

SAN JOSÉ/SANTA CLARA TREATMENT PLANT ADVISORY COMMITTEE

SAM LICCARDO, CHAIR
PAT KOLSTAD, VICE CHAIR
LAN DIEP, MEMBER
DAVID SYKES, MEMBER
DEV DAVIS, MEMBER

MARSHA GRILLI, MEMBER
DEBI DAVIS, MEMBER
STEVEN LEONARDIS, MEMBER
JOHN GATTO, MEMBER

AMENDED AGENDA/TPAC

4:00 p.m.

September 14, 2017

Room 1734

1. **ROLL CALL**
2. **APPROVAL OF MINUTES**
 - A. June 8, 2017
3. **UNFINISHED BUSINESS/REQUEST FOR DEFERRALS**
4. **DIRECTOR'S REPORT**
 - A. Director's Report (verbal)
 - Monthly Progress Report
5. **AGREEMENTS/ACTION ITEMS**
 - A. 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

Staff 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.

This item is scheduled for consideration by the City Council on September 26, 2017.

B. Approval of Citywide Insurance Renewals

Staff Recommendation: Adopt a resolution authorizing the Director of Finance to:

- (a) Select and purchase City property and liability insurance policies for the period October 1, 2017, to October 1, 2018 at a total cost not to exceed \$1,850,000, including a 12.6% contingency for additional property or assets scheduled, with the following insurance carriers:
 - (1) American Home Assurance Company for Property & Casualty Insurance, including Boiler & Machinery.
 - (2) Old Republic Aerospace, Phoenix Aviation Managers, for Airport Owners and Operators Liability including War Risks & Extended Perils Coverage (Primary and Excess) and Police Aircraft Hull & Liability including War Risks & Extended Perils.
 - (3) The Travelers Indemnity Company of CT for Automobile Liability, or other insurance carriers that the City is currently in negotiations with, (Airport fleet vehicles including Shuttle Buses, Regional Wastewater Facility fleet vehicles, and Airport Shuttle Bus physical damage).
 - (4) QBE Specialty Insurance Company for Secondary Employment Law Enforcement Professional Liability.
 - (5) National Union Fire Insurance Company of Pittsburg, PA for Life/Accidental Death and Dismemberment Policy for the Police Air Support Unit.
 - (6) Berkley Regional Insurance Company for Government Fidelity/Crime Coverage.
 - (7) Hudson Insurance Company, for Fiduciary Liability Coverage for the VERBA Health Savings Trust.

This item is scheduled for consideration by the City Council on September 19, 2017.

C. Purchase of California Carbon Allowances

Recommendation: Approve the Agreement between the City of San José and Vitol, Inc., which is approved by the California Air Resources Board for the purchase of California Carbon Allowances for the San José – Santa Clara Regional Wastewater Facility, as part of the California Cap-and-Trade Program, for an amount of \$303, 437.60

This item is scheduled for consideration by the City Council on September 26, 2017.

D. Actions Related to the May 18, 2017 Hearing on the Tributary Agencies' Claims of Breach of Agreement and Inequities

Staff Recommendations:

- (a) Adopt a Resolution setting forth the San José/Santa Clara Treatment Plant Advisory Committee's (TPAC) report, findings, and recommendation following the May 18, 2017, hearing before TPAC on the Claims of Breach of Agreement and Inequities Filed on September 7, 2016, by

- West Valley Sanitation District, Burbank Sanitary District No.2-3, and the City of Milpitas (Tributary Agencies); and
- (b) Direct the Secretary of TPAC to distribute to the legislative bodies of the Tributary Agencies, the City of San José, and the City of Santa Clara a copy of TPAC's Resolution.

E. Audit of Environmental Services Department Consulting Services

Staff Recommendation: Accept the audit report on Environmental Services Department Consulting Services.

This item was considered at the Transportation and Environment Committee on September 11, 2017 and is scheduled for consideration by the City Council on September 26, 2017.

F. Election of Pro Tem Chair for October 12, 2017 TPAC Meeting

6. **OTHER BUSINESS/CORRESPONDENCE**

- A. Information Memorandum: Update on Clean Water State Revolving Fund Loan for Regional Wastewater Facility Projects dated August 2, 2017
- B. Information Memorandum: Update on Commercial Fats, Oils, and Grease (FOG) Inspection and Plan Check Services dated August 1, 2017
- C. Information Memorandum: Environmental Services Department Staffing Update and Building the Future Workforce dated May 23, 2017

7. **STATUS OF ITEMS PREVIOUSLY RECOMMENDED FOR APPROVAL BY TPAC**

- A. Report on Procurement of Insurance Products for an Owner Controlled Insurance Program for the San Jose – Santa Clara Regional Wastewater Facility

Staff Recommendation: Adopt a resolution authorizing the Director of Finance to:

- (a) Purchase insurance policies for the San José – Santa Clara Regional Wastewater Facility Capital Improvement Program with a total cost not to exceed \$10,810,576 including insurance premiums of \$8,153,181 and a cash collateral fund of \$2,657,395, to be paid in five annual installments and subject to the appropriation of funds, as follows:
- (1) Old Republic General Insurance Corporation: Commercial General Liability Insurance and Workers' Compensation Insurance with a Program Agreement Endorsement stipulating terms of the cash collateral fund management
 - (2) Allied World Assurance Company: Commercial Excess Liability Insurance

- (3) Endurance Risk Solutions Assurance Company: Commercial Excess Liability Insurance
 - (4) Ironshore Specialty Insurance Company: Commercial Excess Liability Insurance
 - (5) American Fire and Casualty Company: Commercial Excess Liability Insurance
 - (6) Liberty Mutual Fire Insurance Company: Builder's Risk Insurance with special endorsement for Flood
 - (7) Ironshore Specialty Insurance Company: Contractors Pollution Liability Insurance
 - (8) Owners Protective Professional Liability Insurance with the insurance carrier to be determined pending the City's completion of the application process.
- (b) Adopt the following 2016 – 2017 Appropriation Ordinance Amendments in the San José – Santa Clara Treatment Plant Capital Fund:
- (1) Decrease Program Management appropriation to the Environmental Services Department by \$700,000;
 - (2) Decrease the Program Management appropriation to the Environmental Services Department by \$2,500,000; and
 - (3) Establish the Owner Controlled Insurance Program appropriation to the Environmental Services Department in the amount of \$3,200,000.

The proposed recommendations were approved by the City Council on June 20, 2017.

- B. 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

Staff 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.

This item was deferred to the September 14, 2017 TPAC meeting and September 26, 2017 Council meeting.

- C. Report on Bids and Award of Contract for 8241 – Paint Shop Spray Booth Replacement Project at the San Jose – Santa Clara Regional Wastewater Facility

Staff Recommendation:

- (a) Report on bids and award of a construction contract for 8241 – Paint Shop Spray Booth Replacement Project to the low bidder Integra Construction Services, Inc. for the base bid in the amount of \$1,040,112 and approval of a construction contingency of 15 percent in the amount of \$156,017.

- (b) Adopt the following 2016-2017 Appropriation Ordinance amendments in the San Jose – Santa Clara Treatment Plant Capital Fund:
 - (1) Decrease the Lagoons and Drying Beds Retirement appropriation to the Environmental Services Department by \$1,400,000; and
 - (2) Increase the Plant Infrastructure Improvements appropriation to the Environmental Services Department by \$1,400,000.
- (c) Adopt the following 2016 – 2017 Appropriation Ordinance amendments in the San Jose – Santa Clara Treatment Plant Operating Fund:
 - (1) Decrease the Non-Personal/Equipment appropriation to the Environmental Services Department by \$450,000; and
 - (2) Increase the Unrestricted Ending Fund Balance by \$450,000.

The funding source for the project was changed from the Plant Infrastructure Improvements appropriation to the San Jose – Santa Clara Treatment Capital Fund following the June 8, 2017 TPAC meeting (see the attached revised memo to San José City Council). The item was deferred from the June 20, 2017 City Council meeting and approved by the City Council on June 27, 2017.

D. Third Amendment to Legal Service Agreement for Regional Wastewater Facility Capital Improvement Program

Staff Recommendation: Approve a Third Amendment to the legal services agreement with Hawkins, Delafield, & Wood LLP, to extend the term of the agreement through June 30, 2020, revise the scope of service, and increase the maximum amount of compensation by \$2,500,000, subject to the appropriation of funds by City Council, to support the San José – Santa Clara Regional Wastewater Facility (“RWF”) Capital Improvement Program.

The proposed recommendation was approved by the City Council on June 13, 2017.

8. **REPORTS**

A. Open Purchase Orders Greater Than \$100,000 (including Service Orders)

The attached monthly Procurement and Contract Activity Report summarizes the purchase and contracting of goods with an estimated value between \$100,000 and \$1.08 million and of services between \$100,000 and \$270,000.

9. **MISCELLANEOUS**

- A. The next monthly TPAC Meeting is on **October 12, 2017, at 4:00 p.m.**, City Hall, Room 1734.

10. **OPEN FORUM**

11. **ADJOURNMENT**

NOTE: If you have any changes or questions, please contact Melrose Cacal, Environmental Services (408) 975-2547.

To request an accommodation or alternative format for City-sponsored meetings, events or printed materials, please contact Melrose Cacal (408) 975-2547 or (408) 294-9337 (TTY) as soon as possible, but at least three business days before the meeting/event.

Availability of Public Records. All public records relating to an open session item on this agenda, which are not exempt from disclosure pursuant to the California Public Records Act, that are distributed to a majority of the legislative body will be available for public inspection at San Jose City Hall, 200 East Santa Clara Street, 10th Floor, Environmental Services at the same time that the public records are distributed or made available to the legislative body.

**MINUTES OF THE
SAN JOSÉ/SANTA CLARA
TREATMENT PLANT ADVISORY COMMITTEE**
San José City Hall, T-1734
Thursday, June 8, 2017 at 4:00 p.m.

1. ROLL CALL

Minutes of the Treatment Plant Advisory Committee convened this date at 4:03 p.m. Roll call was taken with the following members in attendance:

Committee Members: Debi Davis, Dev Davis, Lan Diep, John Gatto, Steven Leonardis, Sam Liccardo, David Sykes, Kathy Watanabe (alternate), Anthony Phan (alternate)

Absent: Committee Members Pat Kolstad and Marsha Grilli

2. APPROVAL OF MINUTES

A. May 18, 2017

Item 2.A. was approved to note and file.

Ayes – 8 (Debi Davis, Dev Davis, Diep, Gatto, Leonardis, Liccardo, Sykes, Watanabe)

Nays – 0

Absent – 1 (Phan)

3. UNFINISHED BUSINESS/REQUEST FOR DEFERRALS

4. DIRECTOR'S REPORT

A. Director's Report (verbal)

- Monthly Progress Report

There were no items to report.

5. AGREEMENTS/ACTION ITEMS

A. Report on Procurement of Insurance Products for an Owner Controlled Insurance Program for the San Jose – Santa Clara Regional Wastewater Facility

Staff Recommendation: Adopt a resolution authorizing the Director of Finance to:

- (a) Purchase insurance policies for the San José – Santa Clara Regional Wastewater Facility Capital Improvement Program with total cost not to exceed \$10,810, 576 including insurance program premiums of \$8,153,181 and a cash collateral fund of \$2,657,395, to be paid in five annual installments and subject to the appropriation of funds, as follows:

- (1) Old Republic General Insurance Corporation: Commercial General Liability Insurance and Workers' Compensation Insurance with a Program Agreement Endorsement stipulating terms of the cash collateral fund management
- (2) Allied World Assurance Company: Commercial Excess Liability Insurance

- (3) Endurance Risk Solutions Assurance Company: Commercial Excess Liability Insurance
 - (4) Ironshore Specialty Insurance Company: Commercial Excess Liability Insurance
 - (5) American Fire and Casualty Company: Commercial Excess Liability Insurance
 - (6) Liberty Mutual Fire Insurance Company: Builder's Risk Insurance with special endorsement for Flood
 - (7) Ironshore Specialty Insurance Company: Contractors Pollution Liability Insurance
 - (8) Owners Protective Professional Liability Insurance with the insurance carrier to be determined pending the City's completion of the application process.
- (b) Adopt the following 2016-2017 Appropriation Ordinance Amendments in the San José – Santa Clara Treatment Plant Capital Fund:
- (1) Decrease the Preliminary Engineering appropriation to the Environmental Services Department by \$700,000;
 - (2) Decrease the Program Management appropriation to the Environmental Services Department by \$2,500,000; and
 - (3) Establish the Owner Controlled Insurance Program appropriation to the Environmental Services Department in the amount of \$3,200,000.

This item is scheduled for consideration by the City Council on June 20, 2017.

Risk Manager Stephanie Williams and Assistant Vice President Mike Davidson with Alliant Insurance Services, Inc. presented.

Committee Member Debi Davis inquired if vendors making deliveries to and from a facility are covered under the OCIP. Mr. Davison noted the City would have coverage if a third party were to sue for an incident due to negligence.

Committee Member Gatto asked if insurance coverage would continue if construction exceeded 68 months. Mr. Davidson replied that an entity could either start a new program after evaluating performance measures, extend their coverage, or use a traditional OCIP. Assistant Director Ashwini Kantak also clarified for Committee Member Gatto that the \$700,000 and \$2,500,000 appropriation listed in part (b) of the Staff Recommendation would apply to the \$8,000,000 premium.

Construction defect were discussed after Chair Liccardo raised the issue about equipment failure after a project is completed. "Products completed" coverage is often referenced as a work warranty period. Following completion of "operations" or construction, the Commercial General Liability (CGL) and excess policies have a ten year period of coverage (statute of repose permitting) for "products completed." Typical products completed warranties are three years, five years, and ten years.

Chair Liccardo also requested clarification between an excess liability and umbrella insurance policy. Ms. Williams responded that both excess liability and umbrella insurance policies are secondary policies with limits over and above the CGL

policy. Excess liability programs follow form (same scope or, in rare cases reduced scope) from the primary commercial liability policy. Umbrella policies follow limits on the primary policy but expand scope from the primary policy and may even offer additional lines of coverage.

On a motion made by Committee Member Phan and a second by Committee Member Debi Davis, TPAC recommended approval of staff's recommendation for Item 5.A.

Ayes – 9 (Debi Davis, Dev Davis, Diep, Gatto, Leonardis, Liccardo, Phan, Sykes, Watanabe)

Nayes – 0

Absent – 0

- B. Amendment to the Master Consultant Agreement with Stantec Consulting Services Inc (formerly MHW Americas, Inc.) for Program Management Services for the San Jose - Santa Clara Regional Wastewater Facility Capital Improvement Program

Staff 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 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.

This item is being deferred to August 10, 2017 TPAC and is scheduled for consideration by the City Council on August 22, 2017.

On a motion made by Committee Member Gatto and a second by Committee Member Debi Davis, TPAC accepted to defer Item 5.B. to the August 10, 2017 TPAC meeting and August 22, 2017 Council meeting.

Ayes – 9 (Debi Davis, Dev Davis, Diep, Gatto, Leonardis, Liccardo, Phan, Sykes, Watanabe)

Nayes – 0

Absent – 0

- C. Report on Bids and Award of Contract for 8241 – Paint Shop Spray Booth Replacement Project at the San Jose – Santa Clara Regional Wastewater Facility

Staff Recommendation: Report on bids and award of a construction contract for 8241 – Paint Shop Spray Booth Replacement Project to the low bidder Integra Construction Services, Inc. for the base bid in the amount of \$1,040,112 and approval of a construction contingency of 15 percent in the amount of 156,017.

This item is scheduled for consideration by the City Council on June 20, 2017.

Chair Liccardo inquired if the high variance was due standard escalation.

Assistant Director Ashwini Kantak noted that the design variance was 39 percent higher than the Engineer's Estimate due to the market, type of work, labor, and parts.

On a motion made by Committee Member Dev Davis and a second by Committee Member Phan, TPAC recommended approval of staff's recommendation for Item 5.C.

Ayes – 7 (Debi Davis, Dev Davis, Diep, Liccardo, Phan, Sykes, Watanabe)

Nays – 1 (Leonardis)

Absent – 0

Abstain – 1 (Gatto)

D. Third Amendment to Legal Services Agreement for Regional Wastewater Facility Capital Program

Staff Recommendation: Approve a Third Amendment to the legal services agreement with Hawkins, Delafield & Wood LLP, to extend the term of agreement through June 30, 2020, revise the scope of services, and increase the maximum amount of compensation to \$2,500,000, subject to the appropriation of funds by City Council, to support the San Jose – Santa Clara Regional Wastewater Facility ("RWF") Capital Improvement Program.

This item is scheduled for consideration by the City Council on June 13, 2017.

Senior Deputy City Attorney Jennifer Pousho stated that staff along with the City Attorney's Office sought outside counsel to assist with legal services for the large, complex design – build projects in the Capital Improvement Program. Hawkins, Delafield, & Wood LLP (Hawkins) is assisting the City Attorney's Office to create forms that can be used as a guide for future projects. Ms. Pousho also stated that while a design - build contract form has been prepared for the Cogeneration Facility project modifications will need to be made to the forms for future projects, given the differences in the scope of the future projects.

Committee Member Watanabe inquired if there is a central group that processes invoices and what happens to remaining funds. Ms. Pousho clarified that invoices are processed by the City Attorney's Office and the City Attorney's Office works with Hawkins if there are questions relating to billing. City staff is anticipating carry-over funds from the existing contract the Headworks, Yard Piping, and Dewatering projects.

Committee Member Phan asked what the maximum compensation amount for Hawkins was previously. Ms. Pousho responded that the agreement was budgeted for \$1,000,000 for 2.5 years with \$100,000 to \$200,000 carrying over into the next term.

On a motion made by Committee Member Leonardis and a second by Committee Member Watanabe, TPAC recommended approval of staff's recommendation for Item 5.D.

Ayes – 9 (Debi Davis, Dev Davis, Diep, Gatto, Leonardis, Liccardo, Phan, Sykes, Watanabe)

Nayes – 0

Absent – 0

6. OTHER BUSINESS/CORRESPONDENCE

- A. Approval of Early Work Packages 1 for the Design and Construction of the Cogeneration Facility at the San Jose – Santa Clara Regional Wastewater Facility dated May 18, 2017

Item 6.A. was approved to note and file.

Ayes – 9 (Debi Davis, Dev Davis, Diep, Gatto, Leonardis, Liccardo, Phan, Sykes, Watanabe)

Nayes – 0

Absent – 0

7. STATUS OF ITEMS PREVIOUSLY RECOMMENDED FOR APPROVAL BY TPAC

- A. San Jose – Santa Clara Regional Wastewater Facility Capital Improvement Program

Staff Recommendation: Accept the semiannual status report on the San José – Santa Clara Regional Wastewater Facility Capital Improvement Program for the period July 2016 through December 2016.

This item was accepted by the Transportation and Environment Committee on May 1, 2017 and by the City Council on May 23, 2017.

- B. San Jose/Santa Clara Water Pollution Control Plant Proposed Capital Improvement Program

Staff Recommendation: TPAC approval of the San Jose/Santa Clara Water Pollution Control Plant Proposed Capital Improvement Program

The San Jose/Santa Clara Water Pollution Control Plant Proposed Capital Improvement Program is scheduled for Council consideration on June 13, 2017, and for adoption on June 20, 2017.

C. San Jose/Santa Clara Water Pollution Control Plant Proposed Operations and Maintenance Budget

Staff Recommendation: TPAC approval of the San Jose/Santa Clara Water Pollution Control Plant Proposed Operating and Maintenance Budget.

San Jose/Santa Clara Water Pollution Control Plant Proposed Operating and Maintenance Budget is scheduled for Council consideration on June 13, 2017, and for adoption on June 20, 2017.

D. Report on Bids and Award of Construction Contract for 8101 – Headworks Critical Improvements Project – Rebid at the San José – Santa Clara Regional Wastewater Facility

Staff Recommendations:

- (a) Reject all bids received and opened on December 8, 2016, for the Headworks Critical Improvements Project.
- (b) Report on bids and award of construction contract for 8101 – Headworks Critical Improvements Project – Rebid to the low bidder, C. Overaa & Co., in the amount of \$1,499,000, and approve a 15 percent construction contingency in the amount of \$224,850.
- (c) Adopt a resolution authorizing the Director of Public Works to negotiate and execute one or more change orders in excess of \$100,000 for the duration of the Project, not to exceed the total contingency amount approved for the project.

The proposed recommendations were accepted by the City Council on May 23, 2017.

E. Report on Bids and Award of Contract for 8332 – Nitrification Clarifiers Lighting Improvements Project Re-Bid at the San Jose – Santa Clara Regional Wastewater Facility

Staff Recommendations:

- (a) Reject all bids received and opened on February 2, 2017 for the Nitrification Clarifiers Lighting Improvements Project.
- (b) Report on bids and award of a construction contract for 8332 – Nitrification Clarifiers Lighting Improvements Project Re-bid to the sole bidder Boscacci, Inc. for the base bid in the amount of \$500,000, and approval of a construction contingency of 15 percent in the amount of \$75,000.

The proposed recommendations were accepted by the City Council on May 23, 2017.

F. 8251 – Master Consultant Agreement with SCA Environmental, Inc. for Industrial Hygienist Services at the San José – Santa Clara Regional Wastewater Facility

Staff Recommendation: Approve a Master Consultant Agreement with SCA Environmental, Inc. to provide industrial hygienist services at the San José – Santa Clara Regional Wastewater Facility from the date of execution through June 30, 2024 in an amount not to exceed \$500,000, subject to the appropriation of funds.

The proposed recommendation was accepted by the City Council on May 23, 2017.

G. Administrative Hearing for Claim 2 by the Tributary Agencies

Purpose: To conduct a hearing on the administrative claim for breach of contract and Inequities filed by the Tributary Agencies against San José and Santa Clara.

1. Presentations from Tributary Agencies (10 minutes)
2. Presentations from Co-Owners (10 minutes)
3. Discussion (20 minutes)

The second administrative claim by the Tributary Agencies was denied by TPAC with a 6-3 vote on May 18, 2017.

Item 7.A. was approved to note and file.

Ayes – 9 (Debi Davis, Dev Davis, Diep, Gatto, Leonardis, Liccardo, Phan, Sykes, Watanabe)

Nayes – 0

Absent – 0

8. REPORTS

A. Open Purchase Orders Greater Than \$100,000 (including Service Orders)

The attached monthly Procurement and Contract Activity Report summarizes the Purchase and contracting of goods with an estimated value between \$100,000 and \$1.08 million of services between \$100,000 and \$270,000.

Item 8.A. was approved to note and file.

Ayes – 9 (Debi Davis, Dev Davis, Diep, Gatto, Leonardis, Liccardo, Phan, Sykes, Watanabe)

Nayes – 0

Absent – 0

9. **MISCELLANEOUS**

- A. The next monthly TPAC Meeting is **August 10, 2017** at 4:00 p.m., City Hall, Room 1734.

10. **OPEN FORUM**

- A. Dean Stanford spoke.

11. **ADJOURNMENT**

- A. The Treatment Plant Advisory Committee adjourned at 4:31 p.m.

Sam Liccardo, Chair
TREATMENT PLANT ADVISORY COMMITTEE



San José-Santa Clara
Regional Wastewater Facility

Capital Improvement Program Monthly Status Report: July 2017

September 7, 2017

This report summarizes the progress and accomplishments of the Capital Improvement Program (CIP) for the San José-Santa Clara Regional Wastewater Facility (RWF) for July 2017.

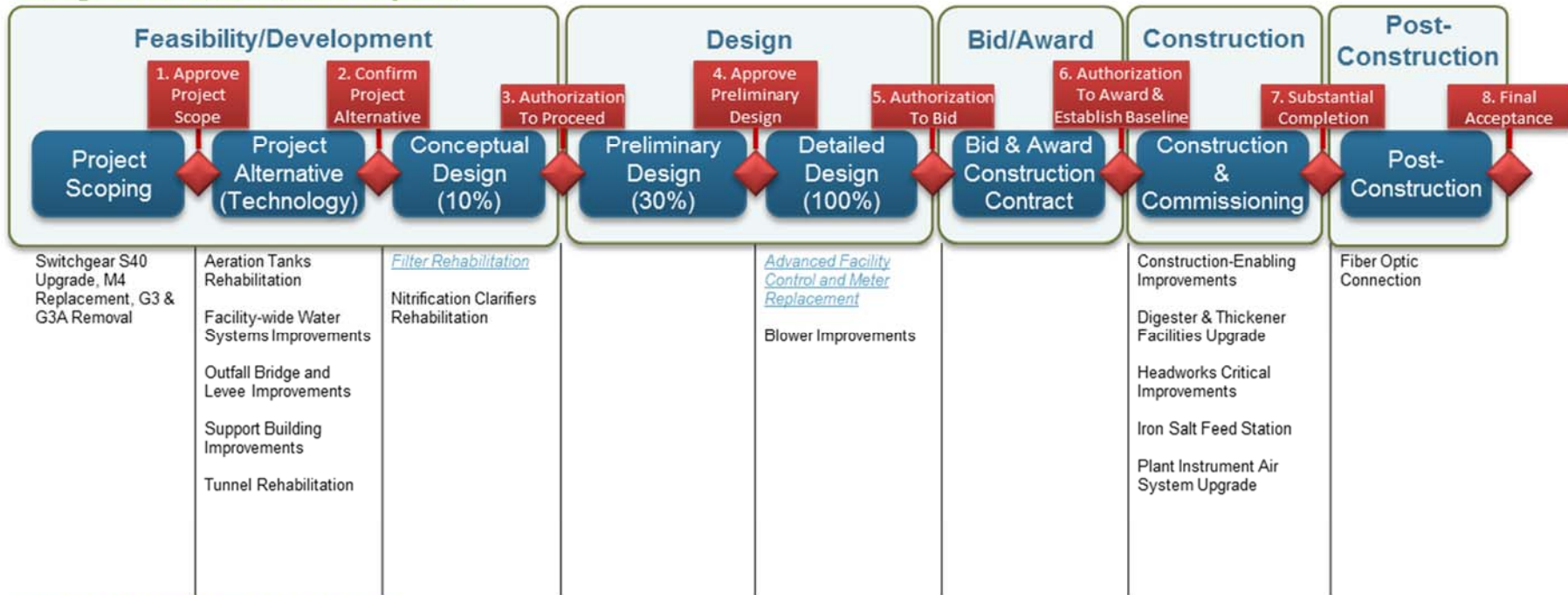
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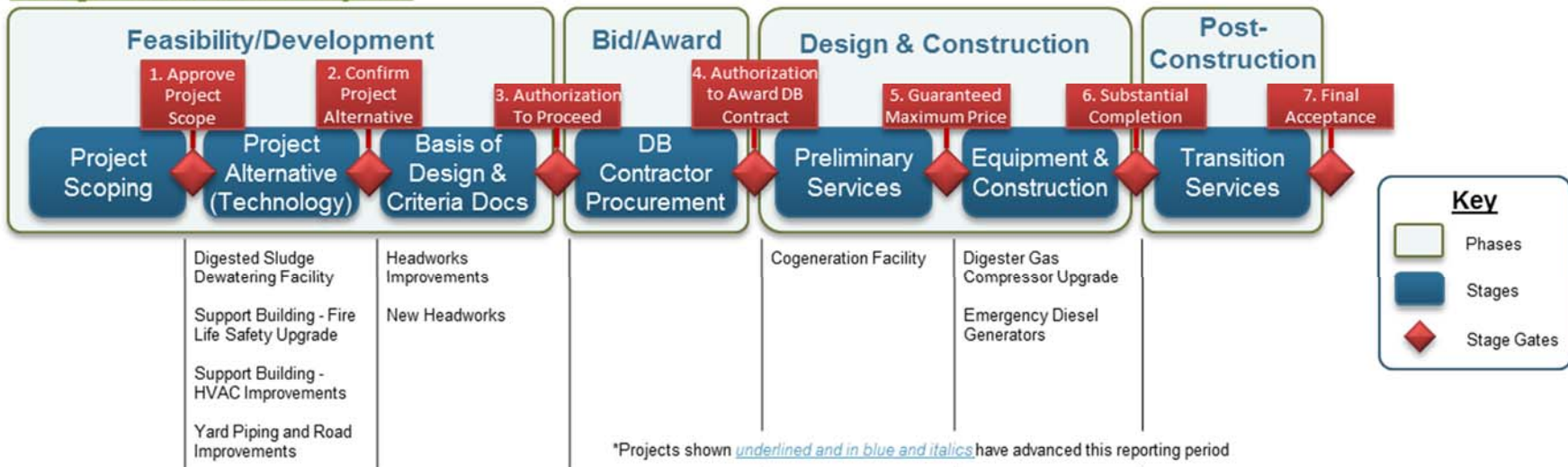


Project Delivery Model

Design-Bid-Build Active Projects



Design-Build Active Projects



Program Summary

July 2017

In July, the CIP successfully advanced the Filter Rehabilitation Project, Advanced Facility Control and Meter Replacement Project and Flow Management Study through the Project Delivery Model (PDM) stage gate process (Confirm Project Alternative, Approve Preliminary Design, and Final Acceptance stage gates, respectively).

The 17 active CIP projects continued to progress through the feasibility/development, design, and bid/award PDM stages. Alternatives analysis work continued for the Aeration Tanks Rehabilitation, Digested Sludge Dewatering Facility, and Facility-wide Water Systems Improvements projects. Of particular note, the Facility-wide Water Systems Improvements Project began field testing the four separate RWF water systems. Staff will carry out this work in conjunction with condition assessment studies prior to building an updated hydraulic network model of the water systems. Design work commenced this month (conceptual design phase) on the Nitrification Clarifiers Rehabilitation Project. Design also continued on the Advanced Facility Control and Meter Replacement, Blower Improvements, and Cogeneration Facility projects. With a combined project cost of approximately \$169 million, each of these three projects is approaching the 60 percent design completion stage and will complete design and start construction in 2018. Technical panels began evaluating Statements of Qualification (SOQs) for the Yard Piping and Road Improvements Project (owner's advisor) and the Headworks Improvements and New Headworks projects (design-builder).

