



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: August 31, 2017

Approved

Date

9/7/17

SUBJECT: AMENDMENT TO THE MASTER CONSULTANT AGREEMENT WITH STANTEC CONSULTING SERVICES INC. (FORMERLY MWH AMERICAS, INC.) FOR PROGRAM MANAGEMENT SERVICES FOR THE SAN JOSE-SANTA CLARA REGIONAL WASTEWATER FACILITY CAPITAL IMPROVEMENT PROGRAM

RECOMMENDATION

Approve an Amended and Restated Master Consultant Agreement with Stantec Consulting Services Inc. (formerly MWH Americas, 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 \$39,000,000 to a revised not to exceed agreement amount of \$78,000,000; and extending the term of the agreement from September 30, 2018 to June 30, 2023.

OUTCOME

Council approval of the Amended and Restated Master Consultant Agreement with Stantec Consulting Services Inc. (formerly MWH Americas, Inc.) will provide for continuation of consultant program management services and expertise necessary to deliver the \$1.4 billion ten-year capital improvement program (CIP) at the San José-Santa Clara Regional Wastewater Facility¹ (RWF).

¹ The legal, official name of the facility remains San Jose/Santa Clara Water Pollution Control Plant, but beginning in early 2013, the facility was approved to use a new common name, the San José-Santa Clara Regional Wastewater Facility.

EXECUTIVE SUMMARY

In September 2013, MWH Americas, Inc. ("MWH"), now known as Stantec Consulting Services Inc., ("Stantec") was hired to provide program management services for the \$1.4 billion RWF CIP. The five-year agreement with two one-year options to extend was in the amount of \$39 million. This amount was based on an assumption that certain services would be provided by City staff and other technical consultants with subject matter expertise. In early 2014, City staff along with Stantec completed a thorough validation effort. The project validation analyzed the 100 plus projects envisioned in the master planning process and prioritized and packaged them into 33 projects based on criticality and condition of the infrastructure as well as project interfaces and sequencing. These projects were further organized into four packages. Through this effort, it became apparent that more services than originally anticipated from Stantec would be needed to efficiently and cost effectively deliver the program. These services included three experienced managers for the large project packages, several subject matter experts, and additional project managers to supplement City staff. This modified approach required using Stantec services at a faster pace than originally anticipated but also enabled staff to efficiently advance critical rehabilitation projects in a timely manner. To date, two projects totaling \$4 million have been completed, seven projects totaling \$205 million are in construction, and 16 projects totaling \$826 million are in the planning and design phase. Additionally, Stantec has also put in place many tools and systems to guide the implementation of the program.

As originally planned, City staff has still continued to implement a transition strategy which includes adding new staff and providing formal and informal training to enable City staff to gradually take over roles filled by Stantec resources. In 2015-2016, 24 new staff positions were added, 18 of those have now been filled. With a high number of citywide vacancies and a limit on the number of recruitments per department at a given time, recruiting for these positions has been slow. Furthermore, the lack of competitive compensation for the specialized wastewater positions in ESD has exacerbated the issue. The positions that are hardest to fill have been the more experienced and highly specialized staff.

With 23 large projects underway, staff anticipates needing program management services for an additional three years after the expiration of the current agreement with Stantec (including option years), for a total of ten years. Using specific guiding principles, described in more detail later in the staff report, staff evaluated several options. To optimize project delivery and minimize risks to the RWF, staff is recommending amending the Stantec agreement to extend the term to June 30, 2023 and to increase the amount of the agreement to \$78 million. The agreement amount and term is based on continuing with program management and project management services for some large and complex projects. Staff was able to negotiate reduced rates and obtain commitment from all the key consultant staff. The proposed amendment also addresses recommendations from a recent audit of ESD consultant contracts. The recommended option will:

- Allow critical projects to continue to advance with the right combination of City and Stantec resources in a cost-effective manner;

