all federal, state and city laws, statutes, ordinances, rules and regulations and the orders and decrees of any courts or administrative bodies or tribunals in any manner affecting the performance of the Agreement.

9. Independent Contractor

CONSULTANT is acting as an independent contractor in furnishing the services or materials and performing the work required by this Agreement and is not an agent, servant or employee of CITY. Nothing in this Agreement shall be interpreted or construed as creating or establishing the relationship of employer and employee between CITY and CONSULTANT. CONSULTANT is responsible for paying all required state and federal taxes.

10. Indemnity

CONSULTANT shall indemnify, defend and hold harmless CITY and its officers, officials, employees and volunteers from and against all claims, damages, losses and expenses, including attorney fees, arising out of the performance of the work described herein, caused in whole or in part by any negligent act or omission of CONSULTANT, any subcontractor, anyone directly or indirectly employed by any of them or anyone for whose acts any of them may be liable, except where caused by the active negligence, sole negligence, or willful misconduct of CITY.

11. Insurance

CONSULTANT shall take out and maintain during the life of this Agreement policies of insurance as specified in Exhibit "C" attached and incorporated by reference, and shall provide all certificates or endorsements as specified in Exhibit "C."

12. CITY Representative

Timothy Kirby, Revenue Systems Supervisor, as the City Manager's authorized representative, shall represent CITY in all matters pertaining to the services to be rendered under this Agreement. All requirements of CITY pertaining to the services and materials to be rendered under this Agreement shall be coordinated through the CITY representative.

13. CONSULTANT Representative

Robert Hilton, President, shall represent CONSULTANT in all matters pertaining to the services and materials to be rendered under this Agreement; all requirements of CONSULTANT pertaining to the services or materials to be rendered under this Agreement shall be coordinated through the CONSULTANT representative.

14. Notices

All notices required by this Agreement shall be in writing, and shall be personally delivered, sent by first class with postage prepaid, or by sent by commercial courier, addressed as follows:

To CITY: Timothy Kirby, Revenue Systems Supervisor
Department of Finance/Revenue Division
CITY OF SUNNYVALE
P. O. Box 3707
Sunnyvale, CA 94088-3707

To CONSULTANT: Robert Hilton, President
H F & H CONSULTANTS, LLC
2175 North California Blvd., Suite 990
Walnut Creek, CA 94596

Nothing in this provision shall be construed to prohibit communication by more expedient means, such as by telephone or facsimile transmission, to accomplish timely communication. However, to constitute effective notice, written confirmation of a telephone conversation or an original of a facsimile transmission must be sent by first class mail or commercial carrier, or hand delivered. Each party may change the address by written notice in accordance with this paragraph. Notices delivered personally shall be deemed communicated as of actual receipt; mailed notices shall be deemed communicated as of two days after mailing, unless such date is a date on which there is no mail service. In that event communication is deemed to occur on the next mail service day.

15. Assignment

Neither party shall assign or sublet any portion of this Agreement without the prior written consent of the other party.

16. Termination

If CONSULTANT defaults in the performance of this Agreement, or materially breaches any of its provisions, CITY at its option may terminate this Agreement by giving written notice to CONSULTANT. If CITY fails to pay CONSULTANT, CONSULTANT at its option may terminate this Agreement if the failure is not remedied by CITY within thirty (30) days from the date payment is due.

Without limitation to such rights or remedies as CITY shall otherwise have by law, CITY also shall have the right to terminate this Agreement for any reason upon ten (10) days' written notice to CONSULTANT. In the event of such termination, CONSULTANT shall be compensated in proportion to the percentage of services performed or materials furnished (in relation to the total which would have been performed or furnished) through the date of receipt of notification from CITY to terminate. CONSULTANT shall present CITY with any work product completed at that point in time.

17. Entire Agreement; Amendment

This writing constitutes the entire agreement between the parties relating to the services to be performed or materials to be furnished hereunder. No modification of this Agreement shall be effective unless and until such modification is evidenced by writing signed by all parties.

18. Miscellaneous

Time shall be of the essence in this Agreement. Failure on the part of either party to enforce any provision of this Agreement shall not be construed as a waiver of the right to compel enforcement of such provision or any other provision. This Agreement shall be governed and construed in accordance with the laws of the State of California.

IN WITNESS WHEREOF, the parties have executed this Agreement.

