

AMENDMENT NO. 3

CITY OF CHICO - PROFESSIONAL SERVICES AGREEMENT

AGREEMENT DATED JUNE 18 2021

BETWEEN CITY OF CHICO

AND

NBS  
Consultant

SEWER RATE STUDY  
Project Title

<sup>850</sup>  
~~851~~-000-8801/50367-<sup>850</sup>~~851~~-4120  
Budget Account No.

**THIS PROFESSIONAL SERVICES AGREEMENT AMENDMENT** (Amendment) is entered into on February 15, 2023, between the City of Chico, a municipal corporation under the laws of the State of California (City), and NBS, (Consultant). On June 18, 2021, City and Consultant entered into City of Chico - Professional Services Agreement" (Agreement). On November 12, 2021, City and Consultant entered into Amendment No. 1 to the Agreement. On July 13, 2022, City and Consultant entered into Amendment No. 2 to the Agreement. The provisions of the Agreement are hereby amended as follows:

1. Exhibit A is hereby superseded and replaced by revised Pages A1-R3 and A2-R3 attached hereto.
2. Exhibit B is hereby superseded and replaced by revised Pages B1-R3 through B7-R3 attached hereto.
3. Exhibit C is hereby superseded and replaced by revised Pages C1-R and C2-R3 attached hereto.
4. All other provisions of the Agreement shall remain in full force and effect.

CITY:

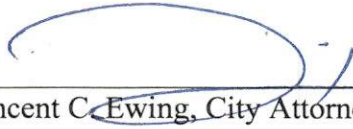
CONSULTANT:

  
\_\_\_\_\_  
Mark Sorensen, City Manager\* 02-09-2023

  
\_\_\_\_\_  
By: Michael Rentner, President & CEO

\*Authorized pursuant to Section 3.08.060 of the Chico Municipal Code

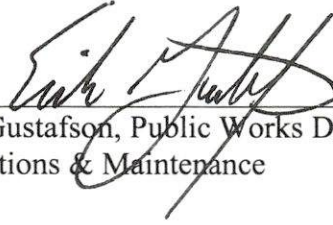
APPROVED AS TO FORM:



Vincent C. Ewing, City Attorney\*

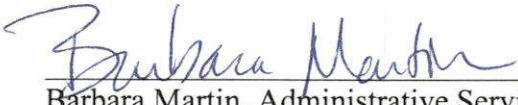
\*Pursuant to The Charter of the  
City of Chico, Section 906(D)

APPROVED AS TO CONTENT:



Erik Gustafson, Public Works Director  
Operations & Maintenance

REVIEWED AS TO CONTENT:



