



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

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June 30, 2009

Rich Cunningham, Public Works Manager
City of Albany
1000 San Pablo Avenue
Albany, CA 94706

Proposal: Comprehensive Wastewater Financial Plan for City of Albany

Bartle Wells Associates is pleased to submit this proposal to conduct a comprehensive wastewater financial master plan and rate review. We have extensive experience developing wastewater rates and fees, long-range financial plans, and customized rate models for California wastewater agencies. We are particularly experienced with the unique set of problems facing small public agencies in California.

Bartle Wells Associates specializes in providing financial advisory and utility rate consulting services to California water and wastewater agencies. Since 1964, BWA has prepared financing plans and utility rate and fee studies for hundreds of California cities and special districts. We have a well-earned reputation for providing our clients with straightforward, practical advice and ushering the completion of projects in a cost conscious and timely manner, along with a strong track record of building consensus and public acceptance for our final recommendations.

We propose to assign Thomas E. Gaffney, Principal, to serve as project manager and primary contact for this assignment. Tom has procured over \$500 million for California wastewater projects over the last five years. Tom will be assisted by senior financial analyst Mark McLean. Both Tom and Mark have extensive experience developing long range water and wastewater enterprise financial plans, rates, and connection fees.

We are very interested in working with the City on this project and hope this proposal provides a suitable basis for our selection.

Very truly yours,
BARTLE WELLS ASSOCIATES

Thomas E. Gaffney, CIPFA, Principal

CC: Randy Leptien, City Engineer

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Background

The City of Albany has requested Bartle Wells Associates to submit a proposal to provide professional financial consulting services to develop a long-term wastewater financing plan. The City has recently developed a Sewer System Master Plan to determine ongoing replacement and improvement project requirements for force mains, pump stations, and sewer lines. A financing plan would assist the City to secure the necessary financing to fund these required projects. Our proposal includes a determination of the impact on the City's future rates and charges.

BARTLE WELLS ASSOCIATES

Bartle Wells Associates (BWA) is an independent financial advisory firm, located in Berkley, California. A general description of BWA is included. Our consulting firm was established in 1964 to provide unbiased, professional advice to public agencies on the financing of public works projects. BWA has more than 40 years experience in wastewater rate design, financial planning, and bond marketing. BWA has completed over 2,500 assignments involving water and wastewater financing plans and rate studies for public agencies in California.

Business Contact Information

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Bartle Wells Associates is a California Corporation; Federal ID number: 94-1664409.

Project Team

Bartle Wells Associates has a well-qualified, experienced team of consultants, with specialties in engineering, finance, economics, planning, and business. The principal consultants have worked together for over 15 years. Our consultants have prepared rate studies for water, sewer, recycled water, and electric utilities and have advised local governments on hundreds of financial plans for public works projects.

Name	Title	Academic Background	Years With BWA	Years of Professional Experience
Professional Staff				
Douglas R. Dove*	Principal Consultant	Civil engineering	18	20
Thomas E. Gaffney*	Principal Consultant	Engineering/finance	32	35
Reed V. Schmidt*	Principal Consultant	Economics	18	29
Alex Handlers*	Principal Consultant	Public administration	9	12
Adam Lynch*	Senior Consultant	Public policy	3	8
Mark McLean	Financial Analyst II	Public policy	2	6
Stephanie Hand*	Financial Analyst I	Business administration	4	8

*Certified Independent Public Finance Advisor, and professional member of the National Association of Independent Public Finance Advisors.

BWA uses a team approach for all projects, assigning at least two of our consultants to each assignment. We do this to ensure that someone knowledgeable about your project is available when you need assistance, whether for a phone call or meeting. All of BWA consultants are located at company offices in Berkeley, California.

BWA proposes to assign Tom Gaffney, a principal of the firm, to serve as principal in charge and primary contact for this engagement. Tom will be assisted by senior financial analyst Mark McLean. Resumes for Tom and Mark are included. This team will provide the primary staffing on this assignment. Other consultants or financial analysts may occasionally assist the team, if needed.

