



Santa Clara Valley Water District

File No.: 16-0738

Agenda Date: 9/20/2016

Item No.: 2.1.

BOARD AGENDA MEMORANDUM

SUBJECT:

Work Study Session on Expedited Purified Water Program - Dual Track Procurement.

RECOMMENDATION:

- A. Receive an update on project delivery methods for the Expedited Purified Water Program;
- B. Consider staff analysis regarding choice of either Progressive Design-Build or a Progressive Design-Build-Finance-Operate-Maintain delivery method; and
- C. Consider staff's recommendation to pursue the Progressive Design-Build project delivery method for the Expedited Purified Water Program and provide further direction to staff.
- D. Receive a summary of the September 7, 2016 Board Ad Hoc Recycled Water Committee meeting regarding the project delivery methods for the Expedited Purified Water Program

SUMMARY:

The purpose of this work study session is to provide an update to the Board on key activities that staff has undertaken over the past several months regarding the project delivery method for the Expedited Purified Water Program (Program); to present staff's research and analysis on the alternative delivery methods; to consider staff's recommendation that the District pursue a Progressive Design-Build project delivery method for the Program; and receive a summary of the September 7, 2016 Board Ad Hoc Recycled Water Committee meeting regarding the project delivery methods for the Expedited Purified Water Program. The work study presentation is provided in Attachment 1.

Background

At the July 28, 2015 Board meeting, the Board directed staff to proceed with a Request for Qualifications (RFQ) process for Program delivery and to pursue a dual track procurement for both a Progressive Design-Build (PDB) and a Public-Private Partnership (P3) delivery method.

At the January 12, 2016 Board meeting, the Board received a Final Report on Preliminary Evaluation of Program Delivery Methods for the Program and affirmed proceeding with dual track solicitation for

Statements of Qualification for both a Progressive Design-Build project delivery and a Public-Private Partnership project delivery.

Staff released a dual track Request for Qualifications (RFQ) on January 15, 2016. Statements of Qualification (SOQs) were due in mid-April 2016. The District received five (5) SOQs for the P3 approach, five (5) SOQs for a PDB of the Silicon Valley Advanced Water Purification Center (SVAWPC) expansion, and four (4) SOQs for a PDB of a pipeline to convey purified water to the Los Gatos Recharge Ponds (Los Gatos Pipeline).

The SOQs were evaluated and shortlists for each group of SOQs were published in June 2016.

Prior to the release of the RFQs in mid-January, staff released a questionnaire to interested proposers regarding the RFQ/RFP process. A key response from several interested parties was a recommendation that the District choose one delivery method prior to proceeding with the Request for Proposal (RFP) stage of the Program.

Board Ad Hoc Recycled Water Committee Activities

Staff has presented updates on various aspects of Program development to the Board's Ad Hoc Recycled Water Committee (Committee) at their March 1, May 12, July 6, July 19, and September 7, 2016 meetings. At the July 6, 2016 Committee meeting, the Committee directed staff to proceed with facilitating a Board decision on a project delivery method for the Program prior to issuing an RFP.

On July 19, 2016, the Committee members traveled to Carlsbad, California to meet with staff and Board Chair of the San Diego County Water Authority (SDCWA) to learn of SDCWA's experience in contracting with a P3 entity to design, construct, finance, operate and maintain the 50,000 acre-feet/year Carlsbad Desalination Facility. A tour of the facility was also provided.

The Committee members are also scheduled to meet with City of Stockton officials on September 28, 2016, to learn of the City's recent experience in using a PDB delivery method to design and construct the City's conventional water treatment facility.

Research/Analysis of Alternative Delivery Methods

Staff has conducted additional research and received input from independent experts to provide additional perspectives on comparing project delivery methods. The qualifications of the independent experts are summarized in Table 1.

Table 1: Qualifications of Independent Experts Providing Input to the District in Comparing Delivery Methods

Name	Affiliation	Experience
Michael Bennon	Stanford University	Managing Director at the Stanford Global Projects Center with a focus on Public Sector finance, infrastructure and real estate investment, and project organization design.

Jeff Hughes	University of North Carolina at Chapel Hill	25 years of experience assisting communities in addressing finance and policy challenges related to the provision of environmental services and programs. He recently completed research on the projected and actual costs of P3s in the water sector.
Jill Jamieson	JLL Inc., global professional services and investment management firm	25 years of successful global experience, specific areas of expertise include multi-sector P3 program development; transaction advisory services, and asset optimization strategies, as well as broader public financial management strategies. Ms. Jamieson served on the Board of the US National Council for Public Private Partnerships, as well as on the Advisory Board for the United Nations PPP Specialist Centre of Expertise.
Sandra Kerl	San Diego County Water Authority	25 years of progressively responsible experience in all aspects of municipal management. As Deputy General Manager, she was a key lead on the Water Purchase Agreement for the Claude "Bud" Lewis Desalination Project and the lead on the Project Financing.