Barbara Martin, Administrative Services Director\*

\*Reviewed by Finance and Information Systems

**AMENDMENT NO. 3**

**CITY OF CHICO - PROFESSIONAL SERVICES AGREEMENT**

NBS

Architect/Consultant/Engineer

SEWER RATE STUDY

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850-000-8801/50367-850-4120

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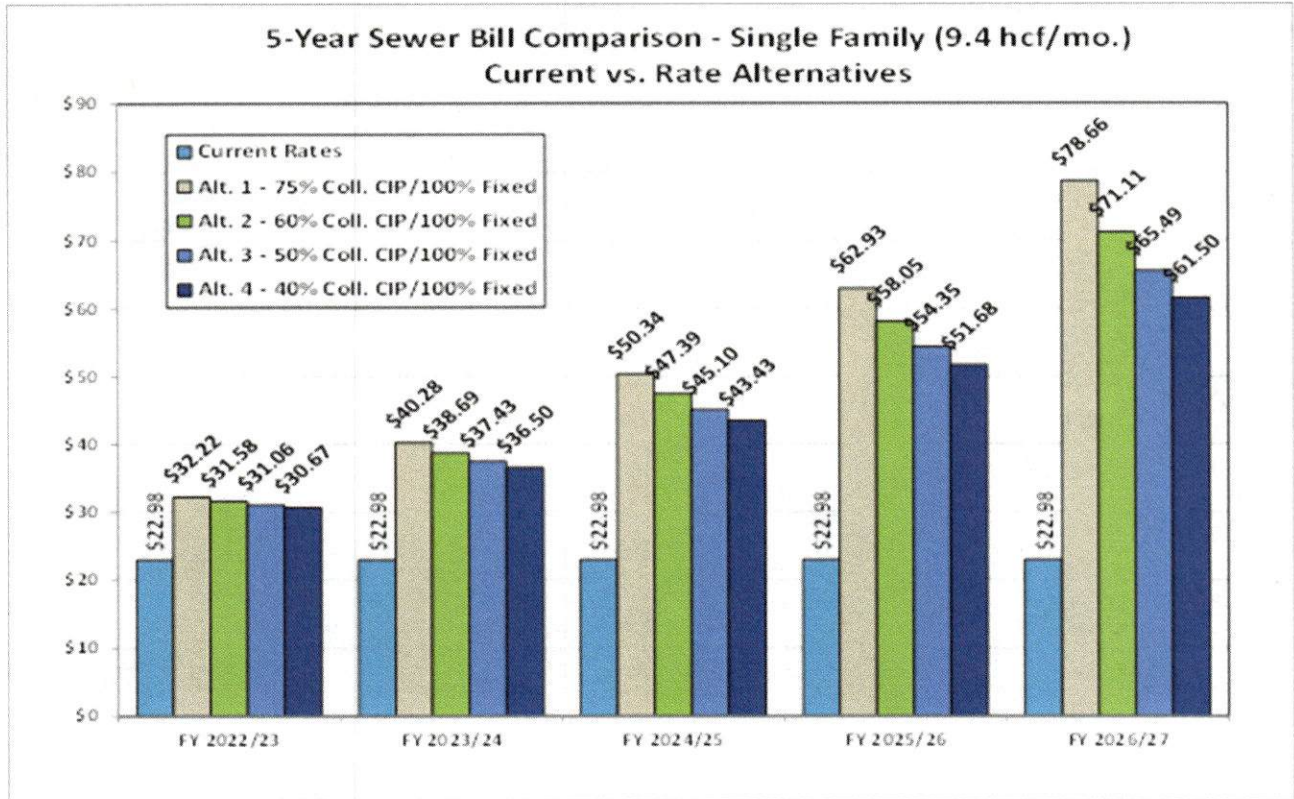
AMENDED  
EXHIBIT A

**Amendment No. 2 (in bold below):**

The Consultant shall provide a comprehensive review of the sewer rate. This review shall include customer classes, sewer rate design and shall meet Proposition 218 requirements. This review shall develop final recommendations to City staff that shall be presented to City Council, and clearly communicate the results to the City's customers through a public hearing process.

**The Committee has recommended Alternative #3 which is: 50% of collection CIP, variable rate based on water consumption, with gradual rate increases each year over the next five years, as depicted on page A2-R2 as "Alt. #3".**

**Additional consultant review includes both residential and commercial connections and examples for the City Council's review. Consultant shall include fees based on City providing the billing service, and fees based on City not providing the billing service. Consultant shall develop the final recommendations and assist with presentations to the City Council. Consultant shall also guide the City through the 218 process and assist with updated sewer rate implementation.**



**Amendment No. 3 (in bold below):**

**Additional Assistance with Implementing New Sewer Rates:**

The City has adopted new sewer rates, which CalWater will incorporate into their current billing procedures on behalf of the City. Then in June of 2023, those billing duties will be performed by the City's new billing consultant. Additional consulting services include providing advice and review related to the City's implementation of new sewer rates as requested by the City. The project budget is intended to be used as needed on a time-and-materials basis with a not-to-exceed maximum.

**Additional Assistance with WWTP Charges (City of Paradise):**

The City has adopted new sewer rates, which provide the cost-of-service basis for determining the charges the City should assign to Paradise for the use of the City's Wastewater Treatment Plant (WWTP). The City is currently working cooperatively with Paradise to develop a mutual agreement on the charges assigned to Paradise for WWTP service. Additional consulting services provided by NBS include providing advice to the City in determining these WWTP-related charges. The project budget is intended to be used as needed on a time-and-materials basis with a not-to-exceed maximum.