RELATED EXPERIENCE

BWA has performed wastewater financing plans and rate studies for many public agencies in California. Summary descriptions and client contacts for recent similar studies are described below. Many of the rate studies were developed as integral elements of long-range utility financing plans.

City of Petaluma

BWA created water and wastewater financing plans with required rate increases needed to fund upcoming City water and wastewater capital projects. The largest capital project in the plan is the new Ellis Creek Water Recycling Facility which will replace the City's 50 year old wastewater treatment plant. The City planned to finance much of the Ellis Creek Water Recycling Facility with low interest SRF loans. In connection with this effort, BWA prepared the City's SRF Revenue Program. However, due to delays at the SRF, the timing of the State's ability to begin funding and the timing of the project did not coincide. In order for the project to proceed as scheduled, BWA assisted the City in bidding out a \$100 million line of credit. The line can be called at any time as funds from the State become available. BWA has also prepared water and wastewater connection fee updates for the City.

We are currently working on development and implementation of a system of fees and or mechanisms to recover the City's costs of water conservation efforts as they relate to new development.

Contact: Mike Ban, Director Water Resources & Conservation.....707.778.4487
E-mail.....mban@ci.petaluma.ca.us

City of Thousand Oaks

BWA has served the city on over 25 separate assignments since 1973. These assignments have included long-range capital financing plans, rate and connection fee studies, evaluation of economic alternatives such as purchase of utility systems, financing alternative studies, and bond marketing. We developed a plan to finance water and wastewater improvements within the city on a pay-as-you-go basis. Capital expenditures totaled about \$50 million through 1990. We developed detailed water and wastewater rate studies, examined the impact on all customers, and verified the ability of the established rates to finance both operating and capital costs. We worked closely with a council-appointed citizens committee assigned to review certain charges for services provided by the city.

BWA has prepared a financial master plan for \$70 million of wastewater capital improvements using a combination of pay-as-you-go and bonding. Following completion of our report, we worked with a citizen's task force in implementing the financial plan. The task force recommended that the council adopt the rates as proposed in our report. Subsequently, we prepared financial master plan updates for the city—in 1997, 1999, 2002, 2005, and 2008 incorporating changes in capital improvements scheduling and costs. We also served as financial consultant to the city on the sale of

about \$22 million certificates of participation in 1998 as part of the implementation of the financial plan. We developed a revenue program and assisted the city in obtaining SRF loans.

Contact: Nancy Arrieta, Senior Financial Analyst 805.449.2459
E-mail..... narrieta@toaks.org

City of Vacaville

Working closely with the Utilities Department staff, BWA prepared a revenue program to fulfill requirements for EPA and SWRCB grants. The revenue program was used as the basis of wastewater rates and charges. On separate follow-up assignments, we prepared water and wastewater rate studies. The water rate study included conservation rate recommendations.

BWA has been subsequently hired to assist city staff in preparing updated water and sewer rate studies. The water rate study addressed the rehabilitation and capital replacement needs of the water enterprise.

On a recent assignment BWA analyzed the relative financial impact of treatment plant expansion alternatives on the City's rate and fee structure. We also updated the City's revenue program to comply with current State Water Resources Quality Control Board regulatory requirements. Most recently, we completed an update of the City's wastewater connection charge to include substantial costs for permit upgrades. Working with the development community and industry via meetings and public presentations, we gained support for the revised connection charge.

BWA continues to provide financial advice to the City on an on-going basis on matters relating to the water and wastewater utilities.

Contact: David Tompkins, Assistant Director of Public Works..... 707.449.5363
E-mail..... dtompkins@ci.vacaville.ca
Vanessa Andrews, Public Works Management Assistant... 707.449.6273
E-mail..... vandrews@ci.vacaille.ca

SCOPE OF WORK

Bartle Wells Associates' approach will focus on providing the City of Albany with an understandable and practical financing strategy and with rate recommendations that ensure the financial health of the wastewater system. BWA will:

- Conduct a comprehensive review of the City's wastewater finances, including the current rate structure, system replacement program, reserves, and connection charges.
- Receive input from City staff and engineers regarding financing policies and preferred options for review.
- Develop an accurate cash flow analysis that allows us to model the impact of different rate adjustments over the next five to ten years.
- Build clear and straightforward rate recommendations that allow the City to meet both its operating and capital revenue requirements in a fair and equitable manner.
- Prepare a comprehensive final report that presents our analysis to the City and the public-at-large.
- Present our analysis and findings as requested to the City Council, interested parties, and the public-at-large as necessary.