- Allow the program and projects to proceed without interruption, minimizing the risk of equipment and treatment process failures and increased construction costs due to escalation;
- Address potential challenges associated with the inability to attract highly experienced wastewater engineers and program managers by bringing in consultant resources that are experienced and require minimal ramp up time;
- Allow for positions currently filled by Stantec, which are needed for a finite period of time for very specialized work, to continue to be filled with experienced consultant resources for the required amount of time; and
- Allow time for City staff to develop and build in-house expertise and experience to ensure successful delivery of the still sizable CIP

BACKGROUND

The infrastructure at the RWF is at or beyond its useful life. A major rehabilitation and revitalization of the RWF was envisioned through a master planning effort completed in 2013. The master plan recommended over 100 projects to be implemented over a 30-year period at an estimated cost of \$2.1 billion. Historically, the RWF five-year CIP has averaged around \$250 million; the five-year CIPs through this major rehabilitation effort were anticipated to be in the range of \$700 million-\$1 billion for several consecutive years. The existing staff and systems were not positioned to handle this type of growth in the CIP. In keeping with the industry standard for such large programs, a strategy was developed that included the use of a program management firm, along with other design and technical consultants to augment City resources.

On September 24, 2013, City Council approved a Master Consultant Agreement (MCA) with MWH 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 was merged with Stantec. A Consent to Assignment Agreement has been executed between the City and Stantec to ensure that Stantec has assumed all contractual obligations by MWH prior to the merger. As such, MWH will be referenced as Stantec in this staff report.

The agreement has reached the end of Year 4 of the original term with an estimated \$3.5 million remaining balance. To continue delivering the \$1.4 billion ten-year CIP, staff anticipates needing to continue with Stantec's program management services through June 30, 2023 at an additional cost of \$39 million.

Scope of Services Provided by Stantec

The scope of services to be provided under the MCA included:

- 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, health and safety plans;

- Project management, project validation, and planning;
- Operations and maintenance input and coordination, asset management and knowledge transfer; and
- Studies, assessments, modeling, and technology evaluations.

Originally, it was anticipated that \$39 million would be adequate to cover the term of the contract. This was based on an assumption that City staff and other consultants would complete many of the programmatic studies and provide subject matter expertise. However, given the size, complexity, and timing of the projects, staff determined that procuring various technical consultants, in addition to design consultants, under several separate agreements would not be efficient or cost effective.

Additionally, it was also deemed more efficient to use Stantec subject matter experts and package managers to augment staffing resources until City staff with the appropriate experience and expertise could be hired. A strategy to enable the transition of work to City staff was developed and is being implemented. This modified approach resulted in Stantec services being used at a faster pace than originally anticipated, but enabled staff to efficiently advance critical rehabilitation projects in a timely manner. This change in approach resulted from the project validation effort completed in early 2014. The project validation effort analyzed project criticality, sequencing, and interconnectivity, and packaged the 100 plus projects into 33 projects for more efficient project implementation.

The key changes in Stantec services are outlined below:

Package Manager Services

Prior to validation, the projects within the program had been grouped into three packages: Critical Rehabilitation, Energy and Biosolids, and Ongoing Repair and Rehabilitation. The packages were envisioned to be led and managed by City staff.

As stated earlier, during project validation, it became clear that this grouping of packages would not be the most effective way to implement these projects. Over 100 projects were packaged into 33 projects for more cost-effective delivery and these projects were grouped by process areas into four packages: 1) Liquids 2) Solids 3) Facilities and 4) Power & Energy.

Given the considerable size and complexity of the project packages, staff recognized the need to bring in highly experienced wastewater professionals to serve as package managers responsible for providing technical leadership and oversight of each respective package. The original agreement amount did not contemplate the need for package manager services from Stantec. City staff did not have the experience and expertise needed to lead these packages and used three very experienced package managers to lead the liquids, solids, and facilities packages, with a plan to transition to City staff at a later date. Of these three package managers, two have now been transitioned off the program, with City staff assuming one of the package manager roles and a second position anticipated to be filled this calendar year.