**AMENDMENT NO. 3**

**CITY OF CHICO - PROFESSIONAL SERVICES AGREEMENT**

NBS

Architect/Consultant/Engineer

SEWER RATE STUDY

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Budget Account Number

AMENDED  
EXHIBIT B

**Amendment No. 2 Services (in Bold):**

Scope of Professional Services - Basic

The Consultant shall provide professional services as follows:

TASK 1 – KICK-OFF MEETING AND DATA COLLECTION

Consultant shall provide the City with a data request and hold a kickoff meeting (by videoconference or phone) to review and discuss the data requirements for the study, scope of work, study timeline and ensure there is a clear understanding of how the study objective shall be met. The data required to conduct the study shall include information such as:

- Financial data typically reported in financial statements.
- Operating and maintenance budget including sewer collection, treatment, disposal, capital and replacement, and overhead and administrative costs.
- Similar budget information for stormwater and street sweeping programs.
- Total annual rate revenue for residential and commercial sewer customers for the past two years.
- Customer billing information such as number of accounts by customer class and monthly water consumption from Cal-Water records.
- Wastewater treatment plant records of total annual flow, and pounds of BOD and TSS.
- Projected annual expenditures for capital improvement costs based on the City's Master Plan.
- Current cash balances in sewer reserve funds.

## TASK 2 – FINANCIAL PLAN

Consultant shall prepare a financial plan that summarizes revenues, expenditures, reserves, and shall identify the net revenue requirements – that is, the revenue that must be collected from customer charges.

*Task 2 Deliverables shall include for each utility:*

- *A 10-year financial projection model that shall serve as a financial “roadmap”.*
- *Summary of current and projected net revenue requirements.*
- *Updated reserve fund policies and targets potentially including reserves for operations, rate stabilization, repair and replacement, debt service, and capital projects.*
- *Projected year-end reserve fund levels.*
- *Calculated debt service coverage ratios.*

This financial plan shall lay the groundwork for the cost-of-service and rate design analyses addressed in Tasks 3 and 4. The following subtasks shall be anticipated:

Task 2.1 Projected Revenues and Expenditures – Consultant shall prepare a 10-year rate model that projects revenues, expenses, and increases in rate revenue needed to meet all obligations. The analysis shall use a cash-basis approach when addressing the City’s system of accounts. The City’s projected customer growth rates and planned cost inflation factors shall be incorporated into the analysis.

Task 2.2 Evaluate Reserve Fund Sufficiency – Consultant shall evaluate the sufficiency of existing reserve funds, target reserves, reserve fund policies, and related issues, such as meeting debt service coverage ratios and other rate covenants. Consultant shall recommend reserve fund targets that are tailored to the City’s specific needs.

Task 2.3 Review Capital Improvement Program Funding – Consultant shall incorporate the City’s plans for new facilities, infrastructure improvements, and asset replacement into the financial plan with the intent of developing an appropriate balance between rate revenue, reserves and, if necessary, outside financing. Consultant shall develop up to three scenarios to fund the capital improvement program for modeling and comparison purposes.

## TASK 3 – COST OF SERVICE ANALYSIS

Using the net revenue requirements developed in Task 2, Consultant shall equitably allocate costs to each customer class based on cost-of-service principles that comply with Prop 218. Consultant shall also review the City’s existing customer classifications (residential, breweries, restaurants, markets/bakeries, car washes and all other) and analyze the historical usage characteristics to determine if any changes should be made to improve equity among user classes or comply with industry standards. Consultant shall also make recommendations for new customer classifications based on analysis.

Consultant shall evaluate how costs should be allocated to various cost components and types of customers based on the following subtasks.

**Task 3.1 Sewer Cost of Service Analysis** – Consultant shall rely on the City’s sewer budget to classify all expenses into their various cost components, such as flow (volume), strength (BOD and TSS), and customer related costs. Consultant shall allocate costs to each customer class based on allocation factors: water consumption, wastewater treatment plant flow and loading data, and industry standard customer classification data. The cost allocation factors developed shall include:

- Volume Allocation Factor – Develop estimates of the total annual volume of wastewater treated for each customer class.
- Strength Allocation Factors – Develop estimates of the annual pounds of BOD and TSS treated for each customer class.
- Customer Allocation Factors – Calculate the number of customers by customer class in the City’s service area.