The seven active CIP construction projects also made significant progress in July. Testing, commissioning, and resolution of final outstanding items continued successfully on the Digester Gas Compressor Upgrade and the Emergency Diesel Generators projects, with the Emergency Diesel Generators Project achieving Beneficial Use this month. These two projects, with a combined construction cost of approximately \$28 million, increase the RWF's ability to more reliably serve its customers and protect the South Bay environment. Mobilization and preparation of equipment submittals commenced this month on the Headworks Critical Improvements Project. Major construction activities continued on the Digester and Thickener Facilities Upgrade, Plant Instrument Air System Upgrade, Construction-Enabling Improvements, and Iron Salt Feed Station projects. On the Digester and Thickener Facilities Upgrade Project, staff continued to address the many unforeseen conditions that have been encountered during construction to maintain progress in the digester tanks, the dissolved air flotation tanks (DAFTs), the new elevated pipe rack, and the new sludge screening facility. As of the end of June, the City and contractor have discussed a critical-path delay of approximately four months due to these conditions. A new design issue affecting the seismic retrofit of the digester tanks was also identified this month. Solutions currently being evaluated will likely result in additional delays and costs. Staff will continue to evaluate impacts in the coming months and will provide additional updates as more information becomes available. A partnering workshop for the project was held this month, approximately one year after construction commenced on site.

Look Ahead

The following key activities are forecasted for August/September:

- The City will continue evaluating SOQs for the Yard Piping and Road Improvements and the Headworks Improvements and New Headworks projects. Staff expects to post notifications in August.
- A non-mandatory site conference for the Tunnel Rehabilitation Project consultant design procurement is scheduled for early August and SOQs are due to the City at the end of the month.
- Conceptual design work will commence for the Filter Rehabilitation Project.
- Condition assessment work will begin for Support Building - Fire Life Safety Upgrade and Support Building - HVAC Improvements projects.
- The City will advertise the prequalification document for the Advanced Facility and Control and Meter Replacement – Phase 1 construction contract.
- The Cogeneration Facility Project design builder CH2M will submit the 60 percent design package. The project team will seek approval of Early Work Package 2 for site work needed for the engine generators and expect to receive the Authority to Construct (ATC) from the Bay Area Air Quality Management District (BAAQMD).
- The City will partially accept the Construction-Enabling Improvements Project to allow contractors to begin using laydown areas.
- The City will hold a ribbon-cutting ceremony to celebrate completion of the Digester Gas Compressor Upgrade and the Emergency Diesel Generators projects in late September.
- The City will file the Notice of Completion and Acceptance for the Fiber Optic Connection Project.
- In September, staff will recommend amending the existing Master Consultant Agreement (MCA) with Stantec (formerly MWH) to TPAC and Council to extend program management services through June 2023 to align with the 10-year CIP.



Program Highlight – Progressive Design Build Delivery

Capital projects at the RWF have historically been delivered using the Design-Bid-Build (DBB) or Low-Bid Design Build (LBDB) methods. With conventional DBB, the designer takes the design to 100 percent completion level, prepares an Engineer's Estimate for bid and award, and then a construction contract is awarded to the lowest responsive bidder to construct the project. In the LBDB delivery method, a designer completes the preliminary design before the project is bid out to a design-builder that will complete the design and construct the project.

Many wastewater facilities nationally are moving to a Progressive Design-Build (PDB) approach, in which both the designer and contractor are procured together primarily based on the qualifications and the experience of the team. PDB benefits project owners by allowing for performance-based specifications with the design-builder (DB) working collaboratively with the owner to develop, design, and construct the best solution. Issues between design and construction are resolved within the DB team and conflicts and disputes are greatly reduced. Significant design and construction risks that can often accompany complex projects are transferred to the DB team. The project owner balances that risk transfer by accepting project risks that they are best placed to manage, such as regulatory permits and process shutdowns. Furthermore, the project is designed with early constructability and pricing input from the design-builder, thus reducing the risk at the time of bid award and during construction.

Another benefit of the PDB process is that long lead-time purchases of major equipment systems can be ordered while other components of the project are still under design. This progressive design approach also allows for concurrent activities that can significantly shorten construction durations, thus saving money. Contract negotiations that are common to the PDB approach are typically absent in DBB projects. Contract negotiations involving balanced risk, performance guarantees, shared savings, fees, schedule, and scope are all negotiated items specific to each PDB project.

While the PDB process provides significant advantages in terms of risk allocation, performance, cost, and schedule benefits, it is not always the most suitable method for delivering low complexity projects or projects where there are limited opportunities to provide innovative solutions.

The City has successfully used the PDB process to deliver the Airport Terminal Area Improvements, Convention Center Expansion, and the U.S Patent and Trademark Office projects. These PDB projects were authorized under the City's charter authority. However, the RWF is a regional facility, and state law governs its procurement rules. Until recently, the DBB and LBDB process were the only two methods available to deliver RWF projects. In January 2015, a new state law: Public Contract Code Section 22160, took effect, authorizing the use of PDB for water and wastewater facilities. In March 2015, Council approved a RWF procurement strategy that allows for the use of PDB when staff analysis concludes it to be more beneficial.

The Cogeneration Facility Project is the first project at the RWF to use the PDB delivery method. In May 2016, a PDB contract was awarded to CH2M Hill to design and construct a new cogeneration facility. Since being awarded the PDB contract, CH2M Hill has developed the basis of design and 30 percent design documents. An early work package (EWP1) was approved in May 2017 that authorized \$24 million to procure the engine generators and gas purification systems. This allowed the project to move ahead on these long lead time items much earlier than a conventional DBB project, providing price and schedule certainty. Design continues to progress around this equipment package, and staff expects the 60 percent design package in late August 2017. In October, the design-builder will submit a price proposal, or Guaranteed Maximum Price, that upon negotiation and approval will allow the project to proceed to completion. This concurrent procurement and design effort—made possible by using a PDB approach—will result in approximately seven months of schedule savings, compared to the conventional DBB delivery method.



Figure 1: Cogeneration Facility Computer Rendition

Several other complex projects at the RWF, such as the Headworks Improvements, New Headworks, Digested Sludge Dewatering Facility, and Yard Piping and Road Improvements, are also utilizing the PDB process to manage risk, cost, and schedule. While the traditional DBB approach has worked well on certain projects, the PDB delivery method provides another option for delivering capital projects at the RWF.

Program Performance Summary

Eight key performance indicators (KPIs) have been established to measure overall CIP success. Each KPI represents a metric that will be monitored on a regular frequency. Through the life of the CIP, KPIs that best reflect the current program will be selected and measured. KPIs have been reset for this fiscal year.

Program Key Performance Indicators – Fiscal Year 2017-2018

KPI	Target	Fiscal Year to Date			Fiscal Year End		
		Actual	Status	Trend	Forecast	Status	Trend
Stage Gates	80%	100%			100%		
		3/3 ¹			22/22		
Measurement: Percentage of initiated projects and studies that successfully pass each stage gate on their first attempt. Target: Green: >=80%; Amber: 70% to 80%; Red: < 70%							
Schedule	90%	0%			60%		
		0/1 ²			3/5 ³		
Measurement: Percentage of CIP projects delivered within 2 months of approved baseline Beneficial Use Milestone. ⁴ Target: Green: >=90%; Amber: 75% to 89%; Red: < 75%							
Budget	90%	NA			86%		
		0/0			6/7 ⁵		
Measurement: Percentage of CIP projects that are accepted by the City within the approved baseline budget. ⁴ Target: Green: >=90%; Amber: 75% to 89%; Red: < 75%							
Expenditure⁶	\$249M	NA			\$294M		
Measurement: CIP FY17-18 committed costs. Target: Committed cost meets or exceeds 70% of planned Budget. 70% of \$356M = \$249M. Therefore Green: >=\$249M; Amber: \$196M to \$249M; Red: < \$196M							
Procurement	80%	NA			100%		
		0/0			4/4		
Measurement: Number of consultant and contractor procurements advertised compared to planned for the fiscal year. Target: Green: >=80%; Amber: 70% to 79%; Red: < 70%							
Safety	0	0			0		
Measurement: Number of OSHA reportable incidents associated with CIP delivery for the fiscal year. Criteria: Green: zero incidents; Amber: 1 to 2; Red: > 2							
Environmental	0	0			0		
Measurement: Number of permit violations caused by CIP delivery for the fiscal year. Target: Green: zero incidents; Amber: 1 to 2; Red: > 2							
Staffing⁷	80%	NA			100%		
		0/0			15/15		
Measurement: Number of planned positions filled for the fiscal year. Target: Green: >=80%; Amber: 70% to 79%; Red: < 70%							

Notes

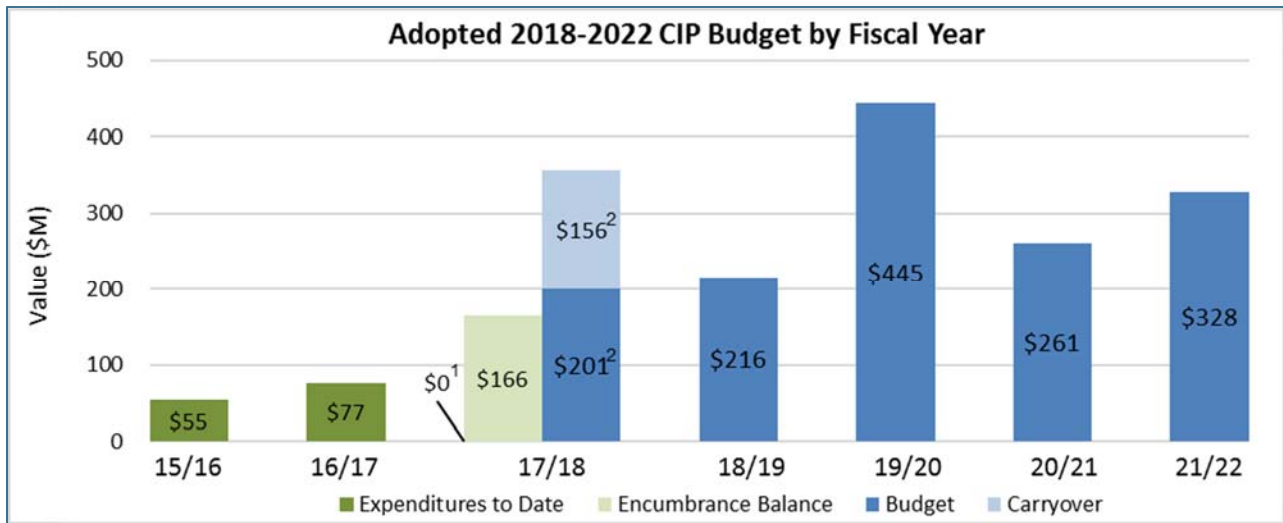
1. The Filter Rehabilitation Project and Advanced Facility Control & Meter Replacement Project successfully completed Stage Gate 2: Confirm Project Alternative and Stage Gate 4: Approve Preliminary Design, respectively. Flow Management Study successfully completed Stage Gate 2: Final Acceptance.
2. The Emergency Diesel Generators Project reached Beneficial Use this month, but was more than two months late.
3. The Construction-Enabling Improvements Project is expected to be delivered this fiscal year more than two months late.
4. The baseline Beneficial Use date and the baseline budget for each project are established at construction contract award and execution.
5. The Digester Gas Compressor Upgrade Project is expected to be accepted this fiscal year, but is currently over budget.
6. Due to the reversal of 2016-2017 accruals, actual expenses in July are negative and not stated in this report. These negative expenses will be offset when the 2016-2017 invoices are paid.
7. The staffing KPI represents CIP recruitments planned for the fiscal year and is measured quarterly. This KPI measurement does not account for staff turnover throughout the fiscal year.



Program Cost Performance Summary

This section summarizes CIP cost performance for all construction projects and non-construction activities for fiscal year (FY) 17-18 and for the 2018-2022 CIP.

Adopted 2018-2022 CIP Expenditure and Encumbrances



Notes

1. Due to the reversal of 2016-2017 accruals, actual expenses in July are negative. These negative expenses will be offset when the 2016-2017 invoices are paid.
2. Actual Budget: \$200.5M; Actual Carryover Balance: \$155.9M; rounded total: \$356M.

Expenditure: Actual cost expended, either by check to a vendor or through the City's financial system, for expenses such as payroll or non-personal expenses that do not require a contract.

Encumbrance: Financial commitments, such as purchase orders or contracts, that are committed to a vendor, consultant, or contractor. An encumbrance reserves the funding within the appropriation and project.

Encumbrance Balance: The amount of the remaining encumbrance committed after payments.

Budget: Adopted 2018-2022 CIP Budget, which is new funding plus rebudgeted funds in FY17-18.

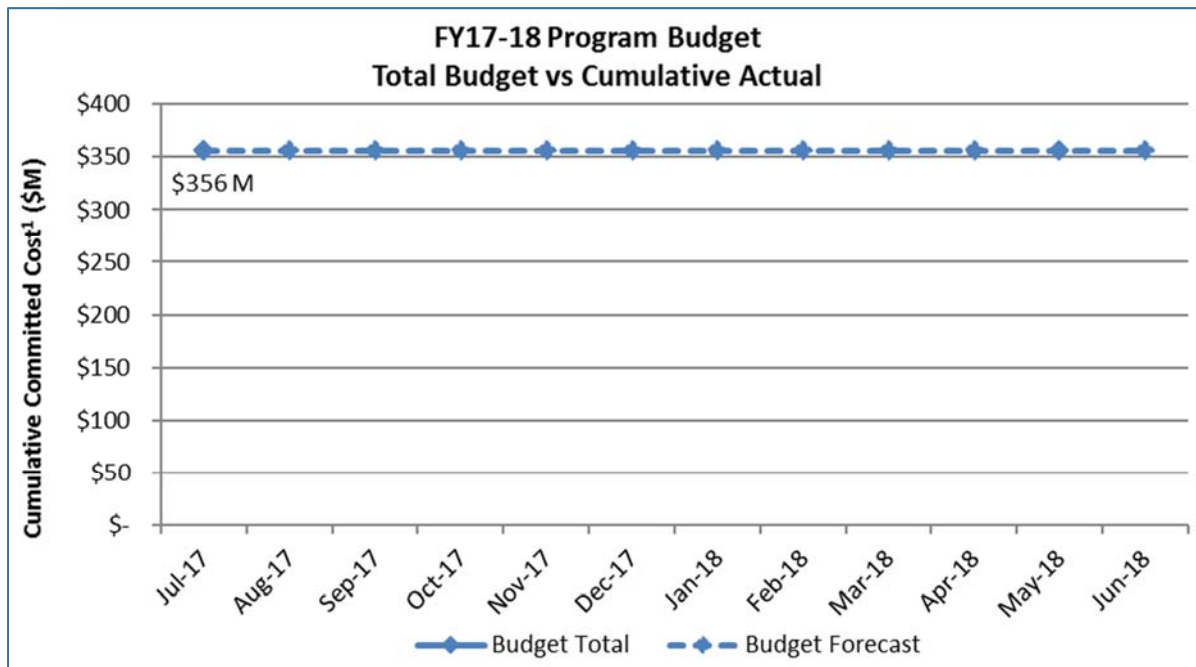
Carryover: Encumbrance balances at the end of a fiscal year become carryover funding. Carryover is different from rebudgeted funds in that it automatically utilizes funding that was previously committed, but not yet paid.



Fiscal Year 2017-2018 Program Budget Performance

This budget comprises the FY17-18 budget of \$200.5 million, plus carryover of \$155.9 million. The budget excludes Reserves, Ending Fund Balance, South Bay Water Recycling, Public Art, and Urgent and Unscheduled Rehabilitation items.

The committed costs forecast for Fiscal Year 2017-18 are currently being finalized and will be included in next month's report.



Notes

















1. Committed costs are expenditures and encumbrance balances, including carryover (encumbrance balances from the previous fiscal year).







Project Performance Summary

There are currently eight active projects in the construction or post-construction phases, with an additional 17 projects in feasibility/development, design, bid and award, or design and construction (design-build projects) phases (see PDM, page 2). All active projects are listed in the tables below. Projects in the construction phase have established cost and schedule baselines and are monitored using the City's Capital Project Management System (CPMS). Green/red icons are included in the table below to indicate whether these projects are on budget and schedule, using CPMS data as a source.

Project Performance – Baselined Projects

Project Name	Phase	Estimated Beneficial Use Date ¹	Cost Performance ²	Schedule Performance ²
1. Fiber Optic Connection	Post-Construction	Jan 2017 ³		
2. Digester Gas Compressor Upgrade	Construction	Apr 2017 ³		
3. Emergency Diesel Generators	Construction	Jul 2017 ³		
4. Construction-Enabling Improvements	Construction	Nov 2017		
5. Iron Salt Feed Station	Construction	Nov 2017		
6. Plant Instrument Air System Upgrade	Construction	May 2018		
7. Headworks Critical Improvements	Construction	Jun 2018		
8. Digester and Thickener Facilities Upgrade	Construction	Aug 2020		

KEY:

Cost:	 On Budget	 >1% Over Budget
Schedule:	 On Schedule	 >2 months delay

Notes

- Beneficial Use is defined as work that is sufficiently complete, in accordance with contract documents, that it can be used or occupied by the City. Beneficial Use dates are reviewed as part of project schedule reviews.
- An explanation of cost and schedule variances on specific projects identified in this table is provided on page 11.
- Actual Beneficial Use date.



Project Performance – Pre-Baselined Projects

Project Name	Phase	Estimated Beneficial Use Date ¹
1. Cogeneration Facility	Design & Construction	Aug 2019
2. Blower Improvements	Design	Oct 2020
3. Adv. Facility Control & Meter Replacement	Design	Dec 2022
4. Outfall Bridge and Levee Improvements	Feasibility/Development	Oct 2020
5. Headworks Improvements	Feasibility/Development	May 2021
6. Switchgear S40 Upgrade, M4 Replacement, G3 & G3A Removal	Feasibility/Development	Feb 2022
7. Digested Sludge Dewatering Facility	Feasibility/Development	Jul 2022
8. Filter Rehabilitation	Feasibility/Development	Sep 2022
9. New Headworks	Feasibility/Development	Sep 2022
10. Support Building - Fire Life Safety Update	Feasibility/Development	Sep 2022
11. Support Building - HVAC Improvements	Feasibility/Development	Sep 2022
12. Facility-wide Water Systems Improvements	Feasibility/Development	Feb 2023
13. Nitrification Clarifiers Rehabilitation	Feasibility/Development	Nov 2023
14. Aeration Tanks Rehabilitation	Feasibility/Development	Aug 2025
15. Tunnel Rehabilitation	Feasibility/Development	Dec 2025
16. Support Building Improvements	Feasibility/Development	May 2026
17. Yard Piping and Road Improvements	Feasibility/Development	Aug 2026

Notes

1. Beneficial Use is defined as work that is sufficiently complete, in accordance with contract documents, that it can be used or occupied by the City. Beneficial Use dates are reviewed as part of project schedule reviews.



Significant Accomplishments

Biosolids Package

Digester Thickener and Facilities Upgrade

- Contractor Walsh Construction is continuing the structural rehabilitation of the digesters. All concrete work inside the digesters has been completed and the installation of post-tensioning cables has been initiated. All foundation work for elevated pipe rack columns is completed. The contractor has started work on the sludge storage tank for the new sludge screening facility.

Facilities Package

Cogeneration Facility

- The project team held a value engineering workshop on July 12. The design-builder will incorporate the comments into the 60 percent design.

Facility-wide Water Systems Improvements

- Design consultant Kennedy/Jenks commenced field testing of the four water systems at the RWF. As part of the projects alternative analysis stage this work is being carried out in conjunction with condition assessment studies prior to development of an updated hydraulic model of the water systems.

Yard Piping and Road Improvements

- The technical panel evaluated SOQs and interim rankings were posted for owner's advisor services. Interviews will be conducted in August and staff anticipates awarding an MCA in November.

Liquids Package

Advanced Facility Controls and Meter Replacement

- The project team successfully passed Stage Gate 4: Approve Preliminary Design and has moved into the detailed design stage. To better align construction with planned maintenance shutdowns, the project was divided into two phases with the 100 percent design of the first phase anticipated to be completed in the fall.

Blower Improvements

- The project team hosted a Vendor Day to familiarize prospective bidders with the project and solicit interest. Attendees included general contractors, subcontractors, and equipment suppliers.

Filter Rehabilitation

- The project team successfully completed Stage Gate 2: Confirm Project Alternative and obtained approval to begin conceptual design. The project team will develop plans to rehabilitate all 16 filters, including new filter media and air scour systems.

Headworks Critical Improvements

- Contractor Overaa Construction began work, including mobilization and preparation of critical equipment submittals.

Headworks Improvements and New Headworks

- The City received SOQs from four design-build teams. The Technical Evaluation Panel will evaluate the proposals and issue a Notice of Determination by the end of August.

Nitrification Clarifiers Rehabilitation

- The project team initiated the conceptual design work with the design consultant, HDR.

Power and Energy

Emergency Diesel Generators

- The project reached Beneficial Use on July 7.

Plant Instrument Air System Upgrade

- Contractor Anderson Pacific installed the building footing. The building slab is scheduled to be poured next month.

Studies and Programwide Services

Flow Management Study

- The team successfully completed Stage Gate 2: Final Acceptance.



Explanation of Project Performance Issues

Construction-Enabling Improvements

This project was originally scheduled to be substantially complete by mid-February 2017. Due to the extremely wet winter season, contractor Teichert Construction was unable to perform substantial site work for several weeks from October through April. Teichert has been granted 47 extra work days for weather-related delays. Teichert has also been granted additional time for the removal and replacement of asphalt pavement in damaged areas of Zanker Road; installing traffic-rated pull boxes for the streetlight system; installing underground conduits for the fiber optic system; and additional changes.

Delays in the fabrication and delivery of the trailers continue to impact the schedule. Teichert now estimates that trailers required for the project will be delivered in late September. Installation and furnishing of the trailers, plus final inspection, should take another four to six weeks, placing the Beneficial Use date in early November 2017.

Digester and Thickener Facilities Upgrade

Numerous unforeseen conditions are impacting the project schedule. The conditions, detailed below, are resulting in an estimated delay to the Beneficial Use date of four months. The project team continues to evaluate the schedule delays.

- Major corrosion of an existing, below-ground 78-inch settled sewage (SES) pipeline and junction structure was encountered during construction. This corrosion has impacted the DAFT tank piping connections, two new pressurization flow boxes, and utility relocation work. All repairs have been postponed until the 2018 dry season, when a bypass pumping system can be safely installed to allow repair work to continue. Pricing and submittal review of bypass pumps and piping is in progress.
- An unidentified, 36-inch biochemical oxygen demand pipe was discovered during preparation of the foundation for the new sludge screen building. The contractor removed this pipe and relocated several unforeseen digester and landfill gas drain vaults and associated piping.
- Multiple unforeseen utility conflicts with water, natural gas, digester gas, landfill gas, storm drain, and sanitary sewer pipelines have impacted progress. These conflicts have caused multiple utility pipe, conduit, and duct bank relocations across the site, and have also impacted the new digester gas pipe rack footings, causing rerouting and other design changes.
- Digester gas bypass work has been delayed approximately six months due to BAAQMD venting restrictions. Work on digester gas bypass connections has begun, with the installation of the bypass anticipated to be completed later this fall.

Digester Gas Compressor Upgrade

This project is over budget by approximately 3 percent due to higher than anticipated project delivery costs associated with increased construction inspection requirements and an extended project timeline.

The contractor achieved Beneficial Use in April 2017 and final acceptance is scheduled for October. This schedule delay was primarily due to the following factors:

- The compressor skids needed to be reclassified from Class 1, Division 2 to Class 1, Division 1. This issue was resolved in May 2015.
- BAAQMD delayed approval of the digester gas flaring during the tie-in of the new gas piping. This issue was resolved in November 2016.
- Functional testing of the automation system took longer than anticipated.
- Multiple competing process shutdowns with other projects contributed to the delay.

Emergency Diesel Generator

The project reached Beneficial Use this month and final acceptance is scheduled for October. The schedule shows a project completion delay of approximately one year from the Notice to Proceed (NTP) completion date. The City granted a schedule addition of 179 working days through the change order process, due to additional scope. The project has extended beyond the original schedule due to the following factors:

- Caterpillar, the supplier of the emergency diesel generator system, has taken longer than expected to develop the controls and network switches that interface with existing RWF controls. Caterpillar and Peterson Control are in the process of completing all outstanding items. A problem was found with the new network switches during the factory acceptance test. The City and the design-build team completed an engineering study and found a solution to the problem. Additional switches have been installed for the existing network system. Caterpillar's completion of the Level 2 process load tuning testing for four new emergency diesel generators also took longer than anticipated.
- Additional time was required for PG&E to review the third-party report on the protective devices testing and to schedule the witness test for the new emergency diesel generators. PG&E has now completed this work.
- A no-cost time extension change order was required to split the commissioning sequence into two phases and ensure RWF backup power during engine modification work. The contractor completed the first two phases of the project,



including modifications to the existing EG1 engine; an eight-hour load test for the four new generators; installation of the fueling and diesel exhaust fluid systems; and upgrades to the existing EG2 and EG3 engines and M4 switchgear. The project was completed in July and is moving into the post-construction phase for completion of remaining minor outstanding items and necessary training.



Project Profile – Blower Improvements

The RWF secondary treatment process consists of two separate biological nutrient removal (BNR) systems, BNR-1 and BNR-2. These systems include a biological treatment process that removes organics from the incoming primary effluent. The main system components include the blowers and aeration tanks' air headers and diffusers. The air provided by the blowers is used to accelerate the biodegradation of organic material in the biological nutrient removal process.

BNR-1 and BNR-2 were originally constructed in 1961 and 1975, respectively. The blowers that serve the secondary treatment system have aged beyond their useful lives and require rehabilitation to ensure long-term operations while minimizing maintenance requirements. The 14 aeration blowers serving BNR-1 and BNR-2 are located throughout the RWF in three separate buildings: the Process & Air Building; the Secondary Blower Building; and the Tertiary Blower Building.

The project's key goals are to extend the useful life of the RWF's blower aeration system by another 30 years and to achieve improved energy efficiency. The project scope includes the design, fabrication, and installation of new motors, new variable frequency drives/reduced voltage soft starters, and new instrumentation and controls, as well as the decommissioning and demolition of four SBB blowers. This will result in increased reliability and redundancy for the entire blower aeration production system, using modern controls and instrumentation upgrades.

The program management consultant, Stantec/Carollo, completed a comprehensive condition assessment of the blower system in April 2016 and the conceptual design in September 2016. The designer, Brown and Caldwell, advanced the preliminary design to the 30 percent completion stage in March 2017. A value engineering analysis performed in April 2017 identified more than \$3.5 million in savings for an investment of less than \$120,000, using an independent firm, Hazen & Sawyer. The latest construction cost estimate prepared at the 30 percent design stage is approximately \$28.8 million.

The project will be delivered using conventional DBB approach. The project is scheduled to complete the 60 percent detailed design by the early September, and 100 percent design by late January 2018. The team anticipates awarding the project in summer 2018 and beginning construction in fall 2018. Beneficial Use is expected to be achieved in early 2021.

It is estimated that the aeration blower system improvements in combination with the replacement of coarse bubble diffusers will result in a significant reduction of energy usage. This is in comparison with current energy usage.