Table 1 below illustrates the magnitude of the four packages.

Table 1 – CIP Packages (based on adopted 2018-2022 CIP)

Package	Total Estimated Cost	# of Projects
Biosolids	\$324 million	4
Facilities	\$390 million	12
Liquids	\$680 million	14
Power & Energy	\$46 million	4

Project Manager Services

In addition to package manager services, the validation effort resulted in the need for additional consultant project manager services. The original agreement assumed three consultant project managers would be needed to augment City staff. While validation reduced the number of PMP projects by bundling some of them, it increased the size and complexity of the projects to be started in the first ten years of the CIP. This has resulted in needing significantly more consultant staff resources (i.e., five project managers and three project engineers) to help deliver projects, including six highly complex projects: Aeration Tank Rehabilitation, Blower Improvements, Cogeneration Facility, Digested Sludge Dewatering Facility, Headworks Improvements, and New Headworks. Together, these projects represent a total estimated construction value of \$321 million. By comparison, City staff is leading 17 projects with a combined total estimated construction value of \$377 million.

Subject Matter Expert Services

Given the size, complexity, and multi-faceted nature of the various projects and the CIP overall, staff had always anticipated the need to bring in SMEs 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. The original agreement included some allowances for SME services; however, it did not contemplate the full range or extent of services that would be needed. This is due, in part, to an earlier assumption that staff would procure third-party subject matter experts under separate contract(s). However, as the program delivery approach continued to be further refined, staff determined that it would be more beneficial to obtain SME services under the program management consultant.

Transition Strategy

When Stantec began their services in October 2013, the program management office was structured in the form of an integrated team with the long-term plan being for consultant positions to transition to City staff. In order to facilitate this transition and deliver the program, ESD added 24 engineering, program, and process engineering positions in 2015-16. As of June 2017, 18 of the 24 positions have been filled. Recruitment continues to be a priority for the program. While staff has been successful at recruiting entry-to-mid level engineering positions, it has been difficult to attract seasoned, experienced professionals. This has required the continued use of highly experienced resources from Stantec.

Another strategy that staff has used to position the City to deliver the program is to have staff shadow consultant-held roles, gaining valuable experience and building skills that will enable them to take over the roles. So far, ESD has transitioned one of the three package manager roles from Stantec to the City, and the second position will be filled with City staff this calendar year. Additionally, the program has been intentional about training staff on the program. Starting in May 2015, the program has implemented a monthly project manager training series to develop project management skills for all staff on the program.

Since 2014, an unprecedented number of citywide vacancies have resulted in a slow pace of recruitment. This is due to limited resources and a resulting limit on the number of recruitments per department at a given time. This has been further exacerbated by the lack of competitive compensation for wastewater engineer and program management positions. Thus, while recruitment and training efforts are underway and will continue, a resource gap remains. The expertise required for the positions on this team require senior-level professionals with 15 to 20 years of experience on programs of similar size or are specialized in nature. In both cases, it would be extremely difficult to fill positions given the short-term need. Another important consideration is that experienced consultant staff require minimal ramp up time and can actually be more cost effective for specialized short term projects. Thus, staff has made a strategic decision that these difficult to fill positions would be filled with consultant staff so that there could be a focus on hiring a finite number of City staff and delivering projects. This approach is anticipated to produce better outcomes at approximately the same cost.

Program Accomplishments

Over the last four years, the program management consulting team has been providing essential program management services including, but not limited to: program planning and organization; monthly reporting; cost and schedule controls; engineering and subject-matter-expertise (SME) services; developing and facilitating a decision making and approval framework (i.e., stage gate process), risk and interface management; construction administration support; operations and maintenance (O&M) coordination.