Consultant shall then apportion the costs to individual customer classes based on the allocation factors specific to each cost classification, producing fixed and variable revenue requirements for each customer class. These allocations shall be used in the actual rate calculations for each customer class in Task 4.

**Task 3.2 Street Sweeping Costs** – For this study, Consultant shall assume street sweeping costs shall be included in sewer rates but shall rely on the City to provide support cost of service for this action.

#### **TASK 4 – RATE DESIGN ANALYSIS**

Consultant shall work with City staff to review the current sewer rate structure and develop alternative that meet the City’s broader rate design objectives. The following subtasks shall be anticipated:

**Task 4.1 Develop Rate Design Recommendations** – Updated utility rates shall be developed based on the cost-of-service analyses, and Consultant shall include a discussion of the relative merits (pros and cons) of the current rate structures and alternatives developed. Rate design alternatives shall all generate the same amount of revenue. Therefore, it shall be important to highlight the customer bill impacts resulting from the rate alternatives, along with the pros and cons of each option. Consultant shall focus on ensuring the proposed rates provide adequate revenues to support utility operations, maintenance and capital improvement needs, should the City choose to maintain the existing rate structure.

**Task 4.2 Review Criteria for Improving the Rate Design** – Primary considerations in the rate design shall include revenue sufficiency, and financial resiliency. Consultant’s

approach shall be to avoid the risk of under-collection of rate revenue, which is the worst-case scenario from a financial perspective. Other criteria for evaluating rate structures shall include:

- Ease of understanding the rate structure by customers.
- Revenue stability – how costs are allocated to fixed and volumetric rates affect.
- Drought and conservation impacts – how annual changes over the last several years may affect rates going forward.
- Customer bill impacts – fixed and variable charges significantly impact individual customer bills.
- Consumption related impacts – customer bills change based on whether they have low-, average-, or high-consumption levels.

Task 4.3 Calculate Fixed and Volumetric Charges – In strict cost-of-service analysis, fixed charges would cover 100-percent of the variable costs. Water or sewer utilities that collect an excessive amount of their rate revenue through volumetric rates risk revenue instability (e.g., when consumption drops), although this can be offset by using a rate stabilization reserve.

Finding the right combination of fixed and variable charges should consider these concerns along with the ease of understanding and ease of administration. Consultant shall work with City staff to develop an appropriate balance between fixed and variable charges in the new sewer rates.

Task 4.4 Comparison of Customer Bills – In order to fairly compare rate alternatives, Consultant shall prepare rate tables and bill comparisons for each customer class that illustrate how customer bills are affected. Tables and charts shall be used in the report and in public workshops.

## TASK 5 – PREPARE RATE MODELS

Consultant shall prepare an Excel-based sewer rate model and shall share draft components of the rate models throughout the study, such as the financial plans and reserve fund balances, the cost-of-service worksheets, and the rate design calculations. Also, Consultant shall not use a “proprietary” or “black-box” rate model that is difficult for non-consultants to understand. Consultant shall focus on transparency and simplicity so City staff can follow, step-by-step, the process of taking input data and resulting in proposed rates.

## TASK 6 – PREPARE WRITTEN STUDY REPORT

Consultant shall prepare a study report and work with City staff to review a draft report prior to public release. The emphasis shall be on clear and concise reports with an executive summary of no more than two pages. Key assumptions, methodologies, and factors affecting the development of proposed rates shall be highlighted with charts and graphs where helpful. The more technical



aspects of the study, particularly the multiple tables documenting the calculations and sources of data, shall be separately provided in a technical appendix.

#### TASK 7 – MEETINGS AND PRESENTATIONS

Consultant shall talk with City staff on a regular basis regarding data collection, analysis, initial results, and to answer questions staff may have. Consultant shall plan to attend in-person two to three public meetings/presentations as requested.

#### TASK 8 – PROP 218 ASSISTANCE

Consultant shall work with City staff to help answer Prop 218-related questions and guide the City through the adoption process, including providing the proposed Prop 218 rate tables and reviewing the City's overall language included in the Prop 218 notice. The City should also have legal counsel review the notices for compliance with the legal provisions of Prop 218, wording related to pass-throughs, etc. Consultant shall assume the City shall be responsible for mailing the Prop 218 notices and conducting the public hearings, although Consultant shall assist City staff by answering questions about the study results and attend public meetings (Task 7).

