

CITY OF COOS BAY CITY COUNCIL
Agenda Staff Report

MEETING DATE March 1, 2016	AGENDA ITEM NUMBER
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TO: Mayor Shoji and City Councilors

FROM: Jennifer Wirsing, Wastewater Project Engineer

THROUGH: Rodger Craddock, City Manager
Jim Hossley, Public Works Director *For RC*

ISSUE: Continuation - Recommendation for the Sewer Operation, Maintenance, and Management Provider

BACKGROUND:

At the February 16, 2016 Council meeting staff presented information related to the Request for Proposal process the City went through for selecting a Sewer Operation, Maintenance, and Management provider. At the end of the presentation and some discussion by Council, one of the two proposers, Veolia, provided a letter stating the selection committee had made an error in computing Veolia's fee proposal. After the meeting, staff evaluated the letter and the original fee proposal submitted by Veolia. Staff determined that there was an error. The correct value for determining Veolia's annual cost should be calculated using a 16% markup (management fee) for direct costs and 10% markup for indirect costs. The error occurred when the 16% markup was used for both direct and indirect costs. No error was made in calculating CH2M's costs. Their proposed markup is 18% and applies to both direct and indirect costs.

In their February 16, 2017 letter (erroneously dated January 16, 2016), Veolia also provided a cost where the markup for all indirect costs is 0%. With this option, the City pays all indirect through costs. Staff recommends against this option due to the lack of City resources to adequately take on the responsibility.

Veolia's corrected estimated total cost over 10 years, assuming 16% and 10% markup for direct and indirect costs respectively, is \$25,031,930. CH2M's estimated 10-year total cost, assuming an 18% markup for both direct and indirect costs, is \$24,470,619. The CH2M cost is estimated to be \$561,311.00 less than Veolia's over 10 years.

The Selection Committee graded and ranked the Prequalification Package, Proposal, and Interviews. Cost was only one factor considered when the selection committee was determining its recommendation. Overall, the selection committee felt that CH2M provided the more robust proposal and offered the City more value.

ADVANTAGES:

Based on the two proposals that were submitted, CH2M's proposal is more economically beneficial to the City and was more comprehensive when compared to Veolia's proposal.

DISADVANTAGES:

Staff sees none.

BUDGET IMPLICATIONS:

Potential budget implications are addressed in the attachments. Final budget implications and contract will be negotiated and presented to Council on April 5, 2016. The fee proposed by CH2M appears to be slightly less than the fee the City is paying under the current contract.

ACTION REQUESTED:

If it pleases the Council, direct staff to negotiate a contract for the operation, maintenance, and management of the City's sewer treatment and collection system with CH2M.

ATTACHMENTS:

CH2M and Veolia's Fee Component
Veolia letter dated January 16, 2016
Fee Summary

Veolia – Understanding and Commitment

Veolia Water North America – West, LLC (Veolia), is pleased to present this Price Proposal (Fee Component) in response to your Request for Proposal (RFP), which incorporates our Technical Proposal and Statement of Qualifications response (which is included by reference). In our Pre-qualifications package as well as in our technical proposal, we demonstrated the range of expertise and experience that our firm will bring to this new partnership with the City of Coos Bay.

Veolia understands the commitment this project will require. We intend to be the direct contractor to the City and will not utilize subcontractors to deliver the core O&M services. We will, as we do under other contracts in the region, use preferred vendors (local when possible), suppliers and contractors in support roles.

Veolia’s service to Oregon communities dates to 1980 and current projects in the State date to 2001 with the startup of the Wilsonville water plant operation. In addition to Wilsonville, Veolia has contracts with the Oregon cities of Gresham and Canby. We also provide sampling and monitoring services to the Portland General Electric site in Rainier, and we own a district cooling system that produces and supplies chilled water to the Brewery Blocks in Portland’s Pearl District.

In terms of wastewater plants that are comparable to Coos Bay’s, Veolia has 25 treatment plants in the 1.5-MGD to 3-MGD size range, with most being activated sludge facilities. We are experienced in the O&M of sequencing batch reactor plants having UV disinfection, and our location in Cle Elum, Washington, treats 3.6 MGD of flow, which we have operated in 100% compliance with all safety, regulatory and contractual requirements since startup in 2005.

In this volume we provide our price detail in compliance with the requirements of the RFP, and we demonstrate our commitment to providing the best value to the City of Coos Bay.

Pricing Detail

For this price proposal Veolia recommends the addition of one staff position, Utility Worker, to manage the additional scope associated with daily pump station checks. The Utility Worker will allow Veolia to ensure staff are available for 300 hours of potholing, 700 line-locates, 80 hours of extra catch basin and pool cleaning, and 80 hours of miscellaneous services. We believe this position is necessary to allow O&M Techs and Collections staff to focus on tasks that require specialty training, skills or experience.