ATTEST:

CITY OF SUNNYVALE ("CITY")

By _____
City Clerk

By _____
City Manager

APPROVED AS TO FORM:

H F & H CONSULTANTS, LLC
("CONSULTANT")

By _____
City Attorney

By _____

Name and Title

By _____

Name and Title

Exhibit A

City of Sunnyvale Solid Waste Utility Rate Cost of Service Study

Scope of Work

Overview

Based on our project management approach as well as our rate study methodology, our proposed scope of work responds to the City's requirements through two phases:

1. The first phase is designed to: Prepare the cost of service and rate model; Calculate rates for publication by mid-March 2008; and, Prepare a report for presentation to the City Council in May. This phase will include the consideration of:
 - a. All matters included in the City's request for proposal, scope of work, "1. Upcoming Changes to Service";
 - b. All matters included in the City's request for proposal, scope of work, "2. Additional Work Items" except for: Charging for "Service Changes" and "Impact on Rates of Independent Debris Box Companies".
2. The second phase will be performed thereafter and is intended to address areas requiring data gathering and analysis that will be incorporated in a future rate setting process. These areas include those specifically excluded from Phase I b above as well as the matters included in the City's request for proposal, scope of work, "4. Comment on Feasibility of Potential New Services and Fees".

The description of the tasks and subtasks which comprise each of the phases and the schedule for the performance of the tasks is presented below.

Phase I: 2008 – 09 Revenue Requirement, Allocation and, Rates and Charges

Phase I is comprised of the following three tasks"

- Initiate Project;
- Prepare Cost of Service Model and Conduct Analysis; and,
- Report Results

1. Initiate Project

Commence End of November, 2007

We propose that Bob Hilton, Rick Simonson and Edmund Jones meet with the Public Works and Finance Department staff to define the City's broad overall organizational goals (development of the financial model for future rate settings and a review and update of key assumptions and allocation statistics used in the model), the project approach (two phases deferring the consideration of matters requiring additional data gathering and analysis until after the development of rates for fiscal year 2008 – 2009) and specific objectives for the engagement (completion of the cost of service analysis and

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calculation of new rates for publication in March 2008). We will agree on the roles and responsibilities of the project team (both HF&H and City staff) and the process by which the various parties will be kept informed of project progress in a timely manner (bi-weekly oral status reports).

During this meeting and as necessary following the meeting, we will develop the best strategy for optimizing the objectives (for example clearly defining the expected level of analysis of issues and assigning those issues to phases one or two of the engagement). We will assign responsibilities between the City and HF&H staff and discuss reasonable deadlines for the completion of those responsibilities. We will also discuss and agree on project management matters (format and timing of progress reports and billings). We will document our agreed upon strategy, work plan, and schedule in a final scope of work.

Having agreed upon the approach, schedule and responsibilities, Bob Hilton and Rick Simonson will prepare a final scope of work (including schedule) and fee estimate for inclusion in our contract. Also, they will prepare phase one detailed work plans by task and subtask assigning specific staff, budgeting specific time, laying out the organization of the work papers which document the performance of the work and the basis for the findings. The work plan will include 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 will be entered into our project management system, and progress will be reported by our staff on a daily basis and to City staff in accordance with the schedule agreed upon during our meeting (i.e. bi-weekly oral reports and monthly invoices).

2. Prepare Cost of Service Model and Conduct Analysis Commence Early-January

The cost of service analysis task is comprised of five subtasks:

2.1. Initiate Meeting

Conduct Initial Working Meeting

HF&H will conduct a day long initial working meeting that should include but not be limited to City Finance and Public Works staff as well as the staff of Specialty. The purposes of this meeting are to:

1. Agree upon the preliminary format of the Cost of Service Model;
2. Review the City's current financial plan, financial statement and budget;
3. Discuss the current and anticipated programs, services, charges and rates; and,
4. Discuss pricing policies and the rate structure alternatives that will be analyzed.