As part of the program start up effort, the core PMO team worked with City staff to develop and implement various systems, tools and processes to enable efficient and effective delivery of the RWF-CIP. Key accomplishments achieved include:

- Project Validation
- Program Organization & Governance
- CIP Portal document management tool
- Project Delivery Model (PDM)
- Program Execution Plan (PEP)
- Program Master Project List & Schedule
- Program Performance Reports
(41 monthly reports issued to date)
- O&M Engagement Plan
- Design & Construction Guidelines
- Value Management Plan
- Asset Management Framework
- Twelve Programmatic Studies
- Construction Administration Plan
- Alternative Project Delivery
Decision Making Protocol

To date, two projects worth \$4 million have been completed, seven projects worth \$205 million are in construction, and 16 projects worth \$826 million are in the planning and design phase.

ANALYSIS

Although there have been significant milestones achieved and several staff added to the program team, the need for additional program and project resources is expected to continue for the next six years. To meet these resource needs and ensure continued efficient and uninterrupted delivery of the CIP, staff recommends amending the agreement with Stantec for ongoing program management services through June 30, 2023 and increasing the maximum compensation under the agreement to \$78 million.

In making this recommendation, staff used the following guiding principles to identify and evaluate various program delivery options that considered different combinations of City staff, program management consultant resources, and other third-party consultants.

Guiding Principles

1. Maximize use of City staff to the extent possible and practical
2. Use consultant staff to manage peaks and to augment positions that have been hard to fill
3. Continue leveraging consultant expertise as subject matter experts
4. Continue to facilitate learning opportunities for City staff and implement a staffing transition plan
5. Align the amended agreement term with program master schedule and project schedules
6. Consider the associated cost of recruitments and challenges of adding equivalent term-limited program management, project management, and subject-matter-expertise positions on the City side and the ability to attract, retain, and compete for a limited pool of wastewater professionals
7. Consider the risk and consequences of deferring critical projects

Program Delivery Options

In making the recommendation to Council, staff evaluated various program delivery staffing options, which are summarized in Table 2 below, along with staff's estimate of the cost for each alternative. For each option, staff looked at program and project needs by fiscal year, using

forecasted transition dates and project schedules, to help determine how long certain resources were needed or when resources could be transitioned, reduced, or eliminated. For City costs, staff developed the estimates using the equivalent-level positions need to provide the needed expertise and experience. In addition to looking at costs, staff looked at the risks associated with each alternative.

All of the alternatives except the recommended option will interrupt delivery of the program and projects. Without adequate resources, certain projects will need to be deferred thereby increasing the risk of equipment and treatment process failures (which could result in permit violations, fines, environmental impacts, etc.). Project deferrals will also result in increased construction costs due to escalation. Staff estimates that each year of deferral equates to roughly \$10 million in additional costs for the 6 consultant-led projects.

Table 2 – Program Delivery Staffing Options & Estimated Time/Cost Delay

Option	Description	Cost	Estimated Time/Cost Delay	Total
Full Consultant Support - Stantec (RECOMMENDED)	Amend Stantec agreement through June 2023 for program management office, package manager, project managers/project engineers, and SMEs	\$42,500,000*	None	\$42,500,000
All City Staff (Alternative A)	Fill existing vacancies and add/fill new equivalent-level positions to fill the consultant program management office, project manager/project engineer roles. Procure third-party consultants for SME roles.	\$37,700,000	18-24 months/ \$15-20 million	\$52,700,000 – \$57,700,000
Limited Consultant Support - Stantec (Alternative B)	Amend Stantec agreement through June 2023 for limited core program management office, fill existing vacancies and add/fill new staff for project manager/project engineer roles. Procure/ third-party consultants for SME roles.	\$40,200,000*	18 months/ \$15 million	\$55,200,000
Full Consultant Support - New Procurement (Alternative C)	Advertise and award a new agreement for program management office, package manager, project, managers/engineers, and SMEs.	\$44,700,000*	9-12 months/ \$7.5-10 million	\$52,200,000 – \$54, 700,000

* These figures include an anticipated \$3.5 million agreement balance.