Figure 2: Existing Engine Blower

Regional Wastewater Facility Treatment – Current Treatment Process Flow Diagram

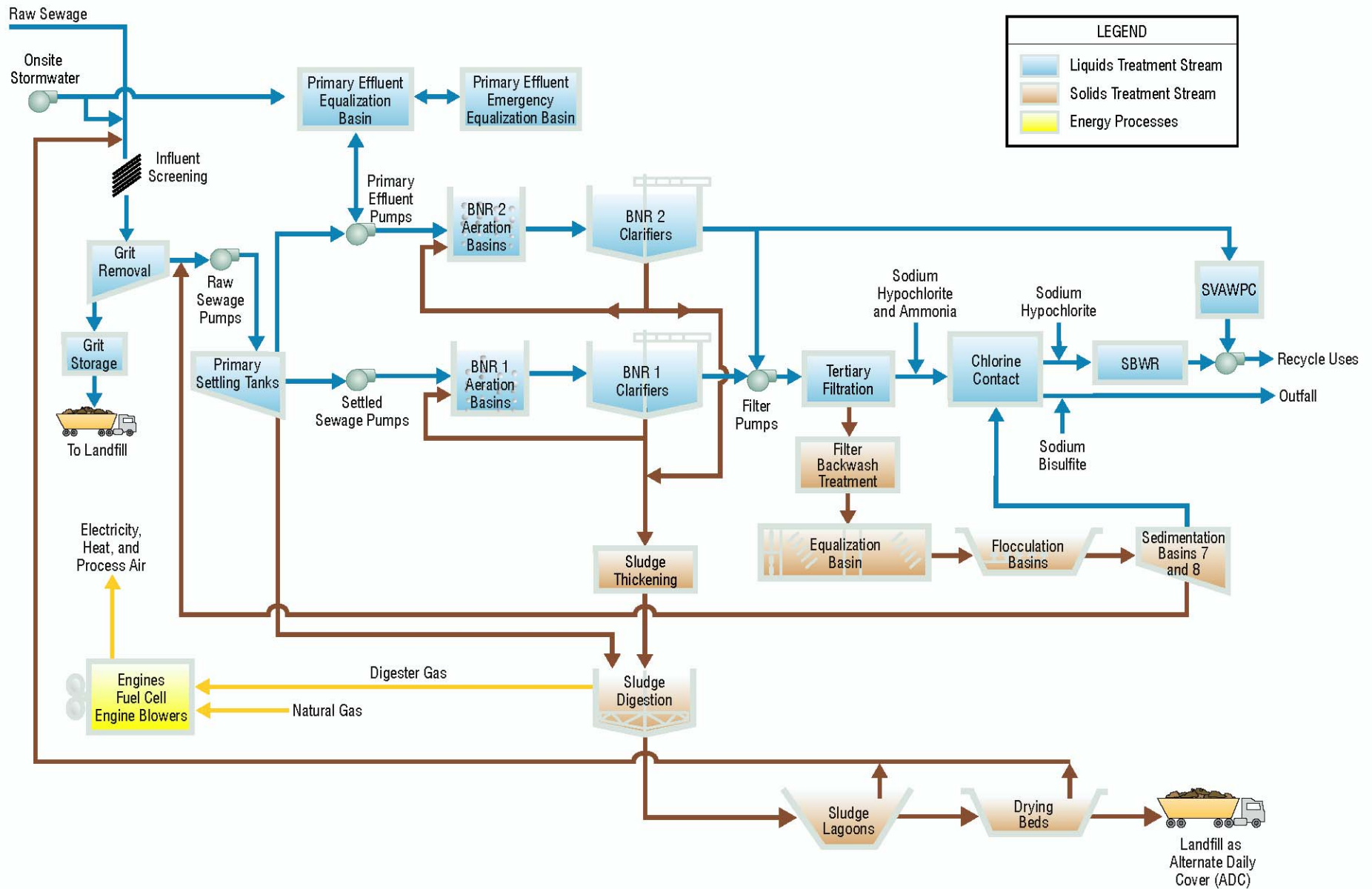


Figure 3 – Current Treatment Process Flow Diagram



Regional Wastewater Facility Treatment – Proposed Treatment Process Flow Diagram

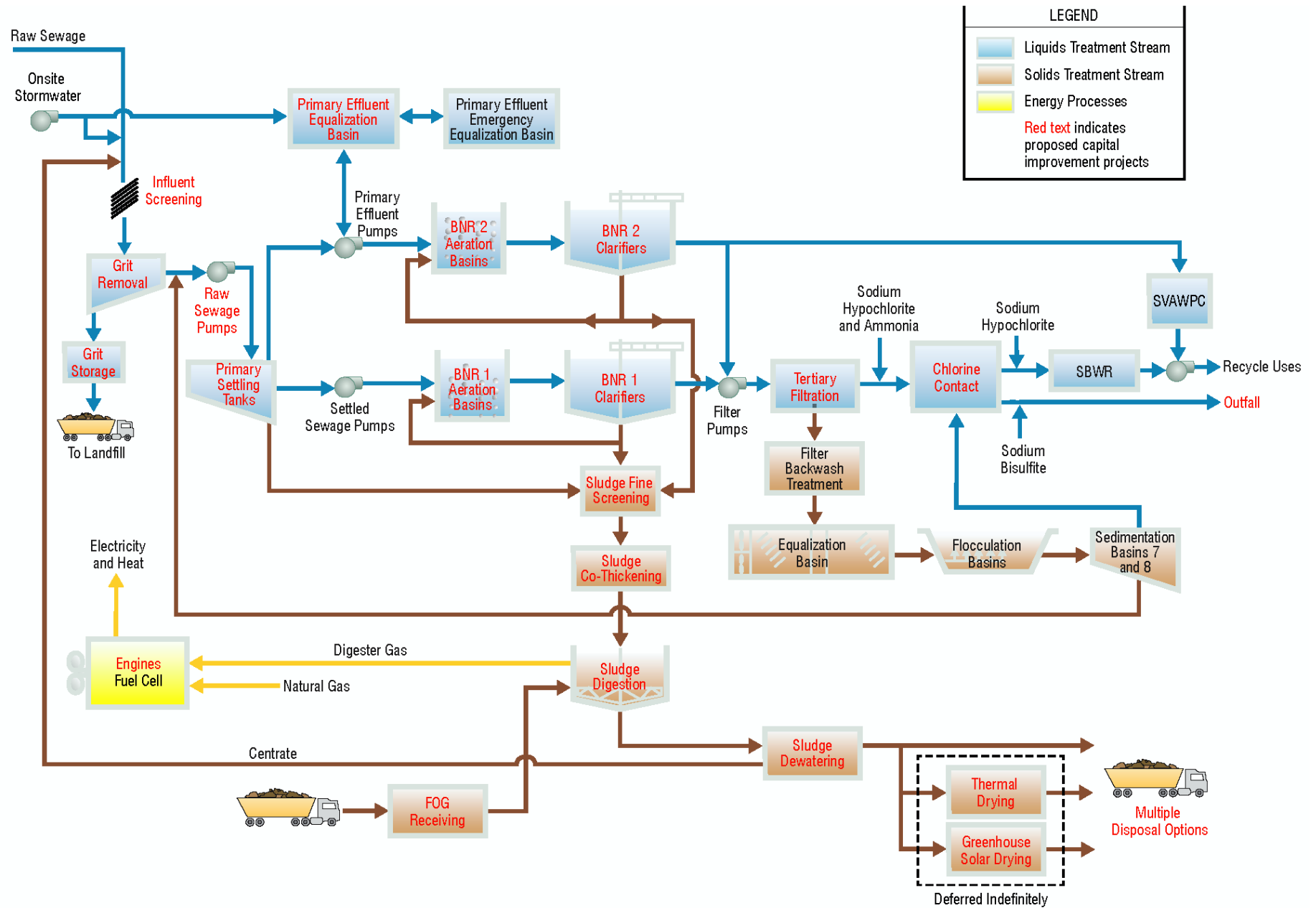


Figure 4 – Proposed Treatment Process Flow Diagram



Active Construction Projects – Aerial Plan

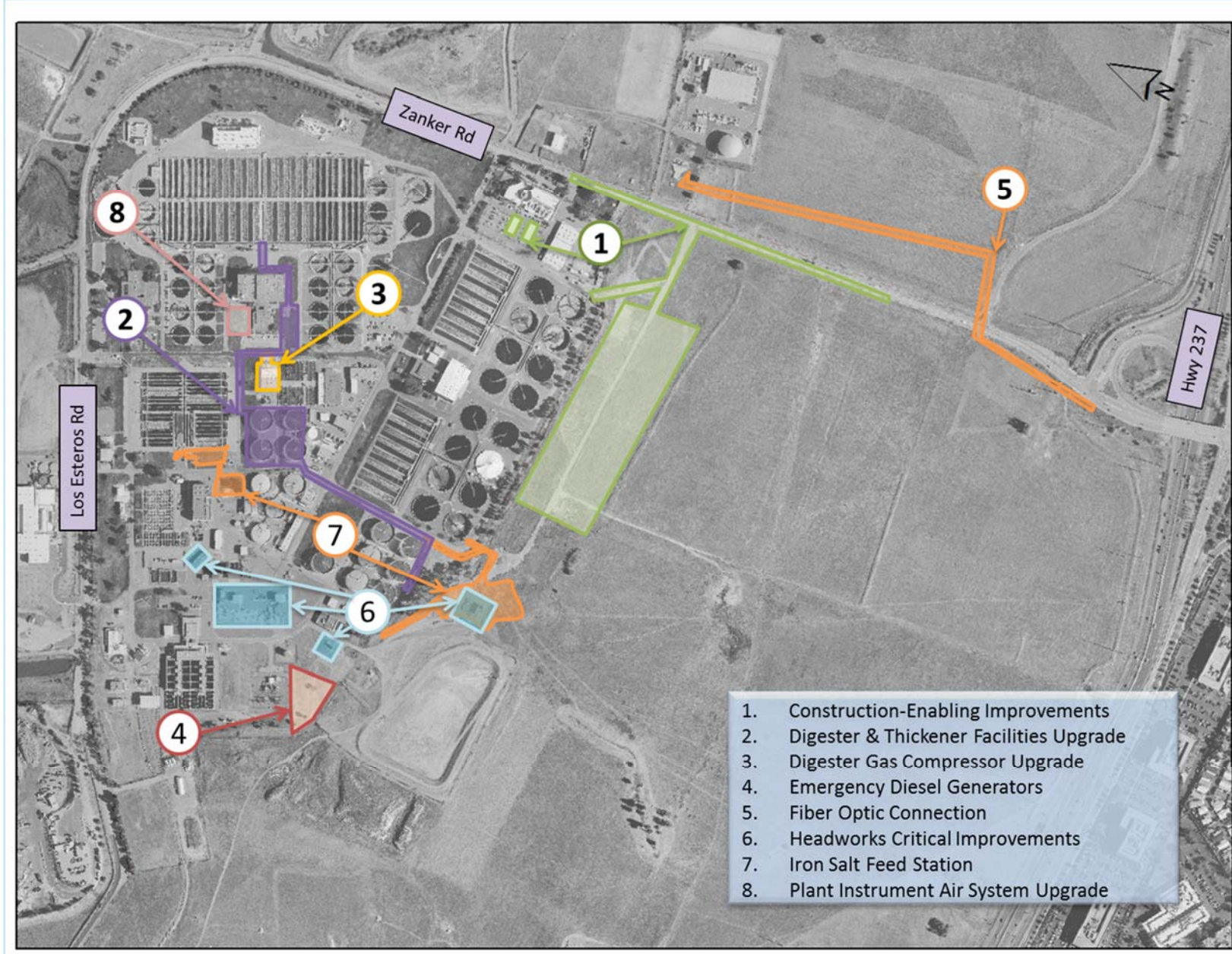


Figure 5 – Active Construction Projects





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> <ul style="list-style-type: none"> a. the multiplier and establish a not-to-exceed hourly billing rates by position in future services orders b. 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> <ul style="list-style-type: none"> a. 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. b. 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> <ul style="list-style-type: none"> a. Changes to key staff (e.g. additions, substitutions) b. Addition of new subconsultants c. 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> <ul style="list-style-type: none"> a. Whether City should seek repayment of geographic pay differential b. If amendment includes a geographic pay differential, the amount of the differential and that the multiplier should not apply 	<p>ESD will:</p> <ul style="list-style-type: none"> a. Work with the City Attorney’s Office to determine whether the City should seek repayment of geographical pay differential. b. 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>



Memorandum

TO: HONORABLE MAYOR AND
CITY COUNCIL

FROM: Julia H. Cooper

SUBJECT: SEE BELOW

DATE: August 28, 2017

Approved

D. D. S. L.

Date

9/6/17

SUBJECT: APPROVAL OF CITYWIDE INSURANCE RENEWALS

RECOMMENDATION

Adopt a resolution authorizing the Director of Finance to:

- (a) Select and purchase City property and liability insurance policies for the period October 1, 2017 to October 1, 2018, at a total cost not to exceed \$1,850,000, including a 12.6% contingency for additional property or assets scheduled, with the following insurance carriers:
 - (1) American Home Assurance Company for Property & Casualty Insurance, including Boiler & Machinery.
 - (2) Old Republic Aerospace, Phoenix Aviation Managers, for Airport Owners and Operators Liability including War Risks & Extended Perils Coverage (Primary and Excess) and Police Aircraft Hull & Liability including War Risks & Extended Perils.
 - (3) The Travelers Indemnity Company of CT for Automobile Liability, or other insurance carriers that the City is currently in negotiations with, (Airport fleet vehicles including Shuttle Buses, Regional Wastewater Facility fleet vehicles, and Airport Shuttle Bus physical damage).
 - (4) QBE Specialty Insurance Company for Secondary Employment Law Enforcement Professional Liability.
 - (5) National Union Fire Insurance Company of Pittsburg, PA for Life/Accidental Death and Dismemberment Policy for the Police Air Support Unit.
 - (6) Berkley Regional Insurance Company for Government Fidelity/Crime Coverage.
 - (7) Hudson Insurance Company, for Fiduciary Liability Coverage for the VEBA Health Savings Trust.

OUTCOME

Approval of these insurance policies will ensure the City maintains appropriate insurance coverage to provide financial protection from certain types of catastrophic or financial loss.

EXECUTIVE SUMMARY

The recommended insurance policies will provide coverage to protect the City from loss or claims due to specified catastrophic events or financial losses. Annually, the Finance Department analyzes the City's insurance coverage with the City's Insurance Broker, Arthur J. Gallagher Insurance Services ("Gallagher").

Gallagher receives competitive quotes from the insurance market and presents the results to the City Administration for consideration. After reviewing the City's financial standing, the scope and cost of coverage, as well as the insurer's financial strength to pay claims and provide additional resources, the Finance Department determines the appropriate insurance coverage and recommends the most advantageous insurance policies.

The total cost of insurance premiums, broker costs, taxes, and fees is \$1,643,049. The annual premiums are subject to change during the term associated with changes to the City's insured property or assets.

BACKGROUND

Every year, the City of San José ("City") purchases insurance to protect the City against a catastrophic event or specified loss perils, when the frequency of events cannot be predicted, the severity of potential loss could seriously hamper operations, and the cost of the insurance policy is not prohibitive.

To secure policies through "best practices," the City utilizes its insurance broker to review and analyze the insurance market, regional claims' history and exposures, the City's insurance needs, and the City's historical approach to insuring for potential losses. For this year's renewals, the City had high risk or complex claims on two policies. During renewals, the City notified carriers of improvements and considerations to reduce exposures from future events and to reduce rates. The City also added a Fiduciary Liability Policy for the City's administration of a soon to be implemented Voluntary Employees' Beneficiary Association (VEBA) Health Savings Trust.

In addition, staff reviewed and considered the viability of additional policies including Excess Liability Insurance, Earthquake Insurance, Program-Specific Excess Liability for Law Enforcement Liability and the Regional Wastewater Facility, and both an excess and a fully insured Workers' Compensation Insurance Program. The City does not recommend any of these additional coverages at this time due to the products being cost prohibitive, scope of coverage

being too narrow considering the City's risk exposure, or, that coverage was unavailable or excessive in cost due to the nature of the risk.

ANALYSIS

Annually, the Finance Department reviews the City's risk exposures with the City's insurance broker, Gallagher, and measures those exposures, recent City claims, insurance market trends, product availability, and the City's historical approach to insuring for losses. Gallagher's responsibilities include working with staff to analyze the City's exposures and presenting the City's risk portfolio to insurance carriers to obtain the best value insurance coverage.

Annually, Gallagher solicits competitive quotations from major insurance companies for all recommended products. The quotes are compared and evaluated with respect to scope of coverage, cost, the insurer's financial strength and reputation on paying claims, and the insurer's availability of resources to provide industry-related services such as property evaluations, safety training, risk related engineering services, and loss control. Major claims related to the February 2017 flood event contributed to an 8.20% increase in total costs.

Appendix A reflects the best value coverage, renewal premiums and insurance carriers presented for FY 2017-2018. The quoted renewal premiums may change with the addition or deletion of insurable property prior to binding coverage or during the policy term.

Appendix B provides a comparison of insurance premiums by fund and type of insurance. This comparison shows that the aggregate cost of insurance and brokers fees is \$1,643,049, which is \$124,490 more than last year's premium of \$1,518,559, an 8.20 % increase in total costs.

A. Insurance Coverage Recommended

1. All Risk Property & Casualty including Boiler & Machinery Property Insurance

Provides coverage for City owned and leased real and personal property (including buildings, contents, business interruption, boiler and machinery, electronic data processing equipment and media, fine arts, loss of rents, expediting expenses, off premises services interruption, unnamed locations, transit, tunnels/bridges/roadways, animals, accounts receivable, valuable papers, data, rebuild with green upgrades, and other coverage as detailed in the policy forms subject to sub-limits as defined in the policy). This includes property previously owned by the Redevelopment Agency of the City of San José, which, as a result of the dissolution of the Redevelopment Agency on February 1, 2012, is now owned by the Successor Agency to the Redevelopment Agency ("Successor Agency").

The property insurance limit is \$1 billion each occurrence with a \$100,000 deductible per occurrence. The City has additional coverage for the special loss peril of flood with \$25,000,000 in limits and a \$100,000 deductible per occurrence for properties not in

flood zones and a \$1,000,000 or 5% total insured value of all locations per occurrence deductible for those properties located in flood zones.

In addition to the insurance products procured, the City successfully utilized risk engineering services to evaluate the risk engineering at eight, City-owned properties. Risk engineering services help identify common risks resulting in damage or destruction of property such as vandalism, fire, theft, flood, or other operational risks and are geared to finding solutions aimed to reduce property loss or disruption of use. The City also used additional appraisal services provided through the City's broker agreement, to survey and value the total replacement value of twelve properties.

Total program costs increased by \$116,979 or 9.51% from the previous fiscal renewal year. Three factors resulted in higher premiums: 1) property value inflations for the Santa Clara index, property values increased by approximately 1%; 2), additional properties acquired during FY 2016-17 resulting in a 3.5% increase in the schedule's total replacement value; 3) City sustained property damage to scheduled properties as a result of the February 2017 storm and flood event that superseded the policy's loss ratio factor and voided the policy rate guarantee. Due to recent reported losses, no carrier would offer a multiyear guaranteed rate.

Insurance Carrier: American Home Assurance Company

<u>Annual Premium:</u>	\$1,235,616 ¹
<u>Broker Fees:</u>	88,500
<u>TRIA Coverage:</u>	<u>22,204</u>
<u>Total Annual Premium:</u>	\$1,346,320

2. Airport Owners and Operators Liability including War Risks & Extended Perils Coverage

Provides coverage for those amounts that the City becomes legally obligated to pay as damages because of bodily injury, property damage and personal injury resulting from airport operations. Additionally, the program provides coverage for bodily injury or property damage caused by war and other perils.

In 2015, the airport liability insurance premium decreased by 47% as a result of aggressive product marketing, competitive industry market, and a favorable loss history. The City locked a three-year, guaranteed rate which continues to be the best market rate as verified through a competitive process that was conducted this year.

¹ This includes an estimated premiums and costs of \$8,258 that will be directly invoiced to the Successor Agency, for the Successor Agency's scheduled properties.

Insurance Carrier: Old Republic Aerospace, Phoenix Aviation Managers

Annual Premium: \$41,800

TRIA Coverage: 3,800

Total Annual Premium: \$45,600

3. Secondary Employment Law Enforcement Professional Liability

Provides coverage for an actual or alleged error or omission, negligent act, neglect or breach of duty that results in bodily injury, property damage, or personal injury by City police officers who have been approved to participate in the Secondary Employment program while conducting law enforcement activities on behalf of an approved third party secondary employer.

In 2016, the City changed carriers to QBLE as the City's incumbent carrier Indian Harbor Insurance Company no longer offered this line of coverage. The City secured a rate of \$142.33 per officer premium equal to the previous year's rate at \$140.00 per officer (surplus tax not included) or, a 1.4% increase in the rate per participant resulting primarily from the shift of reserve to active officers. Participating officers all contribute \$110 per year to obtain coverage and the number of participating officers decreased from 777 officers to 687 officers.

Insurance Carrier: QBLE Specialty Insurance Company

Annual Premium: \$97,783

Surplus Lines Tax: 3,129

Total Annual Premium: \$100,912 (Gross)

Total City Cost: \$25,342

Total Officer Cost: \$75,570

4. Automobile Liability for Airport Fleet & Shuttle Bus Fleet Physical Damage

Automobile liability provides coverage for bodily injury, property damage, and personal injury for claims arising out of the operation at the Airport. Airport Shuttle Bus Physical Damage coverage provides comprehensive physical damage (i.e. fire, theft, vandalism, malicious mischief) and collision damage subject to a \$25,000 deductible.

Total premium increased by \$1,968 or 3.5% because of an industry-wide increase in premium rates and the carrier's outstanding risk recommendation to implement a centralized fleet safety program.

Insurance Carrier: The Travelers Indemnity Company of CT

Total Annual Premium: \$58,164

5. Automobile Liability for Water Pollution Control Plant Fleet

Automobile liability provides coverage for bodily injury, property damage and personal injury for claims arising out of the operation at the Treatment Plant.

Total costs increased by \$6,013 or 20.72% because of an overall industry rate increase, the total replacement value of scheduled vehicles, and, more importantly, a large, complex claim filed against the policy in FY 2016-17.

Insurance Carrier: The Travelers Indemnity Company of CT
Total Annual Premium: \$35,028

6. Police Aircraft Hull and Liability including War Risks & Extended Perils Coverage

Police aircraft hull and liability insurance provides coverage for those amounts that the City becomes legally obligated to pay as damages because of bodily injury (including passengers), property damage and hull coverage for scheduled aircraft including a Cessna 182 and American Eurocopter EC 120B. Additionally, this program provides coverage for bodily injury or property damage caused by war and other perils resulting from aviation operations.

Two aircraft are on the schedule, N408DC and N2705 with current hull values of \$1.75 million and \$275,000 respectively, and aggregate liability limit of \$50 million. The City may schedule a third aircraft (helicopter) or an unmanned aerial vehicle (UAV or "drone") if funding is secured. Additional estimated premiums of \$29,000 are included in the recommended, not-to-exceed costs.

The police aircraft hull and liability insurance premium has a locked rate reflecting savings from the 44% decrease in premium during the previous two years. FY 2017-18 is the third year of the three-year rate guarantee. Staff verified through the competitive process the rate guarantee remains a best rate.

Insurance Carrier: Old Republic Aerospace, Phoenix Aviation Managers
Total Annual Premium: \$17,998

7. Government Crime Policy

Provides coverage to the City for financial losses arising from employee theft, forgery or alteration, robbery or safe burglary, computer fraud, funds transfer fraud, or money orders and counterfeit money fraud. A Government Crime policy was first procured in compliance with Section 905 of the City Charter which requires a bond for all officers and employees having custody or control of public funds. A Government Crime policy affords equal or greater scope of coverage than a bond and has the added benefit of not having to continually remove and add employees as would be required by a bond.

In December of 2016, the City bound a short term policy to fully incorporate the policy into the annual renewal schedule. In comparison to the short-term rate weighed on an annual basis, the City obtained a fixed rate for FY 2017-18.

Insurance Carrier: Berkley Regional Insurance Company
Annual Premium: \$20,816

8. Life/Accidental Death and Dismemberment Policy for Police Air Surveillance Unit

Provides a life benefit and accidental death and dismemberment benefit of \$250,000 for accident or injury of any member of the Police Air Support Unit as defined in Section 5.3.8 of the San José Police Officer's Association (POA) Memorandum of Agreement (MOA). Last year, the City added this insurance product to its annual renewal process with an 87% reduction in cost and a three-year policy product with total premium of \$6,699 and an annual rate guarantee of \$2,233 per year.

Insurance Carrier: National Union Fire Insurance Company of Pittsburgh, PA
Annual Premium (second year of three-year policy)²: \$2,233 per year

9. Fiduciary Liability for VEBA Health Savings Trust

Fiduciary liability insurance is a claims-made policy that provides coverage for financial losses and claims expenses for which the City becomes legally obligated to pay because of fiduciary exposures resulting from the City's role in the administration of a Voluntary Employees' Beneficiary Association (VEBA). The VEBA will be a retiree healthcare savings vehicle for City employees in lieu of the defined benefit retiree healthcare plan and requirements of enrollment and contribution as provided in the City's collective bargaining agreements and San Jose Municipal Code. Implementation of the VEBA is expected to commence in FY 2017-18.

Insurance Carrier: Hudson Insurance Company
Annual Premium: \$15,828
Risk Placement Services (RPS) Fee: \$150
Total Annual Premium: \$15,978 (including \$150 RPS Fee)

10. Terrorism Risk Insurance Act of 2002 (TRIA)

Terrorism Risk Insurance Act (TRIA) coverage provides an insurance mechanism (shared by private carrier and federal government) for losses arising from acts of terrorism as certified by the Secretary of Treasury and defined by the Terrorism Risk Insurance Act

² The recommended policy is for three (3) years with an annual installment premium and the policy is subject to termination based on annual appropriation of funds and the City having the ongoing obligation to procure coverage per Section 5.3.8 of the San José Police Officer's Association (POA) Memorandum of Agreement (MOA).

(TRIA). Coverage is currently provided through a temporary federal program for 85% of total aggregate loss up to \$100 billion in aggregate losses with total losses being no less than \$5 million. The cost of purchasing TRIA coverage is fully incorporated into the product cost analysis above.

B. Insurance Coverage Not Recommended

The insurance coverages described below were reviewed and analyzed by staff with the assistance of the City's broker and were determined to be cost prohibitive or were not available on the market. Staff, in consultation with Gallagher, will continue to review the market on a periodic basis and make the appropriate recommendations to Council should circumstances change.

1. Workers' Compensation

Workers' compensation claims coverage provides costs for medical and temporary and permanent impairment to an employee for work-related injuries. Risk Management has previously gone to market for excess liability workers' compensation only, where the carrier is responsible for liabilities above a defined dollar threshold.

For a limit of \$5 million in employer's liability and statutory for workers' compensation, estimated insurance premiums on three different self-insurance retention levels as shown in the table below are:

<u>Self-Insured Retention/Deductible per Occurrence</u>	<u>Annual Premium</u>
\$5 million	\$550,000
\$3 million	\$825,000
\$2 million	\$1,300,000

On the excess workers' compensation policy (per occurrence), the City would have to cover the loss up to the retention value, at which time coverage would become applicable. Please note that the City historically has had two workers' compensation claims valued at or over \$1 million.

This fiscal year, Risk Management also went to market seeking pricing indications to evaluate costs associated with a fully insured workers' compensation insurance product or a policy without a self-insured retention or deductible. In reviewing the market and the City's ten-year loss history, the City received pricing indications at \$25 million to \$30 million dollars for a fully insured policy.

Estimated costs of coverage for either an excess liability insurance product as well as a fully insured workers' compensation plan for FY 2017-18 have increased consistent with

the product's cost industry-wide and in consideration of the City's previous ten year's claims history and costs. In FY 2017-18, the market and costs associated with workers' compensation continues to rise including increasing medical and pharmaceutical costs. cost increases for medical and pharmacy costs. In lieu of a traditional excess workers' compensation policy, the City also explored a Cash Flow product to fund losses arising from workers' compensation claims in the event of mass casualty. The coverage is not recommended because the policy coverage was substantially limited in scope compared to the premium costs.

Considering the City's claim cost history, high frequency of claims, and the high self-insured retentions and annual premiums, staff believes that purchase of excess workers' compensation insurance is not cost effective.

2. Excess Liability

Excess liability coverage is insurance for losses and cost of defense against third-party claims alleging bodily injury, property damage, and personal injury arising from City premises, operations, and vehicles above a defined dollar threshold. Coverage excludes losses the City has because of third parties' acts, grievances, appeals to City filed cases, regulatory matters, environmental liability claims, employment matters, professional liability matters, or contract disputes.

The City has historically been self-insured for liability claims, except for Airport Owners and Operators Liability Insurance and Aircraft Hull and Liability coverages. In 2017, the City has added a fiduciary liability policy to cover the VEBA plan.

In 2014, the City sought competitive quotes for excess insurance for varying self-insured retentions and limits. In 2016, the City sought competitive quotes for stand alone, targeted products.³ This year, the City verified industry rates remain consistent with the 2016 quotes considering the City's claims history and reserves for future claims. The following is a summary of available coverage for best option at each level that were then available:

³ In 2016, the City sought quotes on stand-alone liability policies for the Police Department and the Regional Wastewater Facility. No carrier would quote on a stand-alone product for the Police Department. Excess liability insurance was quoted for a premium of approximately \$125,000 for \$100 million in excess liability for the Regional Wastewater Facility. No third party carrier would quote for a policy with a self-insured retention below \$3 million dollars and, should the City elect to pursue a lower self-insured retention policy, the City would have to apply and join a public municipality pool of insurance.

<u>Self-Insured Retention/ Deductible per Occurrence</u>	<u>Annual Premium</u>	<u>Limit Per Occurrence/ Aggregate</u>	<u>Estimated 10 Year Total Premiums Paid by City</u>
\$5 million	\$1,289,690	\$50 million	\$12,896,690
\$5 million	\$1,114,690	\$25 million	\$11,146,900
\$3 million	\$1,692,537	\$50 million	\$16,925,370
\$3 million	\$1,442,537	\$25 million	\$14,425,370

For the past ten years, the City has paid approximately \$2.7 million per year for costs associated with liability claims. However, staff anticipates a future payment of up to \$12 million in total claims due to a single large pending claim. Statewide, areas of loss for public entities appear to mirror the City’s exposures.

The largest compensable paid claim that an excess insurance policy would have covered was for \$4.95 million and currently two claims are pending with values that are expected to surpass that loss. Total claims value in FY 2018-19, or the year thereafter, are budgeted for up to \$12 million. Of claims filed, only 13 were in excess of \$250,000. Overall, the City has been successful in mitigating costs associated with claims when compared to other public entities in California, but has seen increasing trends in claims values and anticipates higher future losses. Considering the City’s program, Risk Management currently recommends that the City continue to be self-insured and not purchase excess liability coverage. The self-insured retention would not include coverage for the most likely events and coverage would be capped for catastrophic events or losses.

The City evaluated the long term cost of maintaining excess liability insurance compared to the City’s current budget and reserves setting process. The City will review its current reserves and loss exposures in FY 2017-18 through a study to be completed by a consultant. The City recommends not purchasing this product at this time pending completion of the study. Funding to undertake this study was included in the FY 2017-18 Adopted Budget.

In the event the City experiences a catastrophic loss, options exist for payment of claim(s) which include the issuance of judgment bonds (no greater than 40-year term), as well as court-ordered installment payments (no greater than ten-year period). It should be noted that these options require either a successful validation action (for the first option) or court approval (for the second option).

3. Earthquake

Earthquake coverage is provided through a separate policy endorsement or product procurement. Coverage is limited to direct damages caused by earth movement, which is

excluded on the All Risk Property & Casualty coverage policy. Coverage for sprinkler damage resulting from an earthquake is provided by the All Risk Property & Casualty.

In previous years, the City has inquired into the total cost of earthquake insurance for the entire property schedule and the City found coverage to be cost prohibitive. This year, the City verified that the cost for \$5 million in coverage with a \$1 million deductible or 5% total insured value of damaged locations at the time of loss, whichever is greater, would be in excess of \$500,000 annually.

The following is the best value cost proposal for a selected number of City properties:

Self-Insured Retention/ Deductible per Occurrence	Annual Premium	Limit Per Occurrence/ Aggregate	10 Year Total Premiums Paid by City
\$100,000 or 5% of total loss	\$366,750	\$25 million	\$3,667,500
\$100,000 or 5% of total loss	\$178,891	\$10 million	\$1,788,910

The insurance markets that underwrite catastrophic coverage (flood, wind, and earthquake) have reduced available capacity along with increasing insurance rates. This pricing level, the minimum deductible of 5% of the values at risk, and the relatively low limits of coverage available, make it uneconomical to purchase coverage citywide.

EVALUATION AND FOLLOW-UP

The City Council will be informed as to the status of these policies as part of the annual renewal process each September.

PUBLIC OUTREACH

This item will be posted to the City’s website for the September 19, 2017 Council Agenda.

COORDINATION

This memo has been coordinated with the Airport, Transportation, Police, Housing, and Environmental Services Departments, as well as the City Manager’s Budget Office and the City Attorney’s Office. This memo has also been reviewed by staff of Successor Agency to the Redevelopment Agency (SARA).

COMMISSION RECOMMENDATION/INPUT

This item is scheduled to be heard at the September 14, 2017 Treatment Plant Advisory Committee meeting.

COST SUMMARY/IMPLICATIONS

The funding associated with the recommendations in this memo was appropriated as part of the 2017-18 Operating Budget, approved by the City Council on June 20, 2017.

BUDGET REFERENCE

The insurance policies are funded by appropriations in the FY 2017-18 Operating Budget, approved by the City Council on June 20, 2017.