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We will prepare a formal agenda (allowing for staff to participate during relevant portions of the meeting but not requiring all staff to attend the entire day). We anticipate discussion of a number of issues including but not limited to the following:

General Background

- Current operating budget, reserve and rate policies
- Current financial plans and projections
- Key assumptions affecting the plans and projections (economic and land development, new programs and services, facility and equipment replacement and development, etc.)
- Hauler, customer, community and Council concerns and interests

Existing Charges and Rates

- The City's experience with its current solid waste rates from both the administrative as well as customer perspective
- The City's prospective financial planning and rate-making objectives and changes it foresees to accommodate future conditions
- Administrative resources for implementing new rates, including the capabilities of the billing system
- Any restrictions to the format of residential and commercial customer bills
- Customer subscription and route audit procedures and billing cycles

New Services, Charges and Rates

- Consideration of changes in services and policies including:
 - Providing 32 gallon carts to all customers currently using customer-owned 32 gallon cans
 - Establishing a "Pay As You Throw" rate structure replacing the two rate system
 - Establishing a rate for side-yard back-yard service for non disabled residents
 - Establishing a pre-payment/pre-authorization charge for "extras"
 - Establishing a "push-out charge" for commercial bin customers

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- Customer scheduled bulky good and extra garbage collection, instead of the month-long spring and fall events
- Consideration of improvements to the City's customer classifications
- Consideration of the current rates for roll off services (e.g., "weight-based charges" and "rock boxes") and the affect of these rates to other commercial rates in the City (e.g., "free debris box services") and neighboring cities
- Background leading to the adoption of these changes
- Analysis and reports related to these changes and what was presented to the City Council
- Changes that may have occurred since these items were presented to the City Council that could affect the outcome of their implementation
- Description of the planned implementation and management of the change
- Estimated expenses and revenues related to the change
- Estimated administrative expenses related to the change
- Current data regarding customers who might utilize or be subject to this new rate or charge
- City estimates of future customer activity related to the change.

Data Requirements

- The City's recent, current and projected operating, capital and reserve expenses and revenues (e.g., financial plans, budgets, financial statements, CAFRs, capital assets records, official statements, Capital Improvement Plans)
- Current and projected customer subscription data including but not limited to key assumptions such as new services, population projections, and City development plans
- The City's proposed capital improvements and how these projects are to be funded
- Current schedule of rates and charges
- Other customer characteristics (e.g., tonnage)

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Initial Working Meeting Follow-up

The initial working meeting is a crucial exchange of information with the City. We will prepare and circulate brief meeting notes recording the study objectives describing key decisions (specifically addressing whether: existing data is to be reviewed for reasonableness; “side bar” calculations are to be used to calculate estimated costs and reasonable rates; or, new data is to be gathered and analyzed), and confirming the work plan to document the input we receive at the Initial Working meeting. These notes will also describe the changes to the current rate structures that will be studied. Any comments, corrections, or additions from the City staff will be incorporated into the notes. These notes will assure that the project proceeds with a common understanding between the City and HF&H and will serve as a useful reference.

The meeting notes will also include a data request that reflects the Initial Working meeting discussion. Where possible, the data will be specifically itemized and identify the party responsible for providing it, if possible. We will attempt to minimize the City’s time required for data collection. However, because the City staff is most familiar with which data are available, we will rely on the City staff to collect, summarize as appropriate and provide all data requested in the format requested unless the data do not exist or the effort required is unwarranted. We also realize that the City may not have all of the data desired, in which case we may require assistance from the City to identify alternate data or verify our assumptions.

2.2 Develop Cost of Service Model

The Cost of Service Model will provide the City with a means of updating the financial plan (as budgets and capital expenditures are updated), update allocations to customer classes over time, and calculate charges and rates. The Cost of Service Model will be developed with input from City staff to ensure that it meets the City’s needs. The Cost of Service Model will reflect the format of the City’s financial plan, budget and financial statements, etc., with which City staff are familiar, so that the Cost of Service Model is easy for the City staff to follow.

The Cost of Service Model will be comprised of several worksheets:

- Summary of Assumptions and Growth Factors (including an index of worksheets)
- Financial Plan including:
 - Operating and Capital Expense Projections (including inter-fund transfers);

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- Revenue Projections (including customer account and demand projections); and,
- Reserve Fund Balances.
- Calculate Charges, Net Revenue Requirement and Rates

The new Cost of Service Model will be developed by HF&H staff in draft form for review with the City. HF&H staff will develop draft formats of each worksheet (showing row and column titles and the flow of data among the worksheets). These worksheets will be presented for review, discussion and approval by City staff. As data is obtained from the City during subsequent sub-tasks, it will be entered in the appropriate worksheets and formulae entered to perform calculations.