On August 10, 2016, staff convened a group of experts for a day-long internal workshop. The agenda included summarizing District objectives for the Program, defining the delivery method options, reviewing relevant case studies, discussing Program risks, and delving into the key differences between the delivery method options.

The staff-identified District objectives used for comparison between the project delivery methods include:

1. Speed: One of the original drivers for pursuing alternative project delivery methods.
2. Quality: Encompassing construction, operations, maintenance, product water quality, and reliability considerations.
3. Control (System Integration): Effective integration of new facilities and their operations with the District's water supply system; ability to ramp flow deliveries up/down efficiently. It was noted that, in a P3 context, the transition from "Doer" to "Regulator" could constitute a District culture shift.
4. Cost: Lowest life-cycle cost with upper ceiling/risk transfer. Flexibility to scale-up capacity cost -effectively.
5. Success: Minimizing adverse reactions among internal and external stakeholders including rate concerns, public outreach, labor issues and others.

September 7, 2016 Board Ad Hoc Recycled Water Committee Meeting

The September 7, 2016 Board Ad Hoc Recycled Water Committee meeting included a workshop on the difference between the PDB and P3 approaches and staff's assessments of how the PDB and P3 project delivery methods align with the above-listed objectives. Attachments 2 and 3 contain letters submitted to the Committee for this meeting by the two short-listed P3 proposers (Poseidon Water and Table Rock Capital).

Some key comments and questions raised by the Committee during the workshop included the

following:

1. Need to consider privatizing the existing SVAWPC **and** the expanded SVAWPC operations to make a P3 more viable.
2. Concerns expressed regarding cumulative impacts of financing this Program and other water supply efforts (CalWater Fix; Sites or Los Vaqueros Reservoirs)
3. Need to characterize risk transfer, particularly for capital cost overruns.
4. Should consider PDB for Los Gatos Pipeline and P3 for expanded SVAWPC.

The Committee requested additional information concerning capital cost performance on past District projects. Attachment 4 lists all Water Utility Enterprise-funded capital projects constructed by the District since 2000 (56 projects). The average percent change between the original construction bid amount and the final construction cost for all projects listed varies from 6% to 9%.

It is important to also note that the data in Attachment 4 reflect the District's historical use of Design-Bid-Build for capital projects, and cannot be extrapolated to the alternative delivery options of PDB or P3 that the District is considering for the Expedited Purified Water Program. As will be described further in staff's presentation, a design-build effort obliges the designer and builder to work collaboratively to implement a project. The Design-Build industry has documented lower costs and faster construction schedules that result from this type of alliance.

Staff's Recommendation

As presented to the Ad Hoc Recycled Water Committee on September 7, 2016, and based on staff's research, analysis, and workshop discussions, staff believes that the Progressive Design-Build (PDB) method best aligns with staff's understanding of the District's objectives, for the following reasons:

- PDB affords simplified contract negotiations with nearly equivalent incentive structure (the Guaranteed Maximum Price limits cost overruns, incentivized performance to accelerate delivery, etc.) as for a P3.
- PDB would retain the District as the project owner with operations and maintenance responsibilities, a "doer" versus that of a water purchaser or "regulator."
- PDB would allow for District operations and maintenance control of the purified water facilities and afford better management, flexibility and integration with the District's in-county water distribution and treatment system.
- PDB would allow the District to leverage its core competencies and expand its workforce capabilities.
- Key cost risks associated with construction, financing, O&M can be managed.

The Committee considered staff's presentation and recommendation and directed staff to bring their presentation and recommendation to the full Board for discussion.

FINANCIAL IMPACT:

There is no financial impact associated with this item.

CEQA:

The recommended action does not constitute a project under CEQA because it does not have a potential for resulting in direct or reasonably foreseeable indirect physical change in the environment.

ATTACHMENTS:

Attachment 1: PowerPoint Presentation

Attachment 2: Letter from Poseidon Water

Attachment 3: Letter from Table Rock Capital

Attachment 4: Water Utility Enterprise Project Construction Costs (2000-present)

UNCLASSIFIED MANAGER:

Katherine Oven, 408-630-3126