In addition to the appropriations listed on page 13 of this Memorandum, costs associated with insuring the remaining Successor Agency assets are estimated to be \$8,258 in 2017-2018. The anticipated payment of these costs associated with asset management for the Successor Agency is reflected on line 85 of the Recognized Obligation Payment Schedule (ROPS) as an enforceable obligation to maintain and protect the assets of the Successor Agency allowed under the dissolution law. As a result of the Successor Agency's insufficiency in redevelopment property tax increment to meet all obligations in FY 2017-18, the Successor Agency anticipates relying on the City's General Fund support to provide funding for this obligation. The Dissolution legislation allows for reimbursement to the City of certain administrative and other financial support (beginning July 1, 2012) once sufficient funds are available to pay for the Successor Agency's enforceable obligations.

The table below identifies the fund and appropriations recommended to fund the insurance premiums identified.

Fund #	Appn #	Appn. Name	Total Appn.	Recommended Budget Action	Amount for Premium*	2017-2018 Proposed Budget Page**	Last Budget Action (Date, Ord. No.)
001	2001	Insurance Premiums	\$607,040	N/A	\$595,491	762	6/20/2017, Ord. No. 29962
001	2864	Police Officers' Professional Liability Insurance	\$122,000	N/A	\$100,912	759	6/20/2017, Ord. No. 29962
001	0112	Non-Personal (City Manager's Office)	\$2,126,961	N/A	\$15,978	440	6/20/2017, Ord. No. 29962
001	0502	Non-Personal (Police Department)	\$26,205,153	N/A	\$20,231	663	6/20/2017, Ord. No. 29962
523	0802	Non-Personal	\$38,280,817	N/A	\$454,219	794	6/203/2017, Ord. No. 29962
536	3405	Insurance Expenses	\$245,000	N/A	\$245,000	823	6/20/2017, No. 29962
533	0512	Non-Personal (Department of Transportation)	\$7,1390,996	N/A	\$56,359	838	6/20/2017, Ord. No. 29962
513	0762	Non-Personal (Environmental Services Department)	\$34,173,019	N/A	140,044	879	6/20/2017, Ord. No. 29962
515	0762	Non-Personal (Environmental Services Department)	\$32,952,516	N/A	\$6,113	894	6/20/2017, Ord. No. 29962
423	0762	Non-Personal (Environmental Services Department)	\$2,660,092	N/A	\$5,207	848	6/20/2017, Ord. No. 29962
346	0562	Non-Personal (Housing Department)	\$902,734	N/A	\$3,495	532	6/20/2017, Ord. No. 29962
Totals			\$144,542,931		\$1,643,049		

* The amount for premium is subject to change up until the beginning date of the new insurance policy. Therefore, current estimates are lower than the recommended contract amount not to exceed \$1,850,000. SARA is billed separately for its share of broker fees and premium costs. Costs are budgeted in City general fund appropriation.

** The FY 2017-18 Operating Budget was approved by City Council on June 20, 2017.

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CEQA

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

/s/
JULIA H. COOPER
Director of Finance

If you have questions, please contact Stephanie Williams, Risk Manager, at (408) 975-1438.

Appendix A
Appendix B

APPENDIX A

1. ALL RISK AND BOILER & MACHINERY PROPERTY INSURANCE

	CURRENT PROGRAM 10/01/2016-10/1/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	American Home Assurance Company New York, New York	American Home Assurance Company New York, New York
Total Insurable Values	\$3,638,078,927	\$3,755,493,117
Limit of Liability	\$1,000,000,000 subject to a \$100,000 Deductible Per Occurrence	\$1,000,000,000 subject to a \$100,000 Deductible Per Occurrence
Boiler & Machinery	Included	Included
Earthquake	Excluded. Relatively low limits available (\$25,000,000 per occurrence), 5% deductible, high premium-not recommended.	Excluded. Relatively low limits available (\$25,000,000 per occurrence), 5% deductible, high premium-not recommended.
Flood	\$100,000,000 but not to exceed \$25,000,000 in Flood Zones, In flood zones, deductible is \$1,000,000 per occurrence or 5% of TIV of locations of loss, whichever is greater. Locations are specified in the statement of values on file in Risk Management.	\$100,000,000 but not to exceed \$25,000,000 in Flood Zones, In flood zones, deductible is \$1,000,000 per occurrence or 5% of TIV of locations of loss, whichever is greater. Locations are specified in the statement of values on file in Risk Management.
Other Sub-limits	Other sub-limits as outlined in the insurance policy on file in Risk Management	Other sub-limits as outlined in the insurance policy on file in Risk Management
Terrorism and Non Certified Act of Terrorism	\$19,879	\$22,204
Average Rate per \$100 of Values	.032 per \$100.00 of Insured Value	.0352 per \$100.00 of Insured Value
Annual Premium for City	\$1,123,962 Annual Premium \$ 19,879 TRIA \$ 0 Surplus lines Tax and Fees (3.20%) \$ 85,500 AJG Broker Fee ⁴ \$1,229,341 Total Annual	\$1,235,616 Annual Premium ⁵ \$ 22,204 Optional TRIA \$ 0 Surplus lines Tax and Fees (3.20%) \$ 88,500 AJG Broker Fee ⁶ \$1,346,320 Total Annual
Engineering Services	Included in coverage	Included in coverage
Multiyear	Available-quoted 3 year rate	Not Available

⁴ The broker's fee is an annual fixed fee and listed as a separate line item, and not included with the premium. In years prior to 2012/2013, premium included commission.

⁵ This includes an estimated premium 8,258 including \$543 for broker fees that will be directly invoiced to the City as Successor Agency.

⁶ The broker's fee is an annual fixed fee listed as a separate line item, and not included with the premium as requested by the broker. In years prior to 2012/2013, premium included commission.

2. AIRPORT OWNERS AND OPERATORS LIABILITY

	CURRENT PROGRAM 10/01/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	Old Republic Aerospace (Phoenix Aviation Managers) Kenesaw, Georgia	Old Republic Aerospace (Phoenix Aviation Managers) Kenesaw, Georgia
Coverage and Deductible	Airport Liability - \$200,000,000 each occurrence combined single limit for bodily injury and property damage with a \$50,000,000 each occurrence limit for personal injury, war risk liability at \$150,000,000 each occurrence and in the annual aggregate and \$50,000,000 Excess Automobile and Excess Employers Liability. Deductible: \$0 each occurrence 2-Year Price Guarantee (see endorsement)	Airport Liability - \$200,000,000 each occurrence combined single limit for bodily injury and property damage with a \$50,000,000 each occurrence limit for personal injury, war risk liability at \$150,000,000 each occurrence and in the annual aggregate and \$50,000,000 Excess Automobile and Excess Employers Liability. Deductible: \$0 each occurrence 2-Year Price Guarantee (see endorsement)
Annual Premium	\$41,800	\$41,800
Optional TRIA premium (recommended for purchase)	\$3,800	\$3,800
Total (Including Taxes/Fees)	\$45,600 (Net) ⁷	\$45,600 (Net) ⁸

⁷ Net cost does not include commission; whereas, gross cost includes commission. City is obligated for amounts designated as "net," where indicated, as Gallagher waives its proportionate share of fees per the terms and conditions of the City's brokerage agreement with Gallagher.

⁸ Net cost does not include commission; whereas, gross cost includes commission. City is obligated for amounts designated as "net," where indicated, as Gallagher waives its proportionate share of fees per the terms and conditions of the City's brokerage agreement with Gallagher.

3. SECONDARY EMPLOYMENT LAW ENFORCEMENT PROFESSIONAL LIABILITY

	CURRENT PROGRAM 10/01/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	QBE Specialty Insurance Co. New York, New York	QBE Specialty Insurance Co. New York, New York
Limits of Insurance and Deductibles	\$2,000,000 Each Occurrence \$2,000,000 Annual Aggregate Subject to a \$100,000 Deductible including Loss Adjustment Expense (LAE) ⁹	\$2,000,000 Each Occurrence \$2,000,000 Annual Aggregate Subject to a \$100,000 Deductible including Loss Adjustment Expense (LAE) ¹⁰
Average Rate per Officer	\$140.00 (777 officers at policy inception)	\$142.33 (687 officers at policy inception)
Annual Premium	\$108,780 (Net)	\$97,783
Surplus Lines Taxes and Fees	\$3,481	\$3,129
Fees (if any)	None	None
Total (Including Taxes/Fees)	\$112,251 (Gross)	\$100,912 (Gross)

4. AUTOMOBILE LIABILITY FOR THE AIRPORT FLEET & AIRPORT SHUTTLE BUS FLEET PHYSICAL DAMAGE

	CURRENT PROGRAM 10/01/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	St. Paul/Travelers Hartford, CT	St. Paul/Travelers Hartford, CT
Coverage and Deductibles	Auto Liability-Fleet Only \$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) Physical Damage-Buses Only Per Schedule Subject to \$10,000 Comp/\$25,000 Coll. Deductible \$500 Comp/Coll. Deductible for Hired Physical Damage	Auto Liability-Fleet Only \$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) Physical Damage-Buses Only Per Schedule Subject to \$10,000 Comp/\$25,000 Coll. Deductible \$500 Comp/Coll. Deductible for Hired Physical Damage
Exposure	Number of Vehicles 80	Number of Vehicles 83
Average Rate Per Unit	\$666.10	\$700.77
Annual Premium	\$56,196 (Net)	\$58,164 (Net)

⁹ LAE includes staffing and legal costs for processing claims.

¹⁰ LAE includes staffing and legal costs for processing claims.

5. AUTOMOBILE LIABILITY-WATER POLLUTION CONTROL PLANT FLEET

	CURRENT PROGRAM 10/01/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	St. Paul Travelers Hartford, CT	St. Paul/Travelers Hartford, CT
Coverage	\$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) \$5,000 Medical Payments (Any Auto) \$3,500 Property Damage UM	\$1,000,000 Combined Single Limit (Any Auto) \$1,000,000 UM/UIM (Owned Autos) \$5,000 Medical Payments (Any Auto) \$3,500 Property Damage UM
Exposure	Number of Units 44	Number of Units 40
Average Rate Per Unit	\$659.43	\$875.70
Total (Including Taxes/Fees)	\$29,015 (Net)	\$35,028 (Net)

6. POLICE AIRCRAFT HULL AND LIABILITY

	CURRENT PROGRAM 10/01/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	Old Republic Aerospace, Phoenix Aviation Managers	Old Republic Aerospace, Phoenix Aviation Managers
Coverage	Aircraft Hull and Liability- \$50,000,000 each occurrence for liability. Hull coverage: Cessna \$275,000 Eurocopter \$1,750,000 Deductible: Liability - NIL <ul style="list-style-type: none"> • Hull/Cessna-\$500 per occurrence (in-motion) • Hull/Cessa-\$100 per occurrence (not in-motion) • Hull/Eurocopter-\$25,000 per occurrence (rotors in- motion) • Hull/Eurocopter-\$500 per occurrence (rotors not in- motion) 	Aircraft Hull and Liability- \$50,000,000 each occurrence for liability. Hull coverage: Cessna \$275,000 Eurocopter \$1,750,000 Deductible: Liability - NIL <ul style="list-style-type: none"> • Hull/Cessna-\$500 per occurrence (in-motion) • Hull/Cessa-\$100 per occurrence (not in-motion) • Hull/Eurocopter-\$25,000 per occurrence (rotors in-motion) Hull/Eurocopter-\$500 per occurrence (rotors not in-motion)
Annual Premium	\$17,998	\$17,998
Surplus Lines Taxes and Fees	NA	NA
War Liability & Hull--both aircraft	Included	Included
Total (Including Taxes/Fees)	\$17,998	\$17,998
TRIA (if purchased with War)	Included Both Hull & Liability with War Premium	Included Both Hull & Liability with War Premium

7. GOVERNMENT CRIME

	CURRENT PROGRAM 12/18/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	Berkley Regional Insurance Company	Berkley Regional Insurance Company
Limits of Insurance and Deductibles	Employee Theft, Forgery or Alteration and Inside the Premises- Theft of Money and Securities-\$5,000,000 per occurrence subject to a \$100,000 deductible per occurrence.	Employee Theft, Forgery or Alteration and Inside the Premises- Theft of Money and Securities-\$5,000,000 per occurrence subject to a \$100,000 deductible per occurrence.
Sublimits of Insurance	Computer Fraud, Funds Transfer Fraud, and Money Orders and Counterfeit Money- \$1,000,000 per occurrence subject to a \$100,000 deductible per occurrence.	Computer Fraud, Funds Transfer Fraud, and Money Orders and Counterfeit Money- \$1,000,000 per occurrence subject to a \$100,000 deductible per occurrence.
Annual Premium	\$16,368 (\$20,861 is annual premium rate, but policy was on short term)	\$20,816
Surplus Lines Taxes and Fees	\$0	\$0
Total (Including Taxes/Fees)	\$16,368	\$20,816

8. LIFE AND ACCIDENTAL DEATH AND DISMEMBERMENT

	CURRENT PROGRAM 10/01/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	National Union Fire Insurance Company of Pittsburgh, PA	National Union Fire Insurance Company of Pittsburgh, PA
Limits of Insurance and Deductibles	Blanket Accident & Health Policy (Accident Only; Injury Only) Principal Sum (loss of Life): \$250,000	Blanket Accident & Health Policy (Accident Only; Injury Only) Principal Sum (loss of Life): \$250,000
Annual Premium	\$2,233	\$2,233
Surplus Lines Taxes and Fees	NA	NA
Total (Including Taxes/Fees)	\$2,233 per year (year 1 of three-year fixed rate)	\$2,233 per year (year 2 of three-year fixed rate)

9. FIDUCIARY LIABILITY FOR VEBA HEALTH SAVINGS TRUST

	CURRENT PROGRAM 10/01/2016-10/01/2017	RENEWAL PROGRAM 10/01/2017-10/01/2018
Carrier	NA	Hudson Insurance Company
Limits of Insurance and Deductibles	NA	\$5,000,000 aggregate limit \$25,000 per claim deductible Coverage includes additional costs associated with Voluntary Compliance Program Expenditures, Content Restoration Expenditures, and Crisis Notification Expenditures.
Annual Premium	NA	\$15,828
Surplus Lines Taxes and Fees	NA	\$150 Risk Placement Services Fee
Total (Including Taxes/Fees)	NA	\$15,978

APPENDIX B

Allocation of Insurance Premiums by Fund & Type of Insurance

	FY 2016-17 Premiums <u>12 Month</u>	FY2017-18 Premiums <u>12 Month</u>	Percentage Increase/ Decrease
General Fund-Fund 001			
Property Insurance ¹¹	\$ 511,838	\$ 566,072	10.60%
Government Crime Policy	20,816 ¹²	20,816 ¹³	0.00%
AD&D	2,233	2,233	0.00%
Police Secondary	112,251	100,912	(10.10)%
Police Air Support (Hull & Liability)	<u>17,998</u>	<u>17,998</u>	<u>0.00%</u>
Subtotal	\$ 665,126	\$ 708,031	6.45%
Fiduciary Liability	<u>\$ 0</u>	<u>\$ 15,978</u>	<u>0.00%</u>
Subtotal	\$ 0	\$ 15,978	0.00%
Airport- Fund 523			
Property Insurance	\$ 322,545	\$ 350,455	8.65%
Liability Insurance	45,600	45,600	0.00%
Auto Liability/Property Insurance	<u>56,196</u>	<u>58,164</u>	<u>3.50%</u>
Subtotal	\$ 424,341	\$ 454,219	7.04%
ESD – Fund 513			
Property Insurance	\$ 96,653	\$ 105,016	8.65%
Auto Liability Insurance	<u>\$ 29,015</u>	<u>35,028</u>	<u>20.72%</u>
Subtotal	\$ 125,668	\$ 140,044	11.44%
ESD – Fund 515			
Property Insurance	<u>\$ 5,626</u>	<u>\$ 6,113</u>	<u>8.65%</u>
Subtotal	\$ 5,626	\$ 6,113	8.65%
ESD – Fund 423			
Property Insurance	<u>\$ 4,792</u>	<u>\$ 5,207</u>	<u>7.97%</u>
Subtotal	\$ 4,792	\$ 5,207	7.97%
Convention and Cultural Affairs - Fund 536			
Property Insurance	<u>\$ 225,806</u>	<u>\$ 245,000</u>	<u>8.65%</u>
Subtotal	\$ 225,806	\$ 245,000	8.65%

¹¹ Brokers' fees are and TRIA costs are included in the total costs of this Appendix B.

¹² Cost of \$20,816 is based on the annual rate for the policy. As the previous policy was secured on a short policy term, actual cost of the policy was \$16,368.

¹³ Each Police Officer participating in the secondary employment program pays \$110 toward the premium cost. Renewal premium is based on 687 reported officers verses 777 officers enrolled at policy inception in 2016 to 2017.

	<u>FY 2016-17 Premiums 12 Month</u>	<u>FY2017-18 Premiums 12 Month</u>	<u>Percentage Increase/ Decrease</u>
General Purpose Parking -Fund 533			
Property Insurance	\$ 51,870	\$ 56,359	8.65%
Subtotal	\$ 51,870	\$ 56,359	8.65%
Successor Agency¹⁴			
Property Insurance	\$ 7,728	\$ 8,258	6.86%
Subtotal	\$ 7,728	\$ 8,258	6.86%
Housing -Fund 346			
Property Insurance	\$ 2,440	\$ 3,495	43.24%
Subtotal	\$ 2,440	\$ 3,495	43.24%
TOTAL	<u>\$1,518,581</u>	<u>\$1,643,049</u>	<u>8.20%</u>

¹⁴ The City as Successor Agency to the Redevelopment Agency has assumed operations previously performed by the Redevelopment Agency. Allocated premium will be directly invoiced to the City as Successor Agency.



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow

SUBJECT: PURCHASE OF CALIFORNIA
CARBON ALLOWANCES

DATE: August 24, 2017

Approved

D. D. S. L.

Date

9/7/17

RECOMMENDATION

Approve the Agreement between the City of San José and Vitol, Inc., which is approved by the California Air Resources Board for the purchase of California Carbon Allowances for the San José-Santa Clara Regional Wastewater Facility, as part of the California Cap-and-Trade Program, for an amount of \$303,437.60.

OUTCOME

Purchase California Carbon Allowances for the San José-Santa Clara Regional Wastewater Facility¹ (RWF) as part of the California Cap-and-Trade Program to remain in compliance with Assembly Bill (AB) 32.

BACKGROUND

The Global Warming Solutions Act of 2006, or Assembly Bill (AB) 32, is a California State Law that fights climate change by establishing a comprehensive program to reduce greenhouse gas emissions from all sources throughout the state. AB 32 requires the California Air Resources Board (CARB) to develop regulations and market mechanisms to reduce California's greenhouse gas (GHG) emissions to 1990 levels by the year 2020. The target reduction represents a 25% reduction statewide. The market mechanism for reducing GHG emissions is California's Cap-and-Trade program (CATP) which includes an emissions cap for significant emissions sources beginning in 2012. GHGs include methane, nitrous oxide, and carbon dioxide. Emissions are presented in carbon dioxide equivalents (CO₂e), a standardized measure that allows the effect of

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.

different greenhouse gases to be compared using carbon dioxide as a standard unit for reference. The CO₂e measurement is given in metric tons per year for greenhouse gas reporting.

Facilities that emit more than 10,000 metric tons are subject to mandatory reporting. Facilities that emit 25,000 metric tons of CO₂e are required to participate in California's CATP.

CATP is a market based regulation that is designed to reduce GHGs from multiple sources by creating a market to trade GHG emission credits among those facilities that are part of the program.

Once a facility enters the CATP, it is responsible for the purchase of California Carbon Allowances (CCA) for the emissions for all years within the compliance period in which it exceeded the threshold plus emissions during the following compliance period, regardless of total emissions. The CATP is divided into three compliance periods between now and 2020:

- 1st Compliance Period: 2013-2014
- 2nd Compliance Period: 2015-2017
- 3rd Compliance Period: 2018-2020

In 2013, Regional Wastewater Facility (RWF) emitted 25,029 metric tons of CO₂e and entered the CATP. Prior to 2013, the RWF ran its engines on a blend of digester gas produced as part of the RWF's processes, landfill gas purchased from Republic Services' nearby landfill, and natural gas purchased from PG&E. Biomass fuel such as digester and landfill gas are exempt from the CATP. In 2013, the RWF increased its purchase of natural gas due to interruptions in the digester gas and landfill gas supplies. These disruptions increased the demand for natural gas and caused RWF emissions to exceed 25,000 metric tons of CO₂e. To comply with the CATP, the City entered into an agreement with Vitol Inc. to purchase CCAs for emissions from calendar years 2013 through 2015 as presented in the following table.

Emissions Year	Emissions (metric tons CO₂e)	Allowance Price	Total Allowance Cost
2013	25,029	12.25	\$306,605.25
2014	24,752	12.75	\$315,460.50
2015	24,433	12.93	\$303,692.00

ANALYSIS

Once a facility enters the CATP, the requirement to purchase CCAs is eliminated after two compliance periods if the facility remains beneath the cap during the second compliance period. Thus, the RWF will not be relieved of its obligation to purchase CCAs until after the 2017 emissions year, as CCAs are surrendered irrespective of whether the emissions for each subsequent year through 2017 are below the 25,000 metric ton CO₂e threshold.

RWF emitted an estimated 19,693 metric tons of CO₂e in 2016. This number has been reported to CARB, as required, and was verified by a Third-Party Verification Audit conducted by Rincon Associates.

CCAs are sold on the open market through mechanisms established by the California Air Resources Board. The RWF is working with an emissions broker and has again identified Vitrol, Inc., as a seller of 2016 credits. Vitrol, Inc. will contract with the City \$15.20 per CCA, which would be an increase compared to previous years, and is a result of increased market demand. The final purchase agreement will be for \$303,437.60, which is slightly lower than last year's expenditure, due to a continued decrease in emissions from the RWF. The anticipated total cost to purchase CCAs for years 2015 through 2017 is approximately \$910,000 assuming current rate of emissions and current price per metric ton of emissions. However, this total could increase if the price of CCAs increases for 2017 allowances.

The RWF has implemented a GHG emissions management program to stay under the 25,000 metric tons of CO₂e threshold, and has successfully done so since 2013, with 2016 being the lowest emissions total so far. The intent is to continue to manage emissions from the RWF to remain under the threshold through the end of 2017, and exit the CATP after surrendering allowances for 2017 emissions. The upgraded Digester and Thickener Facilities and Cogeneration Facility projects are anticipated to come online in 2019 and will enable increased production and more efficient use of biogas. The effect of these upgrades on emissions and the provisions of the extended CATP, set to begin in 2021, are currently being evaluated to determine how to manage GHG emissions after 2019.

EVALUATION AND FOLLOW-UP

The RWF currently anticipates the ability to stay under the 25,000 metric ton threshold in 2017 and would therefore exit the cap and trade after surrendering allowances for 2017 emissions. If the RWF is unable to remain under the threshold, staff would need to return to Council for authority to purchase CCA for 2018 and beyond.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the September 26, 2017 City Council Meeting.

COORDINATION

The memorandum has been coordinated with the Treatment Plant Advisory Committee, City Manager's Budget Office, and the City Attorney's Office.

COMMISSION RECOMMENDATION/INPUT

This memorandum will be heard at the September 14, 2017 Treatment Plant Advisory Committee. A supplemental memorandum with the Committee's recommendation will be included in the amended September 26, 2017 City Council meeting agenda.

COST SUMMARY/IMPLICATIONS

1. AMOUNT OF RECOMMENDATION/AGREEMENT: \$ 303,437.60
2. SOURCE OF FUNDING: San José-Santa Clara Treatment Plant Operating Fund (513)
3. FISCAL IMPACT: No additional funding is necessary to approve this purchase.

BUDGET REFERENCE

The table below identifies the fund and appropriation proposed to fund the agreement recommended as part of this memorandum.

Fund #	Appn. #	Appn. Name	Total Appn.	Amount Requested	2017-2018 Proposed Operating Budget Page*	Last Budget Action (Date, Ord. No.)
513	0762	Non-Personal / Equipment	\$34,173,019	\$303,437.60	879	6/20/2017, Ord. No. 29962

* The 2017-2018 Operating Budget was adopted on June 20, 2017.

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 Ken Davies, Sustainability and Compliance Manager at (408) 975-2587.



Office of the City Auditor

**Report to the City Council
City of San José**

**AUDIT OF
ENVIRONMENTAL
SERVICES DEPARTMENT
CONSULTING SERVICES:
AGREEMENTS REQUIRE
ADDITIONAL OVERSIGHT**

**Report 17-05
September 2017**

September 1, 2017

Honorable Mayor and Members
Of the City Council
200 East Santa Clara Street
San José, CA 95113

Audit of Environmental Services Department Consulting Services: Agreements Require Additional Oversight

The City of San José's Environmental Services Department (ESD) provides solid waste and recycling services, stormwater management, recycled and wastewater management, and potable water delivery. The purpose of this audit was to evaluate ESD's use, monitoring, and payment for professional consulting services. Our review focused on eleven agreements with a total value not-to-exceed \$46.1 million.

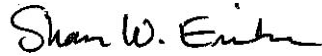
Finding 1: The Proposed Amendment to the Agreement for Project Management Services Provides an Opportunity to Improve Cost Controls. ESD has a five-year, \$39 million agreement with MWH America's, Inc. (MWH) for program management of the Capital Improvement Program at the San José-Santa Clara Regional Wastewater Facility. As of June 2017, ESD has spent \$30 million and is proposing to extend the MWH agreement term by 5 more years and increase the not-to-exceed value to \$78 million. To strengthen controls over expenditures, we recommend the amended agreement include 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; and clarify sub-consultant markups and multipliers.

Finding 2: ESD Should Improve Its Contract Management Processes for Other Professional Services Agreements. In addition to the project management agreement discussed above, we reviewed 10 other professional consulting services agreements with a not-to-exceed value of \$7.1 million. Some problems, identified in prior audits, persist today. In some instances, staff overlooked key agreement terms. This included adjusting tasks, the compensation schedule, and sub-consultants without prior approval.

Management of individual agreements largely depends on the contract manager in charge. While many of the agreements we reviewed were managed by staff who had prior work experience managing agreements, this was not always the case. In our opinion, ESD administrative staff should periodically distribute the City's instructions on "Using and Completing the City of San Jose Standard and Master Consulting Agreement Forms" to all contract monitoring staff; and offer more robust contract monitoring training for staff who manage agreements.

This reports includes 10 recommendations to improve the oversight of professional consulting agreements. We plan to present this report at the September 11, 2017 meeting of the Transportation and Environment Committee. We would like to thank the Environmental Services Department, MWH Americas, Inc. (now known as Stantec Inc.), and the Office of the City Attorney for their assistance during the audit process. The Administration has reviewed this report and its response is shown on the yellow pages.

Respectfully submitted,



Sharon W. Erickson
City Auditor

finaltr
SE:lg

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	Dave Sykes	Egan Hill	David Ohlson	

This report is also available online at www.sanjoseca.gov/audits.

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Introduction

The mission of the City Auditor's Office is to independently assess and report on City operations and services. The audit function is an essential element of San José's public accountability, and our audits provide the City Council, City management, and the general public with independent and objective information regarding the economy, efficiency, and effectiveness of City operations and services.

In accordance with the City Auditor's Fiscal Year (FY) 2016-17 Audit Work Plan, we have completed an audit of Environmental Services Department (ESD) consulting service agreements. The purpose of this audit was to evaluate ESD's use, monitoring, and payment for consulting services.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. We limited our work to those areas specified in the "Audit Objective, Scope, and Methodology" section of this report.

The Office of the City Auditor thanks the management and staff from the Environmental Services Department, the Public Works Department, the Finance Department, and the City Attorney's Office for their time, information, insight, and cooperation during the audit process.

Background

ESD's mission is to deliver world class utility services and programs to improve our health, environment, and economy.

ESD's expected service delivery in FY 2017-18 includes the following:

- Build, operate, and maintain the City of San José's (City) wastewater, recycled water, and potable water utility infrastructure to ensure system reliability and public health and safety.
- Promote the health of the environment and South Bay watershed through collection, treatment, and management of wastewater and stormwater runoff.
- Oversee programs to collect, recycle, and dispose of solid waste to maximize diversion from landfills and protect public health, safety, and the environment.

- Reduce the City's environmental footprint through energy efficiency, waste reduction, and environmentally preferable purchases.
- Support sustainable infrastructure, equipment, and behaviors throughout the community through education, and public-private partnerships.

Budget and Staffing

ESD is primarily funded by user fees. In FY 2016-17, less than one percent of ESD's total budgeted funding (\$257.8 million) was from the General Fund (\$1.4 million). Funding for most of ESD's staff, contractors, consultants, and construction projects comes from other funds including: Integrated Waste Management Fund (\$117 million), San José-Santa Clara Treatment Plant Operating Fund (\$85.2 million), Water Utility Fund (\$37.5 million), Storm Sewer Operating Fund (\$11 million), Capital Funds (\$4.4 million) and Sewer Service and Use Charge Fund (\$1.3 million).