2.3 Develop the Financial Plan

The financial analysis will begin with the review of the City's current Solid Waste Financial Plan that we understand includes the projection of expenses, revenues, and reserve balances.

- **Expenses.** We will review the City staff's projection of operating and capital expenses by comparing them to financial statements, recent trends and City management's plans. We will discuss our observations with City staff. For purposes of our fee estimate, unless otherwise specifically stated elsewhere in this scope of work, we have assumed that any additional analyses and or modifications that may be required will be performed by City staff.
- **Revenues.** We will review the City staff's projection of rate revenue and revenue from other charges, based on financial statements, current rates and customer subscription levels, recent trends and City management's plans. We will discuss our observations with City staff. For purposes of our fee estimate, unless otherwise specifically stated elsewhere in this scope of work, we have assumed that any additional analyses and or modifications that may be required will be performed by City staff.
- **Inter-fund Transfers.** Inter-fund transfers are the third critical element in the financial plan. The City's current inter-fund transfers will be integrated into the model, showing transfers to and from each fund for each year, based on the City's Financial Plan. Existing policies for current funds will be reviewed, as will the potential for adding, deleting, or redefining the funds, based on our experience. (We realize that the City may have an established set of reserves for which policies may already exist for minimum, target, and maximum balances. These policies may not require modification. However, we believe it is appropriate as part of the study process to review these

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policies, even if there is no need for change.) We will discuss our observations with City staff. For purposes of our fee estimate, unless otherwise specifically stated elsewhere in this scope of work, we have assumed that any additional analyses and or modifications that may be required will be performed by City staff.

We will also review alternative expense and revenue projections with the City, by varying the value of key assumptions, showing their effect on the reserve fund balances, comparing those projected balances with each fund's target balances. With the use of the model, we will work with City staff to optimize the rate increases projected over the planning period. We will review the final solid waste financial plan with City staff and revise it accordingly. City staff may consider presenting the financial plan at this time for broader review and comment within the City.

With the conclusion of this task, the solid waste revenue requirement for the first year of the multi-year projections (i.e., fiscal year 2008-2009) will be determined for allocating costs to customer classes and then calculating rates.

2.4 Calculate Charges, Net Revenue Requirement and Rates

The financial plan determines the overall increase in revenue from rates and other charges that are required each year during the projection period. The rate and charge analysis determines how these increases affect rates and charges as well as customer bills.

The number and significance of the changes in services, rates and charges adopted by the Council and those identified for consideration by the City staff, is substantial. It is important that their impact on expenses, revenues and customer behavior are anticipated and planned for in order to prevent actual revenues from being significantly less than that assumed when the rates are calculated and approved. A key factor in determining the effects is anticipating customer response (e.g., customer migration). We have found from our extensive experience that it is not possible to accurately predict customer behavior. No accurate studies exist and our own analyses has been frustrated because few jurisdictions have access to and maintain such data and almost no private companies are willing to share such information if they have it. Also, where such data is available, we have found that many factors (including the introduction of new programs and services) affect customer response over time. Therefore, we propose to proportion customer subscription levels in the City based on such levels in comparable cities with comparable services.

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Additionally, we shall perform sensitivity analyses to demonstrate the impact of changes to assumed subscription levels.

In preparing the “Other Charge”, Cost of Service and Rate analysis portion of the models, we approach each element as follows:

- **Other Charge Calculations.** The calculation for each charge and the projected revenue from such charges will be separately presented.
- **Cost of Service Calculations.** The overall revenue requirement (net of revenue from “Other Charges”) for the coming rate year is allocated functionally among customer classes and compared with the current allocation under existing rates. The calculation shows the derivation of the unit costs of service, which are applied to all customers’ units of service, which is essential in demonstrating the reasonableness of rates, should the rates be challenged.
- **Rate Calculations.** Each customer class’ share of the revenue requirements is converted into a rate, depending on the rate structure that is selected at the meeting (Task 2.1) for analysis. These new rates will be compared with the existing rates so that it is clear how each class is affected.
- **Customer Bill Comparison.** Using the rates derived for each customer class, sample bills will be calculated for representative customers in each class, which will be compared with bills that would be paid under existing rates, again, clearly showing the impact on customers.