Bartle Wells Associates will perform the following services in connection with the preparation of a long-term financing plan and analysis of wastewater rates, working at all times in close cooperation with City staff and its other consultants and advisors.

I. Project Orientation & Investigation/Data Collection

1. Project Team Orientation

To initiate our work, hold a meeting to accomplish the following:

- Identify members of the City staff and others who will participate in the consulting study
- Determine the roles and responsibilities of all study participants
- Establish project schedule and key milestone dates
- Confirm the objectives and expectations of the project team
- Identify key issues that may impact the results of our work

2. Investigation and Data Collection

Assemble the information necessary to understand and describe the current financial condition of the City, its customer base, near-term and long-term revenue requirements, external financial relationships, and its ability to finance operating and capital programs. Assistance and cooperation of the City staff will be needed to assemble the background information which may include:

- Current and historical financial information
- Current and historical customer information

- Current and historical wastewater rates and connection fees
- Historical and projected growth in wastewater users
- Sewer System Master Plan {already have}
- Official or informal financial policies
- Description and assessment of wastewater assets and systems
- Other information relevant to the assignment

II. Long-Term Wastewater Financial Plan

1. Develop Forecasts & Projections

Based on the data assembled from the City and other sources, prepare forecasts and projections to serve as the basis of the long-term wastewater financial plan. Review projections with City staff for agreements on assumptions, interpretation of data, and completeness of approach. Projections will include:

- Operating and maintenance costs
- Projected costs of replacement programs
- Service charges, connection fees, interest earnings, and other revenues
- Growth rates and impacts of anticipated development
- Anticipated capital improvement project costs and timing
- Debt service and debt service coverage required

2. Evaluate Financing Alternatives for Capital Improvements and Replacements

Work with City to identify financing priorities and objectives. Identify and evaluate financing alternatives for funding wastewater capital improvement programs and replacement projects. Recommend the most appropriate and lowest-cost financing options, which typically includes funding a share of projects on a pay-as-you-go cash basis. If debt is required, discuss options with City and develop debt service projections to incorporate in the cash flows. We will review and describe financing options available to the City. We will receive direction on preferred options and areas for further review.

3. Recommend Minimum Fund Reserve Targets

Recommend prudent minimum fund reserve targets. Recommend an operating reserve target based on needs created by the vehicle used for collecting sewer service charges. Evaluate replacement funds and recommend an appropriate funding level for each fund. Develop a plan to meet the recommended replacement targets within a reasonable and achievable period of time, and maintain prudent reserves over the long-run.

4. Develop Ten-Year Cash Flow Projections

Prepare cash flow projections showing the financial position of operating and capital revenues and expenses over the next ten years. Estimate future revenues, expenses, fund balances, and debt service coverage. Key policy and financial assumptions will be clearly identified.

Use the financial model to evaluate various financing and rate alternatives and to develop a recommended financing strategy. The financial projections can also be used to evaluate the impact of different assumptions (e.g. capital costs, annual

replacement levels, operating cost inflation, etc.) on the long-term financial condition of the sewer system. This enables the City to evaluate the financial impact of “what if” scenarios and tailor any recommendations based on the information provided.

5. Determine Annual Revenue Requirements

Based on the cash flow projections, determine annual revenue requirements that will provide for:

- Operating and maintenance expenses
- Projected debt service and coverage
- Capital improvements including repairs and replacements
- Maintaining a prudent minimum level of fund reserves

6. Develop Preliminary Rate Recommendations

Based on the annual revenue requirements developed above and the evaluation of rate alternatives and cost allocations, develop preliminary sewer service charge recommendations. The recommendations will be based on a cost of service methodology. Required rate adjustments will be phased in over time to the extent possible to minimize the potential for larger rate spikes.