#### TASK 9 - RATE ANALYSIS AND RATE MODEL PREPARATION

**Consultant shall provide up to 26 hours of assistance with rate analysis and rate model preparation (Excel-based sewer rate model based on Finance Committee's recommendations). Consultant shall provide rate models based on City providing billing services internally, and rate models with the City outsourcing billing services. Additional rate options analysis may be prepared in a consistent manner no exceeding the 26 hours of assistance. Also, Consultant shall not use a "proprietary" or "black-box" rate model that is difficult for non-consultants to understand. Consultant shall focus on transparency and simplicity so City staff can follow, step-by-step, the process of taking input data and resulting in proposed rates.**

#### TASK 10 - MEETINGS AND PRESENTATIONS

**Consultant shall talk with City staff on a regular basis regarding data collection, analysis, initial results, and to answer questions staff may have. Consultant shall plan to attend in-person two to three public meetings/presentations as requested. Total assistance will not exceed 20 hours.**

#### TASK 11 – REVISE RATE STUDY REPORT AND DOCUMENTATION

**Based on the City's final recommendations, Consultant revise and update the rate study report and related documentation. Total assistance will not exceed 8 hours.**

## **TASK 12 – PROP 218 ASSISTANCE**

Consultant shall work with City staff to help answer Prop 218-related questions and guide the City through the adoption process, including providing the proposed Prop 218 rate tables and reviewing the City's overall language included in the Prop 218 notice. The City will provide legal counsel review of the notices for compliance with the legal provisions of Prop 218, wording related to pass-throughs, etc. Consultant shall assume the City shall be responsible for mailing the Prop 218 notices and conducting the public hearings, although Consultant shall assist City staff by answering questions about the study results. **Total assistance will not exceed 8 hours.** Consultant attendance of public meetings related to the Prop 218 hearings will not exceed the two to three public meetings/presentations covered in Task 10.

### **Services to be Provided by City**

City shall furnish Consultant with the necessary and available information as requested.

### **Completion Schedule**

The Consultant shall complete all services outlined herein by July 31, 2022 ~~January 31, 2022.~~

Proposition 218 process guidance shall be on-going.

### **Amendment No. 3 Services (in bold below):**

## **ADDITIONAL ASSISTANCE WITH IMPLEMENTING NEW SEWER RATES**

### **TASK 13 – Implementation Assistance Provided to CalWater**

Consultant shall provide assistance to CalWater staff to help them modify their existing sewer billing procedures to implement the new sewer rates. NBS' assistance will be limited to explaining how the rate structure should be applied to various customer classes and how billing calculations should be performed. NBS will not be providing any assistance related to software modifications or uploading any data files.

### **TASK 14 – Implementation Assistance Provided to the City's Billing Consultant**

Consultant shall provide assistance to the City to help their new billing consultant to help them set up their billing system to implement the new sewer rates. NBS' assistance will be limited to explaining how the rate structure should be applied to various customer classes

and how billing calculations should be performed. NBS will not be providing any assistance related to software modifications or uploading any data files.

**ADDITIONAL ASSISTANCE WITH WWTP CHARGES (CITY OF PARADISE)**

**TASK 15 – Review and Cost Basis of WWTP Charges**

Consultant shall assist the City by reviewing and evaluating the charges the City should assign to Paradise for use of the City’s WWTP once Paradise connects to the WWTP. NBS will work with City staff, Paradise staff, and Paradise’s engineering consultant (HDR Engineering) in determining these charges. The City will be responsible for all final decisions related to these charges.

The cost basis will be the flow- and strength-related costs, plus applicable administrative costs, based on the recently completed sewer rate study and the sewer rates adopted by the City in January 2023. The City will be responsible for providing all assumptions and data (e.g., WWTP flow and loadings data) used in this analysis.

**TASK 16 – Prepare Technical Memo (TM)**

Consultant shall assist the City by preparing a technical memorandum summarizing the analysis of WWTP-related costs assigned to Paradise. NBS will provide one draft TM and, after receiving the City’s comments, one final TM.

**TASK 17 – Attend Meetings**

Consultant shall attend meetings as requested by the City, limited to six (6) remote meetings of no more than 2 hours each.

