

July 16, 2009

Memo to: Board of Directors

From: Beverly James, Manager-Engineer

Subject: **Novato Wastewater Treatment Plant Upgrade: Selecting the Best Start Up Operation and Maintenance Management Program**

Introduction

The District Board recognized early that a solid plan for the startup, operation and maintenance of the new \$90 million pumping, equalization, and treatment facility is vital to meet water quality standards, regulatory requirements and energy efficiency/climate change goals. However, in light of the many regulatory, operational, and cost risks involved if the District were to simultaneously operate both old and new plants, the Board elected to consider other alternatives as well.

The District has now completed a thorough investigation into selecting the best way to obtain the necessary resources, systems and expertise to manage the operation and maintenance of this new treatment facility to protect the environment.

Due Diligence

The District made an exhaustive investigation of the operation and maintenance management alternatives. Each of the elements of this investigation was discussed at least one of ten previous board meetings. To summarize, the process included the following actions:

- A team of recognized experts in wastewater treatment prepared an operation and maintenance management assessment and evaluated alternatives,
- Two separate, independent experts peer-reviewed the cost estimates for the alternatives identified,
- The District Board members and staff made site visits to 9 similar wastewater treatment facilities and met with their public agency staff and elected officials,
- The Board negotiated an agreement with the employee representative to guarantee jobs and compensation in the event the contract operations option was selected,
- Public outreach through news releases, newsletters, community group meetings, public board meetings, web page, and TV spots,
- Reviewed Statements of Qualifications from five firms and selected the three most qualified firms to request proposals for Contract Operations, Maintenance & Management ,
- Assembled a team to review the proposals received, check references, and conduct interviews.

Alternatives

The investigation summarized above identified three alternatives that would enable the District to start up and operate the new treatment facility:

- Utilize District staff and hire additional staff and consultants.
- Negotiate a contract with Veolia Water.
- Negotiate a contract with United/Suez.

The District needs to move ahead now with this decision because the new treatment facility construction is 66% complete with new units scheduled to come online starting this fall.

Cost Evaluation: In addition to carefully evaluating the other critical factors, special care was taken to assure that costs were fairly identified, allocated, and compared. A highly qualified team of experts prepared the cost estimate for the option of using District staff augmented by additional staff and consultants. Two independent highly qualified experts then reviewed and confirmed these costs. The cost estimate was confirmed using nationally recognized databases for public treatment plant operation and consultant cost data from eleven consulting firms.

These alternatives have been evaluated on technical, environmental, risk, and financial factors as described in the attached report and briefly summarized below.

Factor	Veolia Water	United/Suez	District with Consultants
5 year escalated costs	\$ 15.6 million	\$ 21.3 million	\$ 22.8 million
Cost guarantees	Yes	No	No
Environmental Permits Compliance guarantees	Yes	Yes	No
Equipment Maintenance Guarantee	Yes	Yes	No
O&M Systems development completed in time for facility start up	Yes	Yes	Unlikely
\$30 million insurance coverage	Yes	Yes	Not included in cost
Guaranteed jobs matching current total compensation	Yes	Yes	Yes
Continued PERS benefits for nine current employees	No	No	Yes

It is apparent from the above chart that the Veolia proposal provides the best risk protection for the lowest cost while meeting all of the District's objectives for treatment plant operation and maintenance.

Both companies proposed to provide experienced managers with California Grade V certifications and to complete all of the systems development requested by the District. The Veolia team had a strong local presence and extensive experience in treatment plant start up and systems development and implementation, which allowed them to submit a more competitive proposal.

Staff Recommendation

I recommend that the Board of Directors authorize the Manager-Engineer to negotiate an agreement with Veolia Water to manage the operation and maintenance of the District's wastewater treatment facilities including the Novato Treatment Plant, the Ignacio Treatment Plant, the sludge storage ponds, the Dechlorination Facility, and the Ignacio Transfer Pump Station and Equalization basins.

The District will retain overall control, rate setting, capital authorization, and ownership of facilities but will benefit from the significant risk transfers from the District and the rate payers to Veolia Water. Veolia Water has demonstrated that it has the capability to start up and maintain the new \$90 million treatment plant to meet strict environmental standards.

Budget Impact

Selecting the Veolia Water proposal would save the District an estimated \$7.2 million over the five-year period while also obtaining significant risk transfer from the District and rate payers to Veolia Water.