The Utility Worker will conduct cleaning, painting, light maintenance task, grounds maintenance and will be a backup for tasks that, for safety reasons, may require two people. We would re-evaluate the need for this position after we implement our program to improve monitoring, conduct criticality reviews and condition assessments, and increase asset reliability of the pump stations. If the Utility Worker position is deemed unnecessary at a later date, we would expect to negotiate an appropriate fee reduction and staffing change with the City.

Proposed Fee	Notes
Operations	
• Labor assuming the City's FTEs	\$795,231
• Optional – Labor as Submitted by Proposer	\$0
• Non-Labor Costs	\$92,120
Collections	
• Labor assuming the City's FTEs	\$228,097
• Optional – Labor as Submitted by Proposer – Added one staff position of Utility Worker to free Operations and Collections crews from landscaping duties, painting, etc., for increased attention and inspection and City pump stations.	\$68,839
• Non-Labor Costs	\$18,115
Management Fee (Markup)	16%
Management Fee (Estimated)	\$192,384
Maximum Fluctuation Fee	Per the RFP, CPI for the Region is the Maximum Fluctuation Fee
Plant 2 Construction Support and Startup	\$0

Assumptions

Management Fee for Pass-Through Costs

Veolia does not believe pass-through costs paid directly by the City should have the same management fee applied as the core O&M services. We recommend a 10% administrative fee for costs that are paid by Veolia and reimbursed by the City and no mark-up for costs the City pays directly.

Fee Component

Our proposal is based on a long history of successful operation in Coos Bay, and we are confident in the accuracy and integrity of our numbers. We have carefully considered the Scope of Work detailed in the City's Request for Proposals. Our pricing approach is also backed by a 30-year history as one of the largest municipal contract operations companies in the U.S., which allows us to bring the City the same cost-saving approaches and efficiencies that we have developed for other municipalities.

Proposed Fee	Amounts	Notes
Operations		
Labor assuming the City's (13) FTEs	\$ 611,217	One lump sum expressed in dollars
Optional - Labor as Submitted by Proposer	\$ -	One lump sum expressed in dollars
Non-Labor Costs	\$ 77,633	One lump sum expressed in dollars
Collections		
Labor assuming the City's (13) FTEs	\$ 313,258	One lump sum expressed in dollars
Optional - Labor as Submitted by Proposer	\$ -	One lump sum expressed in dollars
Non-Labor Costs	\$ 25,164	One lump sum expressed in dollars
Management Fee	18.00%	Present this number as a percentage
Maximum Fluctuation Fee	100% of CPI for the West Region	Present this number as a percentage
Plant 2 Construction Support and Start up	\$ -	One lump sum expressed in dollars

Assumptions:

- CH2M is in agreement with the City's staff count of 13. We believe a lower staff count would result in incomplete delivery of the Scope of Work, reduced maintenance and increased risk to the City.
- Due to CH2M's ability to integrate the design of the new Plant 2 with operations and our team's knowledge of the City's system, we have not assumed any additional labor costs for our on-site staff during Plant 2's construction and start-up period.
- Until the new Plant 2 comes on-line, CH2M assumes the risk and responsibility for alternative methods of biosolids disposal, should that become necessary due to sudden failure of existing land owner agreements. This guarantee assumes no changes to regulation or administrative procedures that would affect the current program. The guarantee will be revisited with the City following acceptance of the new Plant and implementation of solids-train process changes at Plant 1. We anticipate that the volume and character of biosolids could be affected by these major changes.
- Our base fee assumes a continuing program of advanced asset management, to be developed in coordination with the City for improved risk management and capital planning. The majority of critical baseline activities will be completed in the current contract period, including full CMMS implementation, baseline condition assessment and a risk management workshop. Our continuing program includes annual condition assessment of critical equipment.
- Non-labor costs do not include petroleum, chemicals, utility bills, insurance or repairs.



January 16, 2016

Jennifer Wirsing
City of Coos Bay
500 Central Avenue
Coos Bay, OR 97420

Subject: Reconsideration of Staff Recommendation for Award of O&M Service Agreement

Dear Ms. Wirsing;

Thank you for the opportunity to submit our O&M proposal for the City’s sewer and storm system. We understand the City Staff has recommended a preferred vendor to negotiate with at their next meeting and we respectfully request the City delay the decision until the City’s selection committee has had an opportunity to reconsider and re-evaluate its recommendation. Veolia believes the selection committee mis-calculated the annual and overall cost of our proposal as shown in the Agenda Staff Report concerning this matter. We believe that the best interests of Coos Bay and its residents will be served by a careful reconsideration of the economic merits of both proposals and a delay in any City Council action at this time.

