



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: November 21, 2022

Approved

Date

11/29/22

SUBJECT: SECOND AMENDMENT TO THE MASTER CONSULTANT AGREEMENT WITH STANTEC CONSULTING SERVICES INC. FOR PROGRAM MANAGEMENT SERVICES FOR THE SAN JOSE-SANTA CLARA REGIONAL WASTEWATER FACILITY CAPITAL IMPROVEMENT PROGRAM

RECOMMENDATION

- (a) Approve the second amendment to the Master Consultant Agreement with Stantec Consulting Services Inc. for program management services for the San José-Santa Clara Regional Wastewater Facility Capital Improvement Program, increasing the not-to-exceed agreement amount from \$78,000,000 to a revised not-to-exceed agreement amount of \$92,000,000; and extending the term of the agreement from June 30, 2023 to June 30, 2026.
- (b) Adopt a resolution authorizing the City Manager to exercise the City's option to extend the agreement for up to two additional one-year terms, with compensation for each additional one-year term not to exceed \$4,000,000, depending on program needs and subject to the appropriation of funds.

OUTCOME

City Council approval of the second amendment to the Master Consultant Agreement with Stantec Consulting Services Inc. will provide for continuation of consultant program management services and expertise necessary to deliver the capital improvement program (CIP) at the San José-Santa Clara Regional Wastewater Facility (RWF).

BACKGROUND

The San José and Santa Clara City Councils adopted the Plant Master Plan in November 2013 and December 2013, respectively. The Plant Master Plan identified more than 100 capital improvement projects totaling over \$2.1 billion to rehabilitate and modernize the RWF over a 30-year period. A validation process was completed in early 2014 to update and prioritize the recommended Plant Master Plan projects and additional gap projects into 33 projects to be initiated over 10 years.

On September 24, 2013, City Council approved a Master Consultant Agreement with MWH Americas, Inc. for program management consultant services in an amount not to exceed \$39,000,000, to provide program management services to support implementation of the RWF CIP. The original term of the agreement was through September 30, 2018, with two one-year options, subject to the appropriation of funds. In January 2017, MWH Americas, Inc. was merged with Stantec Consulting Services Inc. As such, MWH Americas, Inc. will be referred to as Stantec in this staff report.

Over the past nine years, Stantec staff have provided expertise to the CIP in several areas, including:

- Program management, administration, program startup and establishing the Program Management Office (PMO);
- Program schedule and budget controls, document controls, design and construction standards, quality assurance and quality control, and health and safety plans;
- Project management, project validation, planning, and knowledge transfer;
- Studies, assessments, modeling, technology evaluations, and subject matter experts.

During the first five years, the CIP focused on startup and establishing the PMO; the initiation of multiple projects and associated design consultant procurements; and the progression of these projects through design. During this period, Stantec provided experienced personnel to fill three package manager and five project manager positions, six program controls positions, as well as several subject matter experts used to perform technical reviews.

On October 17, 2017, the City Council approved the first amendment to the Master Consultant Agreement with Stantec. The amendment increased the not-to-exceed amount to \$78,000,000 and extended the agreement term to June 30, 2023 to align with the implementation of the 10-year capital program.

Following the amendment approval, the CIP focus shifted towards construction activities for several projects with Stantec leading a comprehensive organizational readiness assessment in 2019, which led to an expansion of the construction management team. At the same time, additional projects have been initiated in alignment with the overall program plan. Currently, the CIP has 24 active projects in various stages of delivery, valued at over \$1.1 billion.

From the beginning of the program, the Environmental Services Department has consciously implemented an integrated team approach consisting of experienced, co-located program management consultants in support of City staff. This is similar to what the City has done on other complex capital programs (e.g., Airport) and what other agencies have implemented for their wastewater facility programs. To date, with the support of Stantec and other key consultant staff, the CIP has successfully delivered more than two dozen capital projects at the RWF without any permit violations. CIP projects have also been delivered largely on-time and within budget despite a global pandemic with project delivery continuing without significant pause throughout the pandemic period.

When Stantec began its services in October 2013, the PMO was structured in the form of an integrated team with the long-term plan being for consultant positions to transition to City staff. To facilitate this transition and deliver the CIP, the Environmental Services Department added 24 engineering, program, and process engineering positions in 2015-16. As of June 2022, 18 of the 24 positions have been successfully filled. While staff has been able to recruit entry-to-mid level engineering positions, it has been difficult to attract high numbers of seasoned, experienced wastewater professionals. The City has had some success in developing City staff with a wastewater background to leadership roles as Principal Engineers (Package Managers) and as Deputy Director. However, the role of Senior Engineer, performing project management duties, has continued to be challenging to recruit, with the CIP having at least five vacancies in this role at any given time. This has required the continued use of highly experienced resources from Stantec to manage some of the larger and more complex CIP projects, particularly progressive design-build projects such as the Cogeneration Facility, Headworks, and Digested Sludge Dewatering Facility. Recruitment continues to be a priority for the program with the intent that as staff is recruited, they will replace consultants in these roles.

