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June 19, 2008

Ms. Beverly James
Novato Sanitary District
500 Davidson Street
Novato, CA 94945

RE: Cost Estimate Validation of Assessment Report for New Facility Start-up

Dear Beverly:

This letter is the result of our engagement with the Novato Sanitary District (District) to evaluate some of the costs contained in the report published in February 2009 by the Eisenhardt Group. This report evaluated alternatives to operating your new wastewater treatment facility currently under construction.

Background:

To provide some background, a report was produced by the Eisenhardt Group in February 2009 evaluating alternative methods, schemes or organizational alternatives to operate the new 7 MGD wastewater treatment facility which is currently under construction for the District. The report detailed costs for three alternatives.

Alternative 1. The District staff operating and maintaining the new facility on their own with staffing additions to complement their numbers and skills.

Alternative 2. The staff from the District with augmentation from consultants to make sure the District had the skills and capabilities necessary to operate this new and more sophisticated facility.

Alternative 3. To outsource the operations and maintenance to a contract operator.

Alternative 1 (the existing staff at the District performing the operations and maintenance of the new facility) was discarded by Eisenhardt and the District as impractical. So it boiled down to the costs between complimenting staff from the District and contract operations. At several public meetings, questions were raised relative to the costs associated with Alternative 2. The Board of the District wanted some reassurance that the estimates for Alternative 2 are correct or reasonable.

The Task:

EMA was asked to evaluate the task estimates, hourly rates and costs for Alternative 2. Specifically, are the tasks and hours reasonable for a facility of this size? The second question we were asked to evaluate was, are the rates for the consultant experts reasonable in light of the public wastewater utility industry at large?

Reasonable task hours x reasonable hourly rates = reasonable costs

Who did the work?

The work was carried out by EMA, Inc. EMA is a consulting firm that was formed in 1975 and now currently employs 160 people. The company focuses on helping the public water and wastewater industry and the public utility industry. The company evaluates and helps in the areas of organizational development, work practices development and technology implementation. EMA has evaluated and assessed the operations of over 200 public utilities in North America and is very familiar with work involved in successfully starting up new treatment plants, staffing those treatment plants, and calculating costs associated with wastewater treatment plants.

The lead evaluator was Alan W. Manning. Alan is Chairman of the Board of EMA and one of the founders of the company. He has been involved with public water and wastewater utilities since 1967. Alan is very familiar with the work necessary to have a successful startup and is very familiar with the rates and costs associated with consultants.

Tim Payne, Executive Vice President of EMA's West Region, assisted in reviewing the Eisenhardt Report. Tim was the Project Director for Seattle Public Utilities Tolt Water Treatment Facility Design-Build-Operate project. Tim led the group of private companies that carried out the design, construction and eventual operation of Seattle Public Utilities' 120 MGD water treatment facility. He has also worked for private utility operating companies, like Philip Utilities Management, Azurix and American Water. Tim is very familiar with the tasks necessary to successfully implement startups. He is also quite familiar with labor rates for consultant experts in the areas of operations, maintenance, and finance.

What are the findings?

The findings of the work done by Mr. Manning and Mr. Payne in evaluating the report published by the Eisenhardt Group in Feb. 2009 focused on three things.

1. Is the approach and the scope reasonable in keeping with industry standards?
2. Are the consulting rates for the outside experts reasonable?
3. Is the cost estimate reasonable?

We find that the approach, scope and tasks proposed by the Eisenhardt Group are similar to the approach, scope and tasks that EMA would recommend to successfully implement, operate and maintain a new treatment facility. We provide all the consulting services discussed by the report and have executed these services at varying sized water and wastewater utilities. It is our opinion that if you want to assure success, then this approach, scope and group of tasks would be the way to do it. The three most critical areas are: the system needs, standard operating procedures, and preventive maintenance program. These are right in line with what should be provided. The training dimension was well identified, including key performance indicators which are a vital factor in training, so people

know where they are aiming. The startup and transition tasks, in terms of planning and budgeting were well defined.

The second part of our assignment was to evaluate consulting rates. The consulting rates proposed varied from \$170 per hour for business analyst, \$180 per hour for an operations and maintenance specialist, and \$210 per hour for a program manager. These rates are commensurate with a senior level experienced professional in California. This is based on our own staff and experience. Based on EMA rates that we charge to clients and based on comparable rates that we have seen from our competitors, like CH2M Hill, Black and Veatch, Malcolm Pirnie and Camp Dresser and McKee, we find these rates are in line with what a water/wastewater utility client should expect to pay for a seasoned, experienced person with knowledge and industry capability in California. For these rates, you would expect working operational knowledge of a sanitary district. You would expect a senior level person with 15 years or more of experience. You would also expect that they would have direct experience with wastewater treatment practices.

Finally, we find the costs to be reasonable.

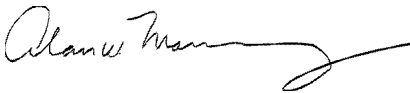
Reasonable tasks hours x reasonable rates = reasonable costs.

Summary:

Our evaluation finds that the work called out and the hours estimated for each of the tasks and the rates used to estimate the costs are reasonable for what you would expect in a successful startup of a new treatment facility in California.

If you require any further analysis or detail, please do not hesitate to contact us. It was a pleasure working with the Novato Sanitary District, and we look forward to having another opportunity in the future.

Sincerely,



Alan W. Manning, P.E.
Chairman of the Board



Timothy S. Payne, J.D.
Executive Vice President