Staff Recommendation

Staff recommends moving forward with the recommended option to continue with full consultant support with Stantec. This option would result in a net increase to the original agreement amount of \$39 million for a total amended agreement amount of \$78 million to ensure efficient and uninterrupted delivery of the CIP through June 2023 at which point the five-year CIP is anticipated to reduce to a more manageable level. This option utilizes current City staff to the maximum extent practical, while strategically using Stantec staff during the peak of program activity. The recommended option allows time for City staff to develop and build in-house expertise and experience to ensure successful delivery of the still sizable CIP. It allows for a planned transition of staff, as well as systems and tools, which staff will assume responsibility for when Stantec's agreement ends.

Under the recommended option, Stantec would continue to provide full PMO services, with a few support positions scheduled to be transitioned to City staff in the next two or three years. Stantec will provide a Liquids package manager through 2017-2018. The consultant would continue to provide project management services for the six consultant-managed projects through project completion, with the exception of Aeration Tanks Rehabilitation, which is anticipated to be completed after the agreement expires. The recommended option includes SME services for projects currently in design and construction, as well some funding for optional SME services for projects that have not started yet.

Agreement Amendment Negotiations

Two negotiations meeting were held between City staff and Stantec. The first meeting was attended by the ESD Assistant Director and CIP Deputy Director, and Stantec's Executive Vice President and Vice President. The second meeting was attended by Stantec's Vice President and Carollo Executive Vice President and the ESD Assistant Director and CIP Deputy Director. The negotiations were focused on several key points:

- Multiplier compensation reduction;
- Use of local resources to the extent possible;
- Renewed letters of commitment from key personnel; and
- Verification of profit margins.

Staff was successful in negotiating a reduction to the multiplier from 2.83 to 2.81 (On-Site) and 3.08 to 3.06 (Off-site) applicable to Stantec labor costs. These reductions will save approximately \$275,000 over the remaining term of agreement. In addition, the City received renewed letters of commitment from key personnel from both the Stantec (prime) and Carollo team (major subconsultant) for term extension.

The consultant's and the major subconsultant's services will be reimbursed on actual hourly wages times the multiplier. The multiplier is based on the consultant's and major subconsultant's independent auditor's financial report and will not change during the term of the master agreement. The actual hourly salary rates may be increased annually by no more than 3 percent, unless a greater amount is pre-approved by the City. On a case-by-case basis, the City may allow

for an increase (i.e. geographic uplift pay) to the actual hourly rates for certain consultant and major sub-consultant staff working onsite whose home office location is outside of the nine Bay Area counties, subject to pre-approval by the ESD Director. The geographic uplift pay only covers state personal income tax differentials between the employee's home office state and California and actual cost of living adjustments. The amount of the geographic uplift pay is not specified in the amended Agreement but will be subject to the City's pre-approval before it can be included in an approved service order.

The consultant is also compensated for pre-approved subconsultants and reimbursable expenses. Given the longer term nature of the programmatic and project management services being provided by Stantec, travel expenses under this master agreement represents a larger component of reimbursable expenses compared to conventional design consultant engagements. Generally speaking, travel expenses under this master agreement will be reimbursed to the same extent that the City reimburses other consultants under separate consultant agreements and its employees under the Employee Travel Policy. However, given the nature of this engagement, there are circumstances where the Employee Travel Policy does not directly address the type of travel expenses at issue. The master agreement deviates from the Employee Travel Policy in the following areas. First, in some instances, it may be more beneficial and cost-effective for the City to allow for the use of monthly or annual apartment leases and/or vehicle leases instead of reimbursing the consultant for daily hotel and/or car rental costs. The amended master agreement includes provisions that allows the use of monthly or annual apartment leases and/or vehicle leases in the case where this would result in lower reimbursable expenses to the City (subject to the Director's pre-approval). Second, the master agreement allows for reimbursement of mobilization and relocation expenses for key consultant staff assigned to work full-time on the program (i.e., 180 days or longer). These relocation expenses are subject to advance approval by the Director and a maximum cap of \$315,000 for the term of the agreement. Finally, while the City typically does not allow consultants to markup travel expenses, given the long-term engagement and the amount of travel at issue, the master agreement allows the consultant, Stantec, to include a 5 percent markup on travel expenses.