3. Reporting

Complete Mid-March Recommended Rates and Charges

Complete Mid-April Report

We will document the financial model providing a summary description of the overall model as well as the various worksheets. For each worksheet, data inputs will be identified (including the source documents) and calculations shall be described.

We will develop working outlines of the background, findings, and preliminary recommendations from our review of the City’s financial plan, and calculation of charges, the net revenue requirement and rates. At this point, we will meet with knowledgeable City staff to present the results of our analysis, discuss their reasonableness and what, if any, additional information or analysis may be necessary. Once a consensus has been developed with City staff, HF&H will present it to City management (i.e., Finance Director and City Manager) for review,

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verification, validation and discussion. Once consensus has been reached with City management, the results will be incorporated into our financial plan model. The results of our analysis will be presented to the City for purposes of noticing the rate adjustments.

Thereafter, we will prepare a draft report documenting the background of the project as well as our analysis, findings and recommendations. We will review the draft report with knowledgeable City staff, make revisions as appropriate and then present the second draft to City management for review and comment. We will incorporate revisions as appropriate and prepare a final report and presentation materials for presentation to the City Council for action.

Task 4: Engagement Management

Throughout Engagement

HF&H will prepare detailed work plans, perform internal quality reviews of all interim and final analysis and work products. Additionally, we will perform administrative tasks associated with the engagement, such as bi-weekly progress reporting.

Exhibit B

**City of Sunnyvale
Solid Waste Utility Rate Cost of Service Study**

Fee Estimate

Our fee estimate by Phase and Task is presented below. In phase one we have identified what we believe is a reasonable contingency to address the need for additional analyses, revisions to the model or additional drafts of the report beyond those assumed in our scope of work. In phase two we have included an estimate to perform further review of the items to be analyzed so that recommendations may be presented to the Council and included in subsequent cost of service studies.

Phase I: 2008 – 09 Revenue Requirement, Allocation and, Rates and Charges

Task 1: Project Initiation	\$5,920
Task 2: Prepare Cost of Service Model and Conduct Analysis	52,000
Task 3: Reporting	16,000
Task 4: Engagement Management	2,160
Expenses	<u>1,500</u>
	\$77,580
 Contingency	 \$5,000

EXHIBIT "C"

INSURANCE REQUIREMENTS

CONSULTANT shall obtain, at its own expense and from an admitted insurer authorized to operate in California, the insurance coverage detailed below and shall submit Certificate(s) of Insurance to the City of Sunnyvale, Purchasing Division, 650 West Olive Ave, PO Box 3707, Sunnyvale, CA 94088-3707; fax (408) 730-7710.

CONSULTANT shall take out and maintain during the life of the contract **Workers' Compensation and Employer's Liability Insurance** for its employees. The amount of insurance shall not be less than \$1,000,000 per accident for bodily injury or disease.

CONSULTANT shall take out and maintain during the life of the contract such **Commercial General Liability Insurance** as shall protect CONSULTANT, CITY, its officials, officers, directors, employees and agents from claims which may arise from services performed under the contract, whether such services are performed by CONSULTANT, by CITY, its officials, officers, directors, employees or agents or by anyone directly or indirectly employed by either. The amount of insurance shall not be less than the following: Single Limit Coverage Applying to Bodily and Personal Injury Liability and Property Damage: \$1,000,000.

The liability insurance shall include, but shall not be limited to:

- Protection against claims arising from bodily and personal injury and damage to property, resulting from CONSULTANT's or CITY's operations and use of owned or non-owned vehicles.
- Coverage on an "occurrence" basis.
- Broad form property damage liability. Deductible shall not exceed \$5000 without prior written approval of CITY.
- Notice of cancellation to CITY's Purchasing Division at least thirty (30) days prior to the cancellation effective date.

The following endorsements shall be attached to the liability insurance policy, and copies shall be submitted with the Certificate(s) of Insurance:

- The policy must cover complete contractual liability. Exclusions of contractual liability as to bodily injuries, personal injuries and property damage must be eliminated.
- CITY must be named as additional named insured with respect to the services being performed under the contract. *Simply indicating on the certificate that the certificate holder is named as additional insured is not acceptable; an endorsement must be provided.*
- The coverage shall be primary insurance so that no other insurance effected by CITY will be called upon to contribute to a loss under this coverage.