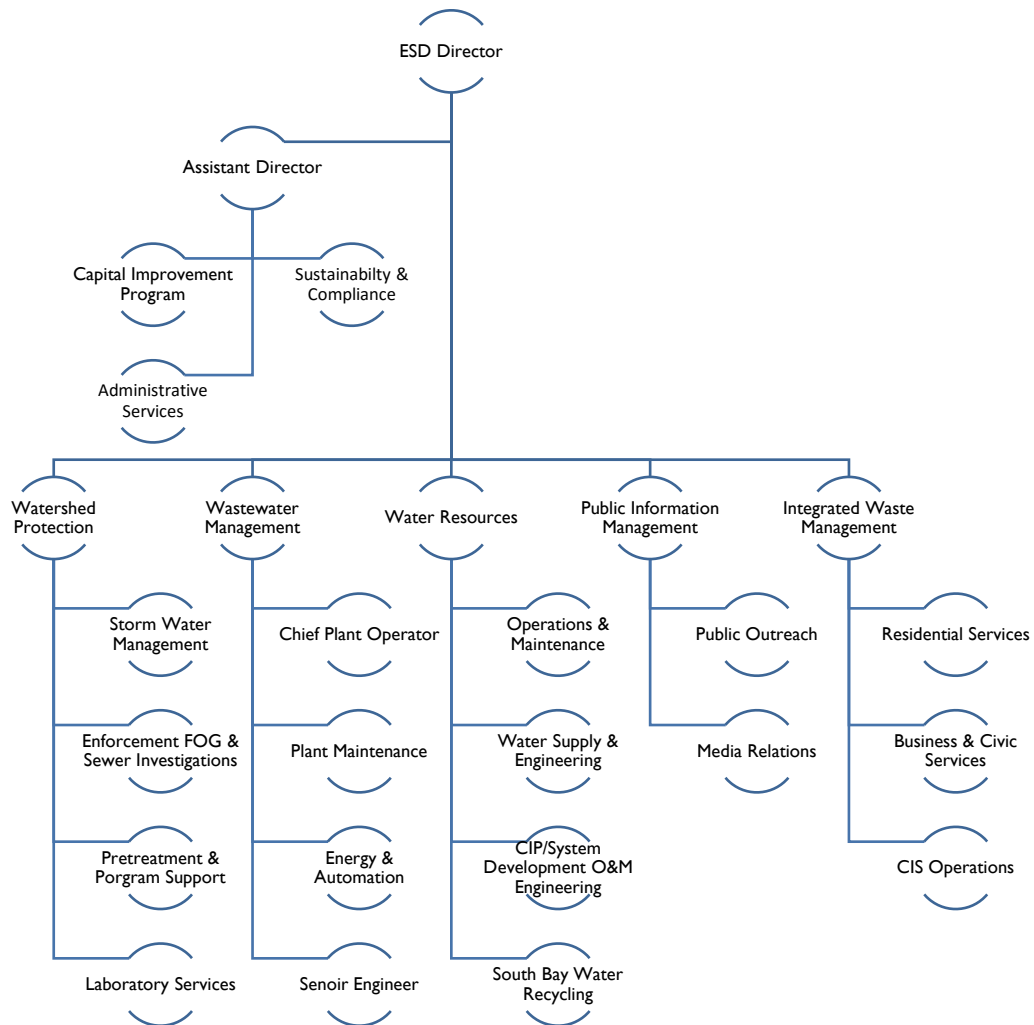
The FY 2017-18 ESD budget includes 552 full time equivalent positions. This is 48 positions (9.5 percent) more than in FY 2013-14. Although the number of budgeted full time positions has increased every year over the past five years, ESD still has vacancies. As of June 2017, there were 64 total vacancies remaining in ESD.¹

Five divisions report directly to the Director: Watershed Protection, Wastewater Management, Water Resources, Public Information Management, and Integrated Waste Management. The Assistant Director oversees three additional sectors (administrative services, Capital Improvement Program² [CIP], and sustainability and compliance) and the council liaison. Exhibit I, below, shows ESD's organizational structure.

¹ Most of these vacancies are at the Regional Wastewater Facility.

² The CIP is guided by the Plant Master Plan, a 30-year planning-level document focused on long-term rehabilitation and modernization of the Plant.

Exhibit I: ESD's FY 2017-18 Organizational Chart



Source: Auditor adapted from ESD's Organization Chart as of July 2017

City Manager's Contracting Authority

If money has been appropriated and there is a sufficient balance to pay for the expense, the City Manager is authorized to execute agreements for the City of San José. City Council approval is required for most departmental agreements that exceed \$290,000. All agreements less than \$290,000 must be reviewed and approved by the City Manager's Office.

Prior to execution, departments send the proposed agreement to the City Manager along with a contract transmittal form. This form summarizes basic information such as the contracting department, the purpose of the agreement, and the type of procurement.

The City Attorney's Office (CAO) also typically reviews and approves individual consultant agreements; however, it generally does not review the details of

agreements under \$100,000. The CAO has standard templates available for departments to use for agreements that do not meet the \$100,000 threshold. These do not require additional review by the CAO unless there is a change to the template.

ESD Contracting Activity

ESD contracts with vendors for a variety of reasons. As discussed earlier, ESD builds and maintains the City's wastewater and potable water infrastructure, provides recycling and solid waste services, and supports sustainable infrastructure. The single largest annual contracting activity in ESD is for solid waste and recycling services with the City's waste haulers. In addition to those services, ESD also has agreements for construction, professional consulting services, legal services, etc.

According to ESD, contracting with outside entities may be necessary for the following reasons:

- Lack of in-house expertise;
- Need for short-term services;
- Staffing challenges, including vacancies;
- Need for an independent and objective opinion; and,
- Possible cost savings.

Contract Procurement and Management

The City has a decentralized approach to contract procurement and management. When ESD identifies the need for a consultant, it begins the procurement process. ESD's internal procurement staff is responsible for providing resources to assist with managing consulting agreements and following City processes. In addition to providing ongoing project support, they offer trainings to educate staff about City resources, procurement types, procurement steps, how to write a statement of work, and some best practices for contract development.

ESD staff also provide guidance on what documents to keep for the agreement, including council memos, a checklist of deliverables with milestone dates, and relevant correspondence. Each division is responsible for maintaining agreement documents and ensuring that deliverables and invoices are received. Agreements that are part of the CIP are managed slightly differently than other agreements procured by ESD. Those agreements follow the Department of Public Work's procurement and contract management process.

Monitoring Consulting and Professional Services Agreements

Consulting and professional services can vary significantly, and can include anything from environmental testing and compliance reporting to sustainability studies to assessing the impact of environmental policies. ESD assigns staff to monitor contracts, but it does not utilize standard operating procedures, manuals, or offer post-procurement contract monitoring training.

CIP-related Consulting and Professional Services Agreements

CIP-related professional services agreements tend to be expensive, time intensive, and related to larger construction projects. Therefore, ESD spends much time and effort to support project management teams and coordinate between projects. CIP contract managers attend a multitude of meetings with other managers, leadership, and departments to ensure compliance and to stay informed about other projects. CIP team members participate in bi-weekly “*Workload Review Meetings*” with the City Attorney’s Office, regular program performance reviews, and monthly package performance meetings. Not only do these meetings offer an opportunity to check in with CIP contract managers but they also offer a chance to exchange information and seek guidance from leadership.

In addition to regular meetings, project managers have access to numerous management and monitoring resources on the CIP project portal. Some of the resources include design guidelines, an invoice checklist, and standard operating procedures for processing service orders.

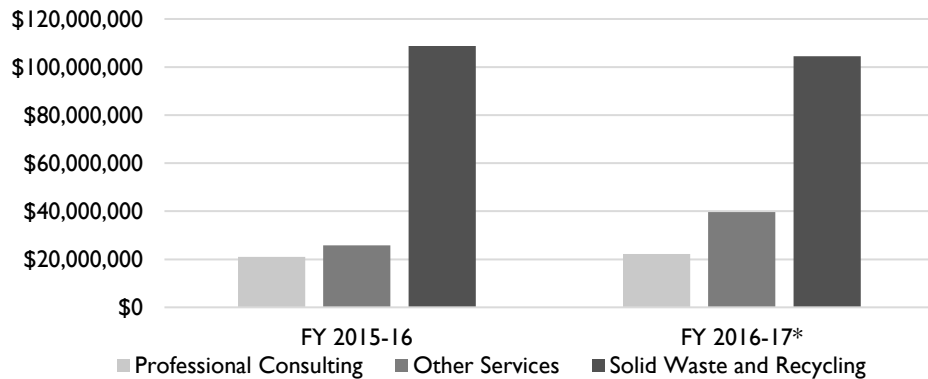
There are documents that outline procedures for project managers, which include: how long a project manager should expect each step to take before receiving a notice to proceed; what signatures are required for service orders; and what to look for in an invoice.

ESD Contracting Expenditures FY 2015-16 and FY 2016-17

In FY 2015-16, ESD spent \$156 million on construction, consulting and professional services, government agreements, non-profit grants, legal expenses and other miscellaneous activities. Of this, nearly \$109 million (or 70 percent) was spent on solid waste and recycling agreement expenditures. Much of the remaining contractual expenditures were for the Regional Wastewater Facility rebuild, described in greater detail later in the report.

In FY 2016-17 (as of June 2017), ESD spent over \$166 million on these types of activities (as described above). Of this, 63 percent or approximately \$104 million was for the solid waste and recycling agreement expenditures. The remaining \$62 million was spent on agreements for legal services, non-profits, professional consulting agreements, CIP expenditures, and other services. This expenditure breakdown is shown in Exhibit 2.

Exhibit 2: Most ESD Contract Expenditures in FY 2015-16 and FY 2016-17 Were for Solid Waste and Recycling



*FY 2016-17 data as of June 2017
 Source: Auditor Analysis of FMS

Previous Audits and Audit Recommendations

This is the fourth in a series of related audits including:

- [*Audit of Environmental Services—A Department at a Critical Juncture \(2012\)*](#)
- [*Consulting Agreements: Better Enforcement of Procurement Rules, Monitoring and Transparency is Needed \(2013\)*](#)
- [*Regional Wastewater Facility Master Agreements: New Procedures and Better Contract Management is Needed \(2013\)*](#)

Many of the findings from the previous audits focused on issues with consistency, training, and citywide policies. For this audit, our focus was reviewing sufficiency of ESD oversight and whether the City received the agreed-upon deliverables. As described in the findings below, some of the previous concerns continue to persist.

Audit Objective, Scope, and Methodology

The audit objective was to review ESD consulting agreements. This audit was conducted at the request of a City Councilmember and in accordance with the City Auditor’s FY 2016-17 Audit Work Plan. We focused on ESD’s management of consulting agreements to determine if oversight was sufficient and if the City got what it paid for.

As previously pointed out in our 2013 Audit of Consulting Agreements, the City still does not maintain a complete list of awarded consulting agreements. Therefore, to determine ESD’s contracting activity, we started by reviewing ESD’s FY 2015-16 and FY 2016-17 transaction activity in the City’s Financial Management System (FMS) to narrow our focus on ESD’s consulting agreements.

We then cross-checked the FMS data with the Clerk’s contract database (CHAD) and reviewed the scope of services. Finally, we collaborated with ESD to group agreement expenditures into the following categories (listed in order of FY 2015-16 expenditures):

1. Solid Waste and Recycling – agreements with the City’s waste haulers for solid waste and recycling services (\$109 million)
2. Construction – agreements for construction activity, including construction at the regional wastewater facility’s Capital Improvement Program (\$19.6 million)
3. *Capital Improvement Program (CIP) Professional Consulting – agreements for consulting services that fall under the City’s CIP program (\$18 million)*
4. Miscellaneous – all other services, including custodial agreements (\$3.8 million)
5. *Non-Capital Improvement Program Professional Consulting – agreements for consulting services that do not fall under the City’s CIP program (\$3 million)*
6. Non-Profit – agreements with non-profits for either specific services or grants (\$1.5 million)
7. Legal – agreements for legal services (\$450,000)
8. Government – grants or “pass-throughs” to other government entities (\$360,000)

We limited our review to consulting and professional services agreements for the CIP and the non-CIP programs, shown above in italics.

Sample Selection

We selected ten non-CIP professional consulting agreements for review—seven standard agreements and three master agreements³ totaling \$1.9 million expenditures in FY 2015-16 and FY 2016-17 with a not-to-exceed (NTE) value of \$7.1 million over the entire term of the contracts. We also selected one CIP master agreement with expenditures totaling \$19.7 million in FY 2015-16 and FY 2016-17, with a not-to-exceed amount of \$39 million.

These agreements cover a broad range of activities and were managed by different divisions within ESD. We reviewed the following agreements:

³ A standard consulting agreement includes a well-defined scope for a specific project. Whereas, a master consulting agreement outlines a category of work, rather than a specific project with a well-defined scope, that the consultant will perform.

1. **MWH America's, Inc.** – In September 2013, the City entered into a \$39 million master agreement with MWH America's, Inc. (MWH).⁴ This agreement provides program management services for the Capital Improvement Program at the San José-Santa Clara Regional Wastewater Facility (RWF) through September 2018.
2. **HydroScience Engineers, Inc.** – ESD entered into a \$2 million master agreement with HydroScience Engineers, Inc. (HydroScience) in February 2014 to provide construction project management and engineering services to projects in the Operations and Maintenance section at the RWF.⁵
3. **ABB, Inc.** – This is a software purchase agreement for the installation of an upgrade to the Distributed Control System Upgrade at the San José-Santa Clara Regional Wastewater Facility. This agreement was for a total not-to-exceed amount of \$1.8 million with a 10 percent contingency of \$181,479 to cover unanticipated expenses and change orders.
4. **EnfoTech & Consulting, Inc.** – This is a software maintenance agreement. ESD first contracted with EnfoTech & Consulting, Inc. in 2003 to help track and manage the Storm Water and Pretreatment Inspection Program. The City currently pays \$49,500 annually for system maintenance for an agreement that originally cost approximately \$1 million.
5. **Cornerstone Earth Group, Inc.** – One of four master service agreements awarded in 2014 for on-call environmental consulting services in diverse environmental issue areas such as soil and groundwater contamination and air quality and permitting. The agreement is for a not-to-exceed amount of \$550,000.
6. **HF&H Consultants, LLC.** – This is a master service agreement with a not-to-exceed amount of \$270,000 to provide solid waste and recycling consulting services on an as-needed basis for various projects. The services include multiple projects that analyze San José's commercial waste collection system, as well as collection and processing of materials obtained from commercial and industrial sites throughout the City.
7. **Trussell Technologies** – The City is interested in modifying its wastewater disinfection process by reducing the chlorine contact time. The City entered into an agreement with Trussell Technologies in May 2016, for a not-to-exceed amount of \$270,000, to analyze existing tertiary recycled water infrastructure. Trussell was tasked with designing, constructing, and managing the construction and testing of a pilot system.

⁴ In March 2016, Stantec Inc. acquired MWH Global, Inc.

⁵ This agreement was broken into four parts. The original master agreement had a not-to-exceed value (NTE) set at \$500,000, followed by three one-year options to extend that had set NTE at \$500,000 each.

8. **Harper & Associates, Inc.** – In June 2015, the City entered into an agreement with Harper & Associates, Inc. (Harper) to provide inspection services during the rehabilitation of two reservoirs for a not-to-exceed amount of \$150,000. Harper monitors the construction contractor’s work and provides the ESD project manager with daily inspection logs of the work done.
9. **Cascadia Consulting Group, Inc.** – The City approved a unique services agreement with Cascadia Consulting Group, Inc. (Cascadia) in May 2012. Motivation for this \$130,700⁶ agreement came at a time when the council was developing the *Foam Food Container Ordinance*⁷ that would “reduce the pervasive and persistent type of litter by banning food service ware containers made from expanded polystyrene (EPS) foam” (commonly referred to as Styrofoam™). Among other tasks, Cascadia researched and developed a list of alternatives that restaurants could use instead of Styrofoam™.
10. **Cleanbit Systems, Inc. DBA Joulebug** – Joulebug is a mobile application that aims to encourage users to practice sustainable behaviors, for example, using reusable water bottles and recycling. The City started a one-year pilot program for \$22,500 to customize the Joulebug mobile application to be more specific to the City of San José.
11. **Rincon Consultants, Inc.** – ESD contracts with a consultant to provide verification service and greenhouse gas reports for the San José-Santa Clara Regional Wastewater facility in accordance with the California Air Resources Board’s Mandatory Greenhouse Gas Reporting Regulation. This agreement with Rincon Consultants, Inc. is for under \$10,000. The City has used the same vendor three times in the past three years.

We reviewed each of these agreements to determine the type of procurement process that was followed and whether:

1. The terms of the agreement were met;
2. Deliverables were received and documented prior to authorizing payments;
3. Sufficient oversight of consultants was provided by ESD; and,
4. City contract management procedures and processes were followed.

To meet our audit objectives, we also reviewed:

⁶ The original agreement with Cascadia was for \$40,000. An amendment increased the total not-to-exceed value to \$130,700.

⁷ <http://www.sanjoseca.gov/eps>

- Previous audit reports conducted by the City Auditor's Office and status of those recommendations
- Relevant Municipal Code and City Policy Manual sections
- Relevant ESD internal policies and procedures (where available)
- Council History and Documents (CHAD) and the Award of Contract (AC) report
- Relevant Requests for Qualifications
- Terms of each agreement, subsequent amendments, and service orders
- Interviewed staff including contract managers, project managers, and budget analysts
- Invoices as well as payments to consultants in the City's Financial Management System
- Project deliverables including City Council updates and memoranda
- Sample backup MWH payroll documentation

For the MWH agreement, we also used benchmark comparisons with:

- The City and County of San Francisco's \$30 million agreement with MWH America's, Inc. and URS Corporation for the *Central Bayside System Improvement Project*
- A City of San José agreement during capital construction at the Norman Y. Mineta San José International Airport (Airport)
- A City of San José agreement with MWH and the Department of Public Works

We also looked at best practices including the *California State Contracting Manual*.⁸

We limited our review to the City's management of the agreements and did not review each agreement to determine whether the procurement process was appropriately followed or if outsourcing for a consultant was justified. Nor did we assess the quality of the consultants' work.

⁸ <http://www.dgs.ca.gov/ols/Resources/StateContractManual.aspx>

Finding I The Proposed Amendment to the Agreement for Project Management Services Provides an Opportunity to Improve Cost Controls

Summary

ESD has a five-year, \$39 million agreement with MWH America's, Inc. (MWH) for program management of the Capital Improvement Program at the San José-Santa Clara Regional Wastewater Facility (RWF). As of June 2017, ESD has spent \$30 million and is proposing to extend the MWH agreement term by five more years and increase the not-to-exceed value to \$78 million.

In our opinion, the proposed amendment to the agreement should include 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; and clarify sub-consultant markups and multipliers.

Agreement for Project Management of the San José-Santa Clara Regional Wastewater Facility Upgrade

The San José-Santa Clara Regional Wastewater Facility (RWF), built in 1956, is the largest advanced wastewater treatment facility in the western United States. Working at all hours of the day, it serves eight cities, tributary agencies, and sanitary districts.⁹ The RWF serves more than 1.4 million residents and approximately 17,000 businesses while processing an average of 110 million gallons of wastewater per day.

Improving the San José-Santa Clara Regional Wastewater Facility is one of several large projects identified in the City of San José's adopted Capital Improvement Program. The 30-year master plan, completed in late 2013, included more than 114 capital improvement projects at an estimated investment level of approximately \$2 billion. The 2018-2022 Proposed Capital Improvement Program anticipates \$1.5 billion for the RWF, with \$198 million budgeted in FY 2017-18.¹⁰

⁹ The six tributary agencies and sanitary districts that the RWF receives and treats waste water from, includes the City of Milpitas; the Santa Clara County Sanitation Districts No. 2 and No. 3; the West Valley Sanitation District (serving Campbell, Los Gatos, Saratoga, and Monte Sereno); and the Cupertino, Burbank, and Sunol Sanitary Districts.

¹⁰ The proposed CIP responds to changing technologies, applicable local, state, and federal regulatory requirements, and the City's economic and population growth.

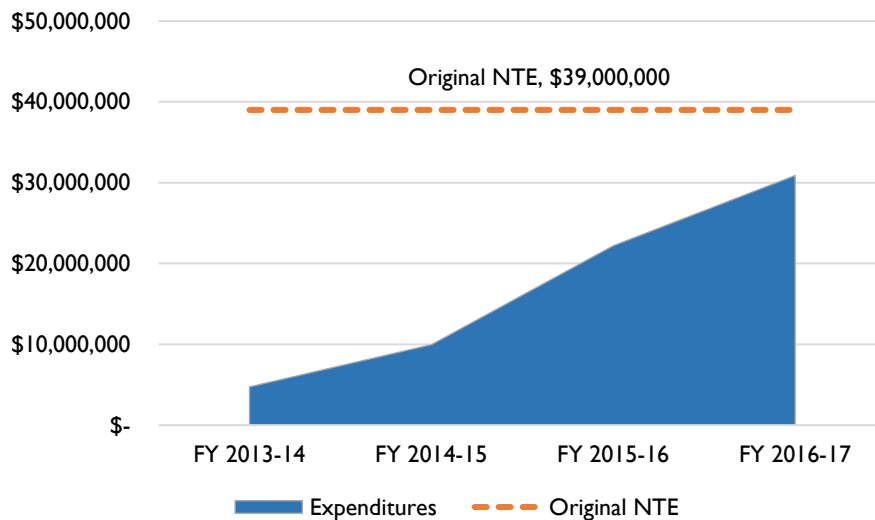
MWH Awarded Agreement for Program Management Services

ESD determined that managing a CIP of this magnitude required technical expertise and a breadth of additional resources that at the time exceeded City resources. Other jurisdictions with similar wastewater programs have used program management consultants to provide services and tools to help implement projects.¹¹

After issuing a Request for Qualifications in March 2013, the City received submissions from five consultants. All five firms were assessed based on expertise of key personnel, experience in program management for large water/wastewater projects, staffing, approach to resource management, and business location. In September 2013, MWH Americas, Inc. (MWH), was awarded a \$39 million agreement from the City,¹² to provide program management services.¹³

As of June 2017, ESD has spent about \$30 million with one additional year left on the original contract term. Exhibit 3 shows the annual cumulative expenditures for the MWH agreement since 2013.

Exhibit 3: MWH Year-to-Date Expenditures



Source: Auditor summary of FMS expenditures as of June 2017

¹¹ The City Auditor’s 2012 report, [Environmental Services Division: A Department at a Critical Juncture](#), also noted the benefit of project management assistance.

¹² Concerns raised during the initial adoption of the agreement were addressed by ESD in a memo. See <http://sanjoseca.gov/DocumentCenter/View/21708>.

¹³ Other services include: program start-up, program controls, quality assurance / quality control, health and safety, pre-project planning, design of conventional projects, alternative delivery, construction administration, operations and maintenance (O&M) input and coordination, asset management and knowledge transfer, and other supplemental services.

The Consultant's services are provided through a master agreement with specific tasks authorized through service orders.¹⁴ MWH is authorized to use additional companies (known as sub-consultants) that are specially trained, experienced, and competent in a specific part of the work needed. Sub-consultants are typically identified in the primary agreement, amendments, or in a service order.¹⁵

Progress and performance on the delivery of the Facility CIP are reported to the Treatment Plant Advisory Committee (TPAC)¹⁶ monthly and to the City Council twice every year. All service orders are also reported to TPAC in the monthly summary of procurement and contract activity. To date, 23 service orders have been issued with not-to-exceed values ranging from \$68,900 to \$12.4 million.

MWH Was Intended to Temporarily Supplement City Staff

Management of the RWF's CIP is led by ESD in partnership with the Department of Public Works. ESD's program management strategy involves a mix of City staff and external resources to provide sufficient capacity and unique technical experience. Some of the service delivery expectations of MWH include initiating, planning, executing, monitoring, commissioning, and closing out projects.

The program management structure integrates MWH staff with City staff. According to ESD, this approach not only allows for better communication and transfer of knowledge but it also provides opportunities for professional development and growth for City staff. Eventually, "*consultant involvement tapers off and the program transitions entirely to City staff.*" At the time of contract approval, City staff told the City Council that they anticipated most of the transitions would be complete in five years.

As of June 2017, ESD reported that there were 23 CIP projects underway at the RWF. MWH was leading six of these projects, including: aeration tank rehabilitation, blower improvements, cogeneration, digested sludge dewatering, and headworks critical improvements. The remaining 17 projects were led by ESD staff.¹⁷

¹⁴ Service orders provide a description of the services and deliverables that the Consultant must provide. They also detail the timeframe for completion and compensation for the work.

¹⁵ Sub-consultants may be added at different times during the agreement term so long as the Director has given formal written approval.

¹⁶ The Treatment Plant Advisory Committee (TPAC) consists of nine members including the Mayor of San José, Vice Mayor of Milpitas, councilmembers from San José and Santa Clara, and the Directors from Cupertino Sanitary District, and West Valley Sanitation District. TPAC advises both San José and Santa Clara on operations, maintenance, repair, and improvement of the RWF, and development and administration of related programs and policies.

¹⁷ The roles and responsibilities for a consultant project manager and a City project manager, or leader, are the same. Leading a project means overseeing the project scope, budget, and schedule.

Proposed Amendment

Initially, the master agreement with MWH was presented as a \$39 million, five-year (2013-2018) agreement with two, one-year options to extend. Following the presentations at TPAC and City Council the agreement was set at \$39 million for five years, with two, one-year options to extend. Staff was directed to return to City Council for approval if extensions were required.

ESD plans to extend the MWH agreement term by five more years and double the not-to-exceed value to \$78 million. The proposed amendment will be presented at the Treatment Plant Advisory Committee (TPAC) in September 2017.

The Proposed Amendment Should Include Limits on Hourly Billing Rates

ESD's agreement with MWH has non-standard terms (compared to many other City agreements) that impact costs and how the consultants are paid. For the service orders we reviewed, the City agreed to pay MWH consultants on a time and materials basis. This means that the Consultant's invoice is based on an hourly rate. The City negotiated to pay the Consultant based on "actual hourly salary rates" with overhead costs applied separately in the form of a multiplier and an associated project cost. The master agreement states that:

- The **multiplier** includes all indirect labor and related fringe benefits, payroll taxes, insurance costs, and related expenses as well as, general and administrative (G&A) costs. The multiplier also includes the Consultant's profit.
- The **associated project cost (APC)** includes support costs like computer costs, in-house photocopying, information technology (IT) networks, and telecommunications.

The agreement allows for different multipliers and APC rates depending on whether staff is *onsite* or *offsite*. These differences are described below:

- **Onsite:** Consultant works in San José at the RWF for more than 180 consecutive calendar days. The billing rate for these staff is their actual hourly salary X 2.83 (multiplier to cover overhead, etc.) plus \$5.35 per labor hour (to cover associated project costs).
- **Offsite:** Consultant is not required to be onsite in San José for 180 consecutive calendar days. The billing rate for these staff is their actual hourly salary X 3.08 (multiplier to cover overhead, etc.) plus \$9.50 per labor hour (to cover associated project costs).

The agreement does not limit hourly billing rates. The City pays billing rates "based on 'actual hourly salary rates' times a multiplier" as well as an associated project cost (APC) rate "for each labor-hour worked."

For example, for one hour worked for an offsite employee making \$100 per hour the City will be charged \$317.50 per hour:

$$(\$100 \text{ per hour} \times 3.08) + \$9.50 \text{ per hour fee} = \$317.50 \text{ per hour}$$

Then, if MWH increases this offsite employee's salary by \$10 per hour, the hourly billing rate charged to the City would increase by \$30.80 to a total of \$348.30 per hour:

$$(\$110 \text{ per hour} \times 3.08) + \$9.50 \text{ per hour fee} = \$348.30 \text{ per hour}$$

Other Agreements with MWH Have a Schedule of Billing Rates

The City and County of San Francisco (San Francisco) has a \$30 million agreement with MWH for planning and engineering services for the Central Bayside System Improvement Project from 2012 to 2021. Similar to the San José agreement, the billing rate includes the actual hourly rate of the consultant as well as the multiplier, overhead, and profit.¹⁸ However, unlike San José's agreement, the MWH agreement held by San Francisco outlines a schedule of billing rates that will be invoiced for each individual consultant employee.

Additionally, an agreement between the City of San José's Public Works Department and MWH also lists a schedule of allowable rates by position.¹⁹ These rates are based on the employee title, for example – Senior Engineer or Designer.

ESD staff told us that its agreement was deliberately structured to allow flexibility in hiring more experienced staff.²⁰ In our opinion, setting maximum limits on hourly billing rates would serve at least two purposes: (1) to limit potential cost escalation, and (2) to increase transparency on the prices being paid.

Additional Limits on Billing Rates in San Francisco

San Francisco's agreement includes a clause that states, "*the billing rate may not exceed the lowest rate charged to any other governmental entity except the City and County of San Francisco.*" It goes further by stating, "*no increase, including the annual CPI adjustment, is allowed to [be added to] billing rates exceeding \$250 per hour, unless Project Manager and Bureau Manager authorize an increase to the rate in writing.*"

¹⁸ The multiplier for MWH in this agreement is set at 3.5; within this rate, the effective overhead and profit rate is 2.52.

¹⁹ The schedule of hourly billing rates included; Vice President – \$260; Principle Engineer – \$220; Supervisor – \$180; Senior Engineer – \$160; Associate Engineer – \$120; Senior Designer – \$160; Designer – \$120; Project Controls Specialist – \$140; Senior Administrative Assistant – \$110; and, Administrative Assistant – \$80

²⁰ According to City staff, they intend to cap the maximum profit that MWH can make from the current project with the City. ESD had informally capped this profit at 10 percent. MWH certified that it has complied with the 10 percent cap. We should note that this cap is not memorialized in the City's agreement. Per City staff, this was discussed as part of the original contract negotiations. Further, language has been included in the current contract amendment to memorialize capping profit at 10 percent.

Potential Limits On City Paid Salary Increases

The agreement with MWH requires the City to pay the Consultant and its employees their actual hourly rate. It does not put any limitation on whether the City would pay for raises, position changes, or promotions; nor does it limit the number of times that this could occur in any given year. It only indicates that the payroll information for Consultant's staff must reflect "*most current audit of the [...] payroll and financial records, or mutually agreed upon best available financial information.*"

MWH's employees received raises at various times throughout the year. In our review, we found some employees received raises in March 2016, and another employee received a raise in December 2016. In one service order, one employee had three different rates of pay that increased over the span of one calendar year.

Further, half of the employees listed on the March 2016 invoice appeared to receive a raise. Increases in billing rates ranged from \$2.60 to \$34 per hour. When multiple people receive raises at once the total amount invoiced becomes significantly larger.

Other City agreements list a rate schedule for consultant hourly rates. For example, in an agreement between the Airport and a different consultant company for program management, raises were limited. (The agreement allowed for hourly rates to be increased every January 1st). If rate increases are tied to inflation this limits the cost increases that the City would have to pay. In our opinion, these types of controls are crucial to controlling cost increases.

Without limiting increases in compensation, the City could be responsible for paying raises that are not only significantly above an average City employees' salary increase but also significantly higher than the rate of inflation.

Recommendation #1: To increase transparency, in its upcoming amendment, ESD should:

- a) Renegotiate the multiplier and establish not-to-exceed hourly billing rates by position in future service orders; and**
- b) Include limits on the amount and number of salary increases for key staff positions in any given year that it will pay.**

Importance of Preapproving Sub-consultants and Staffing Changes

The master agreement states that the Consultant requires written approval from the Director of ESD before adding, replacing, or changing key staff and sub-consultants. However, in a service order early in the project, a key staff member was added without written approval. Additionally, in a more recent service order,

additions were made that did not receive preapproval. These included: construction managers, senior management consultants, various levels of project managers, a quality manager, and different levels of engineers.