Despite this challenge, City staff has successfully transitioned several consultant-held positions, including three package managers, two project managers, and five program controls positions, reducing the consultant-filled positions from fourteen to four. Additionally, the CIP has been intentional about training staff on the program, and since May 2015, has implemented monthly project manager training to develop project management skills for all staff on the program.

The CIP is currently in the peak of construction. There are eight active construction projects; most of which will be reaching substantial completion in the next two to three years. To ensure minimal disruption to these projects, as well as some key Liquids Package projects in early design development, the wastewater and program expertise of Stantec continues to be needed.

ANALYSIS

Although there have been significant milestones achieved over the past nine years and the successful transition of multiple program roles to City staff, there is still the need for a small number of highly experienced and specialized consultant staff to provide support and technical expertise for the next few years to complete the critical rehabilitation projects in the CIP.

While a new procurement to obtain program management services was considered, onboarding a new consultant at this point in the CIP would require significant time and budget and could put project quality and schedules at risk. Due to the difficulty and high cost of transition, staff believe it is more cost effective and efficient to extend the current agreement.

Over the next three years, CIP staff anticipates needing the continued expertise of key program leadership roles, subject matter experts to provide technical expertise, and potentially project managers, if City Senior Engineer positions remain unfilled.

The proposed amendment to the Master Consultant Agreement will ensure the continuation of the core programmatic roles of Program Manager, Engineering Manager, and Health and Safety Manager. The Stantec staff currently in these positions have decades of relevant experience as well as having been on this program for many years. This staff is co-located with City staff and have an in-depth understanding of the technical challenges of delivering the CIP at an active wastewater facility. The current Program Manager has 30 years of program management experience, both domestic and international, and has been on the program since it started. The current Engineering Manager has more than 50 years of management and technical experience and has been on the program seven years. The current Health and Safety Manager has more than 20 years of construction experience and has been on the program five years. The City does not have staff available to take over these positions and staff does not believe that the CIP is in a position to attract candidates with the needed experience.

Staff also anticipates the need for two full-time project managers. One project manager is needed to complete construction on the Filter Rehabilitation and Nitrification Clarifier Rehabilitation – Phase 1 projects. A second project manager is needed to manage the Aeration Basin Modifications – Phase 1 and Facility-wide Water System Improvements projects. Collectively, these four projects have a total value of \$190 million. If the City is able to hire more Senior Engineers in the future, these roles will be transitioned to the City and the Stantec team will be reduced in size.

Additionally, given the size, complexity, and multi-faceted nature of the various projects and the CIP overall, staff anticipates needing the continued support of subject matter experts to provide specialized advice and expertise in specific areas of project/program delivery. Subject matter experts are typically engaged for discrete tasks and asked to perform specific analysis or reviews at different points in the project delivery cycle. These tasks or analyses are usually beyond the capabilities and expertise of City staff and include disciplines, such as but not limited to, structural, mechanical, and electrical engineering; instrumentation and controls; automation; alternative project delivery; value engineering; triple bottom line analysis; construction administration; cost estimating; scheduling; and constructability reviews.

Staff Recommendation

Staff recommends moving forward with an amendment that increases the not-to-exceed amount by \$14,000,000 for a total amended agreement amount of \$92,000,000 to ensure efficient and uninterrupted delivery of the CIP through June 2026. Staff also recommends two one-year

options, for up to an additional \$4,000,000 each, to provide flexibility if construction activities are extended. If both options are exercised, the maximum not-to-exceed amount would be \$100,000,000.

Under the amended agreement, Stantec would continue to provide key PMO staff, with a few as-needed support positions to see the CIP through the construction peak. The consultant would continue to provide project management services for crucial projects. Additionally, Stantec would continue to provide as-needed subject matter expert services for projects in design and construction.

All other terms and conditions of the Master Consultant Agreement would remain unchanged. Staff believes the established multiplier rates for Stantec are reasonable and in line with other consultant multiplier rates.

Benchmarking

At this time, almost every other large wastewater facility in the State has a significant capital improvement program. All of these programs also use program management firms to provide a variety of services. Staff looked at the cost of program management services (as a percentage of total program budget) across eight agencies to evaluate the program management costs proposed for the RWF CIP. Although the specific services vary slightly from program to program, the cost ranges for these program management services were found to be either in alignment or higher than the costs anticipated for the RWF CIP.

Staff recommendation will amend Stantec's agreement to \$92,000,000, representing 6.6% of the estimated \$1.4 billion CIP. This is comparable to Pure Water San Diego's \$1.2 billion program which has program management costs of roughly \$94 million (or 7.8% of its program budget). The cost of program management services as a percentage of program budget remains well below two other large water programs: Stormwater San Diego (\$750 million) and Willamette Water Supply Program (\$1.6 billion). Their PMO costs are roughly 10% of their program budgets.

CONCLUSION

This second amendment will increase the compensation for program management services by \$14,000,000 for a total agreement amount not to exceed \$92,000,000 to deliver the first phase of the RWF CIP. The amendment will extend the agreement term by three years to June 30, 2026.