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 nine 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 (See Attachment A for more detail).

The recommended option will amend Stantec's agreement to \$78 million representing 5.6% of the estimated \$1.4 billion CIP. This is comparable to Sacramento Regional County Sanitation District's \$1.7 billion wastewater program which has program management costs of roughly \$100 million (or 5.9% of their program budget). The cost of program management services as a percentage of program budget remains well below two other large California wastewater

programs: Orange County Sanitation District (\$2 billion) and San Diego Clean Water (\$1 billion). Their PMO costs are roughly 10% of their program budgets.

2017 Audit of Environmental Services Department Consultant Services

In September 2017, the City Auditor issued a report entitled “Audit of Environmental Services Department Consulting Services: Agreements Require Additional Oversight” (2017 Audit Report). This report, which will be presented to the Transportation and Environment Committee (T&E) on September 11, 2017, focuses on 11 ESD agreements with a total value not-to-exceed \$46.1 million.

The 2017 Audit Report included seven recommendations specific to the original Stantec master agreement. The City Auditor recommended that the proposed Amendment to the Master Agreement with Stantec address the following key points:

- Limits on hourly billing rates and salary increases
- Require preapproval of sub-consultants and staffing changes
- Limit geographic pay differentials
- Clarify reimbursable travel expenses including per diems and mileage
- Clarify sub-consultant markups and multipliers

Staff has already resolved and/or included provisions in the proposed amendment to the Stantec agreement to address the seven audit recommendations. It should be noted that well before the City Auditor began its audit of the original master agreement, staff had already been working proactively working with the City Attorney’s Office to make changes to the original Stantec agreement to incorporate many recently renegotiated terms and to include clarifications in the amended master agreement with regards to subconsultants. For example, staff had already renegotiated a lower multiplier that will be applied to both the prime and major subconsultant; identified Carollo as a major subconsultant and memorialized their multiplier compensation and allowable reimbursable expenses; and, been keeping written records (i.e. side letters) to document preapproval of sub-consultants and staffing changes. Staff acknowledges the several additional improvements identified by the audit report and have incorporated these into the amended agreement. See Attachment B for additional details.

EVALUATION AND FOLLOW-UP

No follow-up action with the City Council is expected at this time. A progress report on the RWF capital improvement program will be made to the Transportation and Environment Committee and the City Council on a semiannual basis. Monthly progress reports of the RWF CIP will also be submitted to the Treatment Plant Advisory Committee (TPAC) and posted on the City’s website.

POLICY ALTERNATIVES

Alternative No.1: Direct staff to perform the program management services utilizing in-house staff.

Pros: Potential program and project cost savings by having staff perform the work instead the consultant.

Cons: Current staff does not have the capacity or expertise to perform all of the required work. An estimated 15 positions would need to be added, with 10 positions being at the senior engineer, principal engineer, and deputy director level. Current resources would be diverted to recruit for these new positions. Certain program functions would not be performed and several 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. It has taken nearly two years to fill four of the six senior engineer vacancies with qualified candidates. In addition, some of the higher-level positions are anticipated to be term-limited, since they would only be needed for the peak program work or for the remaining duration of the projects, which could make recruitment more difficult. This alternative would also disrupt the delivery of the program with the departure of the consultant staff, who have gained knowledge and an understanding of the RWF and the CIP over the past four years.

Alternative No.2: Direct staff to amend the agreement to extend the term for the services of the "core" program management office and perform the project management work using in-house staff.

Pros: Key program management roles would continue without interruption and could result in potential project cost savings.