7. Calculate Rate Impacts

Calculate the impacts of potential sewer rate adjustments on average sewer customers. This will include calculation of future monthly or bi-monthly bills under the various rate alternatives. Develop tables and/or charts to clearly summarize the impacts of rate recommendations and alternatives.

8. Meet with City to Review Preliminary Projections and Financing Plan

Meet with City staff to review findings, recommendations, and financial projections. Discuss key alternatives for consideration. Receive input for refinement of the financial plan. Receive input for development of the preliminary service charge recommendations.

9. Develop Report

Prepare and submit a draft report for City review. The report will present a clear and concise explanation of key findings and recommendations. Key elements of the report include the following:

- Detail goals and objectives of the study
- Summarize the current financial condition of the sewer system of the City
- Summarize background information on sewer rates and wastewater customers
- Recommend minimum fund reserve targets.
- Describe the recommended financing plan for capital improvements
- Detail assumptions used in developing long-term wastewater cash flow projections
- Present long-range cash flow projections detailing revenues, expenditures, and fund balances over the next ten years
- Recommend new service charge rates and discuss key alternatives evaluated
- Summarize the impacts of the rate recommendations on various customer classes

After City review, incorporate comments and suggestions and prepare final report.

10. Proposition 218 Rate Notices

Remain available to assist the City with drafting of Proposition 218 notices. Follow the procedural requirements of Prop. 218, which include: 1) a notice of proposed rate increases must be mailed to all property owners, 2) a public hearing must be held at least 45 days after the notices are mailed, and 3) the proposed increases are subject to majority protest, if more than 50% of all property owners submit formal protests, the proposed rates cannot go into effect. Prop. 218 does not require a vote for increasing rates as long as rate adjustments are reasonably based on cost of service.

AVAILABILITY AND FEE

1. BWA is prepared to begin work upon authorization to proceed.
2. All work will be performed by Bartle Wells Associates. Tom Gaffney will be project manager and will devote the time and effort to the consulting project as needed.
3. The total fee for professional services to prepare the financing plan, rate study, and connection fee study is \$24,500, including direct expenses.
4. Progress payments are payable on a time and materials basis as the work proceed as provided in our Billing Rate Schedule 2008.
5. If the project is terminated for any reason, BWA is to be reimbursed for professional services and direct expenses incurred up to the time BWA receives notification of such termination.

BARTLE WELLS ASSOCIATES BILLING RATE SCHEDULE 2009

Rates Effective 1/1/2009

Professional Services

Financial Analyst I.....	\$95 per hour
Financial Analyst II.....	\$125 per hour
Senior Financial Analyst.....	\$165 per hour
Senior Consultant	\$195 per hour
Principal Consultant.....	\$225 per hour

The professional time rates include all overhead and indirect costs. Bartle Wells Associates does not charge for secretarial support services and internal computer time. Expert witness, legal testimony or other special limited assignment will be billed at one and one-half times the consultant's hourly rate.

The above rates will be in effect through December 31, 2009 at which time they will be subject to change.

Direct Expenses

Subconsultants will be billed at cost plus ten percent. Word processing and computer-assisted services related to official statement production are charged as direct expenses at \$60 per hour. Other reimbursable direct expenses incurred on behalf of the agency will be billed at cost plus ten percent. These reimbursable costs include, but are not limited to:

- Travel, meals, lodging
- Long distance telephone and fax
- Printing and report binding
- Special statistical analysis
- Outside computer services
- Bond ratings
- Automobile mileage
- Messenger services and mailing costs
- Photocopying
- Graphic design and photography
- Special legal services
- Legal advertisements

Insurance

Bartle Wells Associates maintains insurance in the amounts and coverage as provided in the attached schedule of insurance. Additional or special insurance, licensing, or permit requirements beyond what is shown on the schedule of insurance are billed in addition to the contract amount.

Payment

Fees will be billed monthly for the preceding month, and will be payable within 30 days of the date of the invoice. A late charge of 1.0 percent per month may be applied to balances unpaid after 60 days.