EVALUATION AND FOLLOW-UP

No follow-up action with the City Council is expected at this time. A progress report on the RWF CIP will be made to the Transportation and Environment Committee and the City Council

on an annual basis. Quarterly progress reports of the RWF CIP will also be submitted to the Treatment Plant Advisory Committee and posted on the City's website.

CLIMATE SMART SAN JOSE

The recommendation in this memorandum has no effect on Climate Smart San José energy, water, or mobility goals.

POLICY ALTERNATIVES

Alternative #: Direct staff to perform the program management services utilizing in-house staff,

Pros: Potential cost savings by having City staff perform the work.

Cons: Current staff does not have the capacity or expertise to perform all of the required work. Current resources would be diverted to recruit for new senior-level positions. Certain program functions would not be performed, and projects would be delayed until the new positions could be filled, and new staff are brought up to speed.

Reason for not recommending: The potential cost savings by having staff perform the work instead of the current consultant would be offset by the cost of project delays. It has been difficult to attract seasoned wastewater professionals at the senior engineer level and above. In addition, some of the higher-level positions are anticipated to be term-limited, since they would only be needed for the peak construction period or for the remaining duration of the projects, which could make recruitment more difficult.

Alternative No.2: Direct staff to initiate a new procurement to obtain program management services.

Pros: Potential cost savings due to competition. Potential for a different consultant to provide different solutions and different expertise/experience.

Cons: Similar to the other alternative: certain program functions would not be performed, and consultant-managed projects would be delayed while staff advertised, negotiated, and awarded a new agreement. Starting out with a new consultant with so many projects underway will require significant effort for the consultants to get up to speed.

Reason for not recommending: The potential cost savings would likely be offset by the likely increase in construction costs for the delayed projects. Another important consideration is that there are a very limited number of wastewater consultants, many of whom are conflicted out because of the design and/or design build services they are currently providing. This would provide a limited competitive pool and may not result in lower costs with a different consultant.

PUBLIC OUTREACH

This memorandum will be posted on the Treatment Plant Advisory Committee website for the December 8, 2022 meeting and the City Council website for the December 13, 2022 meeting.

COORDINATION

This memorandum has been coordinated with the Finance Department, the City Manager's Budget Office, the City Attorney's Office, and the Planning, Building, and Code Enforcement Department.

COMMISSION RECOMMENDATION/INPUT

This item is scheduled to be heard at the December 8, 2022 Treatment Plant Advisory Committee meeting. A supplemental memorandum with the Committee's recommendation will be included in an amended December 13, 2022 City Council meeting agenda.

FISCAL/POLICY ALIGNMENT

This agreement is consistent with the City Council-approved budget strategy to focus on rehabilitating aging RWF infrastructure, improve efficiency, and reduce operating costs, and with the Environment and Utility Service Area policy outcomes of reliable utility infrastructure and healthy streams, rivers, marsh, and bay.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION: \$14,000,000

2. COST ELEMENTS OF AGREEMENT (COMPARED TO FIRST AMENDMENT):

	<u>Original</u>	<u>Proposed</u> <u>Increase</u>	<u>Amended Total</u>
Program Management Office	\$ 44,000,000	\$ 8,000,000	\$ 52,000,000
Program Start-up/Validation	2,400,000	-	2,400,000
Programmatic Studies	2,200,000	-	2,200,000
Project Management	16,600,000	3,500,000	20,100,000
Package Management	4,000,000	-	4,000,000
Subject Matter Experts	5,000,000	2,500,000	7,500,000
Optional Services	3,800,000	-	3,800,000
TOTAL AGREEMENT AMOUNT	\$78,000,000	\$14,000,000	\$92,000,000

3. SOURCE OF FUNDING: 512 - San José-Santa Clara Treatment Plant Capital Fund.

4. FISCAL IMPACT: This agreement is funded through the San José-Santa Clara Treatment Plant Capital Fund (Fund 512) and will have no impact on the San José-Santa Clara Treatment Plant Operating Fund (Fund 513).

5. **PROJECT COST ALLOCATION:** In accordance with the recommendations set forth in Capital Project Cost Allocations Technical Memorandum (Carollo Engineers, March 2016), the cost for programmatic services will be allocated between the four billable parameters relative to the rolling weighted average distribution of all RWF assets. For services performed for a specific project, the cost will be allocated in accordance with the allocations for that project.

BUDGET REFERENCE

Services performed by Stantec under this agreement will be authorized by service orders. While an appropriation is not required for execution of the Master Consultant Agreement, one is required for each service order authorized under this agreement. Services performed for a specific project will be funded by that project's appropriation. Future funding is subject to appropriation and, if needed, will be included in the development of future year budgets during the annual budget process.

CEQA

Not a Project, File No. PP17-003, Agreements/Contracts (New or Amended) resulting in no physical changes to the environment.

/s/
KERRIE ROMANOW
Director, Environmental Services

For questions, please contact Napp Fukuda, Assistant Director, Environmental Services Department, at (408) 793-5353.