Cons: The six consultant-managed projects, totaling \$321 million, would need to be stopped until the City could add and fill the equivalent positions. Given the large, complex nature of these projects, it is highly unlikely that the City could attract and hire for the level of expertise needed to successfully manage the projects. Staff estimates that each year the consultant-managed projects are deferred would equal roughly \$10 million in increased construction costs (based on a 3% annual escalation rate). Recent market indicators tend to support escalation will likely trend upwards to the 5% level, further exacerbating the potential increase to construction costs for these six projects if deferred.

Reason for not recommending: The potential cost savings would likely be offset by the future increased construction costs due to the delayed projects. The consultant-managed projects are large, complex, and critical. In addition, two of the projects (Cogeneration Facility and Blower Improvements) have critical interfaces with the Digester and Thickener Facilities Upgrade project, which is currently under construction. A delay to those projects could result in a delay or increased cost to the Digester project.

***Alternative No.3:** 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 alternatives: certain program functions wouldn't 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 (TPAC) website for the September 14, 2017 meeting and the City Council website for the September 26, 2017 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. The proposed amendment was coordinated with the Auditor's Office.

COMMISSION RECOMMENDATION/INPUT

This item is scheduled to be heard at the September 14, 2017 TPAC meeting. A supplemental memorandum with the Committee's recommendation will be included in an amended September 26, 2017 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.

Continuing with program management consultant services also responds directly to recommendations contained in the City Auditor's August 2012 report "Environmental Services: A Department at a Critical Juncture."

COST SUMMARY IMPLICATIONS

1. AMOUNT OF RECOMMENDATION: \$39,000,000

2. COST ELEMENTS OF MASTER AGREEMENT:

	<u>Original</u>	<u>Proposed</u> <u>Increase</u>	<u>Amended Total</u>
Program Management Office	\$ 22,500,000	\$ 21,500,000	\$ 44,000,000
Program Start-up/Validation	2,400,000	-	2,400,000
Programmatic Studies	2,200,000	-	2,200,000
Project Management	5,800,000	10,800,000	16,600,000
Package Management	3,300,000	700,000	4,000,000
Subject Matter Experts	2,800,000	2,200,000	5,000,000
Optional Services	-	3,800,000	3,800,000
TOTAL AGREEMENT AMOUNT	\$39,000,000	\$39,000,000	\$78,000,000

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 for 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.

HONORABLE MAYOR AND CITY COUNCIL

August 31, 2017

Subject: Amended and Restated Agreement for Program Management Services

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CEQA

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

/s/ Ashwini Kantak for
KERRIE ROMANOW
Director, Environmental Services

For questions, please contact Ashwini Kantak, Assistant Director, Environmental Services Department, at (408) 975-2553.

Attachments:

Attachment A – Program Management Benchmarking

Attachment B – 2017 Audit Recommendations & Abbreviated Staff Response

ATTACHMENT A – PROGRAM MANAGEMENT BENCHMARKING

Agency	Program Name	Program Budget	Program Management Cost	Contract Term	% of Program Budget
Orange County Sanitation District (OCSD)	10-year Capital Improvement Program	\$2 B	\$200 M	15 yrs	10%
City of Houston	Wastewater Treatment Plant Upgrades	\$1.5 B	\$150 M	10 yrs	10%
City of San Diego Metropolitan Wastewater Department	San Diego Clean Water Program	\$1 B	\$100 M	10 yrs	10%
Metro Wastewater Reclamation District (Denver)	WWT	\$300 M	\$30 M	6 yrs	10%
City of Atlanta	Clean Water Atlanta	\$2.3 B	\$226 M	15 yrs	9.8%
Colorado Springs Utilities	Southern Delivery System (SDS)	\$940 M	\$80 M	8 yrs	8.5%
Sacramento Regional County Sanitation District (SRCSD)	Lower Northwest Interceptor (LNWI) Program	\$568 M	\$38 M	6 yrs	6.7%
Sacramento Regional County Sanitation District (SRCSD)	AWWTP	\$1.7 B	\$100 M	9 yrs	5.9%
City of San Jose – Environmental Services Department	Regional Wastewater Facility 10-year Capital Improvement Program	\$1.4B	\$78M	10 yrs	5.6%
San Francisco Public Utilities Commission (SFPUC)	Sewer System Improvement Program (SSIP)	\$6.9 B	\$150 M	15 yrs	2.2%