The definition of “key” is unclear. In the example above, only 11 out of 60 individuals who billed against the service order were identified as “key”. City guidelines do not require preapproval for individuals who only engage in clerical or administrative activities, or whose work will receive significant review. However, based on staff titles and the frequency in which they worked on the project, it is unclear that all of these staff were just performing clerical or administrative work.

According to ESD, contract monitoring has improved over time. One of the tools that project managers started using more frequently for staff changes are “side letters” — letters that recognize and provide written Director approval for changes to the service orders.²¹ This is important because each service order is akin to a new agreement and any staffing needs and changes that occur during the course of the service order should be documented.

Key Information Sometimes Absent from Side Letters

While side letters can be used to approve changes to consultant staff and sub-consultants, the letters we reviewed did not always include information such as rates for individual sub-consultants or if a conflict of interest form 700 was needed. Side letters can help City staff memorialize changes. It is important that they include all the necessary information so that, for example, the consultant does not make staffing changes at will without communicating with the City. These seemingly small changes could have a budgetary impact on the project. ESD staff should ensure written Director approval is on file for all changes to the project and includes all the necessary information; and that an amendment is used when appropriate.

ESD staff told us that its service orders and side letters now list all key staff and whether they are onsite.²² The service orders now state that all staff not designated as *onsite* shall be considered *offsite*. As previously discussed, this designation determines billing rates and eligibility for travel and relocation benefits.

In our opinion, it is important that the Director preapprove staff and sub-consultant changes before the City is invoiced, both to control costs and to ensure consultant staffing levels are appropriate. Due to the size of the agreement and

²¹ For example, in one service order, ESD used side letters to document staffing changes and the addition of some sub-consultants.

²² The designation is important because an offsite designation would require higher rates than an onsite designation. Staff not considered to be principally responsible for the work are not required to be named in the service order or in a side letter; however, charges for unnamed additions can prove costly. The cost of unnamed staff additions from May 2014 to August 2014 was approximately \$50,000 for about 245 hours of work.

the number of people involved, it is important that written records are up-to-date to mitigate the risk of the City being invoiced incorrectly.

Recommendation #2: To make invoice review easier and ensure staffing levels are appropriate, ESD should ensure the following information is included in all relevant side letters:

- **Changes to key staff**
- **Sub-consultant firms and their key staff**
- **Billing rates and charges**
- **Form 700 filing**
- **Onsite or offsite designation**

Geographic Pay Differentials

The MWH agreement specifically disallows inclusion of bonuses, profit sharing, and benefits in the hourly rate. During our review we found the City was paying a geographic pay differential that was neither referenced in the agreement nor separately approved by the City. We observed at least two consultant employees that received a geographic pay differential (“*geographical uplift*” and “*geo prem*”) on top of their hourly rate in one service order. This added rate can significantly increase the amount billed to the City.

For example, as described previously, for one hour worked for an onsite employee making \$100 per hour the City will be charged \$288.35 per hour:

$$\$100 \text{ per hour} \times 2.83 + \$5.35 \text{ per hour APC} = \$288.35$$

However, if they are receiving a geographic pay differential of \$25 per hour, the hourly billing rate charged to the City, would increase by \$70.75, bringing the total hourly billing rate to \$359.10:

$$(\$100 + \$25) \text{ per hour} \times 2.83 + \$5.35 \text{ per hour APC} = \$359.10 \text{ per hour}$$

If applied for a full year, one consultant receiving a \$25 geographic pay differential adds \$147,000 to the City’s costs (because of the 2.83 added multiplier). Were this to continue for five years, this would add about \$735,000 to the City’s costs for one employee’s geographic pay differential alone.

ESD staff stated that the intent of adding this pay differential was to make up for the employee relocating to a more expensive area. According to ESD staff, since the beginning of the program, seven consultant employees received these added pays.

In our opinion, if the City wishes to continue paying the geographic pay differential with the hourly rate, this should be renegotiated in the upcoming amendment and the multiplier should not be applied.

Recommendation #3: ESD should work with the City Attorney's Office to determine:

- a) **Whether the City should seek repayment of geographic pay differentials (including multiplier), and**
- b) **If future agreements include a geographic pay differential, the amount of the differential and that the multiplier should not apply.**

Lack of Clarity Around Some Reimbursements

The MWH master agreement allows for the Consultant to be reimbursed for various costs incurred as a result of the project. For example, with ESD Director approval, the Consultant can be reimbursed for travel expenses and up to \$50,000 for relocation of some staff positions. Many of these reimbursements are tied to staff designation as *onsite* or *offsite*.

Per Diem Rates Were Inappropriately Applied

The City's agreement disallows per-diem²³ meal and incidental reimbursements for onsite staff assigned to the PMO. We found that per diems were inappropriately billed for at least one service order. Specifically, in one service order \$11,128, or 90 percent, of meal and incidentals charged to the City were for onsite positions versus \$1,295 for offsite positions. City staff agreed that onsite staff, per the agreement, are ineligible for per diem reimbursements – if they were compensated, it was an oversight.

The agreement clearly states that onsite staff members are ineligible to receive per diem reimbursements. The City should request reimbursement for the overpayments described above and disallow similar payments on a go-forward basis.²⁴

²³ The agreement states that meals and incidental expenses, referred to here as per diem expenses, "shall be reimbursed at the per diem rate based on the U.S. General Services Administration Government published rates." The rates for 2013-2014 were \$56 per day, and \$42 (75%) for days with travel.

²⁴ ESD recently entered into a professional consulting agreement with Williams, Adley, & Company – CA, LLP to provide audit services that could encompass this type of work.

Recommendation #4: 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.

Unclear Mileage Reimbursement Guidelines

Over the course of our review we also found that the City routinely reimbursed consultants for mileage from their home to the airport. In one service order, we found six individual consultants receiving mileage reimbursement for distances ranging from 15 miles to 63 miles.²⁵ While the agreement with MWH allows for reimbursement of mileage from their home office to the PMO (the project site in San José), the specifics are unclear. The agreement states:

Consultant staff not working full time at the PMO shall be eligible for mileage reimbursement at the IRS approved rate, if driving over 65 miles from their home office to the PMO.

The agreement also indicates that mileage and travel expenses must be reimbursed in accordance with City policy. The City's policy on Private Vehicle Mileage Reimbursement states:

In instances when an employee's first and/or last point of duty is outside City of San Jose limits, an employee shall be reimbursed for the number of miles driven between the employee's home and the first and/or last point of duty, minus the number of miles the employee normally commutes from home to and/or from the employee's regular work location.

The agreement appears to allow for mileage reimbursement for consultants who travel more than 65 miles from their *home office* to the PMO. However, we found the City also reimburses for mileage below 65 miles. This is, in part, because it is unclear what is meant by the *home office*. ESD staff told us that the home office was the consultant's office in Walnut Creek, California. However, this is not specified in the agreement. In our opinion, ESD

San Francisco's Reimbursable Travel

San Francisco limits the type of travel that MWH may claim for reimbursement. Their agreement allows for reimbursement of a rental vehicle or personal vehicle mileage, less their standard commuting miles, for out-of-town travel. However, San Francisco limits reimbursable travel expenses to exclude all other travel, relocation costs, and all meals.

²⁵ Consultants traveled from Georgia, Oregon, Missouri, Washington, etc.

should clarify whether consultant staff should be reimbursed for mileage less than 65 miles, if the consultant's regular commute should be accounted for, and what is meant by *home office*.

Recommendation #5: To ensure consistent enforcement, ESD should clarify mileage reimbursement limits in the MWH agreement and define home office.

Compensation for Some Sub-Consultants Is Unclear and Inconsistent

During our review of this agreement, we found that one sub-consultant is receiving some of the same markups as the primary consultant. The markups include the sub-consultant's rates with a multiplier and APC. Further, the reimbursement for travel and markups on that travel is unclear and should be clarified. These are described below.

One Sub-Consultant – Carollo Engineering, Inc. is Treated Differently

Carollo Engineering, Inc. (Carollo) receives markups that are not outlined in the City's master agreement with MWH. Specifically, Carollo employee rates include an added multiplier (2.69 for onsite and 2.93 for offsite)²⁶ as well as an associated project cost (APC) charge even though the agreement only allows for reimbursement of actual rates and charges. The agreement states:

*[MWH] can invoice the city for no more than the **actual cost** of each subconsultant plus up to a 5 percent markup. [...] Any subconsultant rates and charges set forth in the Schedule of Rates and Charges must be the subconsultant's actual rates and charges exclusive of any markup. The City will compensate the Consultant in accordance with those rates and charges.*

Multipliers can add a significant cost to the project by greatly increasing the employee hourly rate paid by the City, especially if additional percentage markups are also allowed. For example, an offsite sub-consultant employee who normally make \$100 per hour would invoice the City for \$293. MWH then adds a five percent markup to this already marked up rate.²⁷

Further, the City did not formally agree to these rates. Per City staff, the additional multiplier and use of APC is based on a separate agreement that MWH has with

²⁶ The City agreed to a multiplier of 3.08 for offsite and 2.83 for onsite for MWH staff.

²⁷ City guidelines, "Using and Completing the City of San Jose Standard and Master Consultant Agreement Forms", allows for the sub-consultant actual costs plus a markup of no more than five percent.

Carollo outside of the City's agreement. This unusual arrangement should be revisited or memorialized formally.

It should be noted that other sub-consultants listed on MWH invoices receive a base billing rate and a five percent markup.

Carollo was one of the original sub-consultants assigned to the project, which could be the reason that the way the rates are calculated differ from those of other sub-consultants. In our opinion, ESD should revisit Carollo's compensation in the upcoming amendment, or future service orders, to clarify the appropriate compensation rates for its employees. Once this is clarified, their rates and charges should be included in the upcoming amendment and/or corresponding service orders.

Recommendation #6: In its upcoming amendment to the MWH agreement, ESD should clarify the appropriate compensation rates for Carollo Engineering.

Sub-Consultant Reimbursements for Travel Expenses

Although the master agreement specifies that the **Consultant** shall be reimbursed for select travel expenses, the agreement does not explicitly state that the **sub-consultants** travel expenses shall be reimbursed. In fact, sub-consultants are being reimbursed for travel expenses including: mileage and air travel from their homes to the facility; lodging while in San José; meals and per diem expenses; and rental cars in San José.

Travel reimbursement can be significant. For example, one service order, spanning a year and a half, included \$175,000 in travel reimbursements including a five percent markup fee by MWH. Most of this reimbursement was for Carollo's staff.

In our opinion, ESD should clarify that sub-consultants are allowed reimbursement for travel expenses, and specify that the reimbursements must comply with the City's Travel Policy. In one instance, the City reimbursed one sub-consultant for a rental car on multiple occasions while at their home location on weekends and days off. According to City staff, this expense was approved based on MWH's explanation – that it was cheaper than reimbursing the expenses for this individual to travel from their home to the airport and back. This explanation did not consider that, regardless of which method was more cost effective, this type of reimbursement is not allowed under the City's Travel Policy.

Recommendation #7: In its upcoming amendment to the MWH agreement ESD should clarify what sub-consultant travel expenses can be reimbursed.

Finding 2 ESD Should Improve Its Contract Management Processes for Other Professional Services Agreements

Summary

ESD contracts with consultants for a variety of professional services outside of the CIP. In addition to reviewing the primary project management agreement in the CIP, we reviewed 10 professional consulting agreements not related to the CIP with a not-to-exceed value of \$7.1 million over the entire term of the contracts. We found that in some instances, staff overseeing the agreement overlooked key agreement terms. This included adjusting tasks, the compensation schedule, and sub-consultants without prior approval. In our opinion, ESD administrative staff should periodically distribute the City's instructions on "Using and Completing the City of San Jose Standard and Master Consulting Agreement Forms" to all contract monitoring staff.

Additionally, we found some problems that were identified in prior audits persist today. Currently, management of individual agreements largely depends on the contract manager in charge. While many of the agreements we reviewed were managed by staff who had prior work experience managing agreements, this was not always the case. In our opinion, ESD should offer more robust contract monitoring training for staff who manage agreements.

ESD Uses a Variety of Consultants Across its Different Divisions

ESD uses professional consultants for a variety of services outside of the Regional Wastewater Facility Capital Improvement Program rebuild. In addition to reviewing the primary project management agreement in CIP, we reviewed 10 other professional consulting agreements from six separate divisions within ESD with a total not-to-exceed value of \$7.1 million.

Exhibit 4: Other Professional Consulting Agreements Were Sampled Across Divisions

Watershed Protection ⇨	•EnfoTech & Consulting Inc.
Wastewater Management ⇨	•HydroScience Engineers, Inc. •ABB, Inc.
Water Resources ⇨	•Harper & Associates, Inc. •Trussell Technologies
Public Information Management ⇨	•Clean Bit Systems, Inc. DBA Joulebug
Integrated Waste Management ⇨	•Cascadia Consulting Group, Inc. •HF&H Consultants, LLC.
Sustainability & Compliance ⇨	•Cornerstone Earth Group. Inc. •Rincon Consultants, Inc.

Source: ESD

Each of the agreements we reviewed is unique. For example, ESD’s agreement with Trussell Technologies is for a pilot study focused on increasing the production of recycled water using existing structures. In contrast, ESD’s agreement with Cascadia Consulting Group, Inc. (Cascadia) included work developing a report on products to be used instead of expanded polystyrene (commonly known as Styrofoam™) restaurant take-out containers.

Although these and the other agreements differ in the type of work being performed, there are similar processes and procedures that are necessary for monitoring the agreements, including collecting deliverables, reviewing invoices, and developing amendments.

Some Agreement Terms Were Overlooked in Some Other Professional Consulting Agreements

The City’s contract managers are responsible for ensuring compliance with all agreement provisions by monitoring work and checking that work is completed on time.²⁸ However, during our review we found instances where staff overlooked key agreement terms and adjusted tasks, the compensation schedule, and sub-consultants without prior approval. On the other hand, we did not find significant reportable issues during our review of the following contracts: Trussell Technologies, Cornerstone Earth Group, EnfoTech & Consulting, HF&H Consultants, and Rincon Consultants.

²⁸ [California State Contracting Manual Volume I](#)

Changing Tasks and Compensation Schedule

We identified three consultants where changes to the tasks and/or compensation schedule occurred without formal authorization. For example, in the Harper & Associates, Inc. (Harper) agreement for inspecting the rehabilitation of two water reservoirs, we found that the compensation schedule was adjusted. The first task in this agreement was supposed to be paid on a “fixed fee” basis, invoiced at the “completion of task”, yet the City paid Harper based on the number of hours worked across multiple invoices. In addition, the invoice was paid before the task was completed.

While reviewing the Cascadia agreement for research on Styrofoam™ alternatives, we identified three issues including similar inconsistencies with the compensation schedule. The compensation schedule for the same agreement outlined each task would be paid “on a lump sum basis upon completion of each task.” However, only the first three tasks out of 13 were paid on a lump sum basis.²⁹ In addition to changing the compensation schedule, we found that Cascadia included three supplemental tasks to the last invoice. These three new tasks replaced four previous tasks outlined in the original agreement. While there was an informal proposal from Cascadia to add two of the three tasks, these were never *formally* added to the agreement.

On a different agreement, we found that adjustments had been made to the compensation schedule without formal approval or amendment. Informally, the contract manager and the consultant, HydroScience Engineers, Inc. (HydroScience), adjusted payment amounts from one task to another, but never received formal authorization for this adjustment.

Adjusting Sub-Consultants Without Prior Approval

In the HydroScience agreement, we also found the contract manager allowed sub-consultants to be used and changed without prior approval from the Director. For example, on one service order, a sub-consultant was replaced with a different sub-consultant.³⁰ Furthermore, in a separate service order, a completely new sub-consultant was added to the project. According to the agreement with HydroScience:

[Each] Approved Service Order will state whether or not the Consultant can use subconsultants to provide any part of the Work. If [it] does not authorize the Consultant to use subconsultants, then the Director’s prior written

²⁹ Although these 13 were not paid on a lump sum basis, they were still below the total amount in the compensation schedule. After further review of this agreement, we found that Cascadia began conducting work on this agreement prior to the execution of this agreement. In 2013, the City Auditor’s office made a recommendation limiting retroactive agreements. This has since been implemented as of December 2016.

³⁰ Although this second sub-consultant was not listed in this service order, it was listed in a different service order within this agreement.

approval is required for the Consultant to use a subconsultant to perform any part of the Work. [...] If [...] an Approved Service Order authorizes the use of one or more subconsultants, then it will identify the name of each such subconsultant and the portion of Work each such subconsultant will perform. The Director's prior written consent is required for the Consultant to remove, replace or add to the subconsultants identified...

It appeared that there was an overall lack of understanding of when contract manager discretion is appropriate to adjust sub-consultants, tasks, or compensation schedules. Contract managers rationalized approving the addition of sub-consultants to a project without seeking an amendment if it was for under \$10,000. It appeared that contract managers approved invoices without verifying that they were aligned with the terms of the agreement.

The City recently made instructions on “Using and completing the City of San Jose standard and master consulting agreements forms” available on the City’s Intranet. These instructions include how to amend service orders, task orders, and compensation schedules. However, some ESD staff were not aware of these instructions.³¹

Recommendation #8: To address the problem of service orders, tasks, compensation schedules, and sub-consultants not being consistent with approved agreements, ESD Administrative staff should periodically distribute the City’s instructions on “Using and Completing the City of San Jose Standard and Master Consulting Agreement Forms” to all contract monitoring staff.

Sales Tax Provisions Were Overlooked

The City did not pay approximately \$42,700 in sales tax for purchases made under its agreement with ABB, Inc. The applicable sales taxes were for hardware and switch purchases. According to the City’s agreement with ABB, Inc.;

[The] City shall be responsible for filing sales and use tax reports applicable to the purchase of hardware and other goods from Contractor under this Agreement. These reports shall be filed on a quarterly basis following receipt of invoice for payment, and City shall pay the applicable sales and use tax. The estimated taxes are in the amount

³¹ Our previous 2013 audit of *Consulting Agreements: Better Enforcement of Procurement Rules, Monitoring, And Transparency is Needed* pointed out the need for Citywide policies and procedures on consulting contract monitoring. Many recommendations from this audit remain outstanding, leaving departments to develop their own processes and training.

of Forty Two Thousand Seven Hundred Ninety Three Dollars (\$42,793.00)...

We should note that as of May 2017, when we brought this lack of payment to ESD's attention, ESD accrued \$44,000 in sales tax payable since November 2013. Finance made the appropriate payment to the State Board of Equalization in June 2017.

One of the reasons the payment was not made may be the City's decentralized contract management process. Finance staff indicated that they rely on ESD staff to alert them when sales tax is due. ESD staff would have to separately encumber the sales tax in FMS. In this instance that did not occur. The City does not provide training on sales tax requirements to staff even though this process has been decentralized. This can be problematic when staff move to different positions or leave the City.

A Pilot Mobile Application Remained Active Even After the Pilot Ended

One of the agreements that we reviewed was with Cleanbit Systems, Inc. (Joulebug) for \$22,500 to customize a mobile application (app) to encourage sustainable behavior, for example, using reusable water bottles and recycling.

New users were prompted to include a full name as well as other information such as location and email. Last names of users, a required field, are visible for anyone accessing the application. Since the agreement with Joulebug ended in February 2016, the app remained available but was not being monitored.³² This is potentially problematic because the application was launched as a competition among 192 students (possibly minors) in local high schools.³³

After we brought these issues to their attention, ESD decommissioned the app in August 2017. It appears monitoring and/or closeout had not been done due to the contract manager retiring. When there is turnover, duties that go beyond the standard job description may get lost in transition to the next person in that position.

Invoices Were Paid Without Adequate Review

An important piece of the contract manager's job is to review invoices, verify work performed, and ensure costs claimed are in accordance with the agreement. City training materials, and the Standard Consultant Agreement

³² Even though the City did not renew the contract, the mobile app was still available for download with the City logo. The ongoing use of the logo gives the appearance that City staff actively monitor the application. Residents trust the City to keep their information secure in accordance with the City's commitment to protecting personally identifiable information.

³³ The high school competition lasted from April 20, 2015 to April 27, 2015.

Template, state that it is the contract manager's responsibility to confirm that the invoices are both accurate and sufficiently detailed.

While reviewing the \$150,000 agreement with Harper for reservoir inspection support services, we identified instances where invoices were unclear and did not align with the hours recorded in the Consultant's daily inspection logs. When examining this issue, staff were only able to verify that the Consultants were working during the invoiced period; however, they could not verify if the invoiced hours were correct. Additionally, we found that ESD paid Harper hourly rates for project managers even though the project manager role was not listed in the "*Schedule of Rates and Charges applicable to this agreement.*"

Furthermore, we found that detailed information in the daily logs and weekly inspection reports was not always provided. Reports were to include, for example: pictures, weather conditions, descriptions of work completed that day, progress and passing inspections, among other requirements. On multiple occasions there was missing information, yet the City paid Harper \$700 for each invoiced weekly inspection report.

In our opinion, ESD should review invoices from Harper to determine if the City was billed for the correct number of hours, and whether payment for Harper's project manager role is allowed.

Recommendation #9: Because Harper & Associates, Inc. invoices were paid without being adequately reviewed, ESD should assign independent personnel to go back and determine whether any payment adjustments are needed.

Improve Contract Management Consistency by Offering Additional Training

As mentioned in the introduction, contract management resources are not as robust as the resources available for CIP projects. Currently, management of individual agreements largely depends on the contract manager in charge. Several of the agreements we reviewed were managed by staff who had prior work experience managing agreements while others lacked similar experience.

While contract managers are encouraged to follow City procedures and processes, currently there are few resources and tools available to assist contract managers. For example, while forms like the invoice checklist are used for all CIP projects, they are not used for all non-CIP projects.

It is important to provide consistent oversight and project management methods on all projects to save staff time, ensure continuity when staff change, and guarantee that the City receives the services that it paid for. ESD can ensure

consistent contract management by offering more robust training for other agreements. This could include invoice review including linking payments to agreement deliverables (see CIP Invoice Checklist in Appendix A).

We believe that some of the tools and trainings that CIP managers benefit from would also help project managers across divisions to better oversee consultant relationships and ensure that when staff leave or change roles there are still processes and procedures in place that new managers can follow. Further, more intermediate and advanced training would offer managers additional opportunities for professional development.

Overall ESD has made strides in improving their contracting processes and procedures. Many of the issues identified during the audit could be prevented from future reoccurrence by providing additional contract management training and resources to project managers.

Previous Audit of Consulting Agreements Raised Similar Concerns

Our previous 2013 audit, *Consulting Agreements: Better Enforcement of Procurement Rules, Monitoring and Transparency is Needed*, highlighted similar issues. According to that audit:

[T]he City faces significant financial and programmatic consequences from inadequate contract monitoring. [...] We found that the City does not have any Citywide policies governing contract monitoring. Staff has dual responsibilities of program management along with monitoring contracts, for which they have received no training.

Although improvements have been made, similar problems persist today. We found that ESD generally followed competitive procurement processes, had assigned project managers, and generally maintained records of invoices and deliverables. Inconsistencies may be due to the fact that contracting personnel had various levels of experience with procurement and contract management. While several project managers cited prior work experience that helped them to manage ESD contracts, others did not have the same prior contract monitoring experience. Contract managers generally expressed interest in participating in more robust training to better learn the City's contract monitoring best practices. However, the City so far has not made additional training available for contract management staff.

Recommendation #10: To improve consistency across all divisions, ESD should offer additional contract management training. Contract management training should include, but is not limited to the following:

- **Invoice review**
- **Situations that require amendments**
- **Sales tax accrual process**
- **Standard operating procedures for contract monitoring**
- **Managing consultant relationships**

Conclusion

The Environmental Services Department (ESD) contracts with consultants for various reasons. Our review of ESD's Capital Improvement Program project management consultant agreement uncovered areas of risk and ambiguity that could lead to increased costs. Finally, our review of 10 other consulting agreements found issues with consistency in project management and a need for more intermediate and advanced contract monitoring training.

RECOMMENDATIONS

Recommendation #1: To increase transparency, in its upcoming amendment, ESD should:

- a) Renegotiate the multiplier and establish not-to-exceed hourly billing rates by position in future service orders; and
- b) Include limits on the amount and number of salary increases for key staff positions in any given year that it will pay.

Recommendation #2: To make invoice review easier and ensure staffing levels are appropriate, ESD should ensure the following information is included in all relevant side letters:

- Changes to key staff
- Sub-consultant firms and their key staff
- Billing rates and charges
- Form 700 filing
- Onsite or offsite designation

Recommendation #3: ESD should work with the City Attorney's Office to determine:

- a) Whether the City should seek repayment of geographic pay differentials (including multiplier), and
- b) If future agreements include a geographic pay differential, the amount of the differential and that the multiplier should not apply.

Recommendation #4: 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.

Recommendation #5: To ensure consistent enforcement, ESD should clarify mileage reimbursement limits in the MWH agreement and define home office.

Recommendation #6: In its upcoming amendment to the MWH agreement, ESD should clarify the appropriate compensation rates for Carollo Engineering.

Recommendation #7: In its upcoming amendment to the MWH agreement ESD should clarify what sub-consultant travel expenses can be reimbursed.

Recommendation #8: To address the problem of service orders, tasks, compensation schedules, and sub-consultants not being consistent with approved agreements, ESD Administrative staff should periodically distribute the City's instructions on "Using and Completing the City of San Jose Standard and Master Consulting Agreement Forms" to all contract monitoring staff.

Recommendation #9: Because Harper & Associates, Inc. invoices were paid without being adequately reviewed, ESD should assign independent personnel to go back and determine whether any payment adjustments are needed.

Recommendation #10: To improve consistency in contract monitoring across all divisions, ESD should offer additional contract management training. Contract management training should include, but is not limited to the following:

- Invoice review
- Situations that require amendments
- Sales tax accrual process
- Standard operating procedures for contract monitoring
- Managing consultant relationships

APPENDIX A

Invoice and Contract Checklist to Approve Invoice for Payment

Contract: Agreement Title

Term of Contract: Start Date – End Date

AC No.: #####
Name

Contract Amount: \$, \$, \$, \$, \$, \$

Vendor: Consultant

SO Number: ##

SO Name: Name

SO Amount: \$, \$, \$, \$, \$

APPN: ##### **RC:** #####

FMS Line:

Invoice No.: ###

Period: Invoice Period

Amount: \$, \$, \$, \$, \$

Date of Submittal for Payment: Invoice Date

- Valid Professional Services Titles
- Valid Rates for Professional Services Titles
- Valid Mileage Rate (N/A)
- Valid Subcontractor Mark-up
- Receipts included for all Reimbursable Expenses Billed in the Invoice (N/A)
- Valid Dates for Work Completed
- Work Completed was verified either verbally or with deliverable
- Valid Amount for Work Completed
- Billing does not exceed the Not-To-Exceed (NTE) amounts for each Task
- Work Completed for Each Task is within Scope
- Copy of Final Report given to the WPCP Library (N/A)

The attached invoice has been reviewed by the Project Manager in regards to contract requirements. If there are any questions, please call:

Project Manager: Name

Extension: Phone Number

Signature: _____

Date: _____

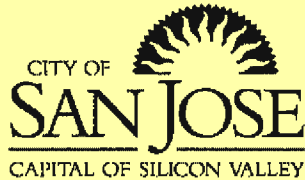
Notes:

Invoice amount, appropriation, and RC are Correct

Division Analyst: _____

Senior/Principal Engineer:

Date: _____



Memorandum

TO: SHARON W. ERICKSON
SUBJECT: SEE BELOW

FROM: Kerrie Romanow
DATE: August 31, 2017

Approved

D. DSYL

Date

8/31/17

SUBJECT: RESPONSE TO THE AUDIT REPORT – AUDIT OF ENVIRONMENTAL SERVICES DEPARTMENT CONSULTING SERVICES: AGREEMENTS REQUIRE ADDITIONAL OVERSIGHT

BACKGROUND

The Administration appreciates the City Auditor's work on evaluating the Environmental Services Department's Consulting Services Agreements. The Administration has reviewed the Audit Report entitled, *Audit of Environmental Services Department Consulting Services: Agreements require additional oversight*. Although the Administration generally agrees with the recommendations it is important to note that many of the recommended improvements related to the MWH agreement had already been implemented by staff or included in the proposed amendment prior to the start of the audit. The following is the Administration's response to each recommendation.

RECOMMENDATIONS AND RESPONSE

Recommendation #1: To increase transparency, in its upcoming amendment, ESD should:

- a) **Renegotiate the multiplier and establish not-to-exceed hourly billing rates by position in future service orders; and**
- b) **Include limits on the amount and number of salary increases for key staff positions in any given year that it will pay.**

Administration response to Recommendation #1

The Administration does not agree that these recommendations would improve transparency. However, the Administration does agree with the Auditor that the work completed by staff prior to the start of this audit as well as the additional proposed improvements are prudent. The Administration strongly believes that the capital improvement program at the Wastewater Facility already has an unprecedented level of transparency. Although some of these recommendations would further clarify in the proposed amendment practices that are already in place, they would do little to increase the already high level of transparency. Furthermore, as communicated to the Auditor, ESD had already negotiated a lower multiplier for the proposed

amendment prior to the start of this audit so the Administration finds this recommendation somewhat redundant.

While the MWH agreement uses a multiplier compensation structure that is less commonly used for other City agreements, it offers a number of benefits including greater transparency (i.e. billed based on consultant's direct labor times multiplier) and ability to negotiate the multiplier and associated project cost (APC). For master agreements involving a wide range of expert services and a longer contract duration, staff believes it is more cost effective and beneficial to use the multiplier form of compensation versus the fully loaded hourly salary rate form of compensation. This ensures that the City will be billed for the actual hourly direct labor rate that is earned by an individual on a real-time basis versus paying for services based on fully loaded hourly billing rates that would be charged to the City on day one of the contract whether the individual is actually paid that hourly labor rate. It also avoids more junior level staff being assigned to the program at maximum profit to the consultant.