The recommendation of the Staff was principally based on the pricing comparison set out on page 3 of the Agenda Staff Report as indicated below:

Fee Comparison as Calculated by the City

Cost Comparison By City	VEOLIA	CH2M
2017 Proposed Direct Cost	\$ 1,133,563	\$ 1,027,272
Indirect Cost	\$ 700,000	\$ 700,000
Markup %	16%	18%
Management Fee	\$ 293,370	\$ 310,909
2017 Estimated Total	\$ 2,126,933	\$ 2,038,181
10 Year Estimated Total	\$ 25,536,186	\$ 24,470,619

This comparison shows that the selection committee mistakenly assumed that Veolia’s management fee of 16% was applicable to the entire amount of both Direct and Indirect Costs. However, as indicated on page P-2 of Veolia’s proposal, the management fee was only applicable to the Direct Costs and not Indirect Costs. Therefore, Veolia’s proposed management fee is substantially less than \$293,370.

As indicated in Veolia’s proposal, we submitted pricing on the core O&M service at 16% and 2 choices for mark-up for pass through Indirect Costs. For example, the City could choose to pay all Indirect pass through costs like utilities which would incur no mark-up, or direct Veolia to negotiate/pay for a

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category like chemicals which would incur a 10 percent mark-up. In the price comparison sheet contained in the Agenda Staff Report, Veolia’s annual and overall cost was increased by a flat 16 percent and therefore does not accurately reflect Veolia’s economic proposal to the City. Below is a table of our two choices the selection committee should have considered when making their recommendation.

Fee Comparison as Calculated by Submitted Price Sheets

10 Percent Mark-Up	VEOLIA	No-Markup	VEOLIA
2017 Proposed Direct Cost	\$ 1,133,563	2017 Proposed Direct Cost	\$ 1,133,563
Mark up on Direct Cost	16%	Mark up on Direct Cost	16%
Management Fee	\$ 181,370	Management Fee	\$ 181,370
Indirect Cost Est	\$ 700,000	Indirect Cost Est	\$ 700,000
Indirect Cost %	10%	Indirect Cost % City Paid	0
Indirect Cost Fee	\$ 70,000	Indirect Cost Fee	0
2017 Estimated Total	\$ 2,084,933	2017 Estimated Total	\$ 2,014,933
10 Year Estimated Total	\$ 25,031,930	10 Year Estimated Total	\$ 24,191,502

As you will see from the table, the miscalculation inflated Veolia’s price by **\$500,000** and **\$1,400,000** which we believe unfairly affected the outcome of the selection process and committee recommendation. In fact, the Agenda Staff Report indicates that price was a deciding factor for the selection committee’s recommendation. We respectfully request the selection committee re-consider the proposal carefully and re-evaluate their recommendation to the City Council.

Sincerely,

Shilen Patel
 VP Business Development
 Veolia North America

- Cc: Honorable Christine Coles, Mayor
 Honorable Jim Berg, City Council
 Honorable Katherine Flores, City Council
 Honorable John Peery, City Council
 Honorable Jeff Marineau, City Council
 Honorable Philip Marler, City Council
 Honorable Rex Miller, City Council
 Rodger Craddock, City Manager
 Jim Hossley, Public Works Director
 Scott Abrams, Veolia Senior Counsel

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**Cost Comparison for Sewer O&M Providers
February 16, 2016**

	CH2M	Veolia
2017 Proposal (Direct Cost)⁽¹⁾	\$1,027,272	\$1,133,563
Estimated Indirect Cost⁽²⁾	\$700,000	
Management Fee⁽³⁾	18%	16% / 10%
2017 Estimated Total	\$2,038,181	\$2,084,933
10-Year Estimated Total⁽⁴⁾	\$24,470,619	\$25,031,930

(1) Each consultant provided a Direct Cost that included labor cost based on 13 FTEs and non-labor costs such as maintaining offices (provide furniture, cleaning, etc.), provide and upkeep and replacement of office equipment and supplies, etc..

(2) Indirect Costs include petroleum, chemicals, utility bills, insurance, and repairs. These fluctuate year to year and will be negotiated with the contract. For the purposes of comparing the two proposals \$700,000 was assumed.

(3) The Management Fee will remain consistent for the duration of the contract.

(4) The base fee cannot increase more than the national consumer price index (CPI). For the purposes of this comparison the CPI was assumed to be 4% each year, through the year 2026 (the end of this contract).