ATTACHMENT B – 2017 AUDIT RECOMMENDATIONS & ABBREVIATED STAFF RESPONSE

No.	Audit Recommendation	Abbreviated Staff Response
1	<p>To increase transparency, ESD should renegotiate:</p> <ol style="list-style-type: none"> the multiplier and establish a not-to-exceed hourly billing rates by position in future services orders Include limits on the amount and number of salary increases for key staff positions in any given year that it will pay 	<p>The amended master agreement includes:</p> <ol style="list-style-type: none"> A lower multiplier rate has been negotiated for both onsite and offsite staff. The reduced multiplier rate will be applied to both Stantec and its Major Subconsultant (Carollo) and will result in an estimated savings of \$275,000 over the remaining duration of the proposed amendment term. A final level of effort (LOE) compensation table will be attached to each service order for greater transparency. An annual maximum salary increase of up to 3% will be allowed for the Consultant and its Major Subconsultant staff whose home office is within the nine Bay Area counties, unless a greater amount is pre-approved by the ESD Director.
2	<p>To make invoice review easier and ensure staffing levels are appropriate, ESD should ensure additional information is included in all relevant side letters: changes to key staff, subconsultant firms and their key staff, billing rates and charges, Form 700 filings, onsite and off-site designation.</p>	<p>Almost all side letters related to consultant or subconsultant staffing changes have included the following information:</p> <ol style="list-style-type: none"> Changes to key staff (e.g. additions, substitutions) Addition of new subconsultants Onsite and off-site designations <p>Staff has updated the side letter template to incorporate billing rates and charges and Form 700 designations, as recommended by the audit report.</p>
3	<p>ESD should work with the City Attorney's Office to determine:</p> <ol style="list-style-type: none"> Whether City should seek repayment of geographic pay differential If amendment includes a geographic pay differential, the amount of the differential and that the multiplier should not apply 	<p>ESD will:</p> <ol style="list-style-type: none"> Work with the City Attorney's Office to determine whether the City should seek repayment of geographical pay differential. The amended master agreement allows for the City to compensate Stantec and Carollo for geographic differentials. The amount of the geographic pay differential is not specified in the agreement but is subject to pre-approval by the ESD Director. The multiplier will not be applied to the geographic pay differential.
4	<p>ESD should enforce the agreement's restrictions on per diem reimbursements for onsite employees and request MWH repay the City for past incorrect per diem reimbursements.</p>	<p>ESD will continue to enforce the agreement's restrictions on per diem reimbursements. Stantec has credited the City for past incorrect per diem charges; a credit in the amount of \$11, 683 has been applied to the June 2017 invoice.</p>
5	<p>To ensure consistent enforcement, ESD should clarify mileage reimbursement limits in the MWH agreement and define home office.</p>	<p>The master agreement has been revised to clarify mileage reimbursement limits. Going forward, mileage will be reimbursed in accordance with the City's policy on Private Vehicle Mileage Reimbursement.</p>
6	<p>In its upcoming amendment to the MWH agreement, ESD should clarify the appropriate compensation rates for Carollo Engineers.</p>	<p>The amended master agreement now identifies Carollo Engineers as a Major Subconsultant along with their Multiplier Compensation and allowable reimbursables.</p>
7	<p>In its upcoming amendment to the MWH agreement, ESD should clarify what subconsultant travel expenses can be reimbursed.</p>	<p>The amended master agreement includes language to clarify what subconsultant travel expenses can be reimbursed.</p>