Staff strongly believes that the comparison to two other agreements that MWH has with the City and County of San Francisco (San Francisco) and the City of San Jose Public Works Department is not a good comparison. The agreement with San Francisco uses a similar multiplier compensation form of payment; their multiplier is much higher at 3.5 (compared to 2.83 and 3.08 on the RWF CIP program) and includes a maximum hourly billing rate of \$250. This structure of a higher multiplier and billing rate cap means the consultant takes a loss on high level, experienced staff and makes a larger profit on lower level staff who can bill at inflated billing rates. This incentivizes the consultant to assign a majority of the work to less experienced staff. Similarly, the Public Works agreement uses a fully loaded hourly rate (i.e. includes direct labor, overhead, profit) that builds in multiple years of escalation and assumes top steps for specific positions. The type of services and projects included under the Public Works master agreement is also substantially different (i.e. on-call engineering services such as third-party design reviews, engineering studies and analysis, and preliminary engineering services for various sewer and pump station projects) with a total agreement not-to-exceed amount of \$500,000. The size and level of complexity associated with sewer and pump station projects are substantially less in comparison to projects at the Wastewater Facility, yet the comparable hourly rate for a Principal Engineer under the Public Works master agreement is \$220/hour (based on 2012-2014) to \$240/hour (escalated to 2017 at an assumed 3% annual increase) whereas the 2017 billing rate for highly-experienced consultant project managers assigned to work on projects valued up to \$100 million at the Wastewater Facility range between \$208/hour to \$260/hour.

Also, while the current MWH agreement does not limit hourly billing rates, ESD has the ability to review and control cost through the annual service order negotiations process. Currently, each service order is negotiated to include a detailed scope of work, deliverables and schedule of performance, and level-of-effort (LOE) compensation table. The LOE identifies key staff assigned to work on the service order, on-site or off-site multiplier and APC designation, each person's hourly bill rate (direct labor rate times applicable multiplier), maximum labor hours assigned by task, task sub-totals, estimated reimbursable expenses and markups, and overall not-to-exceed total. Resumes for key consultant staff are reviewed and approved by ESD staff to

ensure that the proposed personnel have the right combination of experience and expertise to perform the work required, are fully available and committed for the duration of the service order and/or program term, and that salary costs are reasonable and within the available budget. Given the magnitude of the Wastewater Facility CIP and high level of complexity involved, staff does not recommend establishing not-to-exceed hourly billing rates by position in future service orders. However, for additional clarity going forward, staff will attach the final LOE compensation table to each service order.

The current agreement does not state a limit on the amount and number of salary increases that the consultant can give to staff in any given year. However, ESD has the ability to review and control cost through the annual service order negotiations process as described above. The current mutual understanding between ESD and MWH with regards to annual increases is a 3% increase for MWH each April and 3% increase for Carollo each January. In some cases, an employee may have received more than one raise due to position changes or promotions, which is not unreasonable. ESD recognizes the benefit and greater control afforded by formalizing the limits on annual salary increases as long as some flexibility is provided.

Response to Recommendation #1 (a):

As part of the original MWH agreement, staff had negotiated both an on-site and off-site multiplier (2.83 and 3.08 respectively) and APC (\$5.35/hr and \$9.5/hr, respectively). As part of the proposed contract amendment, prior to the audit, staff had already negotiated a reduction to the multiplier from 2.83 to 2.81 (on-site) and 3.08 to 3.06 (off-site) which will be applied to the consultant's direct labor costs. The on-site and off-site APC remains the same. Going forward, staff will attach the final LOE compensation table to each executed service order for additional clarity.

Green – The proposed amendment to the Stantec agreement includes a lower multiplier rates of 2.81 (on-site) and 3.06 (off-site). The reduced multiplier rates will be applied to both Stantec and its major subconsultant (Carollo Engineers, Inc.) and will result in an estimated savings of \$275,000. Future service orders will include the final LOE compensation table for additional clarity.

Target Date for Completion: September 30, 2017

Response to Recommendation #1 (b):

The proposed amendment now includes an annual maximum salary increase of up to 3%, unless otherwise approved by the City.

Green – The proposed amendment has been revised to include an annual maximum salary increase of up to 3%, unless otherwise approved by the City.

Target Date for Completion: September 30, 2017

Recommendation #2: To make invoice review easier and ensure staffing levels are appropriate, ESD should ensure the following information is included in all relevant side letters:

- **Changes to key staff**
- **Sub-consultant firms and their key staff**
- **Billing rates and charges**
- **Form 700 filing**
- **Onsite or offsite designation**

Administration response to Recommendation #2

The Administration agrees that staff work completed prior to the start of this audit was prudent since almost all of these recommendations had already been implemented by ESD staff as part of ongoing improvements in managing this contract, prior to the start of this audit.

Almost all of the information suggested by the Auditor is already either included in each service order or side letter. Attachment B of each approved service order states whether or not the consultant can use one or more subconsultants to perform any part of the work. The name of each subconsultant firm and the area of work that they will be performing are listed in Attachment B. In addition, the key consultant staff that are principally responsible for providing the work under the service order are listed along with their task assignment and Form 700 filing requirements. After a service order has been executed, if the consultant wishes to add, replace, or change key staff and/or sub-consultants, they must receive written approval from the Director of ESD.

All of the service orders issued to date under the MWH agreement have appropriately identified key staff, sub-consultants, task assignments, and Form 700 filing requirements. Given the duration and variety of services to be provided under the master agreement, it is expected that some changes to key staff and/or sub-consultants will occur. The master agreement allows for the substitution and/or addition of key staff and/or sub-consultants with the Director's prior written approval. Side letters are used to approve these changes.

ESD acknowledges that in a service order early in the program, a key staff member was added without written approval. However, the substitution was informally approved through resume review and in person interview with ESD staff. On a more recent service order, the audit report stated that certain consultant staff (such as construction managers, senior management consultants, various levels of project managers, a quality manager, and different levels of engineers) were added (i.e. appeared on invoices) that had not received preapproval by the Director. These staff were not required to be pre-approved as key staff because they provide limited administrative or technical support functions on the service order (e.g. data entry, database support, programmatic technical support, graphics support). Given the size of the agreement and number of people on the program, ESD meets bi-weekly with MWH to discuss invoices, staffing levels, upcoming changes to personnel and whether a side letter needs to be issued, etc.

To date, almost all side letters related to consultant or subconsultant staffing changes have included the following information:

- a. Changes to key staff (e.g. additions, substitutions)
- b. Addition of new subconsultants
- c. Onsite and off-site designations

ESD has updated the side letter template to incorporate the City Auditor's recommendation to also include billing rates and charges, and Form 700 designation.

Green – ESD has updated the side letter template to incorporate the City Auditor's recommendation.

Target Date for Completion: September 30, 2017

Recommendation #3: ESD should work with the City Attorney's Office to determine:

- a) **Whether the City should seek repayment of geographic pay differentials (including multiplier), and**
- b) **If future agreements include a geographic pay differential, the amount of the differential and that the multiplier should not apply.**

Administration response to Recommendation #3

The Administration agrees with this recommendation.

To leverage the breadth and depth of specialized resources available from MWH, staff needs the ability to approve a temporary geographic pay differential on a case by case basis to bring in the best qualified wastewater professionals. The temporary geographic pay differential is intended to cover state tax differentials and cost of living adjustments for consultant staff who are normally based outside of the nine Bay Area counties, but whom are brought in to work full-time on the program. To date, a very limited number of consultant staff have received the geographic pay differential.

This adjustment is not spelled out specifically in the current agreement, but staff believes it is important to allow the geographic pay differential so that consultant staff assigned to the program are fairly compensated and made "whole" for the duration that they are assigned to work in the Bay Area.

ESD will work with the City Attorney's Office to determine whether the City should seek repayment of geographical pay differential. In addition, the proposed amendment has been revised to specifically reimburse the consultant for geographic pay differential, so that the City can take full advantage of the consultant's expertise. Onsite consultant staff whose home base is

outside of the nine Bay Area counties will be eligible, subject to the pre-approval by the ESD director. The multiplier will not be applied to the geographic pay differential.

Green

- a) ESD will work with the City Attorney's Office to determine whether the City should seek repayment of geographical pay differential.
- b) The proposed amendment has been revised to specifically reimburse the consultant for geographic pay differential, subject to pre-approval by the ESD director. The multiplier will not be applied to the geographic pay differential.

Target Date for Completion: September 30, 2017

Recommendation #4: 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.

Administration response to Recommendation #4

The Administration agrees that staff work completed prior to the start of this audit was prudent and would like to note that the audit references a single error in the early part of the contract. Since then, and well in advance of this audit, the invoice review process had already been significantly improved to avoid such errors.

ESD will continue to enforce the restrictions on per diem reimbursements for onsite consultant staff. The error occurred in an early service order wherein the City was billed for per diem reimbursements for onsite staff, which is not allowed per the master agreement. Since then, both ESD and MWH have improved its internal invoice review process with more senior staff performing quality review. ESD has requested MWH to repay the City for past incorrect per diem reimbursements in the amount of \$11,683. A credit of \$11,683 has been reflected in the June 2017 invoice.

Green – MWH has credited \$11,683 for the incorrect per diem reimbursement as part of their June 2017 invoice.

Target Date for Completion: September 30, 2017

Recommendation #5: To ensure consistent enforcement, ESD should clarify mileage reimbursement limits in the MWH agreement and define home office.

Administration response to Recommendation #5

The Administration agrees with this recommendation.

Green - The proposed amendment 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.

Target Date for Completion: September 30, 2017

Recommendation #6: In its upcoming amendment to the MWH agreement, ESD should clarify the appropriate compensation rates for Carollo Engineering.

Administration response to Recommendation #6

The Administration agrees that staff work completed prior to the start of this audit was prudent and would like to note that additional clarification about compensation rates for Carollo Engineering was already included in the proposed amendment prior to the start of this audit. Furthermore, compensation rates for Carollo Engineering were not incorrect but simply required explicit language in the proposed amendment to reflect Carollo Engineering's unique role as a lead sub-consultant.

In response to the City's 2013 "Request for Qualifications for Program Management Services for the San Jose/Santa Clara Water Pollution Control Plant Capital Improvement Program", MWH and Carollo Engineering, Inc. (Carollo) had proposed together as a team with MWH identified as the Prime Consultant and Carollo identified as a Lead Sub-Consultant. During the negotiations process, City staff negotiated a multiplier and associated project cost (APC) form of compensation with MWH with the mutual understanding that this compensation structure would be passed through to Carollo via a separate agreement between MWH and Carollo. It is not standard practice for the City to enter into separate agreement(s) with sub-consultant(s) identified in Statements of Qualifications (SOQs) and/or Consultant Master Agreements. To memorialize this arrangement, the proposed amendment has been revised to include Carollo's multiplier and APC compensation.

Staff strongly disagrees with the audit statement that multipliers can add a significant cost to the project by greatly increasing the employee hourly rate paid by the City.

The employee's direct salary (or hourly rate) is a completely different cost component from the multiplier. The multiplier covers the consultant's payroll burden, indirect cost, and profit. Payroll burden can generally be described as all costs associated with the employee's benefits (e.g. sick leave, vacation pay, holiday pay, unemployment and other payroll taxes, retirement benefits). Indirect cost (or overhead) can generally be described as occupancy cost (e.g. rent, lighting, heat, taxes and insurance); accounting and legal services; business development and marketing expenses; etc. The amended agreement also caps the consultant's profit at 10 percent maximum.

As with any business, all consultants have payroll burden and overhead expense, whether the multiplier form of compensation or fully loaded hourly rate form of compensation is used. The audit states that other subconsultants listed on the MWH invoices receive a base billing rate and a five percent markup. In actuality, these base billing rates include the subconsultants' direct and indirect cost. Their hourly billing rates may appear lower than some of the MWH's rate but this is because they are very small firms or individual contractors with very low overhead expenses.

Green – The proposed amendment now identifies Carollo as a Major Subconsultant along with their multiplier compensation and allowable reimbursables.

Target Date for Completion: September 30, 2017

Recommendation #7: In its upcoming amendment to the MWH agreement ESD should clarify what sub-consultant travel expenses can be reimbursed.

Administration response to Recommendation #7

The Administration agrees that staff work completed prior to the start of this audit was prudent and once again would like to note that ESD had already included additional clarification about sub-consultant travel expenses in the proposed amendment, prior to the start of the audit.

Green – The proposed amendment includes language to clarify what subconsultant travel expenses can be reimbursed.

Target Date for Completion: September 30, 2017

Recommendation #8: To address the problem of service orders, tasks, compensation schedules, and sub-consultants not being consistent with approved agreements, ESD Administrative staff should periodically distribute the Finance Department's instructions on "Using and Completing the City of San Jose Standard and Master Consulting Agreement Forms" to all contract monitoring staff.

Administration response to Recommendation #8

The Administration partially agrees with the recommendation. Staff will include a weblink to the City's instructions on "Using and Completing the City of San Jose Standard and Master Consulting Agreement Forms" on our ESD webpage: [http://inside.sjcity.net/esd/administrative_services/Shared%20Documents/Request for Proposal s Contract Processing.aspx](http://inside.sjcity.net/esd/administrative_services/Shared%20Documents/Request%20for%20Proposal%20Contract%20Processing.aspx) and will reference this document it in the annual ESD Introduction to Contracts training and ESD Contract Management training. Additionally, ESD Contracts staff will periodically send contract managers an e-mail that references the topic and provides staff with a weblink to the resource.

Green – The Environmental Services Department will add a weblink to the City’s instructions on “Using and Completing the City of San Jose Standard and master Consulting Agreement Forms” by September 30, 2018. ESD Staff already sent the link to this document to ESD contract managers and will continue to periodically do so. ESD Staff will reference this document in the Contracts courses scheduled for Spring 2018.

Target Date for Completion: June 30, 2018

Recommendation #9: Because Harper & Associates, Inc. invoices were paid without being adequately reviewed, ESD should assign independent personnel to go back and determine whether any payment adjustments are needed.

Administration response to Recommendation #9

The Administration agrees with this recommendation. ESD Professional Accounting staff is reviewing the Harper & Associates, invoices and contract terms to determine if any payment adjustments are needed.

Green – ESD Fiscal staff has initiated this review which will be completed by September 30, 2017.

Target Date for Completion: September 30, 2017

Recommendation #10: To improve consistency in contract monitoring across all divisions, ESD should offer additional contract management training. Contract management training should include, but is not limited to the following:

- Invoice review
- Situations that require amendments
- Sales tax accrual process
- Standard operating procedures for contract monitoring
- Managing consultant relationships

Administration response to Recommendation #10

The Administration agrees with this recommendation. ESD Contracts staff is developing Standard Operating Procedures (SOPs) that include instructions and guidance on reviewing invoices, when an amendment is needed, the sales tax accrual process, and managing consultant relationships. Contracts Management training will be provided to all ESD staff who manages contracts. Additionally, ESD will bring forward a mid-year budget proposal for a third party consultant to review and set up a standardized contracts management process for the department.

SHARON W. ERICKSON

August 31, 2017

Subject: Audit of ESD Consulting Services

Page 10

Green – The Environmental Services Department staff is currently developing Standard Operating Procedures (SOPs) which will be completed by December 31, 2017. In the Spring 2018, ESD staff will providing training to ESD staff following completion of the SOPs. If funding is approved mid-year for a third party consultant agreement to establish a standardized contracts management process for the department, a consultant will be brought on board in summer 2018

Target Date for Completion: SOPs December 2017. Training June 30, 2018. Procure consultant to establish standardized contracts management process by September 2018.

CONCLUSION

We would like to thank the City Auditor for recommending ways to improve our contracts management process. Given the variety and volume of contracts in the department we will be exploring ways, including the use of a third party, to establish a standardized contracts management and tracking process.

In recognition of the magnitude of the capital improvement program at the Wastewater Facility ESD has already established several controls and shares information about the program and the contracts at an unprecedented level of transparency. As noted above, staff had already either implemented the recommended improvements or included language to address five of the seven recommendations related to the proposed contract amendment. We appreciate the additional timely recommendations to further strengthen the City's contract with MWH/Stantec.

COORDINATION

This response was coordinated with the City Attorney's Office.

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

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

Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow
Julia H. Cooper

SUBJECT: SEE BELOW

DATE: August 2, 2017

Approved

D. D. S. Y. L.

Date

8/4/17

INFORMATION

SUBJECT: UPDATE ON CLEAN WATER STATE REVOLVING FUND LOAN FOR REGIONAL WASTEWATER FACILITY PROJECTS

BACKGROUND

On June 2, 2015, Council approved the San José Santa Clara Regional Wastewater Facility¹ (RWF) Capital Improvement Program (CIP) Ten-Year Funding Strategy Report. The Ten-Year Funding Strategy includes a recommendation to use a combination of ratepayer dollars, low interest Clean Water State Revolving Fund (SRF) loans, short-term loans and long-term financing to fund the RWF CIP. On January 12, 2016, staff provided a status report on the Ten-Year Funding Strategy and obtained Council approval on a proposed programmatic approach for obtaining SRF funding.

Consistent with Council direction, staff initiated the application process for SRF loans to finance the Digester and Thickener Facilities Upgrade (Digester) project. The application was initiated on behalf of the cities of San José and Santa Clara (Owners) and the Tributary Agencies. Based on discussions with staff in the Clean Water Technical Assistance Section (CWTAS) of the State Water Resources Control Board (SWRCB), San José staff was advised that it would take six to nine months for a complete SRF application to be reviewed and approved, and a loan agreement to be finalized and executed.

The Digester project's general application was submitted in February 2015 followed by submission of the project's technical, environmental, and financial packages. The City received sign-off on the technical and environmental packages in January 2016. The financial package was submitted in February 2016 but sign-off was dependent upon the negotiation of terms for

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.

August 2, 2017

Subject: Clean Water State Revolving Fund Loan Update

Page 2

two key financial documents that comprise the SRF loan agreement, a master resolution and the installment sales agreement (ISA). The master resolution is a commitment by the loan borrower that it will use incoming funds to repay the amount borrowed. The ISA details the SRF loan agreement including the obligations and loan repayment terms.

In September 2016, the SWRCB project manager informed staff that based on the updated State Fiscal Year 2016/2017 Clean Water Revolving Fund Intended Use Plan (IUP), they were going to prioritize funding for small disadvantaged communities and for recycled water and green projects. Although the initial communication indicated this would result in the Digester project not receiving funding, in early October 2016, the SRF CWTAS Chief assured staff that given the status of the Digester project application, the project was still slated to receive funding in fiscal year 2016-2017. With this assurance, staff continued to work closely with the SWRCB staff on the terms of the master resolution and ISA.

Based on a review of SWRCB's comments to the draft master resolution and the ISA, City staff identified several terms and conditions that were not acceptable or presented a challenge to the City. The City's finance staff and advisors had multiple discussions with SWRCB staff about these terms and proposed alternate language. One of the SWRCB requirements would result in the City being unable to access short-term financing. Elimination of short-term financing options would severely constrain the City's financing options for the remaining CIP projects and is not a term the City can agree to. There were other terms in the ISA that the City was unable to meet or which would adversely affect the City's ability to manage a large debt program.

In November 2016, the CWTAS Chief shared that the SWRCB had engaged a financial consultant to assist with the evaluation of modifications proposed by wastewater utilities. In March 2017, City staff discussed the application with the Water Board Chair and received assurance that SWRCB would re-evaluate the terms and explore ways to make the SRF program as a financing option for the RWF and other large wastewater facilities.

ANALYSIS

Since the last update on May 1, 2017 to the Transportation and Environment Committee, staff continued to reach out to SWRCB Staff. After months of evaluation, on July 7, 2017, the SWRCB staff finally informed the City that the Digester and Cogeneration projects would not be considered for funding at this time. This was primarily due to the fact that they have received far more requests for SRF funding than anticipated, and that the applications ready for approval with agencies that accepted all of SWRCB's loan terms already exceeded the available funding. Since their resources are limited they had decided that, in addition to prioritizing projects based on their IUP, they were going to focus on applications that did not require additional effort to evaluate special terms.

August 2, 2017

Subject: Clean Water State Revolving Fund Loan Update

Page 3

Based on feedback from the City and other large regional wastewater facilities, SWRCB may consider including large regional facilities as one of their priorities in the future, however the earliest this would be approved by the Board would be in June 2018. Staff will continue to monitor the issue, provide feedback to the SWRCB during their public comment period, and evaluate further SRF opportunities as appropriate. However, based on the City's recent experience with this program, unless significant changes are made to the funding level, program priorities, and program resources, SRF loans do not appear to be a potential source of funding for the RWF CIP.

Since the SRF funding terms had not been resolved in a timely manner to enable advancing of critical infrastructure projects at the RWF, staff commenced work on securing alternate financing. The City will need to plan for approximately \$500 to \$600 million in capital financing to fund its share of the CIP, which will likely be comprised of a combination of short term (e.g., a line of credit or a Commercial Paper program) and long-term financing (e.g., revenue bonds) to afford the most flexibility and efficiency. The City of Santa Clara and the Tributary Agencies will need to plan similarly for their proportional share of the CIP.

EVALUATION AND FOLLOW-UP

Staff will bring a short-term financing instrument for Council approval in September, and will continue to evaluate the feasibility of pursuing SRF or other financing for future projects.

COORDINATION

This memorandum has been coordinated with the City Manager's Budget Office and Office of Intergovernmental Relations, and the City Attorney's Office.

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

/s/
JULIA H. COOPER
Director, Finance Department

For questions, please contact Ashwini Kantak, Assistant Director, ESD, at (408) 975-2553 or Lisa Taitano, Assistant Director, Finance, at (408) 535-7041.

Memorandum

TO: TREATMENT PLANT ADVISORY
COMMITTEE

FROM: Kerrie Romanow

**SUBJECT: UPDATE ON COMMERCIAL,
FATS, OILS AND GREASE
(FOG) INSPECTION AND PLAN
CHECK SERVICES**

DATE: August 1, 2017

Approved

D. D. S. Y. L.

Date

8/1/17

INFORMATION

Since 2008, the City of San José has provided Commercial Fats, Oils, and Grease (FOG) inspection and grease control device (GCD) sizing plan check services to the City of Santa Clara (Santa Clara) as well as the West Valley Sanitation District (WVSD), Cupertino Sanitary District (Cupertino), Burbank Sanitary District (Burbank), County Sanitation District No. 2-3 (CSD 2-3), and the City of Milpitas (Milpitas) (collectively, the tributary agencies).

On May 18, 2017, the Treatment Plant Advisory Committee (TPAC) approved the San Jose/Santa Clara Water Pollution Control Plant Proposed Operating Budget for Fiscal Year 2017-2018, which included removing the Commercial Fats, Oils, and Grease (FOG) services from the Treatment Plant Operating fund. As part of this approval, the TPAC also requested that, upon request by their respective agencies, San José provide a proposal for continued Commercial FOG inspection services and training for a six-month transitional period. San José City Council subsequently adopted the Treatment Plant Operating Budget on June 20, 2017, which resulted in the discontinuation of San Jose's Commercial FOG inspection and plan check services for Santa Clara and the tributary agencies, as of June 30, 2017.

Following discussions amongst the Technical Advisory Committee members and subsequent requests by Santa Clara and the tributary agencies, on May 30, 2017 and June 7, 2017, the City of San José provided a draft Scope of Services and draft Agreement, respectively, to support Santa Clara and the tributary agencies in a smooth transition of the Commercial FOG Inspection Program (Program) from the City of San José to Santa Clara and each individual tributary agency. The proposed Agreements included up to six months (i.e., July 1 to December 31, 2017) of continued FOG inspection services, grease investigations, plan checks, training, and transfer of all documents related to the implementation of the Program. The same terms were offered to all agencies.

August 1, 2017

Subject: Update on Commercial Fats, Oils, and Grease (FOG) Inspection and Plan Check Services

Page 2

A summary of the current status is in the Table below with more detailed information below:

Agency	Transition Services Requested	Status of Agreement
Santa Clara	Yes	Executed on July 13, 2017
West Valley Sanitation District	Yes	Pending negotiation of contract terms
City of Milpitas	Yes	Pending negotiation of contract terms
Cupertino Sanitary District	No	NA
Burbank Sanitary District	No	NA
County Sanitation District 2-3	No	NA

San José and Santa Clara executed the Agreement on July 13, 2017. The City commenced performing under the Agreement, including conducting FOG inspection services on July 17, 2017 with a contract completion date of December 31, 2017.

WVSD and Milpitas have requested transition services but Agreements have not been executed. The parties have engaged in extensive negotiations on the terms of the Agreements. San José considers the Agreements to now be in final form and is awaiting action by WVSD and Milpitas. It is important to note that since there are no executed Agreements in place, the two agencies are currently responsible for their respective FOG programs. Implementation of the transition services will begin immediately after the Agreements are executed, with an anticipated end date of December 31, 2017. If the Agreement is not executed by one or both of these agencies, San José staff will provide all Program documentation including case files and recommended FY 17-18 caseload. While the terms of the Agreement were still being negotiated, WVSD requested and received “ride-along” field inspection trainings on June 22, 2017 and June 29, 2017. Plan Check training was conducted on June 28, 2017.

Cupertino, CSD 2-3, and Burbank elected to move responsibilities for all FOG support services in house. As requested by these agencies, on June 14, 2017, San José staff provided an all-day training which included a program overview, data transfer, and “ride-along” field inspections. A second day of field training was requested and provided on June 23, 2017, and a final database demonstration was conducted on July 13, 2017. To date, all case files and relevant documents have been transferred and Cupertino, CSD 2-3, and Burbank have assumed full responsibility of the FOG programs in their respective jurisdictions.

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

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



Memorandum

TO: TRANSPORTATION AND ENVIRONMENT COMMITTEE

FROM: Kerrie Romanow

SUBJECT: SEE BELOW

DATE: May 23, 2017

Approved

D. D. S. L.

Date

5/26/17

SUBJECT: ENVIRONMENTAL SERVICES DEPARTMENT STAFFING UPDATE AND BUILDING THE FUTURE WORKFORCE

RECOMMENDATION

Accept this update report on the Environmental Services Department (ESD) staffing levels and efforts toward building the future ESD workforce.

OUTCOME

Acceptance of this report will update the Committee on the status of Environmental Services Department staffing.

EXECUTIVE SUMMARY

Since 2012, ESD's vacancy rate has ranged from 18 to 21 percent. On average, the department fills approximately 100 positions per year. However, attrition due to retirements and resignations, as well as newly added positions and a high rate of internal promotions, has historically made it challenging to decrease the vacancy rate. Through concerted effort from ESD and the City's Human Resources Department (HR) great strides in reducing ESD's overall vacancy rate are now being realized.

ESD and HR anticipated the need for workforce and succession planning, particularly for the Regional Wastewater Facility¹ (RWF) critical classifications of wastewater operators, wastewater mechanics, industrial electricians, and instrument control technicians as well as the need for experienced wastewater engineers. The significantly higher vacancy rates for these classifications required a focused strategy. This strategy has also helped dramatically improve

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.

ESD's overall vacancy rate from 21 percent to 13 percent. Since 2012, ESD has added 273 new employees to ESD, with 63 positions filled between January and May 2017. ESD has created a sustainable solution by developing career pathways and lower level entry points to effectively train and develop our own new hires. Additionally, ESD has several programs in place to prepare its current employees for more challenging positions and leadership roles. ESD is also partnering with other agencies to inform current students about careers in the water, wastewater, and environmental industries.

BACKGROUND

Since 2012, ESD's average vacancy rate has ranged from 18 to 21 percent. At that time, in order to ensure continued safe operation of the RWF, ESD and HR anticipated the need for workforce and succession planning, particularly for the RWF critical classifications of wastewater operators, wastewater mechanics, industrial electricians, and instrument control technicians as well as the need for experienced wastewater engineers. The significantly higher vacancy rates for these classifications required a focused recruitment and retention strategy, which included classification and compensation analysis and development of wastewater career pathways. A part of this strategy included the re-purposing of an entry level classification of wastewater attendants. This enabled ESD to effectively train and develop new hires for careers in wastewater.

On average, the department fills approximately 100 positions per year. However, attrition due to retirements and resignations, as well as newly added positions and a high rate of internal promotions, has historically made it challenging to decrease the vacancy rate. A concerted effort between ESD and HR has allowed ESD to make significant strides in reducing its vacancy rate.

Additionally, ESD has several programs in place to prepare its current employees for more challenging positions and leadership roles. ESD is also partnering with other agencies to inform current students about careers in the water, wastewater, and environmental industries.

Periodic updates have been provided to the Committee on the status of staffing levels for job classifications determined to be critical to the operation of the RWF Operating and Maintenance Division as well as staffing levels for engineering positions in the RWF O&M and RWF Capital Improvement Program (CIP) divisions. The vacancy rate for the RWF O&M critical classifications (Wastewater Operators, Wastewater Mechanics, Industrial Electricians, and Instrument Control Technicians) reached a high of 25 percent in December 2012. The last RWF staffing report presented to the Transportation and Environment Committee on March 2, 2015, reported an 18 percent vacancy rate in the combined O&M critical job classifications and a vacancy rate of 29 percent for O&M and CIP Engineers.

In addition to an update on the status of staffing levels at the RWF, this report provides information on staffing levels for the entire ESD and describes the comprehensive efforts the department, in partnership with others, is undertaking to retain existing staff and build the future workforce.

ANALYSIS

ESD has a multi-pronged approach for addressing department staffing. This approach includes engaging and developing our current workforce, recruitment and the use of temporary staff to fill the gap, and outreach and engagement to build the future workforce.

Current Workforce

ESD's Mission is "Delivering world class utility services and programs to improve our health, environment and economy." ESD's vision is that ESD is "A place where people do great work and make a difference." On-boarding new employees, employee development and employee recognition are foundational to our employees having the knowledge and skills needed to deliver world class utility services, to do great work and to make a difference.

ESD's Employee Services (ES) team, in conjunction with ESD staff, has positively impacted employee retention through the on-boarding process, training opportunities, and employee recognition activities.

On-Boarding

The ES team connects with the hiring manager, providing on-boarding checklists, ensuring a "buddy" is identified for each new employee hired, and ensuring new employees feel welcomed and valued. The ES team follows up with each employee at various points after their start date, utilizing surveys to gather on-boarding information and address any questions new employees may have. These channels of communication have enabled ESD to create a welcoming environment, ensuring each new employee feels valued.

Also as part of the on-boarding process, ESD conducts a "Welcome to ESD" event multiple times each year, in which all new employees are encouraged to attend. This three-hour event provides attendees with an overview of the department, along with a brief introduction to each of ESD's divisions. Welcome to ESD is led by ESD's senior leadership team and new employees appreciate the opportunity to meet and interact with department leaders.

Training Opportunities

In addition to "Welcome to ESD," ESD provides employees a more in-depth look at each division and various ESD programs through an annual Environmental Services Department University (ESDU) academy. In its ninth year, ESDU provides unique tours to a materials recycling facility and a landfill to learn about integrated waste management, a creek and community garden to learn about watersheds, the Regional Wastewater Facility, and the Water Resources division. The academy also provides professional development content on teamwork, conflict resolution, data based decision making, and emotional intelligence. At a recent graduation, ESD received very positive feedback from participants about the on-boarding process, department programs and overall department culture.