**Completion Schedule**

NBS shall complete all services listed in Tasks 13 – 17 above by July 28, 2023.

**AMENDMENT NO. 3**  
**CITY OF CHICO - PROFESSIONAL SERVICES AGREEMENT**

NBS  
 Architect/Consultant/Engineer

SEWER RATE STUDY  
 Project Title

850-000-8801/50367-850-4120  
 Budget Account Number

AMENDED  
 EXHIBIT C

COMPENSATION

**Amendment No. 2 (in bold):**

Compensation for the services shall be in accordance with the following schedule of hourly rates listed below. Total maximum compensation for the services outlined herein shall not exceed ~~\$39,950.00~~ ~~\$52,000.00~~ **\$77,450.00**. Compensation shall be based upon actual invoices received and shall be paid in accordance with each task as follows:

Description	Project Manager \$250/hr.	Senior Review \$250/hr	Consultants \$170/hr.	Total Hours	Cost
Task 1- Kickoff Meeting & Data Collection	4.0	-	12.0	16.0	\$3,040.00
Task 2 - Financial Plan	6.0	2.0	20.0	28.0	\$5,400.00
Task 3 - Cost of Service Analysis	12.0	4.0	24.0	40.0	\$8,080.00
-Including Street Sweeping Costs	6.0	2.0	12.0	20.0	\$4,040.00
Task 4 - Rate Design Analysis	16.0	4.0	24.0	44.0	\$9,080.00
Task 5 - Prepare Rate Model	2.0	-	6.0	8.0	\$1,520.00
Task 6 - Prepare Written Study Report	10.0	-	8.0	18.0	\$3,860.00
Task 7 - Meetings & Presentations	10.0	-	2.0	12.0	\$2,840.00
Task 8 - Prop 218 Assistance	6.0	-	2.0	8.0	\$1,840.00
Travel Expenses					\$250.00
<b>Original Total</b>	<b>72.0</b>	<b>12.0</b>	<b>110.0</b>	<b>194.0</b>	<b>\$39,950.00</b>
Amendment No. 1					12,000.00
<b>Amended Total (Amendment No. 1)</b>					<b>\$51,950.00</b>
<b>Amendment No. 2</b>	<b>102.0</b>				<b>25,500.00</b>
<b>Amended Total (Amendment No. 2)</b>					<b>77,450.00</b>

**Amendment No. 3 (in bold below):**

Compensation for the services shall be in accordance with the following schedule of hourly rates listed below. Total maximum compensation for the services outlined herein shall not exceed ~~\$39,950.00~~ ~~\$52,000.00~~ ~~\$77,450.00~~ **\$123,050.00**. Compensation shall be based upon actual invoices received and shall be paid in accordance with each task as follows:

Description	Project Manager \$260/hr	Senior Consult \$200/hr	Consultants \$170/hr	Total Hours	Cost
Original Agreement Total					\$39,950.00
Amended Total (Amendment No. 1)					\$51,950.00
Amended Total (Amendment No. 2)					77,450.00
<b>Amendment 3 (New Sewer Rates)</b>					
<b>Task 13 – CalWater Assistance</b>	<b>50</b>	<b>15</b>		<b>65</b>	<b>\$16,000.00</b>
<b>Task 14 – City’s Consultant Assist.</b>	<b>30</b>	<b>15</b>		<b>45</b>	<b>\$10,800.00</b>
<i>New Sewer Rates Subtotal</i>					<b>\$26,800.00</b>
<b>Amend 3 (Paradise WWTP Charges)</b>					
<b>Task 15 – Basis of WWTP Charges</b>	<b>40</b>	<b>4</b>		<b>44</b>	<b>\$11,200.00</b>
<b>Task 16 – Prepare Technical Memo</b>	<b>16</b>	<b>2</b>		<b>18</b>	<b>\$4,560.00</b>
<b>Task 17 – Attend Meetings</b>	<b>12</b>			<b>12</b>	<b>\$3,120.00</b>
<i>Paradise WWTP Charges Subtotal</i>					<b>\$18,800.00</b>
<b>Amendment 3 Total</b>					<b>\$45,600.00</b>
<b>AMENDED AGREEMENT TOTAL</b>					<b>123,050.00</b>