In fiscal year 2015-2016, ESD launched two department academies to provide training to current and aspiring leaders. "Leading at ESD" is a program for current ESD managers which includes three mandatory courses (Mission, Vision, Strategic Goals and Guiding Principles; Data Based Decision Making; and Effective Communication to Targeted Audiences), and three of four elective courses (Introduction to OER; Coaching and Feedback; Developing Your Personal Leadership Style; and Conflict Resolution/Critical Conversations). ESD incorporated the three required classes into its quarterly managers' meetings. The "Aspiring Supervisors and Managers Academy" is a program for employees who aspire to supervisory and/or management roles. This academy includes five required courses (Leadership Skills; Supervisor Basics; Project Management; Coaching and Feedback; and Customer Service) and three elective courses covering writing skills, City budgeting, and City procurements.

Since mid-2015, the RWF CIP Division began implementing a series of monthly project manager training sessions. The purpose of this training is to provide project managers with tools and techniques for the effective management of projects based on Project Management Institute (PMI) fundamentals tailored to the CIP. PMI is an internationally recognized organization for project management with 2.9 million members and has published standards in project, portfolio and program management. The training is led by a combination of program management consultant staff and City staff. The complete training program includes 14 modules focused on topics such as Project Management Fundamentals, Project Quality Management, Budget Management, Project Time Management, and Risk Management. These trainings reinforce the importance of best practices to ensure effective delivery of projects. In addition to the monthly project managers' training, CIP regularly holds informal Brown Bag sessions on various technical topics to help project teams develop their technical knowledge of various types of wastewater treatment technologies, processes, procedures, and tools. Over 50 Brown Bag sessions have been held to date on topics such as Sludge Dewatering Technologies, Building Information Modeling (BIM), Condition Assessment of Pressure Pipelines, and Blowers and Air Diffusion Technologies. During 16-17, several CIP staff also completed design-build training with the goal of becoming DBIA-certified.

In fiscal year 2014-15, the Wastewater Attendant (formerly Plant Attendant) classification was repurposed to create additional points of entry into the O&M trades series and to help develop qualified candidate pools for existing Wastewater Operator Trainee, Wastewater Mechanic, Industrial Painter, Instrument Control Technician, and HVAC Mechanic positions. Currently, 19 Wastewater Attendants assist journey level positions by performing the entry level tasks while learning various job functions as they rotate and cross-train through the Wastewater Facility work groups. This creates more opportunity to "grow our own" and develop staff to promote into the various journey level positions throughout the Wastewater Facility. The mechanical maintenance group developed a skills and knowledge evaluation-based training program for Wastewater Attendants. This program, led by staff, provides regular training on the skills and knowledge essential to qualify for a Wastewater Mechanic position. Similar training programs have been implemented to develop Wastewater Attendants in the required skills needed to qualify for journey level positions in the Electrical and Instrumentation groups. Since adopting

this model in 2014, three Wastewater Attendants promoted to Wastewater Mechanic and one Wastewater Attendant promoted to Instrument Control Technician.

The Wastewater Operator-in-Training program is an approximately 18-month program to train entry-level employees to the Wastewater Operator II level. Candidates are hired into the Operator-in-Training (OIT) classification and receive classroom and on-the-job training to meet the pre-requisites to take the State Water Resources Control Board (SWRCB) Wastewater Treatment Plant Certification and to prepare the OIT to work independently at the RWF. The eight OITs hired in February 2017 are currently in training and on track to take the State Water Resources Control Board Wastewater Treatment Plant Certification test in October.

In addition to formal training, ESD staff is provided many other opportunities for professional growth, such as being encouraged to participate in the Citywide Mentoring Program, higher class assignments, cross-training, shadowing, and special projects.

Employee Recognition

ESD has a department Employee Recognition Committee that plans department-wide recognition activities, and each division has division-specific recognition activities. Most recently, ESD conducted its annual Employee Recognition Gram recognition/fundraising event. The Appreciation Grams provide an easy way for staff to recognize one another with a thoughtful card and a small treat. Funds raised from selling the appreciation grams are used for department-wide recognition events. Another example is the RWF Annual Pancake Breakfast in which ESD managers prepare and serve a hearty breakfast to RWF staff in appreciation of all the efforts of the RWF O&M staff operating and maintaining the 24/7 RWF.

Recruitment and Bridging the Gap

Since 2012, ESD's vacancy rate has ranged from 18 to 21 percent. Although the department fills on average of 100 positions per year, attrition due to retirements and resignations, as well as newly added positions and high number of internal promotions, have historically made it challenging to reduce the vacancy rate.

Since 2012, ESD has taken many steps to address the high vacancy rate, including improvements to the recruitment process and classification and compensation reviews with adjustments for specific hard to fill positions.

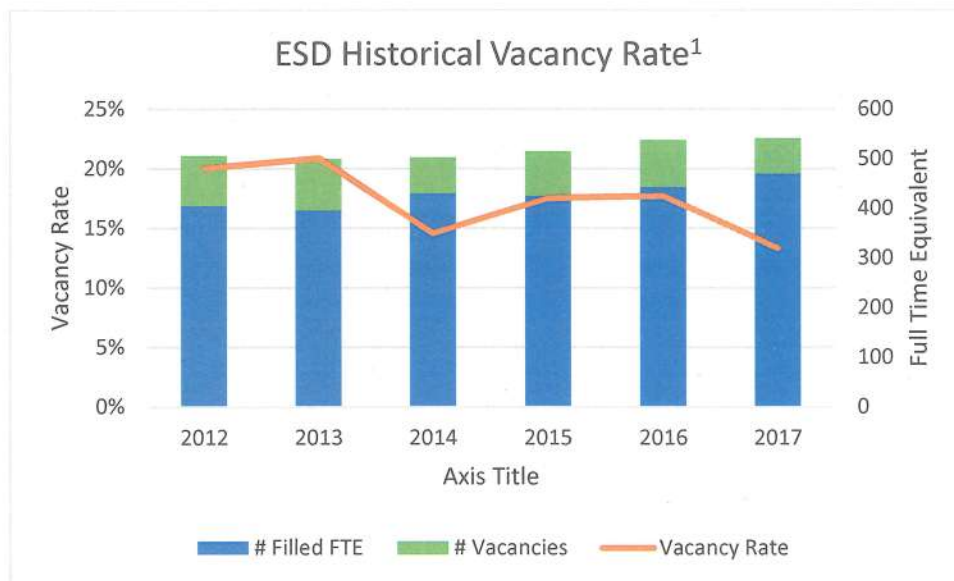
In fall 2016, HR implemented technology and process changes to improve the recruitment process. In early 2017, ESD made a concerted effort to revise and draft job announcements for every vacancy in the department, queuing up all recruitments for posting.

In March 2017, at the citywide career fair, ESD staff was able to connect with many prospective applicants. In addition to the several recruitments that were already underway, we anticipate filling a total of eighteen positions based on the focused efforts related to the career fair.

When practicable, ESD conducts “cascade” recruitments. Cascade recruitments address multiple vacancies in more than one related classification. While this type of recruitment is more complex, it can result in the filling of multiple vacancies in more than one job classification through one recruitment. For example, through a recent cascade recruitment, ESD filled ten positions across two classifications.

ESD’s ES team has refocused its efforts on recruitments by assisting hiring managers with drafting job announcements, developing exams, and preparing screening criteria and interview questions prior to posting job announcements. These front-end efforts have enabled recruiters to start a process with minimal effort and have resulted in the successful filling of 63 positions just since January 2017.

Between the refocused efforts of both ESD staff and HR recruiters, ESD’s vacancy rate has decreased significantly, and is currently at 13 percent. The table below illustrates ESD’s historical vacancy rate.

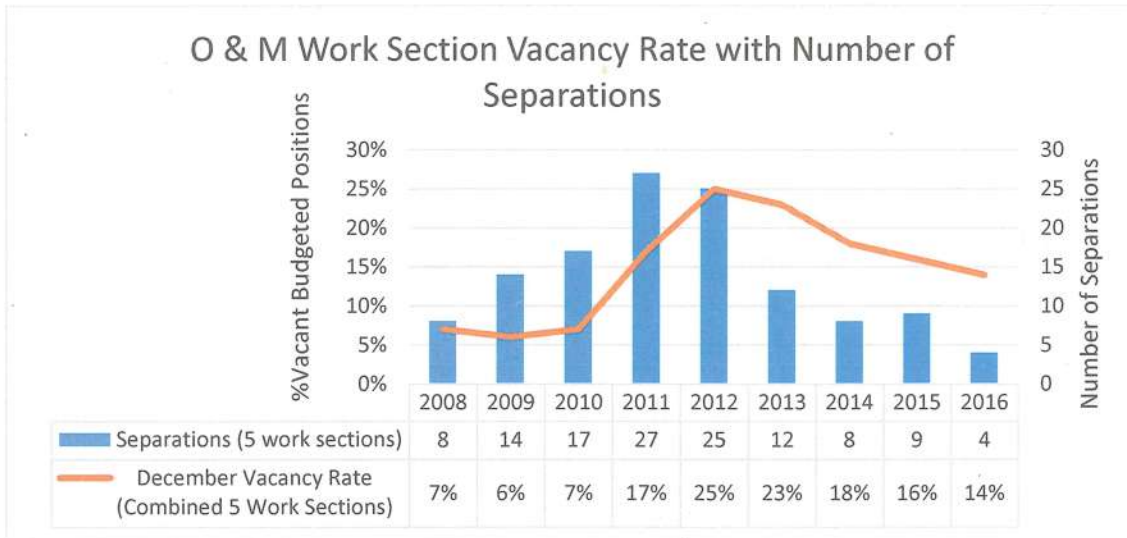


¹ Reflects vacancy rate in May of each year.

The combined vacancy rate specifically for the RWF O&M job classes identified as mission critical (Wastewater Operators, Wastewater Mechanics, Industrial Electricians, and Instrument Control Technicians), has also continued to decline from 25 percent in October 2013 to 13 percent as of May 1, 2017.

As is the case with other ESD positions, newly filled positions are often offset by employee separations (retirements, resignations, and involuntary separations). The following chart illustrates the vacancy rate for the combined RWF O&M work sections at December of each

year, along with the corresponding number of separations during that year. The overall trend shows a declining vacancy rate and generally declining separation numbers since 2012.



Despite aggressive recruitment efforts, the RWF is competing with other local wastewater facilities and private sector engineering firms for qualified candidates with wastewater experience. Additionally, to provide in-house program and project management capacity for the \$1.4 billion CIP, in fiscal year 2015-16, 15 engineer positions were added to the RWF CIP division. Consultants, temporary agency, and limited use of rehired-retirees helps bridge the gap until permanent staff can be hired. For the RWF CIP, program management services are being provided by Stantec Consulting Services Inc. (formerly MWH Global) in partnership with Carollo Engineers. An agreement with HKA Enterprises, Inc. to provide temporary staffing resources for Plant Mechanics and Plant Operators was approved by City Council in May 2014. While this agreement has not been used, it provides a necessary safety net if recruitment efforts and staff overtime proves insufficient to safely operate the RWF.

Currently, RWF O&M is utilizing one temporary heavy diesel operator mechanic and two electricians through the OE3 and IBEW Union Halls to assist with power and air generation equipment and with electrical maintenance. In the recent past, temporary agency instrument control technicians have also been used. The temporary staff gains valuable experience, and in some instances, temporary staff have proven to be quite competitive when applying for the permanent positions. In the past two years, three (3) temporary agency instrument technicians and two (2) Union Hall temporary industrial electricians have been hired into permanent positions.

Building the Future Workforce

Outreach and Engagement

Between January 2015 and April 2017, ESD staff participated in 26 outreach activities that included tours, presentations, job fairs, and four major career exploration events. ESD has also partnered with the Water Career Pathways and BAYWORK, as well as provided student internships and teacher externships. ESD is also a participating agency in two grant-funded projects related to building water and wastewater career pathways.

- Water Career Pathways (WCP) Consortium was created with funds from a four-year, \$6,000,000, California Department of Education Career Pathway Trust Grant, to address the skilled worker shortages facing the Bay Area Region's water industry. ESD is collaborating with West Valley College to bring awareness to students and prepare them for careers in the water and wastewater industry. In addition to providing funding for outreach events, the WCP grant provided funding to Evergreen Valley College to create coursework for a new Water/Wastewater Technology certificate program. Videos to help attract the emerging workforce have been produced. Two, starring Wastewater Facility Wastewater Mechanics, are posted on our [Facility Job Specifications and Employee Testimonials website](#).
- ESD is one of the five BAYWORK agencies partnering closely with Jewish Vocational Services (JVS), a high capacity workforce development non-profit in the Bay Area. JVS has a \$150,000 grant from the Workforce Accelerator Fund 3.0 through the CA State Workforce Investment Board to conduct an updated regional analysis into career pathways for mission-critical, skilled-trade careers in the water and wastewater industry.

Another avenue to building the future workforce is by providing student internships and teacher externships.

Internships

In summer 2016, ESD hired nine interns through a pilot program with TeenForce, a nonprofit corporation with a program to bring STEM education, work readiness training, and paid STEM internships to teens and young adults ages 16-19, with an emphasis on foster youth and youth enrolled in Career Technical Education classes, in Santa Clara County. The interns worked up to 150 hours and received meaningful on-the-job training and an introduction to various environmental services, water and wastewater careers.

In summer 2017, ESD will host 14 interns through Work2Future's summer intern programs. ESD is also currently working with the City Manager's Office to participate in a High School Internship project. Four to six students from Cristo Rey Jesuit High School Corporate Work Study Program will intern with ESD staff during the 2017-18 school year. This program will expose the students to various environmental careers, and helps the students fund a large portion of their annual tuition.

ESD routinely hires undergraduate and graduate student interns for special project work. In addition to gaining meaningful work experience and knowledge about ESD's programs, many of these college interns have, through competitive hiring processes, become permanent ESD employees.

Teacher Externships

Planned for summer 2017, in partnership with the Water Career Pathways and BAYWORK, ESD, the Public Works Department, and the Department of Transportation, will coordinate a one week externship for five (5) Bay Area high school teachers. The externship will provide teachers an overview of the specific jobs we have in the wastewater industry, and enable them to customize curriculum to incorporate knowledge and skills related to the Water and Wastewater industries.

Conclusion

The result of ESD's multi-pronged approach has been a decrease in turnover and vacancy rates, with a significant increase in both hiring and retention within the last six months. Since 2012, ESD has hired 237 employees who are new to ESD. Efforts in onboarding and training have increased retention rates and there has been positive feedback from new employees joining ESD. While some recruitment efforts in the RWF O&M and CIP continue to prove challenging, the recent surge in the hiring and filling of positions has had a positive impact on staffing levels and morale.

EVALUATION AND FOLLOW-UP

Staff will continue to work with the Office of Employee Relations, HR and partner agencies to identify and pursue ways to retain and recruit ESD staff.

PUBLIC OUTREACH

This memorandum will be posted on the City's Council Agenda website for the June 5, 2017 Transportation and Environment Committee Agenda, the June 8, 2017 Treatment Plant Advisory Committee Agenda and the June 20, 2017 City Council Meeting.

COORDINATION

This memo has been coordinated with the Human Resources Department, and the Office of Employee Relations, and the City Attorney's Office.

CEQA

Not a project, File No. PP10-069(a), City Organizational & Administrative Activities.

/s/
KERRIE ROMANOW
Director, Environmental Services

For questions, please contact Kerrie Romanow, Director, at (408) 975-8552.



Memorandum

TO: HONORABLE MAYOR
AND CITY COUNCIL

FROM: Kerrie Romanow
Jennifer A. Maguire

SUBJECT: SEE BELOW

DATE: June 22, 2017

Approved

Date

6/23/17

REPLACEMENT

SUBJECT: REPORT ON BIDS AND AWARD OF CONTRACT FOR 8241 – PAINT SHOP SPRAY BOOTH REPLACEMENT PROJECT AT THE SAN JOSE-SANTA CLARA REGIONAL WASTEWATER FACILITY

REASON FOR REPLACEMENT

This project was originally envisioned as a replacement of equipment in the paint shop building, with funding allocated from the San Jose-Santa Clara Treatment Plant Operating Fund in 2015-2016 and subsequently re-budgeted to 2016-2017 through the annual budget process. The project was evaluated again after submitting the City Council memo dated May 30, 2017. It has now been determined that the paint shop booth should instead be funded from the San Jose-Santa Clara Treatment Plant Capital Fund because the facility's primary function is only possible because of the equipment, and the equipment has exceeded its useful life. There are not enough anticipated savings in the Plant Infrastructure Improvements appropriation to absorb this new cost in the Capital Improvement Program, and appropriation actions are recommended in this memorandum to allow for this expenditure.

RECOMMENDATION

- (a) Report on bids and award of a construction contract for 8241 – Paint Shop Spray Booth Replacement Project to the low bidder Integra Construction Services, Inc. for the base bid in the amount of \$1,040,112 and approval of a construction contingency of 15 percent in the amount of \$156,017.
- (b) Adopt the following 2016-2017 Appropriation Ordinance amendments in the San Jose-Santa Clara Treatment Plant Capital Fund:
 - (1) Decrease the Lagoons and Drying Beds Retirement appropriation to the Environmental Services Department by \$1,400,000; and

- (2) Increase the Plant Infrastructure Improvements appropriation to the Environmental Services Department by \$1,400,000.
- (c) Adopt the following 2016-2017 Appropriation Ordinance amendments in the San Jose-Santa Clara Treatment Plant Operating Fund:
 - (1) Decrease the Non-Personal/Equipment appropriation to the Environmental Services Department by \$450,000; and
 - (2) Increase the Unrestricted Ending Fund Balance by \$450,000.

OUTCOME

Award of this construction contract will allow for the necessary work to complete the Paint Shop Spray Booth Replacement Project (Project) at the San José-Santa Clara Regional Wastewater Facility¹ (RWF). Approval of a 15 percent contingency will provide funding for any unanticipated work necessary for the completion of the project. Adoption of the appropriation ordinance amendments will provide the necessary funding to construct this project.

BACKGROUND

The paint shop staff at RWF performs cleaning, sandblasting, and painting of various parts including valves, flanges, pipes, and machinery on a regular basis. This process takes place inside the Paint Spray Booth (PSB) located within the paint shop building. The current PSB was originally installed in the mid 1970's and has developed extensive corrosion due to the outdated and inefficient water wash system. It is also too small for the current workload at RWF. Options to retrofit/repair the existing booth were considered but ultimately rejected as not cost-effective.

The City has identified several new types of PSB systems which are more technologically advanced and efficient compared to the existing system in place. The new system will not use water and will allow simultaneous completion of multiple painting and coating projects. Additional benefits include a better turnaround rate and higher quality finished products. The new PSB system will also meet current safety and other regulatory requirements.

The contractor will provide the new PSB, demolish and remove the old one, connect the associated utilities and commission the new system based on the Plans and Specifications furnished by the City. The scope of work for the contract also includes modifications to the existing gas lines, air handling system, and electrical conduits, etc.

¹ The legal, official name of the facility remains San José/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.

ANALYSIS

The bid process was initiated and a “Notice to Contractors” inviting qualified contractors to submit bids was posted on BidSync and San José Post Record on April 5, 2017. Two bid packages were received and opened on April 27, 2017 with the following results:

<u>Contractor</u>	<u>City</u>	<u>Bid Amount</u>	<u>Variance Over / (Under)</u>	
			<u>Amount</u>	<u>Percent</u>
Engineer’s Estimate	----	\$738,000	----	-----
Integra Construction Services, Inc.	Pleasanton	\$1,040,112	\$302,112	40.9%
Blocka Construction, Inc.	Fremont	\$1,084,000	\$346,000	46.9%

After opening the bids, staff noticed that the “Noncollusion Affidavit” and the “Bid Schedule of Quantities” documents contained incorrect project title. However, this error was not material and did not in any way compromise the bids submitted by the bidders. Staff considered this error to be minor and therefore waived this irregularity per Section 2-1.06 of the City of San José Standard Specifications (July 1992). The apparent low bid for this solicitation came from Integra Construction Services, Inc. and is 40.9% higher than the Engineer’s Estimate.

City staff have analyzed the labor market and cost of construction materials pertinent to this project. Market analysis is indicative of a historic boom in construction across Silicon Valley and the Bay Area. This is causing a major shortage of labor supply of skilled workers – especially the qualified electrical contractors. In addition, the prices of copper and copper products have shown a steady increase for the past 12 months. Due to this challenging bid environment, a limited number of bids were received. Additionally, the demolition and disposal of the existing booth is complex and may have been underestimated by the design consultant. These factors have contributed to the significant increase in estimated total project costs (\$1,377,208) when compared to the preliminary project estimate of \$450,000 that was developed as part of the 2015-2016 budget preparation process.

City staff considers the amount of \$1,040,112 reasonable for the work involved given the bid factors described above and recommends awarding the Paint Shop Spray Booth Replacement Project to Integra Construction Services, Inc. Council policy provides for a standard contingency of 10 percent on public works projects of this nature to cover for unforeseen conditions that might be encountered during the actual work. Staff recommends a 15 percent contingency for this project to account for the complications associated with the existing paint shop building where the new PSB will be installed. These include the interface to the current fire detection and suppression systems, potential utility conflicts, gas lines, and hazardous material storage areas.

EVALUATION AND FOLLOW-UP

No subsequent City Council action on this project is necessary.

PUBLIC OUTREACH

This memorandum will be posted on the City’s website for the Council Agenda of June 27, 2017.

COORDINATION

This Project and memorandum have been coordinated with the Finance Department, the Public Works Department, the Planning, Building and Code Enforcement Department, and the City Attorney’s Office.

COMMISSION RECOMMENDATION/INPUT

This item was heard at the June 8, 2017, Treatment Plant Advisory Committee (TPAC) meeting. A supplemental memorandum with the committee’s recommendation will be included in an amended June 27, 2017, City Council meeting agenda. Since the project funding strategy was changed subsequent to the June 8, 2017, TPAC discussion, staff will provide the TPAC with an update on the changes as part of the August 10, 2017, TPAC meeting.

FISCAL/POLICY ALIGNMENT

This Project is consistent with the City Council approved Budget Strategy to focus on rehabilitating aging RWF infrastructure and improving wastewater treatment efficiency. This Project is also consistent with the budget strategy principle of focusing on protecting our vital core services.

COST IMPLICATIONS

1.	AMOUNT OF RECOMMENDATION/COST OF PROJECT:	\$1,040,112
	Project Delivery*	\$181,079
	Construction	\$1,040,112
	Contingency (15%)	<u>\$156,017</u>
	Total Project Costs	\$1,377,208

** Project delivery includes \$95,228 for design, \$19,994 for consultant construction support services, and \$65,857 for construction management. The estimated project delivery cost is 17.4% of the construction cost, which is typical for similar projects at a wastewater facility.*

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Subject: 8241 – Paint Shop Spray Booth Replacement Project

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2. COST ELEMENTS OF AGREEMENT/CONTRACT:

This is a lump sum contract.

\$1,040,112

3. SOURCE OF FUNDING: 512 – San José-Santa Clara Treatment Plant Capital Fund.**4. OPERATING COSTS:** This contract will have no additional impact on the San-José-Santa Clara Treatment Plant Operating Fund (Fund 513) or the General Fund.**5. PROJECT COST ALLOCATION:** In accordance with the recommendations set forth in the Capital Project Cost Allocations Technical Memo (Carollo Engineers, March 2016), this project is allocated between the four billable parameters relative to the rolling weighted average distribution of all RWF assets.

Funding for the Project in the 2016-2017 Plant Infrastructure Improvements appropriation is insufficient for this award. A budget action is recommended to increase the appropriation amount by \$1,400,000. To offset this increase, a decrease to the Lagoons and Drying Beds Retirement appropriation is recommended. Following an alternatives analysis, the Lagoons and Drying Beds Retirement project was dropped from the CIP, and therefore this appropriation is available for re-distribution. This action will not impact the allocations to the Tributary Agencies since the funds collected for the Lagoons and Drying Beds Retirement appropriation to date have been allocated on the rolling weighted average distribution. Budget actions are also recommended to eliminate the funding in the San Jose-Santa Clara Treatment Plant Operating Fund that was originally set aside for this project.

BUDGET REFERENCE

The table below identifies the fund and appropriation adjustments requested as part of this memorandum. The Plant Infrastructure Improvements appropriation will fund the contract recommended as part of this memorandum, as well as project delivery, construction management, and contingency costs.

Fund #	Appn #	Appn Name	Current Total Appn	Rec. Budget Action	Amt for Contract	2016-2017 Adopted Capital/ Operating Budget Page	Last Budget Action (Date, Ord. No.)
512	5690	Plant Infrastructure Improvements	\$1,368,000	\$1,400,000	\$1,040,112	Capital V-172	06/21/2016, Ord. No. 29762
512	6285	Lagoons and Drying Beds Retirement	\$1,495,000	(\$1,400,000)	N/A	Capital V-164	10/18/2016, Ord. No. 29803
513	0762	Non-Personal/ Equipment	\$32,139,019	(\$450,000)	N/A	Operating X-78	10/18/2016, Ord. No. 29803
513	8999	Unrestricted Ending Fund Balance	\$3,307,696	\$450,000	N/A	Operating X-79	02/14/2017, Ord. No. 29880

HONORABLE MAYOR AND CITY COUNCIL

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Subject: 8241 – Paint Shop Spray Booth Replacement Project

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CEQA

Exempt, PP16-036.

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



JENNIFER A. MAGUIRE
Senior Deputy City Manager/
Budget Director

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

City Manager's Contract Approval Summary
For Procurement and Contract Activity between \$100,000 and \$1.08 Million for Goods and \$100,000 and \$270,000 for Services

MAY 31 - AUG 31, 2017

Description of Contract Activity ¹	Fiscal Year	Req#/RFP#	PO#	Vendor/Consultant	Original \$ Amount	Start Date	End Date	Additional \$ Amount	Total \$ Amount	Comments
FILTER MEDIA AND GRAVEL REPL FOR TWO FILTERS (A1 & A2)	16-17	24148	54453	ERS INDUSTRIES	\$280,500	5/31/2017	5/30/2018			
ANIONIC EMULSION POLYMER	17-18	24145	54749	POLYDYNE INC	\$257,000	7/1/2017	6/30/2018			
SODIUM BISULFITE	17-18	24253	54305	UNIVAR USA INC	\$560,000	7/1/2017	6/30/2018			
LIQUID 12.5% SODIUM HYPOCHLORITE	17-18	24254	54300	UNIVAR USA INC	\$995,000	7/1/2017	6/30/2018			
CLEANING OF 3 DIGESTERS	17-18	24255	54524	PIPE AND PLANT SOLUTIONS INC	\$389,067	7/1/2017	6/30/2018			
MECHANICAL MAINTENANCE	17-18	24256	54435	MONTEREY MECHANICAL CO	\$270,000	7/1/2017	6/30/2018			
CONOCO PHILLIPS UNION 76 MOTOR OIL	17-18	24257	54470	PACIFIC COAST PETROLEUM INC	\$240,000	7/1/2017	6/30/2018			
AQUEOUS AMMONIA	17-18	24258	54251	HILL BROS CO	\$162,000	7/1/2017	6/30/2018			
PIPES, FITTINGS AND RELATED PARTS	17-18	24259	53987	FERGUSON WATERWORKS	\$120,000	7/1/2017	6/30/2018			
BLDG MAINTENANCE MATERIALS & SUPPLIES	17-18	24286	54329	GRAINGER W W INC	\$400,000	7/1/2017	6/30/2018			
LEVEE REPAIR	17-18	24324	54310	RJ GORDON CONSTRUCTION INC	\$100,000	7/1/2017	6/30/2018			
CATHODIC PROTECTION SYSTEM TESTING, MAINTENANCE AND REPAIR	17-18	24402	54537	CORRPRO COMPANIES INC	\$195,000	7/1/2017	6/30/2018			LINE 1 \$80K SBWR; LINE 2 \$25K MW; LINE 3 \$90K RWF ELEC
EXPANSION JOINTS, CONCRETE & ASPHALT REPAIR	17-18	24502	54326	TUCKER CONSTRUCTION	\$250,000	7/1/2017	6/30/2018			
FRICTION & NON-FRICTION PARTS, SEALS, DRIVE COMPONENTS AND RELATED ITEMS	17-18	24637	54207	MOTION INDUSTRIES INC	\$100,000	7/1/2017	6/30/2018			
FERRIC CHLORIDE & DOSING STATION	17-18	24943	54676	KEMIRA WATER SOLUTIONS INC	\$400,000	7/1/2017	6/30/2018			
FERRIC CHLORIDE	17-18	24944	54677	THATCHER COMPANY OF CALIFORNIA	\$400,000	7/1/2017	6/30/2018			
(3) TEMPORARY ENVIROMENTAL INSPECTORS	17-18	25134	54799	TRENDTECH INC	\$166,350	7/1/2017	12/31/2017			WATERSHED: LINE 1 (FUND 446) \$111,455 ; LINE 2 (FUND 513) \$54,895
CONSTRUCTION MANAGEMENT & INSPECTION SERVICE	2017		AC27747	MNS ENGINEERING	\$8,000,000	6/14/2017	3/31/2020	\$394,187		SERVICE ORDER #2 (MASTER AGREEMENT TERM 6/14/16-6/30/24, \$8M)
FILTER REHABILITATION	2017		AC27382	KENNEDY/JENKS	\$4,950,000	8/25/2017	9/30/2018	\$890,938		SERVICE ORDER #2 (MASTER AGREEMENT TERM 6/14/16-6/30/23, \$4.95M)
NITRIFICATION CLARIFIER REHAILITATION PROJECT	2017		AC27476	HDR ENGINEERING	\$5,000,000	8/3/2017	11/30/2019	\$2,652,321		SERVICE ORDER #2 (MASTER AGREEMENT TERM 5/10/16-12/31/23, \$5M)
SUPPORT BUILDINGS: FIRE/LIFE SAFETY	2017		AC28434	KENNEDY/JENKS	\$4,800,000	8/25/2017	7/5/2019	\$846,318		SERVICE ORDER #2 (MASTER AGREEMENT TERM 1/25/17-1/30/24, \$4.8M)

¹ This report captures completed contract activity (Purchase Order Number, Contract Term, and Contract Amount)